ROYAL GOLD INC
Form 10-K
August 06, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

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

For the Fiscal Year Ended June 30, 2015

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

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

Title of Each Class	**Name of Each Exchange on Which Registered**
Common stock, $0.01 par value	NASDAQ Global Select Market

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 ý 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 ý

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 ý No o

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 ý 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. ý

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

(Check one):	Large accelerated filer ý	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company 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 ý

Aggregate market value of the voting common stock held by non-affiliates of the registrant, based upon the closing sale price of Royal Gold common stock on December 31, 2014, as reported on the NASDAQ Global Select Market was $4,057,901,615. There were 65,187,727 shares of the Company's common stock, par value $0.01 per share, outstanding as of July 28, 2015.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2015 Annual Meeting of Stockholders scheduled to be held on November 11, 2015, and to be filed within 120 days after June 30, 2015, 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. In addition, please see our note about forward-looking statements included in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A"), of this report.

PART I

ITEM 1. BUSINESS

Overview

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 seek to acquire existing royalty and stream interests or to finance projects that are in production or in the development stage in exchange for royalty or stream interests. In the ordinary course of business, we engage in a continual review of opportunities to acquire existing royalty and stream interests, establishing new streams on operating mines, to create new royalty and stream interests through the financing of mine development or exploration, or to acquire companies that hold royalty and stream 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 June 30, 2015, the Company owned stream interests on one producing property and two development stage properties and owned royalty interests on 36 producing properties, 22 development stage properties and 135 exploration stage properties, of which the Company considers 47 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. Except for one joint venture property (as discussed below under the heading "Fiscal 2015 Business Developments, Peak Gold Joint Venture"), we do not conduct mining operations on the properties in which we hold royalty and streaming interests, and we are not required to contribute to capital costs, exploration costs, environmental costs or other operating costs on those properties. During the fiscal year ended June 30, 2015, we focused on the management of our existing royalty and streaming interests and the acquisition of additional royalty and streaming interests.

As discussed in further detail throughout this report, some significant developments to our business during fiscal year 2015 were as follows:

(1) Our revenue increased 17% to $278.0 million, compared to $237.2 million during fiscal year 2014;

(2) We acquired a gold stream on the Ilovitza gold-copper project located in southeast Macedonia;

(3) We entered into a joint venture for exploration and advancement of the Tetlin gold project located in Tok, Alaska;

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(4) We announced a gold stream on the Wassa, Bogoso and Preseta mines located in Ghana, however the transaction was funded after June 30, 2015;

(5) We increased the maximum availability under our revolving credit facility from $450 million to $650 million; and

(6) We increased our calendar year dividend to $0.88 per basic share, which is paid in quarterly installments throughout calendar year 2015. This represents a 5% increase compared with the dividend paid during calendar year 2014.

Certain Definitions

Gross Proceeds Royalty (GPR): A royalty in which payments are made on contained ounces rather than recovered ounces.

Gross Smelter Return (GSR) Royalty: A defined percentage of the gross revenue from a resource extraction operation, less, if applicable, certain contract-defined costs paid by or charged to the operator.

g/t: A unit representing grams per tonne.

Gold or Silver Stream: A gold or silver purchase agreement that provides, in exchange for an upfront advance payment, the right to purchase all or a portion of gold or silver, as applicable, produced from a mine, at a price determined for the life of the transaction by the purchase agreement.

Mineralized Material: Mineralized material is mineralization that has been sufficiently sampled at close enough intervals to reasonably assume continuity and support an estimate of tonnage and an average grade of the selected metals or salable product. A deposit of this sort does not qualify as a reserve until a comprehensive evaluation, based upon unit costs, grade, recoveries and other factors, concludes economic and legal feasibility. Investors are cautioned not to assume that any part or all of the mineral deposits in these categories will ever be converted into reserves.

Net Profits Interest (NPI): A defined percentage of the gross revenue from a resource extraction operation, after recovery of certain contract-defined pre-production costs, and after deduction of certain contract-defined mining, milling, processing, transportation, administrative, marketing and other costs.

Net Smelter Return (NSR) Royalty: A defined percentage of the gross revenue from a resource extraction operation, less a proportionate share of incidental transportation, insurance, refining and smelting costs.

Net Value Royalty (NVR): A defined percentage of the gross revenue from a resource extraction operation, less certain contract-defined costs.

Proven (Measured) Reserves: Ore reserves for which (a) the quantity is computed from dimensions revealed in outcrops, trenches, workings or drill holes, and grade is computed from the results of detailed sampling, and (b) the sites for inspection, sampling and measurement are spaced so closely and the geologic character is so well defined that the size, shape, depth and mineral content of reserves are well established.

Probable (Indicated) Reserves: Ore reserves for which quantity and grade are computed from information similar to that used for proven (measured) reserves, but the sites for inspection, sampling and measurement are farther apart or are otherwise less adequately spaced. The degree of assurance, although lower than that for proven (measured) reserves, is high enough to assume geological continuity between points of observation.

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Payable Metal: Ounces or pounds of metal in concentrate after deduction of a percentage of metal in concentrate by a third-party smelter pursuant to smelting contracts.

Reserve: That part of a mineral deposit that can be economically and legally extracted or produced at the time of the reserve determination.

Royalty: The right to receive a percentage or other denomination of mineral production from a resource extraction operation.

Ton: A unit of weight equal to 2,000 pounds or 907.2 kilograms.

Tonne: A unit of weight equal to 2,204.6 pounds or 1,000 kilograms.

Recent Business Developments

Acquisition of Gold and Silver Stream at Pueblo Viejo

On August 5, 2015, RGLD Gold AG ("RGLD Gold"), a wholly-owned subsidiary of the Company, entered into a Precious Metals Purchase and Sale Agreement with Barrick Gold Corporation ("Barrick") and its wholly-owned subsidiary, BGC Holdings Ltd. ("BGC") for a percentage of the gold and silver production attributable to Barrick's 60% interest in the Pueblo Viejo mine located in the Dominican Republic. Pursuant to the Precious Metals Purchase and Sale Agreement, RGLD Gold will make one advance payment of $610 million to BGC at closing of the transaction, which remains subject to satisfaction of certain conditions precedent. Closing and funding of the transaction is anticipated within 90 days.

BGC will deliver gold to RGLD Gold in amounts equal to 7.50% of Barrick's interest in the gold produced at the Pueblo Viejo mine from July 1, 2015 until 990,000 ounces of gold have been delivered, and 3.75% of Barrick's interest in gold produced thereafter. RGLD Gold will pay BGC 30% of the spot price per ounce of gold delivered until 550,000 ounces of gold have been delivered, and 60% of the spot price per ounce delivered thereafter.

BGC will deliver silver to RGLD Gold in amounts equal to 75% of Barrick's interest in the silver produced at the Pueblo Viejo mine beginning on January 1, 2016 until 50.00 million ounces of silver have been delivered, and 37.50% of Barrick's interest in silver produced thereafter. RGLD Gold will pay BGC 30% of the spot price per ounce of silver delivered until 23.10 million ounces of silver have been delivered, and 60% of the spot price per ounce of silver delivered thereafter.

The Pueblo Viejo mine is an open-pit mining operation located approximately 60 miles northwest of Santo Domingo, in the Dominican Republic, and is owned by a joint venture in which Barrick owns a 60% interest and is responsible for operations, and in which Goldcorp Inc. ("Goldcorp") owns a 40% interest. The mine began production in 2013, and was one of only three mines in the world with annual production greater than one million ounces of gold in calendar 2014. Barrick reported calendar 2014 production, on a 100% basis, of 1.11 million ounces of gold and 3.85 million ounces of silver, with all-in sustaining costs of $588 per ounce. Barrick also reported proven and probable gold reserves attributable to Barrick of 9.3 million contained ounces at 3.30 grams per tonne, and attributable proven and probable silver reserves of 58.3 million contained ounces grading 20.7 grams per tonne, in each case as of December 31, 2014.

Acquisition of Gold and Silver Stream at Rainy River

On July 20, 2015, RGLD Gold entered into a $175 million Purchase and Sale Agreement with New Gold, Inc. ("New Gold"), for a percentage of the gold and silver production from the Rainy River Project located in Ontario, Canada ("Rainy River"). Pursuant to the Purchase and Sale Agreement, RGLD Gold will make two advance payments to New Gold, consisting of $100 million, which was paid

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at closing on July 20, 2015, and $75 million once capital spending at Rainy River is 60% complete (currently expected by mid-calendar 2016). Also under the Purchase and Sale Agreement, New Gold will deliver to RGLD Gold 6.50% of the gold produced at Rainy River until 230,000 gold ounces have been delivered, and 3.25% thereafter. New Gold also will deliver 60% of the silver produced at Rainy River until 3.10 million silver ounces have been delivered, and 30% thereafter. RGLD Gold will pay New Gold 25% of the spot price per ounce of gold and silver at the time of delivery.

The Rainy River Project is located approximately 40 miles northwest of Fort Frances in western Ontario, Canada. Over its first nine years of full production, the 21,000 tonne per day, combined open pit-underground operation is scheduled to produce an average of 325,000 ounces of gold per year. Permits to begin major earthworks construction are in place, and, as of mid-calendar 2015, detailed engineering is 95% complete and 14% of the total development capital estimate of $877 million has been spent. Rainy River has an estimated fourteen year mine life based on current reserves and is projected by New Gold to start-up in mid-calendar 2017.

Acquisition of an Additional Gold Royalty Interest at Pascua-Lama

On July 10, 2015, the Company entered into an assignment of rights agreement with a private Chilean citizen whereby Royal Gold acquired an additional 0.22% NSR sliding-scale royalty on the Pascua-Lama project, which is owned and operated by Barrick and located on the border between Argentina and Chile. The Company paid $8.0 million for the additional interest at closing and will pay an additional $2.0 million if the project comes into production in calendar 2018 or an additional $1.0 million if the project enters production in calendar 2019. Upon the July 10, 2015 closing, Royal Gold's total gold NSR royalty interest in the Pascua-Lama project increased to 5.45%, at gold prices above $800 per ounce, while the additional royalty equivalent on proceeds from copper produced from the Chilean portion of the project, increased to 1.09% (from 1.05%). Please refer to Item 2, Properties, for further discussion on our interest at Pascua-Lama.

Acquisition of Gold Stream at Carmen de Andacollo

On July 9, 2015, RGLD Gold entered into a Long Term Offtake Agreement (the "Andacollo Stream Agreement") with Compañía Minera Teck Carmen de Andacollo ("CMCA"), a 90% owned subsidiary of Teck Resources Limited ("Teck"). Pursuant to the Andacollo Stream Agreement, CMCA will sell and deliver to RGLD Gold 100% of payable gold from the Carmen de Andacollo copper-gold mine until 900,000 ounces have been delivered, and 50% thereafter, subject to a fixed payable percentage of 89%. RGLD Gold made a $525 million advance payment in cash to CMCA upon entry into the Andacollo Stream Agreement, and RGLD Gold will also pay CMCA 15% of the monthly average gold price for the month preceding the delivery date for all gold purchased under the Andacollo Stream Agreement.

The transaction will encompass CMCA's presently owned mining concessions on the Carmen de Andacollo mine, as well as any other mining concessions presently owned or acquired by CMCA or any of its affiliates within a 1.5 kilometer area of interest, and certain other mining concessions that CMCA or its affiliates may acquire. The Andacollo Stream Agreement is effective July 1, 2015, and applies to all final settlements of gold received on or after that date. Deliveries to RGLD Gold will be made monthly, and RGLD Gold expects to begin receiving gold deliveries in its first fiscal quarter of 2016, ending September 30, 2015.

Termination of Royalty Interest at Carmen de Andacollo

On July 9, 2015, Royal Gold Chile Limitada ("RG Chile"), a wholly owned subsidiary of the Company, entered into a Royalty Termination Agreement with CMCA. The Royalty Termination Agreement terminated the Royalty Agreement originally dated January 12, 2010, which provided RG

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Chile with a royalty equivalent to 75% of the gold produced from the sulfide portion of the Carmen de Andacollo mine until 910,000 payable ounces have been produced, and 50% of the gold produced thereafter. Approximately 259,000 ounces of payable gold subject to the royalty were produced through June 30, 2015, resulting in approximately 651,000 payable ounces remaining as of that date, before the step down to the 50% royalty rate. The Andacollo Stream Agreement on Carmen de Andacollo is separate and distinct from the former royalty of RG Chile.

CMCA paid total consideration of $345 million to RG Chile in connection with the Royalty Termination Agreement. The transaction will be taxable in Chile and the United States, with net proceeds estimated at approximately $300 million. RG Chile will receive payment for the royalty through June 30, 2015, the economic effective date of the termination. In addition to the $345 million termination payment, a post-closing final royalty payment of approximately $9 million was received in July 2015 to finalize all outstanding shipments for which final settlements had not been received as of July 1, 2015.

Acquisition of Gold Streams on Wassa, Bogoso and Prestea

On May 7, 2015, RGLD Gold announced signing a $130 million gold stream transaction with a wholly-owned subsidiary of Golden Star Resources Ltd. (together "Golden Star"), pursuant to which RGLD Gold will advance financing to Golden Star, subject to certain conditions, for development projects at certain mines in Ghana, and in return for which Golden Star will sell and deliver gold to RGLD Gold. Separate from the stream transaction and subject to certain conditions, the Company will provide a $20 million, 4-year term loan to Golden Star and will receive warrants to purchase 5 million shares of Golden Star Resources Ltd. common stock. Closing of the gold stream and term loan transactions occurred on July 28, 2015, when the conditions to closing were satisfied.

Pursuant to the stream transaction and subject to certain conditions, RGLD Gold will make $130 million in advance payments to Golden Star in stages, including the $40 million upfront payment made in connection with closing, and the balance on a pro rata basis with spending on the Wassa and Prestea underground projects, which RGLD Gold expects to make in five quarterly payments as follows: (i) $15 million on September 1, 2015, (ii) $30 million on December 1, 2015, and (iii) $15 million on March 1, 2016, June 1, 2016 and September 1, 2016. Golden Star will deliver to RGLD Gold 8.5% of gold produced from the Wassa, Bogoso and Prestea projects, until 185,000 ounces have been delivered, 5.0% until an additional 22,500 have been delivered, and 3.0% thereafter. RGLD Gold will pay Golden Star a cash price equal to 20% of the spot price for each ounce delivered at the time of delivery until 207,500 ounces have been delivered, and 30% of the spot price for each ounce delivered thereafter.

In a separate transaction, on July 28, 2015, the Company provided a $20 million, four-year term loan to Golden Star, subject to certain conditions. Interest under the loan will be due quarterly at a rate equal to 62.5% of the average daily gold price for the relevant quarter divided by 10,000, but not to exceed 11.5%. The loan will be subject to mandatory prepayments that will range between 25-50% of excess cash flow after the development period for the projects. Golden Star will also grant warrants to the Company to purchase five million shares of Golden Star common stock. The warrants have a term of four years and an exercise price which equals a 30% premium to Golden Star's weighted average share price for the ten-day period ending two days prior to announcement of the transaction.

The Wassa mine is located approximately 90 miles west of Accra and has operated continuously since 2005. Golden Star forecasts calendar 2015 production of 113,000 ounces of gold from the single Wassa open pit. Open pit proven and probable reserves are 831,000 ounces at 1.39 grams per tonne. RGLD Gold's investment will fund development of the Wassa underground deposit, which has 746,000 ounces of proven and probable gold reserves at 4.27 grams per tonne. Once the underground deposit is in production, Golden Star expects average annual gold production of 150,000 ounces of gold over the life of mine from the combined open pit and underground at Wassa.

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Bogoso and Prestea are located approximately 125 miles west of Accra and have produced over 9 million ounces from both open pit and underground sources over the last 100 years. Underground development on the Prestea underground is already well advanced and Golden Star plans to modify the Bogoso plant to process Prestea material. Golden Star expects to spend $40 million of capital investment on Prestea, which includes hoist and shaft upgrades, electrical infrastructure, ventilation and a process plant upgrade. Once in full production, Golden Star expects annual production of approximately 75,000 ounces from Prestea, with estimated life of mine production of 620,000 ounces. Golden Star forecasts underground gold production from the Wassa and Prestea mines by late calendar 2016.

Fiscal 2015 Business Developments

Please refer to Item 7, MD&A, for discussion on recent liquidity and capital resource developments.

Peak Gold Joint Venture and Royalty Acquisitions

On January 8, 2015, Royal Gold, through its wholly-owned subsidiary, Royal Alaska, LLC ("Royal Alaska"), and Contango ORE, Inc., through its wholly-owned subsidiary CORE Alaska, LLC (together, "Contango"), entered into a limited liability company agreement for Peak Gold, LLC ("Peak Gold"), a joint venture for exploration and advancement of the Tetlin gold project located near Tok, Alaska (the "Tetlin Project"). Contango contributed all of its assets relating to the Tetlin Project to Peak Gold, including a mining lease and certain state of Alaska mining claims. Royal Alaska contributed $5.0 million in cash to Peak Gold. Contango will initially hold a 100% membership interest in Peak Gold. Royal Alaska has the right to obtain up to 40% of the membership interest in Peak Gold by making contributions of up to $30.0 million (including Royal Alaska's initial $5.0 million contribution) in cash to Peak Gold by October 31, 2018. Royal Alaska will act as the manager of Peak Gold unless and until it is removed or resigns from that position in the manner provided in Peak Gold's limited liability company agreement. The Tetlin Project is situated partly on lands leased from the Native Village of Tetlin, a federally recognized Indian tribe ("Tetlin").

Previously, on September 30, 2014, the Company acquired a 2.0% NSR royalty and a 3.0% NSR royalty held by private parties over areas comprising the Tetlin Project for total consideration of $6.0 million.

Tulsequah Streaming Agreement

On December 22, 2014, RGLD Gold, terminated the Amended and Restated Gold and Silver Purchase and Sale Agreement (the "Agreement"), between RGLD Gold, the Company, Chieftain Metals Inc. and Chieftain Metals Corp. (together, "Chieftain"), relating to Chieftain's Tulsequah Chief polymetallic project located in British Columbia, Canada (the "Tulsequah Chief Project"). Pursuant to the terms of the Agreement, Chieftain repaid RGLD Gold's original $10.0 million advance payment in January 2015. RGLD Gold holds a right of first refusal over the creation by Chieftain of any royalty, production payment, stream or similar interest on gold or silver production from the Tulsequah Chief Project for a period of two years from December 22, 2014. As a result of the termination of the Tulsequah Agreement and repayment of our investment, the carrying value of the Tulsequah Chief gold and silver stream, which included our $10.0 million investment and approximately $0.6 million of direct acquisition costs, was reduced to zero during the three months ended December 31, 2014. The Company wrote-off the approximate $0.6 million of direct acquisition costs during the three months ended December 31, 2014.

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Acquisition of Gold Stream on the Ilovitza Project

On October 20, 2014, RGLD Gold entered into a $175.0 million gold stream transaction with Euromax Resources Ltd ("Euromax") that will finance a definitive feasibility study, permitting work, early stage engineering and a significant portion of the construction at Euromax's Ilovitza gold-copper project located in southeast Macedonia. RGLD Gold will make two advance deposit payments to Euromax totaling $15.0 million, which will be used for completion of the definitive feasibility study and permitting of the project, followed by payments aggregating $160 million towards project construction, in each case subject to certain conditions. Payment of the first $7.5 million deposit was completed in March 2015. RGLD Gold's decision to proceed with the second $7.5 million deposit and the construction payments is conditioned upon, among other things, its satisfaction with the progress of definitive feasibility study and environmental evaluations, demonstrated project viability, and, in the case of the construction payments, sufficient project financing and permits to construct and operate the mine. The construction payments would be paid pro-rata with the balance of the project funding. In exchange, Euromax will deliver physical gold equal to 25% of gold produced from the Ilovitza project until 525,000 ounces have been delivered, and 12.5% thereafter (in each case subject to adjustment). RGLD Gold's purchase price per ounce will be 25% of the spot price at the time of delivery.

Euromax has completed a prefeasibility study for the Ilovitza project which estimates a 23 year mine life and a production startup in calendar 2018.

Our Operational Information

Reportable Segments, Geographical and Financial Information

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

	As of June 30, 2015		
	Royalty interest	**Stream interest**	**Total royalty and stream interests, net**
Canada	$ 251,688	$ 823,091	$ 1,074,779
Chile	653,019		$ 653,019
Mexico	131,742		$ 131,742
United States	110,286		$ 110,286
Australia	50,119		$ 50,119
Africa	12,760		$ 12,760
Other	42,720	8,183	$ 50,903
Total	**$ 1,252,334**	**$ 831,274**	**$ 2,083,608**

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	As of June 30, 2014		
	Royalty interest	Stream interest	Total royalty and stream interests, net
Canada	$ 293,798	$ 816,408	$ 1,110,206
Chile	662,482		$ 662,482
Mexico	145,625		$ 145,625
United States	68,889		$ 68,889
Australia	55,241		$ 55,241
Africa	15,226		$ 15,226
Other	51,398		$ 51,398
Total	**$ 1,292,659**	**$ 816,408**	**$ 2,109,067**

The Company's revenue, costs of sales and net revenue by reportable segment for our fiscal years ended June 30, 2015, 2014 and 2013 is geographically distributed as shown in the following table:

	Fiscal Year Ended June 30, 2015		
	Revenue	Cost of sales	Net revenue
Royalties:			
Canada	$ 37,496	$	$ 37,496
Chile	39,508		39,508
Mexico	43,008		43,008
United States	42,675		42,675
Australia	8,494		8,494
Africa	3,075		3,075
Other	9,659		9,659
Total royalties	$ 183,915	$	$ 183,915
Streams:			
Canada	$ 94,104	$ 33,450	$ 60,654
Total royalties and streams	**$ 278,019**	**$ 33,450**	**$ 244,569**

	Fiscal Year Ended June 30, 2014		
	Revenue	Cost of sales	Net revenue
Royalties:			
Canada	$ 54,277	$	$ 54,277
Chile	50,733		50,733
Mexico	43,093		43,093
United States	34,671		34,671
Australia	8,353		8,353
Africa	7,943		7,943
Other	10,883		10,883
Total royalties	$ 209,953	$	$ 209,953
Streams:			

Canada	$	27,209	$	9,158	$	18,051
Total royalties and streams	**$**	**237,162**	**$**	**9,158**	**$**	**228,004**

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	Fiscal Year Ended June 30, 2013		
	Revenue	**Cost of sales**	**Net revenue**
Royalties:			
Canada	$ 68,247	$	$ 68,247
Chile	84,631		84,631
Mexico	53,550		53,550
United States	50,416		50,416
Australia	10,216		10,216
Africa	8,770		8,770
Other	13,394		13,394
Total royalties	**$ 289,224**	**$**	**$ 289,224**

Please see "*Operations in foreign jurisdictions are subject to many risks, which could decrease our revenues*," under Part I, Item 1A, Risk Factors, of this report for a description of the risks attendant to foreign operations.

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 and stream interests. The price of gold, silver, copper, nickel and other metals has fluctuated widely in recent years and most recently has experienced declines from highs experienced in the first half of our fiscal year 2013. The marketability and the price of metals are influenced by numerous factors beyond the control of the Company and significant 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.

Competition

The mining industry in general and the royalty and streaming segments in particular are competitive. We compete with other royalty and streaming companies, mine operators, and financial buyers in efforts to acquire existing royalty interests, and with the lenders, investors, and royalty and streaming companies providing financing to operators of mineral properties in our efforts to create new royalty interests. Our competitors in the lending and mining business may be larger than we are and may have greater resources and access to capital than we have. Key competitive factors in the royalty and stream acquisition and financing business include the ability to identify and evaluate potential opportunities, transaction structure and consideration, and access to capital.

Regulation

Like all mining operations, the operators of the mines that are subject to our royalty and stream interests 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 in the United States are subject to the General Mining Law of 1872 (the "General Mining Law") and 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 royalty and stream interests in other countries are obligated to comply with similar laws and regulations in those jurisdictions. Although we are not responsible as a royalty and stream interest owner for ensuring compliance with these laws and regulations, failure by the operators of the mines on which we have royalty and stream interests 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 or eliminate production from the mines and thereby reduce or eliminate the royalty payments and stream deliveries we receive and negatively affect our financial condition.

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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. Our telephone number is (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 its website, 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 filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after such material is electronically filed with, or furnished to, the Securities and Exchange Commission ("SEC"). Our SEC filings are available from the SEC's internet website 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 SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the Public Reference Room. The charters of Royal Gold's key committees of the Board of Directors and Royal Gold's 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 our Investor Relations Department at (303) 573-1660. The information on the Company's website is not, and shall not be deemed to be, a part hereof or incorporated into this or any of our other filings with the SEC.

Company Personnel

We currently have 20 employees, 17 of whom are located in Denver, Colorado, one who is located in Zug, Switzerland, and two who are located in Toronto, Canada. Our employees are not subject to a labor contract or a collective bargaining agreement. We consider our employee relations to be good.

We also retain independent contractors to provide consulting services, relating primarily to geologic and geophysical interpretations and also relating to such metallurgical, engineering, environmental, and other technical matters as may be deemed useful in the operation of our business.

ITEM 1A. RISK FACTORS

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 II, Item 7, MD&A 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

Volatility in gold, silver, copper, nickel and other metal prices may have an adverse impact on the value of our royalty and stream interests and may reduce our revenues. Certain contracts governing our royalty and stream interests have features that may amplify the negative effects of a drop in metals prices.

The profitability of our royalty and stream interests is directly related to the market price of gold, silver, copper, nickel and other metals. Our revenue is particularly sensitive to changes in the price of gold, as we derive a majority of our revenue from gold royalty and stream interests. Market prices may fluctuate widely and are affected by numerous factors beyond the control of Royal Gold or any mining company, including metal supply, industrial and jewelry fabrication, investment demand, central banking

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economic policy, expectations with respect to the rate of inflation, the relative strength of the dollar and other currencies, interest rates, gold purchases, sales and loans by central banks, forward sales by metal producers, global or regional political, economic or banking conditions, and a number of other factors.

Volatility in gold, silver, copper and nickel prices is demonstrated by the annual high and low prices for those metals over the past decade:

	Gold ($/ounce)		Silver ($/ounce)		Copper ($/pound)		Nickel ($/pound)	
Calendar Year	**High**	**Low**	**High**	**Low**	**High**	**Low**	**High**	**Low**
2005 - 2006	$ 725	$ 411	$ 14.94	$ 6.39	$ 3.99	$ 1.37	$ 16.16	$ 5.22
2007 - 2008	$ 1,011	$ 608	$ 20.92	$ 8.88	$ 4.08	$ 1.26	$ 24.52	$ 4.05
2009 - 2010	$ 1,421	$ 810	$ 30.70	$ 10.51	$ 4.42	$ 1.38	$ 12.52	$ 4.27
2011 - 2012	$ 1,895	$ 1,319	$ 48.70	$ 26.16	$ 4.60	$ 3.08	$ 13.17	$ 6.89
2013	$ 1,694	$ 1,192	$ 32.23	$ 18.61	$ 3.74	$ 3.01	$ 8.44	$ 5.97
2014	$ 1,385	$ 1,142	$ 22.05	$ 15.28	$ 3.37	$ 2.86	$ 9.62	$ 6.06
2015 to-date	$ 1,296	$ 1,081	$ 18.23	$ 14.49	$ 2.92	$ 2.35	$ 7.01	$ 4.94

Declines in market prices for gold, silver, copper, nickel and certain other metals such as those experienced during our fiscal years 2014 and 2015 and through the date of this filing, decreased our revenues. Severe declines in market prices could cause an operator to reduce, suspend or terminate production from an operating project or construction work at a development project, which may result in a temporary or permanent reduction or cessation of revenue from those projects, and we might not be able to recover the initial investment in our royalty and stream interests. Our sliding-scale royalties, such as Cortez, Holt, Mulatos, Wolverine and other properties, amplify this effect, because when metal prices fall below certain thresholds in a sliding-scale royalty, a lower royalty rate will apply. Also, certain streaming agreements, including our Mount Milligan stream, provide us the right to purchase metals at fixed prices. In the event that prevailing market prices decline, the margin between the price at which we can purchase such metals pursuant to the terms of the streaming agreements and the price at which we sell such metals in the market will decline, and we will generate lower cash flow or earnings. Any price decline may result in a material and adverse effect on our profitability, results of operations and financial condition.

In addition, the selection of a property for 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 decisions about development and construction 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 and stream interests.

Where gold and silver are produced as by-product metals at the properties where we hold royalty and stream interests, such as at Mount Milligan and Andacollo, an operator's production decisions and the economic cut-off applied to its reporting of gold and silver reserves and resources may be influenced by changes in the commodity prices of the other metals produced at the mines.

Moreover, certain agreements governing our royalty interests, such as those relating to our royalty interests in the Robinson, Peñasquito and Voisey's Bay properties, are based on the operator's concentrate sales to smelters, which include price adjustments between the operator and the smelter based on metals prices at a later date, typically three to five months after shipment to the smelter. In such cases, our payments from the operator include a component of these later price adjustments, which can result in decreased revenue in later periods if metals prices have fallen.

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

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

Our strategy of acquiring and holding royalty and stream interests on properties operated by third parties puts us generally at risk to the decisions of others regarding all operating matters, including permitting, feasibility analysis, mine design and operation, processing, plant and equipment matters and temporary or permanent suspension of operations, among others. As a result, our revenue is dependent upon the activities of third parties, which creates the risk that at any time those third parties may: (i) have business interests that are inconsistent with ours, (ii) take action contrary to our interests, policies or objectives, or (iii) be unable or unwilling to fulfill their obligations under their agreements with us. At any time, any of the operators of our mining properties may decide to suspend or discontinue operations. Except in limited circumstances, we will not be entitled to material compensation if operations are shut down, suspended or discontinued on a temporary or permanent basis. Although we attempt to secure contractual rights when we create new royalty or stream interests, such as audit or access rights, that will permit us to protect our interests to a degree, 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 operation of the properties in which we have a royalty or stream interest in ways that would be beneficial to our stockholders.

Our revenues are subject to operational and other risks faced by operators of our mining properties.

Although we are not required to pay capital costs (except for transactions where we finance mine development or actively fund or participate ourselves in exploration or development projects or in certain other limited circumstances) or operating costs, our financial results are indirectly subject to hazards and risks normally associated with developing and operating mining properties where we hold royalty and stream interests. Some of these risks include:

- insufficient ore reserves;
- increases in production or capital costs incurred by operators or third parties that may impact the amount of reserves available to be mined, cause an operator to delay or curtail mining development and operations, or render mining of ore uneconomical and cause an operator to close operations;
- declines in the price of gold, silver, copper, nickel and other metals;
- mine operating and ore processing facility problems;
- economic downturns and operators' insufficient financing;
- insolvency or bankruptcy of the operator;
- significant permitting, environmental and other regulatory requirements and restrictions and any changes in those regulations;
- challenges by non-mining interests to existing permits and mining rights, and to applications for permits and mining rights;
- opposition by local communities, indigenous populations and non-governmental organizations;

community or civil unrest;

- labor shortages, increased labor costs, and labor disputes, strikes or work stoppages at mines;
- unavailability of mining, drilling and related equipment;
- unanticipated geological conditions or metallurgical characteristics;
- unanticipated ground or water conditions;
- pit wall or tailings dam failures or any underground stability issues;
- fires, explosions and other industrial accidents;
- environmental hazards and natural catastrophes such as floods, earthquakes or inclement or hazardous weather conditions;
- injury to persons, property or the environment;
- the ability of operators to maintain or increase production or to replace reserves as properties are mined; and
- uncertain domestic and foreign political and economic environments.

The occurrence of any of the above mentioned risks or hazards could result in an interruption, suspension or termination of operations or development work at any of the properties in which we hold a royalty or stream interest and have a material adverse effect on our business, results of operations, cash flows and financial condition.

Acquired royalty and stream interests, particularly on development stage properties, are subject to the risk that they may not produce anticipated revenues.

The royalty and stream interests we acquire may not produce anticipated revenues. The success of our acquisitions of royalty and stream interests is based on our ability to make accurate assumptions regarding the valuation, timing and amount of revenues to be derived from our royalty and stream interests and, for development projects, the costs, timing and conduct of development. If an operator does not bring a property into production and operate in accordance with feasibility studies, technical or reserve reports or other plans due to lack of capital, inexperience, unexpected problems, delays, or otherwise, then the acquired royalty or stream interest may not yield sufficient revenues to be profitable for us. Furthermore, operators of development stage properties must obtain and maintain all necessary environmental permits and access to water, power and other raw materials needed to begin production, and there can be no assurance that operators will be able to do so.

The Pascua-Lama mining project in Chile and Argentina is among our principal development stage acquisitions. During the fourth calendar quarter of 2013, Barrick announced the suspension of construction at the Pascua-Lama project, except for those activities required for environmental and regulatory compliance. Barrick has indicated that a decision to restart development will depend on improved economics and reduced uncertainty related to legal and regulatory requirements. The failure of the Pascua-Lama project, or any of our other principal properties, to produce anticipated revenues on schedule or at all would have a material adverse effect on our business, results of operations, financial condition or the other benefits we expect to realize from the acquisition of royalty interests.

Further, as mines on which we have royalty and stream interests mature, we can expect overall declines in production over the years unless operators are able to replace reserves that are mined through mine expansion or successful new exploration. There can be no assurance that the operators of properties where we hold royalty and stream interests will be able to maintain or increase production or replace reserves as they are mined.

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Several of our royalty and stream interests are significant to us and any adverse development related to these properties could adversely affect our revenues.

Our investments in the Mount Milligan, Andacollo, Voisey's Bay and Peñasquito properties, among others, were significant to us in fiscal year 2015, as our interests in these properties generated approximately $179.1 million in revenue in fiscal year 2015, which was nearly 65% of our revenue for the period. We expect these properties, our new gold and silver stream at Pueblo Viejo, and others to be significant in fiscal year 2016. Any adverse development affecting the operation of or production from any of these properties would have a material adverse effect on our business, results of operations, cash flows and financial condition. Any adverse decision made by the operators, such as changes to mine plans, production schedules, metallurgical processes or royalty calculation methodologies, may materially and adversely impact the timing and amount of revenue that we receive.

Unknown defects or impairments in our royalty or streaming interests and title defects could adversely affect our business and revenues.

Unknown defects in or disputes relating to the royalty and stream interests we hold or acquire may prevent us from realizing the anticipated benefits from our royalty and stream interests, and could have a material adverse effect on our business, results of operations, cash flows and financial condition. It is also possible that material changes could occur that may adversely affect management's estimate of the carrying value of our royalty and stream interests and could result in impairment charges. While we seek to confirm the existence, validity, enforceability, terms and geographic extent of the royalty and stream interests we acquire, there can be no assurance that disputes over these and other matters will not arise. Confirming these matters, as well as the title to mining property on which we hold or seek to acquire a royalty or stream interest, is a complex matter, and is subject to the application of the laws of each jurisdiction to the particular circumstances of each parcel of mining property and to the documents reflecting the royalty or stream interest. Similarly, royalty and stream interests in many jurisdictions are contractual in nature, rather than interests in land, and therefore may be subject to change of control, bankruptcy or the insolvency of operators. We often do not have the protection of security interests over property that we could liquidate to recover all or part of our investment in a royalty or stream interest. Even if we retain our royalty and stream interests in a mining project after any change of control, bankruptcy or insolvency of the operator, the project may end up under the control of a new operator, who may or may not operate the project in a similar manner to the current operator, which may negatively impact us.

Operators may interpret our royalty and stream interests in a manner adverse to us or otherwise may not abide by their contractual obligations, and we could be forced to take legal action to enforce our contractual rights.

Our royalty and stream interests generally are subject to uncertainties and complexities arising from the application of contract and property laws in the jurisdictions where the mining projects are located. Operators and other parties to the agreements governing our royalty and stream interests may interpret our interests in a manner adverse to us or otherwise may not abide by their contractual obligations, and we could be forced to take legal action to enforce our contractual rights. We may or may not be successful in enforcing our contractual rights, and our revenues relating to any challenged royalty or stream interests may be delayed, curtailed or eliminated during the pendency of any such dispute or in the event our position is not upheld, which could have a material adverse effect on our business, results of operations, cash flows and financial condition. Disputes could arise challenging, among other things:

- the existence or geographic extent of the royalty or stream interest;

- methods for calculating the royalty or stream interest, including whether certain operator costs may properly be deducted from gross proceeds when calculating royalties determined on a net basis;

- third party claims to the same royalty interest or to the property on which we have a royalty or stream interest;

- various rights of the operator or third parties in or to the royalty or stream interest;

- production and other thresholds and caps applicable to payments of royalty or stream interests;

- the obligation of an operator to make payments on royalty and stream interests; and

- various defects or ambiguities in the agreement governing a royalty and stream interest.

For example, in December 2014, the Labrador Nickel Royalty Limited Partnership ("LNRLP"), of which the Company is the indirect majority owner, amended its October 2009 statement of claim against Vale and certain subsidiaries of Vale. LNRLP alleges that Vale has been calculating LNRLP's 3% NSR royalty on nickel, copper and cobalt produced from the Voisey's Bay mine incorrectly since production began in late 2005 and that Vale has breached its contractual duties of good faith and honest performance. LNRLP received the first quarterly royalty payment relating to processing Voisey's Bay nickel concentrates at Vale's new Long Harbour Processing Plant. In response to questions concerning Vale's determination of the Long Harbour smelter and refining charges deducted from actual proceeds to calculate the NSR royalty payable, Vale recently stated that the charges included "the cost of product sold, pre-operating costs, depreciation and cost of capital," a calculation methodology that the Company estimates could result in a substantial reduction or elimination of royalty payable to LNRLP on Voisey's Bay nickel concentrates processed at Long Harbour. The Company strongly disagrees with Vale's determination that these changes are permissible deductions pursuant to the royalty agreement and is requesting further clarification of the basis for these charges while aggressively pursuing its legal remedies.

Potential litigation affecting the properties that we have royalty and stream interests in could have an adverse effect on us.

Potential litigation may arise between the operators of properties on which we have royalty and stream interests and third parties. For example, Barrick's Pascua-Lama mining project has been the subject of litigation by local farmers and indigenous communities alleging that the project's water management system is not in compliance with environmental permits and that the project has damaged glaciers located in the Pascua-Lama project area. As a holder of royalty and stream interests, we generally will not have any influence on litigation such as this and generally will not have access to non-public information concerning such litigation. Any such litigation that results in the reduction, cessation or termination of a project or production from a property, whether temporary or permanent, could have a material adverse effect on our business, results of operations, cash flows and financial condition.

We may enter into acquisitions or other material transactions at any time.

In the ordinary course of business, we engage in a continual review of opportunities to acquire existing royalty and stream interests, to create new royalty and stream interests through the financing of exploration, development or producing mining projects, and to acquire companies that hold royalty or stream 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, technical, financial and other confidential information, submission of indications of interest and participation in discussions or negotiations for acquisitions. We also consider obtaining debt commitments for acquisition financing. In the event that we choose to raise debt capital

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to finance any acquisition, our leverage will be increased. We also could issue common stock or incur additional indebtedness to fund our acquisitions. Issuances of common stock would dilute existing stockholders and may reduce some or all of our per share financial measures.

Any such acquisition could be material to us. In pursuit of such opportunities, we may fail to select appropriate acquisition candidates or negotiate acceptable arrangements, including arrangements to finance acquisitions. In addition, any such acquisition or other transaction may have other transaction specific risks associated with it, including risks related to the completion of the transaction, the project, its operators, or the jurisdictions in which the project is located and other risks discussed in this Form 10-K. There can be no assurance that any acquisitions completed will ultimately benefit the Company.

In addition, we may consider opportunities to restructure our royalty or stream interests where we believe such restructuring would provide a long-term benefit to the Company, though such restructuring may reduce near-term revenues or result in the incurrence of transaction related costs. We could enter into one or more acquisition or restructuring transactions at any time.

We may be unable to successfully acquire additional royalty or stream interests at appropriate valuations.

Our future success largely depends upon our ability to acquire royalty and stream interests at appropriate valuations, including through royalty, stream and corporate acquisitions and other financing transactions. Most of our revenues are derived from royalty and streams interests that we acquire or finance. There can be no assurance that we will be able to identify and complete the acquisition of such royalty and stream interests or businesses that own desired interests, at reasonable prices or on favorable terms, or, if necessary, that we will have or be able to obtain sufficient financing on reasonable terms to complete such acquisitions. Continued economic volatility or a credit crisis, or severe declines in market prices for gold, silver, copper, nickel and certain other metals, could adversely affect our ability to obtain debt or equity financing for acquisitions. In addition, changes to tax rules, accounting policies, or the treatment of stream interests by ratings agencies could make royalties, streams or other investments by the Company less attractive to counterparties. Such changes could adversely affect our ability to acquire new royalty or stream interests.

We face substantial competition, and we may not be able to compete successfully in acquiring new royalty and stream interests.

We face substantial competition in the acquisition of royalty and stream interests. We have competitors that are engaged in the acquisition of royalty and stream interests and companies holding such interests, including competitors with greater financial resources, and we may not be able to compete successfully against these companies in new acquisitions. If we are unable to successfully acquire additional royalty or stream interests, the reserves subject to our royalty and stream interests may decline as the producing properties on which we have such royalty and stream interests are mined or payment or production caps on certain of our royalty interests are met. We also may experience negative reactions from the financial markets or operators of properties on which we seek royalty and stream interests if we are unable to successfully complete acquisitions of such interests or complete them at satisfactory rates of return. Each of these factors could have a material adverse effect on our business, results of operations, cash flows and financial condition.

We depend on our operators for the calculation of payments of our royalty and stream interests. We may not be able to detect errors and later payment calculations may call for retroactive adjustments.

The payments of our royalty and stream interests are calculated by the operators of the properties on which we have royalty and stream interests based on their reported production. Each operator's calculation of our payments is subject to and dependent upon the adequacy and accuracy of its

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production and accounting functions, and, given the complex nature of mining and ownership of mining interests, errors may occur from time to time in the allocation of production and the various other calculations made by an operator. Any of these errors may render calculations of such payments inaccurate. Certain agreements governing our royalty and stream interests require the operators to provide us with production and operating information that may, depending on the completeness and accuracy of such information, enable us to detect errors in the calculation of payments of royalty and deliveries under metal streams. We do not, however, have the contractual right to receive production information for all of our royalty interests. As a result, our ability to detect payment errors through our royalty and stream monitoring program and its associated internal controls and procedures is limited, and the possibility exists that we will need to make retroactive revenue adjustments. Some contracts governing our royalty and stream interests provide us the right to audit the operational calculations and production data for the associated royalty payments and metal stream deliveries; however, such audits may occur many months following our recognition of the revenue and we may be required to adjust our revenue in later periods, which could require us to restate our financial statements.

Development and operation of mines is very capital intensive and any inability of the operators of properties where we hold royalty and stream interests to meet liquidity needs, obtain financing or operate profitably could have material adverse effects on the value of and revenue from our royalty and stream interests.

The development and operation of mines is very capital intensive, and if operators of properties where we hold royalty and stream interests do not have the financial strength or sufficient credit or other financing capability to cover the costs of developing or operating a mine, the operator may curtail, delay or cease development or operations at a mine site. Operators' ability to raise and service sufficient capital may be affected by, among other things, macroeconomic conditions, future commodity prices of metals to be mined, or further economic volatility in the U.S. and global financial markets as has been experienced in recent years. If certain of the operators of the properties on which we have royalty and stream interests suffer these material adverse effects, then our interests, including the value of and revenue from them, and the ability of operators to obtain debt or equity financing for the exploration, development and operation of their properties may be materially adversely affected.

Certain of our royalty and stream interests are subject to payment or production caps or rights in favor of the operator or third parties that could reduce the revenues generated from the interests.

Some of our royalty and stream interests are subject to limitations, such that the royalty or stream interest will extinguish or decrease after threshold production is achieved or payments at stated thresholds are made. For example:

- our gold stream at Pueblo Viejo decreases from 7.50% of Barrick's interest in gold produced at Pueblo Viejo to 3.75% after 990,000 ounces of gold have been delivered. Similarly, our silver stream decreases from 75% of Barrick's interest in silver produced at Pueblo Viejo to 37.50% after 50.00 million ounces of silver have been produced;

- our stream at Andacollo decreases from 100% of payable gold to 50% of payable gold once 900,000 ounces have been delivered;

- our royalty at Mulatos is subject to a 2.0 million ounce cap on gold production, of which there has been approximately 1.41 million ounces of cumulative production as of June 30, 2015; and

- approximately 20% of our royalty at Pascua-Lama is limited to the first 14.0 million ounces of gold produced from the project, and another 24% of the royalty can be extended beyond 14.0 million ounces produced for a payment of $4.4 million.

Also, certain individuals from whom we purchased portions of our royalties at Pascua-Lama are entitled to one-time payments if the price of gold exceeds certain thresholds. If any of these thresholds are met or similar rights are exercised or we fail to make the required payment, our future revenue could be reduced.

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Estimates of reserves and mineralization by the operators of mines in which we have royalty and stream 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 and the control of the operators of properties in which we have royalty and stream interests. Reserve estimates for our royalty and stream 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 mineralized material is a subjective process, and the accuracy of any such estimates is a function of the quality of available data and of 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 a 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, silver, copper, nickel or other metals also may render reserves or mineralized material containing relatively lower ore grades uneconomical to exploit. Changes in operating costs and other factors including short-term operating factors, the processing of new or different ore grades, geotechnical characteristics and metallurgical recovery, may materially and adversely affect reserves. Finally, it is important to note that our royalty and stream agreements generally give us interests in only a small portion of the production from the operators' aggregate reserves, and the size of those interests varies widely based on the individual documents governing them.

Mineral resources as reported by some operators do not constitute mineral reserves and do not have demonstrated economic viability. Due to the uncertainty of mineral resources, there can be no assurance that such resources will be upgraded to proven and probable mineral reserves as a result of continued exploration. It should not be assumed that any part or all of mineral resources on properties where we hold royalty and stream interests constitute or will be converted into mineral reserves.

Estimates of production by the operators of mines in which we have royalty and stream interests are subject to change, and actual production may vary materially from such estimates.

Production estimates are prepared by the operators of mining properties. There are numerous uncertainties inherent in estimating anticipated production attributable to our royalty and stream interests, including many factors beyond our control and the control of the operators of the properties in which we have royalty and stream 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, engineering and geological interpretation and operator judgment. Rates of production may be less than expected. Results of drilling, metallurgical testing and production, changes in commodity prices, and the evaluation of mine plans subsequent to the date of any estimate may cause actual production to vary materially from such estimates.

If title to properties is not properly maintained by the operators, or is successfully challenged by third parties, our royalty and stream interests could be found to be invalid.

Our business includes the risk that operators of mining projects and holders of mining claims, tenements, concessions, mining licenses or other interests in land and mining rights may lose their exploration or mining rights, or have their rights to mining properties contested by private parties or

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the government. Internationally, mining tenures are subject to loss for many reasons, including expiration, failure of the holder to meet specific legal qualifications, failure to pay maintenance fees or meet expenditure requirements, reduction in geographic extent upon passage of time or upon conversion from an exploration tenure to a mining tenure, failure of title and similar risks. Unpatented mining claims, for example, which constitute a significant portion of the properties on which we hold royalty interests in the United States, and which are generally considered subject to greater title risk than real property interests held by absolute title, are often uncertain and subject to contest by third parties and the government. If title to unpatented mining claims or other mining tenures subject to our royalty and stream interests has not been properly established or is not properly maintained, or is successfully contested, our royalty and stream interests could be adversely affected.

Operations in foreign jurisdictions are subject to many risks, which could decrease our revenues.

We derived approximately 85% of our revenues from foreign sources during fiscal year 2015, compared to approximately 85% in fiscal year 2014 and 83% in fiscal year 2013. Our principal producing royalty and stream interests on properties outside of the United States are located in Canada, Chile and Mexico. We currently have royalty and stream interests in mines and projects in other countries, including Argentina, Australia, Bolivia, Brazil, Burkina Faso, Dominican Republic, Finland, Ghana, Guatemala, Honduras, Macedonia, Nicaragua, Peru, Russia, Spain and Tunisia. In addition, future acquisitions may expose us to new jurisdictions. Our foreign activities are subject to the risks normally associated with conducting business in foreign countries. These risks include, depending on the country, such things as:

- expropriation or nationalization of property, which has occurred in the past in Argentina and other countries in which we have or may acquire royalty and stream interests;
- seizure of mineral production;
- exchange and currency controls and fluctuations;
- limitations on foreign exchange and repatriation of earnings;
- increased foreign taxation or imposition of new or increased mining royalty interests;
- restrictions on mineral production and price controls;
- import and export regulations, including restrictions on the export of gold, silver, copper, nickel or other metals;
- changes in legislation, including changes related to taxation, royalty interests, imports, exports, duties, currency, foreign ownership, foreign trade and foreign investment;
- high rates of inflation;
- labor practices and disputes;
- enforcement of unfamiliar or uncertain foreign real estate, mineral tenure, contract, water use, mine safety and environmental laws and policies;
- challenges to mining, processing and related permits and licenses, or to applications for permits and licenses, by or on behalf of regulatory authorities, indigenous populations, non-governmental organizations or other third parties;

renegotiation, nullification or forced modification of existing contracts, licenses, permits, approvals, concessions or the like;

war, crime, terrorism, sabotage, civil unrest and uncertain political and economic environments;

corruption;

- exposure to liabilities under anti-corruption and anti-money laundering laws, including the U.S. Foreign Corrupt Practices Act and similar laws and regulations in other jurisdictions to which we, but not necessarily our competitors, may be subject;
- suspension of the enforcement of creditors' rights and stockholders' rights;
- risk of loss due to disease and other potential endemic health issues; and
- loss of access to government controlled infrastructure, such as roads, bridges, rails, ports, power sources and water supply.

In addition, many of our operators are organized outside of the United States. Our royalty and stream interests may be subject to the application of foreign laws to our operators, and their stockholders, including laws relating to foreign ownership structures, corporate transactions, creditors' rights, bankruptcy and liquidation. Foreign operations also could be adversely impacted by laws and policies of the United States affecting foreign trade, investment and taxation.

These risks may limit or disrupt operating mines or projects on which we hold royalty and stream interests, restrict the movement of funds, or result in the deprivation of contract rights or the taking of property by nationalization or expropriation without fair compensation, and could have a material adverse effect on our business, results of operations, cash flows and financial condition. Certain of these risks may increase in an environment of relatively high metal prices.

Opposition from indigenous people may delay or suspend development or operations at the properties where we hold royalty and stream interests, which could decrease our revenues.

Various international and national, state and provincial laws, regulations and other materials relate to the rights of indigenous peoples. Some of the properties where we hold royalty and stream interests are located in areas presently or previously inhabited or used by indigenous peoples. Many of these laws impose obligations on government to respect the rights of indigenous people. Some mandate that government consult with indigenous people regarding government actions which may affect indigenous people, including actions to approve or grant mining rights or permits. One or more groups of indigenous people may oppose continued operation, further development, or new development of the properties where we hold royalty and stream interests. Such opposition may be directed through legal or administrative proceedings or protests, roadblocks or other forms of public expression, and claims and protests of indigenous peoples may disrupt or delay activities of the operators of the properties. For example, the Pascua-Lama and El Morro projects have been challenged by Chilean indigenous groups and other third parties. During the fourth calendar quarter of 2013, Barrick suspended construction activities at the Pascua-Lama project, except for those activities required for environmental and regulatory compliance, as discussed further in Part I, Item 2, Properties under the heading "Pascua-Lama Project (Region III, Chile)." Similarly, construction activities at the El Morro project were suspended during the same period.

Changes in mining taxes and royalties payable to governments could decrease our revenues.

Changes in mining and tax laws in any of the United States, Canada, Chile, Dominican Republic, Mexico or any other country in which we have royalty and stream interests in mines or projects could affect mine development and expansion, significantly increase regulatory obligations and compliance costs with respect to mine development and mine operations, increase the cost of holding mining tenures or impose additional taxes on mining operations, all of which could adversely affect our revenue from such properties. A number of properties where we hold royalty interests are located on U.S. public lands that are subject to federal mining and other public land laws. In recent years, the United States Congress has considered a number of proposed major revisions to the General Mining Law, which governs the creation, maintenance and possession of mining claims and related activities on public lands in the United States. Congress also has recently considered bills, which if enacted, would impose a royalty payable to the government on hardrock production, increase land holding fees, impose federal reclamation fees, impose additional environmental operating standards and afford greater public involvement and regulatory discretion in the mine permitting process. Such legislation, if enacted, or similar legislation in other countries, could adversely affect the development of new mines and the expansion of existing mines, as well as increase the cost of all mining operations, and could materially and adversely affect mine operators and our revenue.

Changes in United States tax legislation or our plans 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 and stream interests located outside the United States. Present U.S. income taxes and foreign withholding taxes have not been provided for on undistributed earnings for one of our non-U.S. subsidiaries, because such earnings are intended to be indefinitely reinvested in the operations of that subsidiary. The current Executive branch of the U.S. 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 enacted in current or future years, they could have a negative impact on our financial position and results of operations.

In addition, the possibility exists that amounts determined to be indefinitely reinvested outside of the United States may ultimately be repatriated. Any repatriation of foreign earnings may require the accrual and payment of U.S. federal and certain state taxes, which could negatively impact our results of operations and/or the amount of available funds. While we currently have no intention to repatriate cash from our foreign subsidiaries, should the need arise domestically, there is no guarantee that we could do so without adverse consequences.

The mining industry is subject to significant environmental risks in the U.S. and in the foreign jurisdictions where our interests are located.

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 evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability, and potentially increased capital expenditures and operating costs. Furthermore, mining may be subject to significant environmental and other permitting requirements regarding the use of raw materials needed for operations, particularly water and power. Compliance with such laws and regulations can require significant expenditures and a breach may result in the imposition of fines and penalties, which may be material. 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, or if an operator were to lose its right to use or access water or other raw materials necessary to operate a mine, our revenues could be reduced, delayed or eliminated. These risks are most salient with regard to our development stage properties where permitting may not be complete and/or where new legislation and regulation can lead to delays, interruptions and significant unexpected cost burdens for mine operators. For example, Argentina passed a federal glacier protection law in 2010 that, if strictly applied, could restrict mining activities in areas on or near the nation's glaciers. We have royalties on the Chilean side of the Pascua-Lama project, which straddles the border between Chile and Argentina, and the glacier law, if and when it becomes effective, could affect some aspects of the design, development and operation of the

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Pascua-Lama project. In July 2012, the National Supreme Court of Justice of Argentina overturned preliminary injunctions suspending the application of the glacier law in the San Juan Province, where a portion of the Pascua-Lama project is located, but the Supreme Court must still rule on the constitutionality of the glacier law. Further, to the extent that we become subject to environmental liabilities for any time period during which we operated properties, the satisfaction of any liabilities would reduce funds otherwise available to us and could have a material adverse effect on our business, results of operations, cash flows and financial condition.

Regulations and pending legislation governing issues involving climate change could result in increased operating costs to the operators of the properties on which we have royalty or stream interests.

A number of governments or governmental bodies have introduced or are contemplating regulatory changes in response to the potential impacts of climate change. The December 1997 Kyoto Protocol, which has been extended to 2020, establishes a set of greenhouse gas emission targets for countries that have ratified the Protocol, which include Ghana, Australia and Peru. Canada ratified the Protocol but renounced its ratification in December 2011. Furthermore, the U.S. Environmental Protection Agency has promulgated or is in the process of promulgating several rules aimed at regulating greenhouse gas emissions from new and existing sources, particularly in the power generation sector, and several U.S. states (such as California) have enacted legislation requiring greenhouse gas reductions that will affect energy prices and demand for carbon intensive products. Legislation and increased regulation regarding climate change could impose significant costs on the operators of properties where we hold royalty or stream interests, including increased energy, capital equipment, environmental monitoring and reporting and other costs to comply with such regulations. If an operator of a property on which we have a royalty or stream interest is forced to incur significant costs to comply with climate change regulation or becomes subject to environmental restrictions that limit its ability to continue or expand operations, our revenues from that property could be reduced, delayed or eliminated.

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

We believe that our success depends on the continued service of our key executive management personnel. Tony Jensen has served as our President and Chief Executive Officer since July 2006. Mr. Jensen's extensive commercial experience, mine operations background and industry contacts give us an important competitive advantage. The loss of the services of Mr. Jensen, other key members of management or other key employees could jeopardize our ability to maintain our competitive position in the industry. From time to time, we may also need to identify and retain additional skilled management and specialized technical personnel to efficiently operate our business. The number of persons skilled in the acquisition, exploration and development of royalty and stream interests is limited and there is competition for such persons. Recruiting and retaining qualified personnel is critical to our success and there can be no assurance of such success. If we are not successful in attracting and retaining qualified personnel, our ability to execute our business model and growth strategy could be affected, which could have a material adverse effect on our business, results of operations, cash flows and financial condition. We currently do not have key person life insurance for any of our officers or directors.

Our disclosure controls and internal control over our financial reporting are subject to inherent limitations.

Management has concluded that as of June 30, 2015, our disclosure controls and procedures and our internal control over financial reporting were effective. Such controls and procedures, however, may not be adequate to prevent or identify existing or future internal control weaknesses due to inherent limitations therein, which may be beyond our control, including, but not limited to, our dependence on operators for the calculation of royalty payments and deliveries of metal streams that

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translate to our revenues as discussed above in "*We depend on our operators for the calculation of payments of our royalty and stream interests. We may not be able to detect errors and later payment calculations may call for retroactive adjustments*". Given our dependence on third party calculations, there is a risk that material misstatements in results of operations and financial condition may not be prevented or detected on a timely basis by our internal controls over financial reporting and may require us to restate our financial statements.

We have incurred indebtedness in connection with our business and may in the future incur additional indebtedness that could limit cash flow available for our operations, limit our ability to borrow additional funds and have a material adverse effect on our business, results of operations, cash flows and financial condition.

As of June 30, 2015, we had $370 million aggregate principal amount of our 2.875% convertible senior notes due 2019 (the "2019 Notes") outstanding, which we incurred in June 2012. In addition, we may incur additional indebtedness in connection with financing acquisitions, strategic transactions or for other purposes. As of June 30, 2015, we had $650 million available for borrowing under our revolving credit facility, and since June 30, 2015, we have entered into several transactions that, when added to existing commitments, would result in drawing down our revolving credit facility and reducing our available liquidity to approximately $350 million after closing all such transactions. As a result, we may seek additional debt or equity financing if we deem it advisable. Our indebtedness increases the risk that we may be unable to generate enough cash to pay amounts due in respect of our indebtedness.

Our indebtedness could have a material adverse effect on our business, results of operations, cash flows and financial condition. For example, it could:

- increase our vulnerability to general adverse economic and industry conditions;
- require us to dedicate a substantial portion of our cash flow from operations to service our indebtedness, thereby reducing the availability of our cash flow to fund acquisitions of royalty and stream interests, working capital, pay dividends and other general corporate purposes;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- restrict us from exploiting business opportunities;
- place us at a competitive disadvantage compared to our competitors that have less indebtedness;
- dilute our existing stockholders if we elect to issue common stock instead of paying cash in the event the holders convert the 2019 Notes, or any other convertible securities issued in the future;
- require the consent of our existing lenders to borrow additional funds, as was required in connection with the issuance of the 2019 Notes; and
- limit our ability to borrow additional funds for working capital, capital expenditures, acquisitions, debt service requirements, execution of our business strategy or other general corporate purposes.

In addition, the agreement governing our revolving credit facility contains, and the agreements that may govern any future indebtedness that we may incur may contain, financial and other restrictive covenants that will limit our ability to engage in activities that may be in our long-term best interests. Among other restrictions, the agreement governing our revolving credit facility contains covenants limiting our ability to make certain investments, consummate certain mergers, incur certain debt or liens and dispose of assets.

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We may be required to pay a significant amount of money or issue a significant amount of shares of our common stock or both upon the exercise of any put, redemption or call right and conversion of the 2019 Notes, which could dilute existing stockholders and have a material adverse effect on our business, results of operations, cash flows and financial condition.

Holders of the 2019 Notes may convert their 2019 Notes at their option prior to the close of business on the business day immediately preceding March 15, 2019, but only under the following circumstances: (1) during any fiscal quarter commencing after June 30, 2012 (and only during such fiscal quarter), if the last reported sale price of our common stock for at least 20 trading days (whether or not consecutive) during the period of 30 consecutive trading days ending on the last trading day of the immediately preceding fiscal quarter is greater than or equal to 130% of the applicable conversion price on each applicable trading day; (2) during the five consecutive business day period after any five consecutive trading day period (the "measurement period") in which the trading price per $1,000 principal amount of notes for each trading day of such measurement period was less than 98% of the product of the last reported sale price of our common stock and the applicable conversion rate on each such trading day; (3) upon the occurrence of certain corporate events; or (4) if we call any 2019 Notes for redemption, at any time until the close of business on the business day preceding the redemption date. On or after March 15, 2019 until the close of business on the scheduled trading day immediately preceding the June 15, 2019 maturity date, holders may convert their 2019 Notes at any time, regardless of the foregoing circumstances.

On or after June 15, 2015, if the last reported sale price of our common stock for at least 20 trading days (whether or not consecutive) during the period of 30 consecutive trading days ending within 10 trading days immediately prior to the date we provide the notice of redemption exceeds 130% of the applicable conversion price of the 2019 Notes on each applicable trading day, subject to certain limited exceptions, we may redeem any or all of the 2019 Notes. The redemption price for the 2019 Notes to be redeemed on any redemption date will equal 100% of the principal amount of the 2019 Notes being redeemed, plus accrued and unpaid interest, if any, to, but excluding, the redemption date, plus $90 per each $1,000 principal amount of 2019 Notes being redeemed. If we call any 2019 Notes for redemption, holders may convert their 2019 Notes at any time until the close of business on the business day preceding the redemption date.

Upon conversion of any of the 2019 Notes, whether upon maturity, the exercise of any put, call or redemption right, or otherwise, we will be required to pay or deliver, at our election, cash, shares of our common stock or a combination of cash and shares of our common stock. Any such payment or delivery of cash, shares or a combination of cash and shares upon conversion of the 2019 Notes could dilute existing stockholders and may have an adverse effect on our business, results of operations, cash flows and financial condition.

We may not be able to satisfy our debt obligations which could have a material adverse effect on our business, results of operations, cash flows and financial condition.

We are subject to the risks normally associated with debt financing, including the risk that our cash flows may be insufficient to meet required principal and interest payments and the risk that we will be unable to refinance our indebtedness when it becomes due, or that the terms of such refinancing will not be as favorable as the terms of our indebtedness. As of June 30, 2015, our annual debt service obligation on the 2019 Notes was approximately $10.6 million. In addition, the 2019 Notes include provisions providing for the lump sum payment of significant amounts of principal, whether upon maturity, upon the exercise of any applicable put, redemption or call rights or otherwise and all amounts, if any, due under our revolving credit facility are due at maturity. Our ability to make these payments when due will depend upon several factors, which may not be in our control. These factors include our liquidity or our ability to liquidate assets owned by us on or prior to such put, redemption, call or maturity dates and the amount by which we have been able to reduce indebtedness prior to such

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date though exchanges, refinancing, extensions, collateralization or other similar transactions (any of which transactions may also have the effect of reducing liquidity or liquid assets). In addition, we may incur additional indebtedness in the future, subject to the restrictions contained in the agreements governing the terms of our debt obligations, which may make it more difficult for us to satisfy our other debt obligations.

If we are unable to maintain cash reserves or generate sufficient cash flow or otherwise obtain funds necessary to make required payments, or if we fail to comply with the various covenants and requirements of the 2019 Notes, our revolving credit facility or any indebtedness which we may incur in the future, this could result in an event of default that, if not cured or waived, could result in the acceleration of all of our debt. Any default under the 2019 Notes, our revolving credit facility or any indebtedness which we may incur in the future could have a material adverse effect on our business, results of operations, cash flows and financial condition.

The accounting method for convertible debt securities that may be settled in cash, such as the 2019 Notes, could have a material effect on our reported net income, net working capital or other financial results.

Under the Financial Accounting Standards Board Accounting Standards Codification Section 470-20, *Debt with Conversion and other Options* ("ASC 470-20"), an entity must separately account for the liability and equity components of convertible debt instruments (such as the 2019 Notes) that may be settled entirely or partially in cash upon conversion in a manner that reflects the issuer's economic interest cost. The effect of ASC 470-20 on the accounting for the 2019 Notes is that the equity component is required to be included in the additional paid-in capital section of stockholders' equity on our consolidated balance sheet and the value of the equity component is treated as original issue discount for purposes of accounting for the debt component of the 2019 Notes. As a result, we are required to record a greater amount of non-cash interest expense as a result of the amortization of the discounted carrying value of the 2019 Notes to their face amount over the term of the 2019 Notes. We report lower net income in our financial results because ASC 470-20 requires interest to include both the current period's amortization of the debt discount and the instrument's coupon interest, which could adversely affect our reported or future financial results, the market price of our common stock and the trading price of the 2019 Notes.

In addition, under certain circumstances, convertible debt instruments (such as the 2019 Notes) that may be settled entirely or partly in cash are currently accounted for utilizing the treasury stock method, the effect of which is that the shares issuable upon conversion of the 2019 Notes are not included in the calculation of diluted earnings per share except to the extent that the conversion value of the 2019 Notes exceeds their principal amount. Under the treasury stock method, for diluted earnings per share purposes, the transaction is accounted for as if the number of shares of common stock that would be necessary to settle such excess, if we elected to settle such excess in shares, are issued. We cannot be sure that the accounting standards in the future will continue to permit the use of the treasury stock method. If we are unable to use the treasury stock method in accounting for the shares issuable upon conversion of the 2019 Notes, then our diluted earnings per share would be adversely affected.

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 on the NASDAQ Global Select Market were $100.84 and $38.63 for the fiscal year ended June 30, 2013, $76.85 and $40.45 for the fiscal year ended June 30, 2014, and

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$82.84 and $55.55 for the fiscal year ending June 30, 2015. 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, silver, copper, nickel and other metals;
- Central Bank interest rates;
- expectations regarding inflation;
- ability of operators to advance development projects, produce precious metals and develop new reserves;
- currency values;
- credit market conditions;
- general stock market conditions; and
- global and regional political and economic conditions.

Additional issuances of equity securities by us could dilute our existing stockholders, reduce some or all of our per share financial measures, reduce the trading price of our common stock or impede our ability to raise future capital. Substantial sales of shares may negatively impact the market price of our common stock.

We may issue equity in the future in connection with acquisitions, strategic transactions or for other purposes. To the extent we issue additional equity securities, our existing stockholders could be diluted and some or all of our per share financial measures could be reduced. In addition, the shares of common stock that we issue in connection with an acquisition may not be subject to resale restrictions. The market price of our common stock could decline if our stockholders sell substantial amounts of our common stock, including shares issued upon the conversion of the outstanding 2019 Notes or are perceived by the market as intending to sell these shares other than in an orderly manner. In addition, the existence of the 2019 Notes may encourage short selling by market participants because the conversion of the 2019 Notes could depress the price of our common stock. These sales also could impair our ability to raise capital through the sale of additional equity or equity related securities in the future at a time and price that we deem appropriate. We are unable to predict the effect that sales may have on the then-prevailing market price of our common stock.

Conversion of the 2019 Notes may dilute the ownership interest of existing stockholders.

At our election, we may settle the 2019 Notes tendered for conversion entirely or partly in shares of our common stock. An aggregate of approximately 3.5 million shares of our common stock are issuable upon conversion of the outstanding 2019 Notes at the initial conversion rate of 9.4955 shares of common stock per $1,000 principal amount of notes (equivalent to an initial conversion price of approximately $105.31 per share of common stock). In addition, the number of shares of common stock issuable upon conversion of the 2019 Notes, and therefore the dilution of existing common stockholders, could increase under certain circumstances described in the indenture under which the 2019 Notes are governed. We may issue all of these shares without any action or approval by our stockholders. As a result, the conversion of some or all of the 2019 Notes may dilute the ownership interests of existing stockholders. Any sales in the public market of the common stock issuable upon such conversion could adversely affect prevailing market prices of our common stock.

We may change our practice of paying dividends.

We have paid 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, future earnings, cash

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flows, financial condition, and funding requirements for future opportunities or operations. In addition, there may be corporate law limitations or future contractual restrictions on our ability to pay dividends. If our board of directors declines or is unable 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 largely upon any future stock price appreciation. We have increased our dividends in prior years. There can be no assurance, however, that we will continue to do so or that we will pay any dividends at all.

Certain provisions of Delaware law, our organizational documents, our rights plan and the indenture governing the 2019 Notes could impede, delay or prevent an otherwise beneficial takeover or takeover attempt of us.

Certain provisions of Delaware law, our organizational documents, our rights plans and the indenture governing the 2019 Notes could make it more difficult or more expensive for a third party to acquire us, even if a change of control would be beneficial to our stockholders. Delaware law prohibits, subject to certain exceptions, a Delaware corporation from engaging in any business combination with any "interested stockholder," which is generally defined as a stockholder who becomes a beneficial owner of 15% or more of a Delaware corporation's voting stock, for a period of three years following the date that the stockholder became an interested stockholder. Additionally, our certificate of incorporation and bylaws contain provisions that could similarly delay, defer or discourage a change in control of us or management. These provisions could also discourage a proxy contest and make it more difficult for stockholders to elect directors and take other corporate actions. Such provisions provide for the following, among other things: (i) the ability of our board of directors to issue shares of common stock and preferred stock without stockholder approval, (ii) the ability of our board of directors to establish the rights and preferences of authorized and unissued preferred stock, (iii) a board of directors divided into three classes of directors serving staggered three year terms, (iv) permitting only the chairman of the board of directors, chief executive officer, president or board of directors to call a stockholders' meeting and (v) requiring advance notice of stockholder proposals and related information. Furthermore, we have a stockholder rights plan that may have the effect of discouraging unsolicited takeover proposals. The rights issued under the stockholder rights plan could cause significant dilution to a person or group that attempts to acquire us on terms not approved in advance by our board of directors. In addition, if an acquisition event constitutes a fundamental change, holders of the 2019 Notes will have the right to require us to purchase their 2019 Notes in cash. If an acquisition event constitutes a make-whole fundamental change, we may be required to increase the conversion rate for holders who convert their 2019 Notes in connection with such make-whole fundamental change. These provisions could increase the cost of acquiring us or otherwise discourage a third party from acquiring us or removing incumbent management, which may cause the market price of our common stock to decline.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We do not own or operate the properties in which we have royalty or streaming 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 mineralized material and production estimates. A list of our producing and development stage royalties and streams, as well their respective reserves, are summarized below in Table 1 within this Item 2. More information is available to the public regarding certain properties in which we have royalties, including reports filed with the

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SEC or with the Canadian securities regulatory agencies available at www.sec.gov or www.sedar.com, respectively.

The description of our principal royalties and streams set forth below includes the location, operator, royalty or stream rate, access and any material current developments at the property. For any reported production amounts discussed below, the Company considers reported production to relate to the amount of metal sales subject to our royalty interests. Please refer to Item 7, MD&A, for discussion on production estimates, historical production and revenue for our principal properties. The map below illustrates the location of our principal producing and development stage properties.

Principal Producing Properties

The Company considers both historical and future potential revenues in determining which royalty and stream 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 and 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 the Company to conclude that one or more of such royalty and stream interests are no longer principal to our business. Currently, the Company considers the properties discussed below (listed alphabetically) to be principal to our business.

Andacollo (Region IV, Chile)

As of June 30, 2015, we owned a royalty equivalent to 75% of the gold produced from the sulfide portion of the deposit at the Andacollo mine until 910,000 payable ounces of gold have been sold, and 50% of the gold produced in excess of 910,000 payable ounces of gold. As of June 30, 2015, approximately 259,000 payable ounces of gold have been sold. Please refer to Item 1, Business, Recent Business Developments, for an update on our interest at Andacollo.

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Andacollo is an open-pit copper mine and milling operation located in central Chile, Region IV in the Coquimbo Province and is operated by CMCA. Andacollo is located in the foothills of the Andes Mountains approximately 1.5 miles southwest of the town of Andacollo. The regional capital of La Serena and the coastal city of Coquimbo are approximately 34 miles northwest of the Andacollo project by road, and Santiago is approximately 215 miles south by air. Access to the mine is provided by Route 43 (R-43) south from La Serena to El Peñon. From El Peñon, D-51 is followed east and eventually curves to the south to Andacollo. Both R-43 and D-51 are paved roads.

Gold production at Andacollo decreased approximately 21% during our fiscal year ended June 30, 2015, when compared to the fiscal year ended June 30, 2014. The decrease in production is primarily due to reduced mill throughput associated with unplanned maintenance activities during the September 2015 quarter and planned maintenance activities during the March 2015 quarter. Teck expects higher mill throughput rates during the remainder of calendar 2015.

Andacollo production attributable to Royal Gold, resulting from our new streaming interest, will switch to metal sales completed in the quarter (instead of provisional estimated ounces in concentrate and true-ups based upon final smelter settlements). The eleven concentrate shipments (approximately 22,900 ounces of contained gold based on provisional weights and assays) that were not final settled as of June 30, 2015 will be subject to the new stream agreement. Andacollo will deliver gold to RGLD Gold within five business days following the end of the month in which final smelter settlement occurs. RGLD Gold typically sells gold ounces over a three week period following physical receipt. Andacollo final settlements generally take 5-6 months from the bill-of-lading date. The difference in timing between Andacollo quarterly production and final smelter settlements may result in divergences of ounces between Teck's figures and those reported by Royal Gold for future quarters.

Cortez (Nevada, USA)

Cortez is a large open-pit and underground mine, utilizing mill and heap leach processing. The operation is 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. Our royalty interest at Cortez applies to the Pipeline, South Pipeline, part of the Gap pit and Crossroads deposits which are operated by subsidiaries of Barrick.

The royalty interests we hold at Cortez include:

(a) *Reserve Claims ("GSR1").* This is a sliding-scale GSR royalty for all products from an area originally known as the "Reserve Claims," which includes the majority of the Pipeline and South Pipeline deposits. The GSR royalty rate on the Reserve Claims is tied to the gold price as shown in the table below and does not include indexing for inflation or deflation.

(b) *GAS Claims ("GSR2").* This is a sliding-scale GSR royalty for all products from an area outside of the Reserve Claims, originally known as the "GAS Claims," which encompasses approximately 50% of the Gap deposit and all of the Crossroads deposit. The GSR royalty rate on the GAS Claims, as shown in the table below, is tied to the gold price, without indexing for inflation or deflation.

(c) *Reserve and GAS Claims Fixed Royalty ("GSR3").* The GSR3 royalty is a fixed rate GSR royalty of 0.7125% and covers the same cumulative area as is covered by our two sliding-scale GSR royalties, GSR1 and GSR2, except mining claims that comprise the undeveloped Crossroads deposit.

(d) *Net Value Royalty ("NVR1").* This is a fixed 1.25% NVR on production from the GAS Claims located on a portion of Cortez that excludes the Pipeline open pit. The Company owns 81.098% of the 1.25% NVR (or 1.014%) while limited partners in Crescent Valley Partners, L.P., which is consolidated in our financial statements, own the remaining portion of

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the 1.25% NVR. A 0.618% portion of our NVR1 royalty covers the mining claims that comprise the undeveloped Crossroads deposit.

We also own three other royalties in the Cortez area where there is currently no production and no reserves attributed to these royalty interests.

The following shows the current sliding-scale GSR1 and GSR2 royalty rates under our royalty agreement with Cortez:

London P.M. Quarterly Average Price of Gold Per Ounce ($U.S.)	GSR1 and GSR2 Royalty Percentage
Below $210.00	0.40%
$210.00 - $229.99	0.50%
$230.00 - $249.99	0.75%
$250.00 - $269.99	1.30%
$270.00 - $309.99	2.25%
$310.00 - $329.99	2.60%
$330.00 - $349.99	3.00%
$350.00 - $369.99	3.40%
$370.00 - $389.99	3.75%
$390.00 - $409.99	4.00%
$410.00 - $429.99	4.25%
$430.00 - $449.99	4.50%
$450.00 - $469.99	4.75%
$470.00 - and above	5.00%

Production at Cortez increased 140% during our fiscal year ended June 30, 2015, when compared to the fiscal year ended June 30, 2014, as surface mining activity increased at the Pipeline and Gap pits, where our royalty applies, while no significant activity occurred in these areas during the prior fiscal year. Barrick has indicated that mining in calendar 2015 will include Cortez Hills, which is not subject to our interest, and Crossroads pre-stripping. As a result, production subject to our interests is expected to be lower during the remainder of calendar 2015.

Holt (Ontario, Canada)

We own a sliding-scale NSR royalty on the Holt portion of the Holloway-Holt mining project located in Ontario, Canada and owned 100% by St Andrew Goldfields Ltd. ("St Andrew"). The Holloway-Holt project straddles Ontario Provincial Highway 101 for approximately 25 miles beginning east of Matheson, Ontario, Canada and extending to the Quebec, Canada border. The sliding-scale NSR royalty rate on gold produced from the Holt portion of the mining project is derived by multiplying 0.00013 by the quarterly average gold price. For example, at a quarterly average gold price of $1,300 per ounce, the effective royalty rate payable would be 16.9%.

Production at Holt decreased approximately 1% during our fiscal year ended June 30, 2015, when compared to the fiscal year ended June 30, 2014. St Andrew reported higher tonnes milled and lower grades during the period.

Mount Milligan (British Columbia, Canada)

RGLD Gold owns the right to purchase 52.25% of the payable gold produced from the Mount Milligan copper-gold project in British Columbia, Canada, which is operated by Thompson Creek Metals Company, Inc. ("Thompson Creek"). The cash purchase price is equal to the lesser of $435 per ounce, with no inflation adjustment, or the prevailing market price. The Mount Milligan project is located within the Omenica Mining Division in North Central British Columbia, approximately 96 miles northwest of Prince George, 53 miles north of Fort St. James, and 59 miles west of Mackenzie. The

Mount Milligan project is accessible by commercial air carrier to Prince George, British Columbia, then by vehicle from the east via Mackenzie on the Finlay Philip Forest Service Road and the North Philip Forest Service Road, and from the west via Fort St. James on the North Road and Rainbow Forest Service Road. Road travel to the Mount Milligan property site is 482 miles from Prince Rupert and 158 miles from Prince George.

Mount Milligan began the commissioning and start-up phase during the third quarter of calendar 2013 and reached commercial production as of February 2014. Ramp-up activities continued throughout calendar 2014 and are ongoing. Thompson Creek management reported during the second half of calendar 2014 that additional crushing capacity is necessary to reach 60,000 tonnes per day on a consistent basis and temporary crushing was initiated. Due to current metal prices, construction of a secondary crushing circuit will not commence until market conditions improve.

Throughput and production were negatively impacted by unscheduled mechanical issues in the grinding and flotation circuits in the mill and by frozen ore and plugged feeders during the first quarter of calendar 2015. Thompson Creek reported solutions are underway to address the issues experienced during the first quarter, and it remains Thompson Creek's objective to achieve daily mill throughput of approximately 60,000 tonnes per by the end of calendar 2015.

In light of first quarter calendar 2015 operational results, Thompson Creek revised its calendar 2015 gold production guidance to 200,000-220,000 payable ounces from 220,000-240,000 payable ounces. Despite the revision, the updated guidance represents an increase in payable gold production from calendar 2014 of approximately 13% to 18%. For the quarter ended June 30, 2015, Thompson Creek reported its highest average daily mill throughput of 44,940 tonnes per day, and for May and June 2015 averaged 49,913 tonnes, which is over 80% of design capacity.

During the fiscal year ended June 30, 2015, RGLD Gold purchased approximately 74,300 ounces of physical gold. RGLD Gold sold approximately 76,900 ounces of gold during the period at an average price of $1,223.77 per ounce, and had approximately 5,300 ounces of gold in inventory as of June 30, 2015.

Mount Milligan delivers gold to RGLD Gold within two business days of the receipt of the final smelter settlement proceeds, and RGLD Gold typically sells gold ounces over a three week period following physical receipt. Mount Milligan final settlements generally take five months from the bill-of-lading date. The difference in timing between Mount Milligan quarterly production results and final smelter settlements may result in divergences of ounces between Thompson Creek's figures and those reported by Royal Gold for each quarter.

Mulatos (Sonora, Mexico)

We own a 1.0% to 5.0% sliding-scale NSR royalty on the Mulatos open-pit mine and heap leach operation in southeastern Sonora, Mexico. The Mulatos mine is located approximately 137 miles east of the city of Hermosillo and 186 miles south of the border with the United States, and is operated by a subsidiary of Alamos Gold, Inc. ("Alamos"). Access to the mine from the city of Hermosillo is available via private chartered flight or ground transportation on a paved and gravel road.

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The sliding-scale NSR royalty is based on the gold price as shown in the following table:

London Bullion Market Association P.M. Monthly Average Price of Gold per Ounce (US$)	NSR Royalty Percentage
$0.00 - $299.99	1.00%
$300.00 - $324.99	1.50%
$325.00 - $349.99	2.00%
$350.00 - $374.99	3.00%
$375.00 - $399.99	4.00%
$400 or greater	5.00%

The Mulatos royalty is capped at 2.0 million gold ounces of production. As of June 30, 2015, approximately 1.41 million cumulative ounces of gold have been produced.

Production attributable to our royalty interest at Mulatos decreased approximately 6% during our fiscal year ended June 30, 2015, when compared to the fiscal year ended June 30, 2014. Lower than planned throughput and recovery associated with milling operations negatively impacted production during the current period. Alamos expects that a new grinding circuit in the mill will reduce grind size and improve gold recovery, allowing the mill to ramp up to targeted recoveries in mid-calendar 2015.

Peñasquito (Zacatecas, Mexico)

We own a production payment equivalent to a 2.0% NSR royalty on all metal production from the Peñasquito open-pit mine, located in the State of Zacatecas, Mexico, and operated by a subsidiary of Goldcorp Inc. ("Goldcorp"). The Peñasquito project is located approximately 17 miles west of the town of Concepción del Oro, Zacatecas, Mexico. The project, composed of two main deposits called Peñasco and Chile Colorado, hosts large gold, silver, zinc and lead reserves. The deposits contain both oxide and sulfide material, resulting in heap leach and mill processing. There are two access routes to the site. The first is via a turnoff from Highway 54 onto the State La Pardita road, then onto the Mazapil to Cedros State road. The second access is via the Salaverna by-pass road from Highway 54 approximately 16 miles south of Concepción del Oro. There is a private airport on site and commercial airports in the cities of Saltillo, Zacatecas and Monterrey.

Production for gold at Peñasquito increased approximately 39% during our fiscal year ended June 30, 2015, as Goldcorp experienced higher sulfide ore gold grades but lower recoveries. Reported production for silver and lead decreased approximately 11% and 10%, respectively, while reported zinc production increased approximately 10% when compared to our fiscal year ended June 30, 2014.

In April 2015, Goldcorp reported that it integrated its Concentrate Enrichment Process and Pyrite Leach Process into a single Metallurgical Enhancement Project ("MEP"). The MEP entered the feasibility study phase, which Goldcorp expects to complete in early calendar 2016. Goldcorp expects the study to form the basis of a new life-of-mine plan for Peñasquito, which could extend mine life by more than five years through increased gold and silver recoveries, result in production of higher quality processing, and lower mining costs through minimization of re-handling and simplified mining of complex ores.

Robinson Mine (Nevada, USA)

We own a 3.0% NSR royalty on all mineral production from the Robinson open-pit mine operated by a subsidiary of KGHM International Ltd. ("KGHM"). Access to the property is via Nevada State Highway 50, 6.5 miles west of Ely, Nevada, in White Pine County.

Copper and gold production attributable to our royalty interest at Robinson increased approximately 45% and 24%, respectively, during our fiscal year ended June 30, 2015, when compared to the fiscal year ended June 30, 2014. The production increase was due to higher copper grade and recovery as mining returned to the Ruth pit during the second half of calendar 2014, whereas mining primarily came from the lower grade Kimbley pit during the prior fiscal year. KGHM stated that mining will continue in the Ruth pit until the December 2015 quarter, when it expects that ore deliveries primarily will come from lower grade stockpiled ores.

Voisey's Bay (Labrador, Canada)

Labrador Nickel Royalty Limited Partnership ("LNRLP"), of which the Company is the indirect 90% owner, holds a 3.0% NSR royalty (or an effective 2.7% NSR royalty for the Company interest) on the Voisey's Bay nickel-copper-cobalt mine located in Newfoundland and Labrador, Canada and operated by Vale Newfoundland & Labrador Limited ("Vale"). A non-controlling interest owns the remainder of LNRLP. The Voisey's Bay project is located on the northeast coast of Labrador, on a peninsula bordered to the north by Anaktalak Bay and to the south by Voisey's Bay. The property is 560 miles north-northwest of St. John's, the capital of the Province. Access to the property is primarily by helicopter or small aircraft.

Historically, Vale supplied us with Voisey's Bay nickel concentrate shipment data on a monthly basis, and copper concentrate shipment data on a quarterly basis. This data allowed us to estimate our Voisey's Bay quarterly royalty revenue for financial reporting purposes. We did not receive all of this data for the months relevant to the royalty payments due for the December 2014 and March 2015 quarters, and in April 2015 we announced our intention to recognize Voisey's Bay royalty revenue on a cash basis, or in the period in which actual payment information is received from Vale, beginning with the June 2015 quarter. Accordingly, the revenue recognized for the Voisey's Bay royalty for the June 2015 quarter only included positive adjustments from the estimated March 2015 quarterly revenue (approximately $3.0 million).

Vale reported that it is processing a blend of nickel matte from its Indonesian operations and nickel concentrates from Voisey's Bay at its new Long Harbour hydrometallurgical plant, and that it will process only Voisey's Bay concentrate at Long Harbour as of the end of calendar 2015. We received the first quarterly royalty payment relating to processing Voisey's Bay nickel concentrates at Long Harbour. In response to questions concerning Vale's determination of the Long Harbour smelter and refining charges deducted from actual proceeds to calculate the NSR royalty payable, Vale recently stated that the charges included "the cost of product sold, pre-operating costs, depreciation and cost of capital." The Company strongly disagrees with Vale's determination that these charges are permissible deductions pursuant to the royalty agreement and is requesting further clarification of the basis for these charges while aggressively pursuing its legal remedies. See Note 15 to the consolidated financial statements for discussion of litigation between the Company and Vale.

Nickel and copper production attributable to our royalty interest at Voisey's Bay decreased approximately 49% and 16%, respectively, during our fiscal year ended June 30, 2015 when compared to the fiscal year ended June 30, 2014. We did not receive sufficient production information for our third and fourth fiscal quarters of 2015 to explain the difference.

Wassa, Bogoso and Prestea (Western Region, Ghana)

As discussed in further detail in Item 1, Business, Recent Business Developments, RGLD Gold owns the right to purchase 8.5% of the gold produced from the Wassa, Bogoso and Prestea projects, operated by Golden Star, until 185,000 ounces have been delivered, 5.0% until an additional 22,500 ounces have been delivered and 3.0% thereafter. RGLD Gold will pay Golden Star a cash price equal to 20% of the spot price for each ounce delivered at the time of delivery until 207,500 ounces have been delivered, and 30% of the spot price for each ounce delivered thereafter. The transaction closed on July 28, 2015, and RGLD Gold anticipates its first purchase of gold from Golden Star during the first quarter of fiscal 2016. The Company considers the gold stream principal to its business.

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The Wassa open pit mine and oxide ore mill are located near the village of Akyempim in the Wassa East District, in the Western Region of Ghana, approximately 50 miles north of Cape Coast and 93 miles west of the capital Accra. The main access to the site is from the east, via the Cape Coast to Twifo-Praso road, then over the combined road-rail bridge on the Pra River. There is also an access road from Takoradi in the south via Mpohor. There is an airport at Takoradi that is capable of handling jet aircraft and is serviced by several commercial flights each day. Future Wassa production will come from both open pit and underground operations.

Bogoso and Prestea are open pit operations producing both oxide and refractory ores located in the Ashanti gold district in the central eastern section of the Western Region of Ghana, approximately 6 miles south of the town of Bogoso. Access to the property is by commercial air carrier to Accra and then by vehicle on a paved and gravel road.

Golden Star is pursuing a strategy of transforming to a low cost non-refractory gold producer. In line with this strategy, the refractory mining and processing operations at Bogoso were due to be closed in the fourth quarter of 2015. On July 3, 2015, Golden Star reported the failure of a ball mill motor in the refractor ore mill, which will impact production for calendar 2015. Golden Star management is contemplating the early shutdown of the refractory ore operations. Future production at Bogoso and Prestea will come from open pit and underground operations.

Principal Development Stage Properties

The following is a description of our principal development stage properties. Reserves for our development stage properties are summarized below in Table 1 as part of this Item 2, Properties.

Pascua-Lama Project (Region III, Chile)

As of June 30, 2015, we owned a 0.78% to 5.23% sliding-scale NSR royalty on the Pascua-Lama project, which straddles the border between Argentina and Chile, and is being developed by Barrick. Also as of June 30, 2015, the Company owned an additional royalty equivalent to 1.05% of proceeds from copper produced from the Chilean portion of the project, net of allowable deductions, sold on or after January 1, 2017. Please refer to Item 1, Business, Recent Business Developments, for an update on our interest at Pascua-Lama. The Pascua-Lama project is located within 7 miles of Barrick's operating Veladero mine. Access to the project is from the city of Vallenar, Region III, Chile, via secondary roads C-485 to Alto del Carmen, Chile, and C-489 from Alto del Carmen to El Corral, Chile.

Our royalty interest is applicable to all gold production from the portion of the Pascua-Lama project lying on the Chilean side of the border. In addition, our interest at Pascua-Lama contains certain contingent rights and obligations. Specifically, (i) if gold prices exceed $600 per ounce for any six month period during the first 36 months of commercial production from the project, the Company would make a one-time payment of $8.4 million; (ii) approximately 20% of the royalty is limited to 14.0 million ounces of gold produced from the project, while 24% of the royalty can be extended beyond 14.0 million ounces of gold produced for a one-time payment of $4.4 million; and (iii) we also increased our interest in two one-time payments from $0.5 million to $1.5 million, which are payable by Barrick upon the achievement of certain production thresholds at Pascua-Lama.

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The sliding-scale NSR royalty is based upon the gold price as shown in the following table:

London Bullion Market Association P.M. Monthly Average Price of Gold per Ounce (US$)	NSR Royalty Percentage
less than $325	0.78%
$400	1.57%
$500	2.72%
$600	3.56%
$700	4.39%
$800 or greater	5.45%

Note: Royalty rate is interpolated between the upper and lower endpoints.

Pascua-Lama is one of the world's largest gold and silver deposits with nearly 18 million ounces of proven and probable gold reserves, 676 million ounces of silver contained within the gold reserves, and an expected mine life of 25 years. It is expected to produce an average of 800,000-850,000 ounces of gold and 35 million ounces of silver annually during its first full five years of operation.

During the fourth quarter of calendar 2013, Barrick announced the temporary suspension of construction at Pascua-Lama, except for activities required for environmental and regulatory compliance. A decision to restart development will depend on improved economics and reduced uncertainty related to legal and regulatory requirements. Accordingly, the timing of any such decision to restart, permitting timelines, construction schedule and timing of first production are uncertain.

Phoenix Gold (Ontario, Canada)

RGLD Gold owns the right to purchase 6.30% of any gold produced from the Phoenix Gold Project until 135,000 ounces have been delivered, and 3.15% thereafter. For each delivery of gold, RGLD Gold will pay a purchase price per ounce of 25% of the spot price of gold at the time of delivery.

The Phoenix Gold Project is located in Red Lake, Ontario, Canada, and operated by Rubicon Minerals Corporation ("Rubicon"). The Red Lake greenstone belt is host to one of Canada's preeminent gold producing districts, the Red Lake District. The Phoenix Gold Project is located in this belt, which also hosts the Red Lake and Cochenour mines. The project is located approximately 350 miles by road northwest of Thunder Bay and approximately 295 miles by road east-northeast of Winnipeg, Manitoba. Red Lake can be reached via Highway 105, which branches off the Trans-Canada Highway 17 some 105 miles south of Red Lake. Red Lake is also serviced with daily flights from Thunder Bay and Winnipeg.

Rubicon announced on June 24, 2015, that the Phoenix Gold Project successfully poured its first gold of approximately 741 ounces and that construction of the mill was complete. The commissioning of the mill circuit continues with the processing of low-grade mineralized material. Rubicon further reported in June 2015 that two stopes were ready for production and five stopes were in various stages of development.

As of June 30, 2015, the Company considers Phoenix Gold to be a principal development stage property. RGLD Gold anticipates its first purchase of gold from the Phoenix Gold Project will occur during the first quarter of fiscal 2016, at which time the Company will reclassify our Phoenix Gold stream interest to a principal producing property.

Reserve Information

Table 1 below summarizes proven and probable reserves for gold, silver, copper, nickel, zinc, lead, cobalt and molybdenum that are subject to our royalty and stream interests as of December 31, 2014, as reported to us by the operators of the mines. Properties are currently in production unless noted as development ("DEV") within the table. The exploration royalties we own do not contain proven and probable reserves as of December 31, 2014. Please refer to pages 38-40 for the footnotes to Table 1.

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Table 1
Proven and Probable Gold Reserves
As of December 31, 2014[1]

Gold[2]

PROPERTY	ROYALTY	OPERATOR	LOCATION	PROVEN + PROBABLE RESERVES[3][4][5] Tons of Ore (M)	Average Gold Grade (opt)	Gold Contained Ozs[6] (M)
Bald Mountain	1.75% - 2.5% NSR[7]	Barrick	United States	15.911	0.027	0.423
Cortez (Pipeline) GSR1	0.40 - 5.0% GSR[8]	Barrick	United States	22.722	0.030	0.671
Cortez (Pipeline) GSR2	0.40 - 5.0% GSR[8]	Barrick	United States	92.447	0.034	3.134
Cortez (Pipeline) GSR3	0.71% GSR[9]	Barrick	United States	34.177	0.025	0.867
Cortez (Pipeline) NVR1	1.01% NVR[9]	Barrick	United States	18.812	0.030	0.555
Cortez (Pipeline) NVR1C	0.62% NVR[9]	Barrick	United States	80.992	0.036	2.938
Gold Hill	1.0 - 2.0% NSR[10][11] 0.6 - 0.9% NSR[12]	Kinross/Barrick	United States	6.552	0.019	0.124
Goldstrike (SJ Claims)	0.9% NSR	Barrick	United States	43.954	0.097	4.266
Hasbrouck Mountain (DEV)	1.5% NSR	West Kirkland/Clover Nevada LLC	United States	35.616	0.017	0.588
Leeville	1.8% NSR	Newmont	United States	5.176	0.219	1.131
Marigold	2.0% NSR	Silver Standard	United States	144.988	0.014	1.997
Pinson	3.0% NSR[13]	Atna	United States	7.557	0.064	0.483
	2.94% NSR[14]					
Robinson	3.0% NSR	KGHM	United States	131.586	0.004	0.579
Ruby Hill	3.0% NSR	Barrick	United States	1.726	0.014	0.024
Soledad Mountain (DEV)	3.0% NSR[15]	Golden Queen	United States	51.052	0.019	0.984
Twin Creeks	2.0% GPR	Newmont	United States	1.461	0.108	0.158
Wharf	0.0 - 2.0% NSR[16]	Coeur Mining	United States	19.630	0.022	0.432
Back River George Lake (DEV)	2.35% NSR[17]	Sabina Gold & Silver	Canada	1.404	0.145	0.203
Back River Goose Lake (DEV)	1.95% NSR[18]	Sabina Gold & Silver	Canada	15.119	0.168	2.537
Canadian Malartic	1.0 - 1.5% NSR[19]	Agnico Eagle/Yamana	Canada	116.034	0.030	3.503
Holt	0.00013 × quarterly avg. gold	St Andrew price	Canada	3.109	0.141	0.439
Kutcho Creek (DEV)	2.0% NSR	Capstone Mining	Canada	11.509	0.011	0.124
Mt. Milligan[20]	52.25% of payable gold	Thompson Creek	Canada	597.570	0.010	6.182
Pine Cove (DEV)	7.5% NPI	Anaconda Mining	Canada	2.905	0.060	0.175
Rainy River (DEV)	6.5% of payable gold[21]	New Gold	Canada	104.276	0.033	3.772
Schaft Creek (DEV)	3.5% NPI	Copper Fox/Teck	Canada	1037.054	0.006	5.775
Williams	0.97% NSR	Barrick	Canada	10.449	0.067	0.703
Dolores	3.25% NSR	Pan American	Mexico	66.028	0.026	1.718
Mulatos	1.0 - 5.0% NSR[22]	Alamos	Mexico	93.239	0.019	1.732
Peñasquito[23]	2.0% NSR (Oxide)	Goldcorp	Mexico	98.921	0.008	0.850
	2.0% NSR (Sulfide)			602.942	0.016	9.700
Andacollo	100% of payable gold[24]	Teck	Chile	485.537	0.003	1.614
El Morro (DEV)	1.4% NSR[25]	Goldcorp/New Gold	Chile	198.103	0.013	2.674
El Toqui	1.0 - 3.0% NSR[26]	Nyrstar	Chile	4.145	0.047	0.194
Pascua-Lama (DEV)[27]	0.78 - 5.45% NSR[28]	Barrick	Chile	320.645	0.046	14.680
Don Mario	3.0% NSR	Orvana	Bolivia	1.703	0.037	0.064
Don Nicolas (DEV)	2.0% NSR	Compañía Inversora en Minas	Argentina	1.327	0.148	0.196
El Limon	3.0% NSR	B2Gold	Nicaragua	1.521	0.142	0.216
La India (DEV)	3.0% NSR	Condor Gold	Nicaragua	7.605	0.089	0.675
Mara Rosa (DEV)	1.0% NSR	Amarillo Gold	Brazil	18.868	0.050	0.946

Balcooma (DEV)	1.5% NSR	Snow Peak Mining	Australia	0.762	0.002	0.001
Celtic/Wonder North (DEV)	1.5% NSR	SR Mining	Australia	1.507	0.064	0.097
Gwalia Deeps	1.5% NSR	St . Barbara	Australia	10.857	0.204	2.220
King of the Hills	1.5% NSR	St. Barbara	Australia	0.495	0.127	0.063
Kundip (DEV)	1.0 - 1.5% GSR(29)	Silver Lake Resources	Australia	3.097	0.099	0.307
Meekatharra (Nannine) (DEV)	1.5% NSR	Metals X Limited	Australia	0.000	0.000	0.000
Meekatharra (Paddy's Flat) (DEV)	1.5% NSR A$10 per gold ounce produced(30)	Metals X Limited	Australia	3.858	0.125	0.483
Meekatharra (Reedys) (DEV)	1.5%, 1.5 - 2.5%, 1% NSR(31)	Metals X Limited	Australia	0.992	0.092	0.092
Meekatharra (Yaloginda)	0.45% NSR	Metals X Limited	Australia	3.858	0.007	0.028
Red Dam (DEV)	2.5% NSR	Phoenix Gold	Australia	1.764	0.063	0.111
South Laverton	1.5% NSR	Saracen	Australia	13.486	0.060	0.803
Southern Cross (DEV)	1.5% NSR	China Hanking Holdings	Australia	1.582	0.075	0.119
Inata	2.5% GSR	Avocet	Burkina Faso	5.820	0.056	0.326
Taparko(32)	2.0% GSR	Nord Gold	Burkina Faso	7.162	0.081	0.578
Wassa, Bogoso and Prestea	8.5% of payable gold(33)	Golden Star	Ghana	31.375	0.061	1.928
Svetloye (DEV)	1.0% NSR	Polymetal	Russia	8.069	0.082	0.664

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Proven and Probable Silver Reserves
As of December 31, 2014[1]

Silver[34]

PROPERTY	ROYALTY	OPERATOR	LOCATION	PROVEN + PROBABLE Tons of Ore (M)	Average Silver Grade (opt)	RESERVES[3][4][5] Silver Contained Ozs[6] (M)
Gold Hill	1.0 - 2.0% NSR[10][11]	Kinross/Barrick	United States	6.552	0.278	1.823
	0.6 - 0.9% NSR[12]					
Hasbrouck Mountain (DEV)	1.5% NSR	West Kirkland/Clover Nevada LLC	United States	35.616	0.297	10.569
Soledad Mountain (DEV)	3.0% NSR[15]	Golden Queen	United States	51.052	0.324	16.516
Troy	3.0% GSR	Hecla Mining	United States	16.460	1.038	17.080
Kutcho Creek (DEV)	2.0% NSR	Capstone Mining	Canada	11.509	1.009	11.618
Rainy River (DEV)	60% of payable silver[21]	New Gold	Canada	104.276	0.082	9.410
Schaft Creek (DEV)	3.5% NPI	Copper Fox/Teck	Canada	1037.054	0.050	51.895
Dolores	2.0% NSR	Pan American Silver	Mexico	66.028	0.971	64.100
Peñasquito[23]	2.0% NSR (Oxide)	Goldcorp	Mexico	98.921	0.824	81.520
	2.0% NSR (Sulfide)			602.942	0.879	529.650
Don Mario	3.0% NSR	Orvana	Bolivia	1.703	1.069	1.821
La India (DEV)	3.0% NSR	Condor Gold	Nicaragua	7.605	0.156	1.185
Don Nicolas (DEV)	2.0% NSR	Compañía Inversora en Minas	Argentina	1.327	0.302	0.401
Balcooma (DEV)	1.5% NSR	Snow Peak Mining	Australia	0.762	0.498	0.380
El Toqui	0.0 - 3.0% NSR[26]	Nyrstar	Chile	4.145	0.329	1.364
Svetloye (DEV)	1.0% NSR	Polymetal	Russia	8.069	0.095	0.765

Proven and Probable Base Metal Reserves
As of December 31, 2014[1]

Copper[35]

PROPERTY	ROYALTY	OPERATOR	LOCATION	PROVEN + PROBABLE Tons of Ore (M)	Average Base Metal Grade (%)	RESERVES[3][4][5] Base Metal Contained Lbs[6] (M)
Johnson Camp	2.5% NSR	Nord Resources	United States	111.200	0.295%	656.000
Robinson	3.0% NSR	KGHM	United States	131.586	0.410%	1078.697
Troy	3.0% GSR	Hecla Mining	United States	16.460	0.364%	119.750
Caber (DEV)	1.0% NSR	Nyrstar	Canada	0.676	0.839%	11.355
Kutcho Creek (DEV)	2.0% NSR	Capstone Mining	Canada	11.509	2.010%	462.678
Schaft Creek (DEV)	3.5% NPI	Copper Fox/Teck	Canada	1037.054	0.271%	5630.715
Voisey's Bay[36]	2.7% NSR	Vale	Canada	16.204	1.321%	428.093
Balcooma (DEV)	1.5% NSR	Snow Peak Mining	Australia	0.762	2.130%	32.466
Don Mario	3.0% NSR	Orvana	Bolivia	1.703	1.234%	42.038
El Morro (DEV)	1.4% NSR		Chile	198.103	0.494%	1959.099

Pascua-Lama (DEV)(37)	1.09% NSR	Goldcorp/New Gold Barrick	Chile	320.645	0.085%	548.177
Las Cruces	1.5% NSR	First Quantum	Spain	9.744	4.876%	950.302

Lead(38)

				PROVEN + PROBABLE		RESERVES(3)(4)(5)
PROPERTY	**ROYALTY**	**OPERATOR**	**LOCATION**	**Tons of Ore (M)**	**Average Base Metal Grade (%)**	**Base Metal Contained Lbs(6) (M)**
Balcooma (DEV)	1.5% NSR	Snow Peak Mining	Australia	0.762	0.517%	7.879
Peñasquito	2.0% NSR (Sulfide)	Goldcorp	Mexico	602.942	0.281%	3757.000
El Toqui	0.0 - 3.0% NSR(26)	Nyrstar	Chile	4.145	0.272%	22.509

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Zinc[39]

PROPERTY	ROYALTY	OPERATOR	LOCATION	PROVEN + PROBABLE RESERVES[3][4][5] Tons of Ore (M)	Average Base Metal Grade (%)	Base Metal Contained Lbs[6] (M)
Caber (DEV)	1.0% NSR	Nyrstar	Canada	0.676	8.577%	116.036
Kutcho Creek (DEV)	2.0% NSR	Capstone Mining	Canada	11.509	3.190%	734.300
Balcooma (DEV)	1.5% NSR	Snow Peak Mining	Australia	0.762	1.921%	29.274
Peñasquito	2.0% NSR (Sulfide)	Goldcorp	Mexico	602.942	0.680%	9081.000
El Toqui	0.0 - 3.0% NSR[26]	Nyrstar	Chile	4.145	5.956%	493.712

NICKEL[40]

PROPERTY	ROYALTY	OPERATOR	LOCATION	PROVEN + PROBABLE RESERVES[3][4][5] Tons of Ore (M)	Average Base Metal Grade (%)	Base Metal Contained Lbs[6] (M)
Voisey's Bay[36]	2.7% NSR	Vale	Canada	16.204	2.368%	767.297

Proven and Probable Base Metal Reserves
As of December 31, 2014[1]

COBALT[41]

PROPERTY	ROYALTY	OPERATOR	LOCATION	PROVEN + PROBABLE RESERVES[3][4][5] Tons of Ore (M)	Average Base Metal Grade (%)	Base Metal Contained Lbs[6] (M)
Voisey's Bay[36]	2.7% NSR	Vale	Canada	16.204	0.111%	35.957

MOLYBDENUM[42]

PROPERTY	ROYALTY	OPERATOR	LOCATION	PROVEN + PROBABLE RESERVES[3][4][5] Tons of Ore (M)	Average Base Metal Grade (%)	Base Metal Contained Lbs[6] (M)
Schaft Creek (DEV)	3.5% NPI	Copper Fox/Teck	Canada	1037.054	0.018%	373.340

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(1) Reserves have been reported by the operators of record as of December 31, 2014, with the exception of the following properties: Hasbrouck Mountain June 3, 2015; Svetloye January 1, 2015; Don Mario September 30, 2014; Gwalia, King of the Hills, Kundip and South Laverton June 30, 2014; Back River and Red Dam February 28, 2014; El Toqui, Inata, Troy, Wharf and Williams December 31, 2013; Celtic/Wonder North November 21, 2013; Schaft Creek December 31, 2012; Southern Cross June 30, 2012; Don Nicolas, Johnson Camp, Pascua-Lama and Robinson December 31, 2011; Mara Rosa October 28, 2011; Balcooma June 30, 2011; Kutcho Creek February 15, 2011; Pine Cove June 30, 2010; and Caber July 18, 2007.

(2)

Gold reserves were calculated by the operators at the following per ounce prices: $1,450 Kundip; A$1,400 Celtic/Wonder North, Meekatharra (Nannine, Paddy's Flat, Reedys and Yaloginda), South Laverton and Southern Cross; A$1,390 King of the Hills; $1,366 Schaft Creek; $1,350 El Toqui; A$1,310 Red Dam; $1,300 Canadian Malartic, El Limon, El Morro, Leeville, Marigold, Peñasquito, Pinson, Svetloye, Twin Creeks and Wharf; $1,225 Hasbrouck Mountain; $1,250 Back River, Dolores, Holt, La India, Mount Milligan, Mulatos, Soledad Mountain and Taparko; A$1,250 Gwalia Deeps; $1,200 Andacollo, Gold Hill, Pascua-Lama, Rainy River, Robinson and Wassa, Bogoso and Prestea; $1,100 Bald Mountain, Cortez, Don Mario, Don Nicolas, Goldstrike, Mara Rosa, Ruby Hill and Williams; $950 Inata; and $983 Pine Cove. No gold price was reported for Balcooma, Caber or Kutcho Creek.

(3)

Set forth below are the definitions of proven and probable reserves used by the U.S. Securities and Exchange Commission. "Reserve" is that part of a mineral deposit which could be economically and legally extracted or produced at the time of the reserve determination. "Proven (Measured) Reserves" are reserves for which (a) quantity is computed from dimensions revealed in outcrops, trenches, workings or drill holes, and the grade is computed from the results of detailed sampling, and (b) the sites for inspection, sampling and measurement are spaced so closely and the geologic character is so well defined that the size, shape, depth and mineral content of the reserves are well established. "Probable (Indicated) Reserves" are reserves for which the quantity and grade are computed from information similar to that used for proven (measured) reserves, but the sites for inspection, sampling and measurement are farther apart or are otherwise less adequately spaced. The degree of assurance of probable (indicated) reserves, although lower than that for proven (measured) reserves, is high enough to assume geological continuity between points of observation.

(4)

Royal Gold has disclosed a number of reserve estimates that are provided by operators that are foreign issuers and are not based on the U.S. Securities and Exchange Commission's definitions for proven and probable reserves. For Canadian issuers, definitions of "mineral reserve," "proven mineral reserve," and "probable mineral reserve" conform to the Canadian Institute of Mining, Metallurgy and Petroleum definitions of these terms as of the effective date of estimation

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as required by National Instrument 43-101 of the Canadian Securities Administrators. For Australian issuers, definitions of "mineral reserve," "proven mineral reserve," and "probable mineral reserve" conform with the Australasian Code for Reporting of Mineral Resources and Ore Reserves prepared by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia, as amended ("JORC Code"). Royal Gold does not reconcile the reserve estimates provided by the operators with definitions of reserves used by the U.S. Securities and Exchange Commission.

(5) The reserves reported are either estimates received from the various operators or are based on documentation material provided to Royal Gold or which is derived from recent publicly-available information from the operators of the various properties or various recent National Instrument 43-101 or JORC Code reports filed by operators. Accordingly, Royal Gold is not able to reconcile the reserve estimates prepared in reliance on National Instrument 43-101 or JORC Code with definitions of the U.S. Securities and Exchange Commission.

(6) "Contained ounces" or "contained pounds" do not take into account recovery losses in mining and processing the ore.

(7) NSR sliding-scale schedule (price of gold per ounce royalty rate): Below $375 - 1.75%; >$375 to $400 - 2.0%; >$400 to $425 - 2.25%; >$425 - 2.5%. All price points are stated in 1986 dollars and are subject to adjustment in accordance with a blended index comprised of labor, diesel fuel, industrial commodities and mining machinery.

(8) GSR sliding-scale schedule (price of gold per ounce royalty rate): Below $210 - 0.40%; $210 to $229.99 - 0.50%; $230 to $249.99 - 0.75%; $250 to $269.99 - 1.30%; $270 to $309.99 - 2.25%; $310 to $329.99 - 2.60%; $330 to $349.99 - 3.00%; $350 to $369.99 - 3.40%; $370 to $389.99 - $3.75%; $390 to $409.99 - 4.0%; $410 to $429.99 - 4.25%; $430 to $449.99 - 4.50%; $450 to $469.99 - 4.75%; $470 and higher - 5.00%.

(9) NVR1 and GSR3 reserves and additional mineralized material are subsets of the reserves and additional mineralized material covered by GSR1 and GSR2.

(10) The royalty is capped at $10 million. As of June 30, 2015, royalty payments of approximately $2.9 million have been received.

(11) The 1.0% to 2.0% sliding-scale NSR royalty will pay 2.0% when the price of gold is above $350 per ounce and 1.0% when the price of gold falls to $350 per ounce or below. The 0.6% to 0.9% NSR sliding-scale schedule (price of gold per ounce royalty rate): Below $300 - 0.6%; $300 to $350 - 0.7%; > $350 to $400 - 0.8%; > $400 - 0.9%. The silver royalty rate is based on the price of gold.

(12) The 0.6% to 0.9% sliding-scale NSR applies to the M-ACE claims. The operator did not break out reserves or resources subject to the M-ACE claims royalty.

(13) Royalty only applies to Section 29 which currently holds about 95% of the reserves reported for the property. An additional Cordilleran royalty applies to a portion of Section 28.

(14) Royalty only applies to Section 29 which currently holds about 95% of the reserves reported for the property. Additional Rayrock royalties apply to Sections 28, 32 and 33; these royalty rates vary depending on pre-existing royalties. The Rayrock royalties take effect once 200,000 ounces of gold have been produced from open pit mines on the property.

(15) Royalty is capped at $300,000 plus simple interest.

(16) NSR sliding-scale schedule (price of gold per ounce royalty rate): $0.00 to under $350 - 0.0%; $350 to under $400 - 0.5%; $400 to under $500 - 1.0%; $500 or higher - 2.0%.

(17) George Lake royalty applies to production above 800,000 ounces.

(18) Goose Lake royalty applies to production above 400,000 ounces.

(19) NSR sliding-scale schedule (price of gold per ounce royalty rate): $0.00 to $350 - 1.0%; above $350 - 1.5%.

(20) This is a metal stream whereby the purchase price for gold ounces delivered is $435 per ounce, or the prevailing market price of gold, if lower; no inflation.

(21)

This is a metal stream whereby Royal Gold is entitled to 6.5% of the gold produced until 230,000 ounces have been delivered, 3.25% thereafter; and 60% of the silver produced until 3.1 million ounces have been delivered, 30% thereafter. The purchase price for ounces delivered is 25% of the spot price per ounce of gold or silver.

(22) The Company's royalty is subject to a 2.0 million ounce cap on gold production. There have been approximately 1.41 million ounces of cumulative production as of June 30, 2015. NSR sliding-scale schedule (price of gold per ounce royalty rate): $0.00 to $299.99 - 1.0%; $300 to $324.99 - 1.50%; $325 to $349.99 - 2.0%; $350 to $374.99 - 3.0%; $375 to $399.99 - 4.0%; $400 or higher - 5.0%.

(23) Operator reports reserves by material type. The sulfide material will be processed by milling. The oxide material will be processed by heap leaching.

(24) As of June 30, 2015, the royalty rate is 75% until 910,000 payable ounces of gold have been produced; 50% thereafter. There have been approximately 256,000 cumulative payable ounces produced as of June 30, 2015. Gold is produced as a by-product of copper. Refer to Item 1, Business, Recent Business Development for updates on our interest at Andacollo.

(25) The royalty covers approximately 30% of the La Fortuna deposit. Reserves attributable to Royal Gold's royalty represent 3/7 of Goldcorp's reporting of 70% of the total reserve.

(26) All metals are paid based on zinc prices. NSR sliding-scale schedule (price of zinc per pound royalty rate): Below $0.50 - 0.0%; $0.50 to below $0.55 - 1.0%; $0.55 to below $0.60 - 2.0%; $0.60 or higher 3.0%.

(27) Royalty applies to all gold production from an area of interest in Chile. Only that portion of the reserves pertaining to our royalty interest in Chile is reflected here. Approximately 20% of the royalty is limited to the first 14.0 million ounces of gold produced from the project. Also, 24% of the royalty can be extended beyond 14.0 million ounces produced for $4.4 million. In addition, a one-time payment totaling $8.4 million will be made if gold prices exceed $600 per ounce for any six-month period within the first 36 months of commercial production.

(28) NSR sliding-scale schedule (price of gold per ounce royalty rate): less than or equal to $325 - 0.78%; $400 - 1.57%; $500- $2.72%; $600 - 3.56%; $700 - 4.39%; greater than or equal to $800 - 5.23%. Royalty is interpolated between lower and upper endpoints.

(29) Royalty pays 1.0% for the first 250,000 ounces of production and then 1.5% for production above 250,000 ounces.

(30) The A$10 per ounce royalty applies on production above 50,000 ounces.

(31) The 1.5% to 2.5% NSR sliding-scale royalty pays at a rate of 1.5% for the first 75,000 ounces produced in any 12 month period and at a rate of 2.5% on production above 75,000 ounces during that 12 month period. The 1.0% NSR royalty applies to the Rand area only.

(32) There is a 0.75% GSR milling royalty that applies to ore that is mined outside of the defined area of the Taparko-Bouroum project that is processed through the Taparko facilities up to a maximum of 1.1 million tons per year.

(33) This is a metal stream whereby Royal Gold is entitled to 8.5% payable gold until 185,000 ounces of payable gold has been delivered from the Wassa, Bogoso and Prestea properties, 5.0% until an additional 22,500 ounces have been delivered and 3.0% thereafter. The purchase price for gold ounces delivered is 20% of spot price per ounce, until 207,500 ounces have been delivered and 30% thereafter, of the London PM gold fixing price as quoted in United States dollars per ounce by the LBMA on the Date of Delivery.

(34) Silver reserves were calculated by the operators at the following prices per ounce: $25.96 Schaft Creek; $25.00 Don Nicolas; $24.69 Troy; $23.00 El Toqui; $22.50 Svetloye; $22.00 Peñasquito; $20.00 Don Mario and Gold Hill; $18.50 Dolores; $18.00 Hasbrouck Mountain and Rainy River; and $17.00 Soledad. No silver price was reported for Balcooma, Kutcho Creek or La India.

(35) Copper reserves were calculated by the operators at the following prices per pound: $3.52 Schaft Creek; $3.35 Troy and Voisey's Bay; $3.00 El Morro, Mount Milligan and Robinson; $2.75 Don Mario and Las Cruces; $2.50 Johnson Camp; and $2.00 Pascua-Lama. No copper reserve price was reported for Balcooma, Caber or Kutcho Creek.

(36) Additional mineralized material figures are from December 31, 2005 and have not been updated by the operator.

(37) Royalty applies to all copper production from an area of interest in Chile. Only that portion of the reserves pertaining to our royalty interest in Chile is reflected here. This royalty will take effect after January 1, 2017.

(38) Lead reserve price was calculated by the operators at the following prices per pound: $1.04 El Toqui; and $0.90 Peñasquito. No lead reserve price was reported for Balcooma.

(39) Zinc reserve price was calculated by the operators at the following prices per pound: $1.13 El Toqui; and $0.90 Peñasquito. No zinc reserve price was reported for Balcooma, Caber, or Kutcho Creek.

(40) Nickel reserve price was calculated by the operator at the following price per pound: $7.47 Voisey's Bay.

(41) Cobalt reserve price was calculated by the operator at the following price per pound: $12.95 Voisey's Bay. Molybdenum reserve price was calculated by the operator at the following price per pound: $15.30 Schaft Creek.

ITEM 3. LEGAL PROCEEDINGS

Refer to Note 15 of the notes to consolidated financial statements for a discussion on litigation associated with our Voisey's Bay royalty.

ITEM 4. MINE SAFETY DISCLOSURE

Not applicable.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information and Current Stockholders

Our common stock is traded on the NASDAQ Global Select Market ("NASDAQ") under the symbol "RGLD" and on the TSX under the symbol "RGL." The following table sets forth, for each of the quarterly periods indicated, the range of high and low sales prices, in U.S. dollars, for our common stock on NASDAQ for each quarter since July 1, 2013.

		Sales Prices	
Fiscal Year:		**High**	**Low**
2015	First Quarter (July, Aug., Sept. 2014)	$ 82.84	$ 63.86
	Second Quarter (Oct., Nov., Dec. 2014)	$ 72.81	$ 55.55
	Third Quarter (Jan., Feb., March 2015)	$ 77.20	$ 57.55
	Fourth Quarter (April, May, June 2015)	$ 67.99	$ 61.00
2014	First Quarter (July, Aug., Sept. 2013)	$ 67.25	$ 40.45
	Second Quarter (Oct., Nov., Dec. 2013)	$ 53.76	$ 42.56
	Third Quarter (Jan., Feb., March 2014)	$ 72.90	$ 47.02
	Fourth Quarter (April, May, June 2014)	$ 76.85	$ 58.86

As of July 28, 2015, there were 920 stockholders of record of our common stock.

Dividends

We have paid a cash dividend on our common stock for each year beginning in calendar 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.

For calendar year 2015, our annual dividend is $0.88 per share of common stock and exchangeable shares. We paid the first payment of $0.22 per share on January 16, 2015, to common stockholders and the holders of exchangeable shares of record at the close of business on January 2, 2015. We paid the second payment of $0.22 per share on April 17, 2015, to common stockholders and the holders of exchangeable shares of record at the close of business on April 2, 2015. We paid the third payment of $0.22 per share on July 17, 2015 to common stockholders of record at the close of business on July 2, 2015. Subject to board approval, we anticipate paying the fourth payment of $0.22 per share on October 16, 2015, to common shareholders of record at the close of business on October 2, 2015. All exchangeable shares have been exchanged for shares of Royal Gold common stock on a one-for-one basis as of June 30, 2015.

For calendar year 2014, our annual dividend was $0.84 per share of common stock and exchangeable shares, paid on a quarterly basis of $0.21 per share. For calendar year 2013, we paid an annual dividend of $0.80 per share of common stock and exchangeable shares in four quarterly payments of $0.20 each.

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ITEM 6. SELECTED FINANCIAL DATA

	Fiscal Years Ended June 30,				
	2015	2014	2013	2012	2011
	(Amounts in thousands, except per share data)				
Revenue[1]	$ 278,019	$ 237,162	$ 289,224	$ 263,054	$ 216,469
Operating income	$ 87,235	$ 108,720	$ 171,167	$ 156,634	$ 118,925
Net income	$ 52,678	$ 63,472	$ 73,409	$ 98,309	$ 77,299
Net income available to Royal Gold common stockholders	$ 51,965	$ 62,641	$ 69,153	$ 92,476	$ 71,395
Net income per share available to Royal Gold common stockholders:					
Basic	$ 0.80	$ 0.96	$ 1.09	$ 1.61	$ 1.29
Diluted	$ 0.80	$ 0.96	$ 1.09	$ 1.61	$ 1.29
Dividends declared per common share[2]	$ 0.87	$ 0.83	$ 0.75	$ 0.56	$ 0.42

	As of June 30,				
	2015	2014	2013	2012	2011
	(Amounts in thousands)				
Royalty and stream interests, net	$ 2,083,608	$ 2,109,067	$ 2,120,268	$ 1,890,988	$ 1,690,439
Total assets	$ 2,925,432	$ 2,891,544	$ 2,905,341	$ 2,376,366	$ 1,902,702
Debt	$ 322,110	$ 311,860	$ 302,263	$ 293,248	$ 226,100
Total liabilities	$ 509,505	$ 518,987	$ 534,705	$ 512,937	$ 415,007
Total Royal Gold stockholders' equity	$ 2,353,122	$ 2,354,725	$ 2,348,887	$ 1,838,459	$ 1,460,162

(1) Please refer to Item 7, MD&A, of this report for a discussion of recent developments that contributed to our 17% increase in revenue during fiscal year 2015 when compared to fiscal year 2014 and the 18% decrease in revenue during fiscal year 2014 when compared to fiscal year 2013.

(2) The 2015, 2014, 2013, 2012 and 2011 calendar year dividends were $0.88, $0.84, $0.80, $0.60 and $0.44, respectively, as approved by our board of directors. Please refer to Item 5 of this report for further information on our dividends.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

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 seek to acquire existing royalty and stream interests or to finance projects that are in production or in the development stage in exchange for royalty or stream interests. In the ordinary course of business, we engage in a continual review of opportunities to acquire existing royalty and stream interests, establishing new streams on operating mines, to create new royalty and stream interests through the financing of mine development or exploration, or to acquire companies that hold royalty and stream 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,

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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 June 30, 2015, the Company owned stream interests on one producing property and two development stage properties and owned royalty interests on 36 producing properties, 22 development stage properties and 135 exploration stage properties, of which the Company considers 47 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. Except for one joint venture property (as discussed below), we do not conduct mining operations on the properties in which we hold royalty and streaming interests, and we are not required to contribute to capital costs, exploration costs, environmental costs or other operating costs on those properties. During the fiscal year ended June 30, 2015, we focused on the management of our existing royalty and streaming interests and the acquisition of additional royalty and streaming 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 and stream interests. The price of gold, silver, copper, nickel and other metals has fluctuated widely in recent years and most recently has experienced declines from highs experienced in the first half of our fiscal year 2013. The marketability and the price of metals are influenced by numerous factors beyond the control of the Company and significant declines in the price of gold, silver, copper or nickel could have a material and adverse effect on the Company's results of operations and financial condition.

For the fiscal years ended June 30, 2015, 2014 and 2013, gold, silver, copper and nickel price averages and percentage of revenue by metal were as follows:

	Fiscal Year Ended					
	June 30, 2015		June 30, 2014		June 30, 2013	
Metal	Average Price	Percentage of Revenue	Average Price	Percentage of Revenue	Average Price	Percentage of Revenue
Gold ($/ounce	$ 1,224	81%	$ 1,296	72%	$ 1,605	70%
Silver ($/ounce)	$ 17.36	3%	$ 20.57	6%	$ 28.97	7%
Copper ($/pound)	$ 2.89	7%	$ 3.18	8%	$ 3.48	11%
Nickel ($/pound)	$ 7.02	4%	$ 6.89	8%	$ 7.44	8%
Other	N/A	5%	N/A	6%	N/A	4%

Operators' Production Estimates by Royalty and Stream Interest for Calendar 2015

We received annual production estimates from many of the operators of our producing mines during the first calendar quarter of 2015. The following table shows such production estimates for our principal producing properties for calendar 2015 as well as the actual production reported to us by the various operators through June 30, 2015. 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 Part I, Item 2, Properties, of this report for further discussion on any updates at our principal producing and development properties.

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Operators' Estimated and Actual Production by Royalty and Stream Interest for Calendar 2015
Principal Producing Properties

	Calendar 2015 Operator's Production Estimate(1)(2)			Calendar 2015 Operator's Production Actual(3)(4)		
Royalty/Stream	**Gold (oz.)**	**Silver (oz.)**	**Base Metals (lbs.)**	**Gold (oz.)**	**Silver (oz.)**	**Base Metals (lbs.)**
Andacollo(5)	52,200			22,200		
Cortez GSR1	104,100			82,900		
Cortez GSR2	27,900			26,300		
Cortez GSR3	132,000			109,200		
Cortez NVR1	97,200			81,600		
Holt	64,000			32,100		
Mount Milligan(6)	200,000 - 220,000			106,000		
Mulatos(7)	150,000 - 170,000			38,000		
Penasquito(8)(9)	700,000 - 750,000	24 - 26 million		453,600	12.0 million	
Lead(8)(9)			175 - 185 million			84.2 million
Zinc(8)(9)			400 - 415 million			188.0 million

(1) Production estimates received from our operators are for calendar 2015. 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 this report for information regarding factors that could affect actual results.

(2) The operators of our Voisey's Bay and Robinson royalty interests did not release public production guidance for calendar 2015, thus estimated and actual production information is not shown in the table.

(3) Actual production figures shown are for the period January 1, 2015 through June 30, 2015, unless otherwise noted.

(4) Actual production figures for Andacollo and Cortez are based on information provided to us by the operators, and actual production figures for Holt, Mount Milligan, Mulatos and Peñasquito (gold) are the operators' publicly reported figures.

(5) The estimated and actual production figures shown for Andacollo are contained gold in concentrate.

(6) The estimated and actual production figures shown for Mount Milligan are payable gold in concentrate.

(7) Actual production shown is for the period ended March 31, 2015. Production information for the quarter ended June 30, 2015, was not available from the operator as of the date of this report.

(8) The estimated gold and silver production figures reflect payable gold and silver in concentrate and doré, while the estimated lead and zinc production figures reflect payable metal in concentrate.

(9) The actual gold production figure for gold reflects payable gold in concentrate and doré as reported by the operator. The actual production for silver, lead and zinc were not publicly available. The Company's royalty interest at Peñasquito includes gold, silver, lead and zinc.

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Historical Production

The following table discloses historical production for the past three fiscal years for the principal producing properties that are subject to our royalty interests, as reported to us by the operators of the mines:

Historical Production[(1)] by Property
Principal Producing Properties
For the Fiscal Years Ended June 30, 2015, 2014 and 2013

Property	Metal	2015		2014		2013	
Andacollo	Gold	41,500	oz.	50,400	oz.	68,600	oz.
Cortez GSR1	Gold	153,000	oz.	7,600	oz.	81,200	oz.
Cortez GSR2	Gold	76,000	oz.	87,800	oz.	900	oz.
Cortez GSR3	Gold	229,000	oz.	95,400	oz.	82,100	oz.
Cortez NVR1	Gold	167,000	oz.	84,400	oz.	60,400	oz.
Holt	Gold	61,500	oz.	63,100	oz.	56,400	oz.
Mount Milligan	Gold	76,900	oz.	21,100	oz.	N/A	
Mulatos	Gold	140,900	oz.	149,800	oz.	218,000	oz.
Peñasquito	Gold	742,100	oz.	534,200	oz.	371,100	oz.
	Silver	24.6	Moz.	27.7	Moz.	21.1	Moz.
	Lead	158.4	Mlbs.	175.5	Mlbs.	126.3	Mlbs.
	Zinc	340.8	Mlbs.	310.9	Mlbs.	282.3	Mlbs.
Robinson	Gold	34,300	oz.	27,600	oz.	49,100	oz.
	Copper	101.1	Mlbs.	69.6	Mlbs.	146.2	Mlbs.
Voisey's Bay	Nickel	62.8	Mlbs.	123.7	Mlbs.	143.9	Mlbs.
	Copper	64.8	Mlbs.	80.5	Mlbs.	101.9	Mlbs.

(1) Historical production relates to the amount of metal sales, subject to our royalty and stream interests for each fiscal year presented, as reported to us by the operators of the mines, and may differ from the operators' public reporting.

Critical Accounting Policies

Listed below are the accounting policies that the Company believes are critical to its financial statements due to the degree of uncertainty regarding the estimates or assumptions involved and the magnitude of the asset, liability, revenue or expense being reported. Please refer to Note 2 of the notes to consolidated financial statements for a discussion on recently issued accounting pronouncements.

Use of Estimates

The preparation of our financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities, at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period.

Our most critical accounting estimates relate to our assumptions regarding future gold, silver, nickel, copper and other metal prices and the estimates of reserves, production and recoveries of third-party mine operators. We rely on reserve estimates reported by the operators on the properties in which we have royalty and stream interests. These estimates and the underlying assumptions affect the potential impairments of long-lived assets and the ability to realize income tax benefits associated with deferred tax assets. These estimates and assumptions also affect the rate at which we recognize revenue or charge depreciation, depletion and amortization to earnings. On an ongoing basis, management evaluates these estimates and assumptions; however, actual amounts could differ from these estimates and assumptions. Differences between estimates and actual amounts are adjusted and recorded in the period that the actual amounts are known.

Royalty and Stream Interests

Royalty and stream interests include acquired royalty and stream interests in production, development and exploration stage properties. The costs of acquired royalty and stream interests are capitalized as tangible assets as such interests do not meet the definition of a financial asset under the Accounting Standards Codification ("ASC") guidance.

Acquisition costs of production stage royalty and stream interests are depleted using the units of production method over the life of the mineral property (as royalty payments are recognized or sales occur under stream interests), which are estimated using proven and probable reserves as provided by the operator. Acquisition costs of royalty and stream interests on development stage mineral properties, which are not yet in production, are not amortized until the property begins production. Acquisition costs of royalty interests on exploration stage mineral properties, where there are no proven and probable reserves, are not amortized. At such time as the associated exploration stage mineral interests are converted to proven and probable reserves, the cost basis is amortized over the remaining life of the mineral property, using proven and probable reserves. The carrying values of exploration stage mineral interests are evaluated for impairment at such time as information becomes available indicating that the production will not occur in the future. Exploration costs are expensed when incurred.

Asset Impairment

We evaluate long-lived assets for impairment whenever events or changes in circumstances indicate that the related carrying amounts of an asset or group of assets may not be recoverable. The recoverability of the carrying value of royalty and stream interests in production and development stage mineral properties is evaluated based upon estimated future undiscounted net cash flows from each royalty and stream interest property using estimates of proven and probable reserves and other relevant information received from the operators. We evaluate the recoverability of the carrying value of royalty interests in exploration stage mineral properties in the event of significant decreases in the price of gold, silver, copper, nickel and other metals, and whenever new information regarding the mineral properties is obtained from the operator indicating that production will not likely occur or may be reduced in the future, thus affecting the future recoverability of our royalty interests. Impairments in the carrying value of each property are measured and recorded to the extent that the carrying value in each property exceeds its estimated fair value, which is generally calculated using estimated future discounted cash flows.

Estimates of gold, silver, copper, nickel and other metal prices, operators' estimates of proven and probable reserves related to our royalty or streaming properties, and operators' estimates of operating and capital costs are subject to certain risks and uncertainties which may affect the recoverability of our investment in these royalty and stream interests in mineral properties. It is possible that changes could occur to these estimates, which could adversely affect the net cash flows expected to be generated from these royalty and stream interests. Refer to Note 4 of the notes to consolidated financial statements for discussion and the results of our impairment assessments for the fiscal years ended June 30, 2015 and 2014.

Revenue

Revenue is recognized pursuant to guidance in ASC 605 and based upon amounts contractually due pursuant to the underlying royalty or streaming agreement. Specifically, revenue is recognized in

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accordance with the terms of the underlying royalty or stream agreements subject to (i) the pervasive evidence of the existence of the arrangements; (ii) the risks and rewards having been transferred; (iii) the royalty or stream being fixed or determinable; and (iv) the collectability being reasonably assured. For our streaming agreements, we sell most of the delivered gold within three weeks of receipt and recognize revenue when the metal received is sold.

Gold Sales

Gold received under our metal streaming agreements is sold primarily in the spot market or using average rate gold forward contracts. For our gold sold in the spot market, the sales price is fixed at the delivery date based on the gold spot price, while the sales price for our gold sold in average rate gold forward contracts is determined by the average gold price under the term of the contract, typically 15 consecutive trading days shortly after the receipt and purchase of the gold. Revenue from gold sales is recognized on the date of the settlement, which is also the date that title to the gold passes to the purchaser.

Cost of Sales

Cost of sales is specific to our stream agreements and is the result of the Company's purchases of gold for a cash payment of a set contractual price, or the prevailing market price of gold when purchased.

Exploration Costs

Exploration costs are specific to our joint venture for exploration and advancement of the Tetlin gold project, as discussed further in Item 1, Business, Fiscal 2015 Business Developments and Note 3 of our notes to consolidated financial statements. Exploration costs associated with the Tetlin gold project are expensed when incurred.

Income Taxes

The Company accounts for income taxes in accordance with the guidance of ASC 740. The Company's annual tax rate is based on income, statutory tax rates in effect and tax planning opportunities available to us in the various jurisdictions in which the Company operates. Significant judgment is required in determining the annual tax expense, current tax assets and liabilities, deferred tax assets and liabilities, and our future taxable income, both as a whole and in various tax jurisdictions, for purposes of assessing our ability to realize future benefit from our deferred tax assets. Actual income taxes could vary from these estimates due to future changes in income tax law, significant changes in the jurisdictions in which we operate or unpredicted results from the final determination of each year's liability by taxing authorities.

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. In evaluating the realizability of the deferred tax assets, management considers both positive and negative evidence that may exist, such as earnings history, reversal of taxable temporary differences, forecasted operating earnings and available tax planning strategies in each tax jurisdiction. A valuation allowance may be established to reduce our deferred tax assets to the amount that is considered more likely than not to be realized through the generation of future taxable income and other tax planning strategies.

The Company has asserted the indefinite reinvestment of certain foreign subsidiary earnings as determined by management's judgment about and intentions concerning the future operations of the Company. As a result, the Company does not record a U.S. deferred tax liability for the excess of the book basis over the tax basis of its investments in foreign corporations to the extent that the basis

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difference results from earnings that meet the indefinite reversal criteria. Refer to Note 11 for further discussion on our assertion.

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, such as the progress of a tax audit; 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.

Liquidity and Capital Resources

Overview

At June 30, 2015, we had current assets of $790.8 million compared to current liabilities of $25.0 million resulting in a working capital surplus of $765.8 million and a current ratio of 32 to 1. This compares to current assets of $736.0 million and current liabilities of $22.5 million at June 30, 2014, resulting in a working capital surplus of $713.5 million and a current ratio of approximately 33 to 1.

During the fiscal year ended June 30, 2015, liquidity needs were met from $278.0 million in revenue and our available cash resources. As of June 30, 2015, the Company had $650 million available and no amounts outstanding under its revolving credit facility. The Company was in compliance with each financial covenant under its revolving credit facility as of June 30, 2015. Refer to Note 6 of our notes to consolidated financial statements and below ("Recent Liquidity and Capital Resource Developments") for further discussion on our debt.

Working capital, combined with the Company's undrawn revolving credit facility, totaled approximately $1.4 billion in liquidity at June 30, 2015. As discussed further in Item 1, Business, Recent Developments, the Company entered into several new significant transactions that, when added to existing firm commitments, totaled approximately $1.1 billion in anticipated capital expenditures in fiscal year 2016. The Company plans to fund these commitments with its existing $1.4 billion in liquidity plus cash flow from operations. Before considering our expected cash flow from operations, at June 30, 2016 we would have approximately $350 million in available liquidity after all of these commitments are funded. Cash flow from operations was $192.2 million in fiscal year 2015, and is expected to increase in fiscal year 2016 (assuming similar gold prices) as three of the new transactions are expected to deliver incremental operating cash flow in fiscal year 2016.

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 and stream interests, including the remaining conditional commitments incurred in connection with the Ilovitza, Golden Star, Rainy River, Pueblo Viejo stream acquisitions and the Peak Gold joint venture. 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 and stream interest or other acquisitions, we may seek additional debt or equity financing as necessary.

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Please refer to our risk factors included in Part I, Item 1A of this report for a discussion of certain risks that may impact the Company's liquidity and capital resources.

Recent Liquidity and Capital Resource Developments

Amendment to Revolving Credit Facility

On April 29, 2015, the Company entered into Amendment No. 1 (the "Amendment") to the Sixth Amended and Restated Revolving Credit Agreement, dated as of January 29, 2014 (the "Credit Agreement"), by and among the Company, certain subsidiaries of the Company as guarantors, certain lenders from time to time party thereto, and HSBC Bank USA, National Association, as administrative agent for the lenders. Pursuant to the Amendment, the maximum availability under the Credit Agreement increased from $450 million to $650 million and the $150 million accordion feature was eliminated. As of June 30, 2015, the Company had no amounts outstanding under the Credit Agreement.

Dividend Increase

On November 13, 2014, we announced an increase in our annual dividend for calendar 2015 from $0.84 to $0.88, payable on a quarterly basis of $0.22 per share. The newly declared dividend is 5% higher than the dividend paid during calendar 2014. Royal Gold has steadily increased its annual dividend since calendar 2001.

Summary of Cash Flows

Operating Activities

Net cash provided by operating activities totaled $192.1 million for the fiscal year ended June 30, 2015, compared to $147.2 million for the fiscal year ended June 30, 2014. The increase was primarily due to an increase in proceeds received from our royalty and streaming interests, net of production taxes and cost of sales, of approximately $31.2 million. The increase was also due to a decrease in income tax payments, net of refunds, of approximately $7.1 million.

Net cash provided by operating activities totaled $147.2 million for the fiscal year ended June 30, 2014, compared to $172.6 million for the fiscal year ended June 30, 2013. The decrease was primarily due to a decrease in proceeds received from our royalty interests, net of production taxes, of approximately $58.1 million. This decrease was partially offset by a decrease in income and other foreign withholding tax payments of $15.9 million.

Investing Activities

Net cash used in investing activities totaled $51.2 million for the fiscal year ended June 30, 2015, compared to $84.8 million for the fiscal year ended June 30, 2014. The decrease in cash used in investing activities is primarily due to a decrease in funding for royalty or stream acquisitions and the recent termination of the Tulsequah streaming agreement, resulting in the return of the original $10.0 million advance payment. The Company made approximately $52.5 million in commitment payments during the fiscal year ended June 30, 2015, as part of the Phoenix Gold and Ilovitza stream acquisitions. The Company made its final commitment ($12.8 million) as part of the Phoenix Gold Project stream acquisition during the quarter ended March 31, 2015.

Net cash used in investing activities totaled $84.8 million for the fiscal year ended June 30, 2014, compared to $309.4 million for the fiscal year ended June 30, 2013. The decrease in cash used in investing activities is primarily due to a decrease in funding for the Mount Milligan streaming interest compared to the prior fiscal year. This decrease was offset by the Company's acquisition of the Phoenix Gold Project gold stream and El Morro royalty of approximately $30.6 million and $35 million, respectively, in fiscal 2014. The Company made its final commitment payment to Thompson Creek as part of the Mount Milligan gold stream acquisition during the quarter ended September 30, 2013.

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Financing Activities

Net cash used in financing activities totaled $57.6 million for the fiscal year ended June 30, 2015, compared to cash provided by financing activities of $66.9 million for the fiscal year ended June 30, 2014. The decrease was the result of a purchase of an additional royalty interest from a non-controlling interest of approximately $11.5 million during the prior year period. This decrease was partially offset by an increase in the common stock dividend payment, which was the result of an increase in the dividend rate when compared to the same period of the prior year.

Net cash used in financing activities totaled $66.9 million for the fiscal year ended June 30, 2014, compared to cash provided by financing activities of $425.4 million for the fiscal year ended June 30, 2013. The decrease in cash provided by financing activities is primarily due to the sale of 5,250,000 shares of our common stock, resulting in proceeds of $472.5 million, during the prior fiscal year. This decrease is also due 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 fiscal 2013.

Contractual Obligations

Our contractual obligations as of June 30, 2015, are as follows:

	Payments Due by Period (in thousands)				
Contractual Obligations	**Total**	**Less than 1 Year**	**1 - 3 Years**	**3 - 5 Years**	**More than 5 Years**
2019 Notes[1]	$ 412,550	$ 10,637	$ 21,275	$ 380,638	$
Total	$ 412,550	$ 10,637	$ 21,275	$ 380,638	$

(1) Amounts represent principal ($370 million) and estimated interest payments ($42.6 million) assuming no early extinguishment.

For information on our contractual obligations, see Note 6 of the notes to consolidated financial statements under Part II, Item 8, "Financial Statements and Supplementary Data" of this report. The above table does not include royalty or stream commitments as discussed in Note 15 of the notes to consolidated financial statements. The Company believes it will be able to fund all existing obligations from net cash provided by operating activities.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

Results of Operations

Fiscal Year Ended June 30, 2015, Compared with Fiscal Year Ended June 30, 2014

For the fiscal year ended June 30, 2015, we recorded net income available to Royal Gold common stockholders of $52.0 million, or $0.80 per basic share and diluted share, compared to net income available to Royal Gold common stockholders of $62.6 million, or $0.96 per basic share and diluted share, for the fiscal year ended June 30, 2014. The decrease in our earnings per share was primarily attributable to impairment charges of approximately $31.3 million (including a royalty receivable write down of $3.0 million) on certain non-principal royalty interests during our quarter ended December 31, 2014, as discussed further below. This decrease was partially offset by an increase in our revenue and a decrease in our income tax expense, which are also discussed below. The effect of the earlier impairment charges on our fiscal year ended June 30, 2015, earnings per share was $0.37 per basic share, after taxes.

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For the fiscal year ended June 30, 2015, we recognized total revenue of $278.0 million, at an average gold price of $1,224 per ounce, an average silver price of $17.36 per ounce, an average nickel price of $7.02 per pound and an average copper price of $2.89 per pound, compared to total revenue of $237.2 million, at an average gold price of $1,296 per ounce, an average silver price of $20.57 per ounce, an average nickel price of $6.89 per pound and an average copper price of $3.18 per pound, for the fiscal year ended June 30, 2014. Revenue and the corresponding production, attributable to our royalty and stream interests, for the fiscal year ended June 30, 2015 compared to the fiscal year ended June 30, 2014 is as follows:

Revenue and Reported Production Subject to our Royalty and Stream Interests
Fiscal Years Ended June 30, 2015 and 2014
(In thousands, except reported production in ozs. and lbs.)

		Fiscal Year Ended June 30, 2015			Fiscal Year Ended June 30, 2014		
Royalty/Stream	**Metal(s)**	**Revenue**	**Reported Production(1)**		**Revenue**	**Reported Production(1)**	
Stream:							
Mount Milligan(2)	Gold	$ 94,104	76,900	oz.	$ 27,209	21,100	oz.
Royalty:							
Andacollo	Gold	$ 38,033	41,500	oz.	$ 48,777	50,400	oz.
Peñasquito		$ 30,306			$ 29,281		
	Gold		742,100	oz.		534,200	oz.
	Silver		24.6	Moz.		27.7	Moz.
	Lead		158.4	Mlbs.		175.5	Mlbs.
	Zinc		340.8	Mlbs.		310.9	Mlbs.
Cortez	Gold	$ 18,044	229,000	oz.	$ 8,138	95,400	oz.
Voisey's Bay		$ 16,665			$ 25,128		
	Nickel		62.8	Mlbs.		123.7	Mlbs.
	Copper		64.8	Mlbs.		80.5	Mlbs.
Holt	Gold	$ 11,954	61,500	oz.	$ 13,813	63,100	oz.
Mulatos	Gold	$ 8,339	140,900	oz.	$ 9,443	149,800	oz.
Robinson		$ 8,016			$ 6,354		
	Gold		34,300	oz.		27,600	oz.
	Copper		101.1	Mlbs.		69.6	Mlbs.
Other(3)	Various	$ 52,558	N/A		$ 69,019	N/A	
Total Revenue		**$ 278,019**			**$ 237,162**		

(1) Reported production relates to the amount of metal sales, subject to our royalty and stream interests, for the twelve months ended June 30, 2015 and 2014, as reported to us by the operators of the mines, and may differ from the operators' public reporting.

(2) During the twelve months ended June 30, 2015, Thompson Creek reported production of approximately 207,400 ounces of payable gold at Mount Milligan, and the Company sold approximately 76,900 ounces of gold at an average gold sale price of $1,224 per ounce and had approximately 5,300 ounces of gold in inventory as of June 30, 2015.

(3) Individually, no royalty included within the "Other" category contributed greater than 5% of our total revenue for either period.

The increase in our total revenue for the fiscal year ended June 30, 2015, compared with the fiscal year ended June 30, 2014, resulted primarily from an increase in our stream revenue, which was a result of increased production at Mount Milligan. Our royalty revenue decreased during the fiscal year ended June 30, 2015, compared with the fiscal year ended June 30, 2014, due to decreases in the

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average gold, silver and copper prices and due to production decreases primarily at Andacollo and Voisey's Bay. These decreases were partially offset by increased production at Cortez. Refer to Part I, Item 2, Properties, for discussion and any updates on our principal producing properties.

Cost of sales were approximately $33.5 million for the fiscal year ended June 30, 2015, compared to $9.2 million for the fiscal year ended June 30, 2014. The increase is attributable to an increase in production at Mount Milligan. Currently, cost of sales is specific to our stream agreement for Mount Milligan and is the result of the Company's purchases of gold for a cash payment of the lesser of $435 per ounce, or the prevailing market price of gold when purchased.

General and administrative expenses increased to $27.9 million for the fiscal year ended June 30, 2015, from $21.2 million for the fiscal year ended June 30, 2014. The increase was primarily due to the recognition of an allowance on an outstanding receivable associated with our Wolverine interest of approximately $3.0 million during the three months ended December 31, 2014, and an increase in non-cash stock based compensation expense of approximately $2.6 million as a result of management's change in estimate for the number of performance shares that are expected to vest. Refer to Note 4 of our notes to consolidated financial statements for further discussion on the Wolverine royalty receivable write down. The Company will continue to pursue collection of all past due payments.

Depreciation, depletion and amortization expense increased to $93.5 million for the fiscal year ended June 30, 2015, from $91.3 million for the fiscal year ended June 30, 2014. The increase was primarily attributable to the ramp-up in production at Mount Milligan.

Impairment of royalty and stream interests was $28.3 million for the fiscal year ended June 30, 2015. The impairment charges were the result of our regular impairment analysis and were primarily due to the presence of impairment indicators on a non-principal producing royalty interest, Wolverine, during the three months ended December 31, 2014. The Company also determined during the three months ended September 30, 2014, that a non-principal production stage royalty interest and one exploration stage royalty interest should be written down to zero for an impairment charge of $1.8 million. Refer to Note 4 of our notes to consolidated financial statements for further discussion on the impairments recognized during our fiscal year 2015.

During the fiscal year ended June 30, 2015, we recognized income tax expense totaling $9.6 million compared with $19.5 million during the fiscal year ended June 30, 2014. This resulted in an effective tax rate of 15.4% during the current period, compared with 23.5% in the prior period. The decrease in the effective tax rate for the fiscal year ended June 30, 2015, is primarily attributable to (i) a decrease in tax expense relating to a decrease in unrealized taxable foreign currency exchange gains, (ii) a favorable tax rate associated with certain operations in lower-tax jurisdictions, (iii) a valuation allowance release as a result of the strengthening U.S. dollar, (iv) a decrease in tax expense due to the Chilean tax legislation enacted in the quarter ended September 30, 2014, and the corresponding re-measurement of the Chilean long term deferred tax asset to the higher corporate income tax rate, and (v) the impairment charge on the Wolverine royalty interest and the corresponding tax benefit recorded in the quarter ended December 31, 2014, and (vi) net of the effect of an increase in tax expense due to Canadian tax legislation enacted in the quarter ended June 30, 2015, which resulted in the re-measurement of Canadian deferred tax liabilities at the higher tax rate. Excluding the enactment of the Chilean tax legislation during the quarter ended September 30, 2014, the impairment charge on the Wolverine royalty interest during the quarter ended December 31, 2014, and the enactment of Canadian tax legislation during the quarter ended June 30, 2015, the effective tax rate for the twelve months ended June 30, 2015, would have been 19.6%.

Fiscal Year Ended June 30, 2014, Compared with Fiscal Year Ended June 30, 2013

For the fiscal year ended June 30, 2014, we recorded net income available to Royal Gold common stockholders of $62.6 million, or $0.96 per basic share and diluted share, compared to net income available to Royal Gold common stockholders of $69.2 million, or $1.09 per basic share and diluted share, for the fiscal year ended June 30, 2013. The decrease in our earnings per share was primarily

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attributable to a decrease in revenue and an increase in certain costs and expenses, as discussed further below.

For the fiscal year ended June 30, 2014, we recognized total revenue of $237.2 million, at an average gold price of $1,296 per ounce, an average silver price of $20.57 per ounce, an average nickel price of $6.89 per pound and an average copper price of $3.18 per pound, compared to total revenue of $289.2 million, at an average gold price of $1,605 per ounce, an average silver price of $28.97 per ounce, an average nickel price of $7.44 per pound and an average copper price of $3.48 per pound, for the fiscal year ended June 30, 2013. Revenue and the corresponding production, attributable to our royalty and stream interests, for the fiscal year ended June 30, 2014 compared to the fiscal year ended June 30, 2013 is as follows:

Revenue and Reported Production Subject to our Royalty and Stream Interests
Fiscal Years Ended June 30, 2014 and 2013
(In thousands, except reported production in ozs. and lbs.)

		Fiscal Year Ended June 30, 2014				Fiscal Year Ended June 30, 2013			
Royalty/Stream	**Metal(s)**	**Revenue**		**Reported Production[1]**		**Revenue**		**Reported Production[1]**	
Royalty:									
Andacollo	Gold	$	48,777	50,400	oz.	$	82,272	68,600	oz.
Peñasquito		$	29,281			$	28,005		
	Gold			534,200	oz.			371,100	oz.
	Silver			27.7	Moz.			21.1	Moz.
	Lead			175.5	Mlbs.			126.3	Mlbs.
	Zinc			310.9	Mlbs.			282.3	Mlbs.
Voisey's Bay		$	25,128			$	32,517		
	Nickel			123.7	Mlbs.			143.9	Mlbs.
	Copper			80.5	Mlbs.			101.9	Mlbs.
Holt	Gold	$	13,813	63,100	oz.	$	19,028	56,400	oz.
Mulatos	Gold	$	9,443	149,800	oz.	$	17,376	218,000	oz.
Cortez	Gold	$	8,138	95,400	oz.	$	8,980	82,100	oz.
Canadian Malartic	Gold	$	7,758	417,800	oz.	$	8,043	347,000	oz.
Las Cruces	Copper	$	7,743	161.2	Mlbs.	$	8,012	153.4	Mlbs.
Robinson		$	6,354			$	15,664		
	Gold			27,600	oz.			49,100	oz.
	Copper			69.6	Mlbs.			146.2	Mlbs.
Other[2]	Various	$	53,518	N/A		$	69,327	N/A	
Stream:									
Mt. Milligan[3]	Gold	$	27,209	80,800	oz.	$		N/A	
Total Revenue		**$**	**237,162**			**$**	**289,224**		

(1) Reported production relates to the amount of metal sales, subject to our royalty interests, for the twelve months ended June 30, 2014 and June 30, 2013, as reported to us by the operators of the mines.

(2) Individually, no royalty included within the "Other" category contributed greater than 5% of our total revenue for either period.

(3) During the fiscal year 2014, the Company sold approximately 21,100 ounces and had approximately 7,800 ounces of gold in inventory as of June 30, 2014.

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The decrease in total revenue for the fiscal year ended June 30, 2014, compared with the fiscal year ended June 30, 2013, resulted primarily from a decrease in the average gold, silver, copper and nickel prices and decreases in production primarily at Andacollo, Voisey's Bay, Mulatos, and Robinson. These decreases during the current period were partially offset by new production at Mount Milligan and production increases at Peñasquito. Refer to Part I, Item 2, Properties, for discussion and any updates on our principal producing properties.

Cost of sales were approximately $9.2 million for the fiscal year ended June 30, 2014, compared to zero for the fiscal year ended June 30, 2013. Cost of sales for our fiscal year 2014 is specific to our streaming agreement for Mount Milligan, which began production during the current period, and is the result of the Company's purchases of gold for a cash payment of the lesser of $435 per ounce, or the prevailing market price of gold when purchased.

General and administrative expenses decreased to $21.2 million for the fiscal year ended June 30, 2014, from $24.0 million for the fiscal year ended June 30, 2013. The decrease was primarily due to a decrease in non-cash stock based compensation expense of approximately $3.1 million as a result of management's change in estimate for the number of performance shares that are expected to vest in future periods.

Production taxes decreased to $6.8 million for the fiscal year ended June 30, 2014, from $9.0 million for the fiscal year ended June 30, 2013. The decrease is primarily due to a decrease in the mining proceeds tax expense associated with our Voisey's Bay royalty, which was due to decreased revenue from the Voisey's Bay royalty during our fiscal 2014.

Depreciation, depletion and amortization expense increased to $91.3 million for the fiscal year ended June 30, 2014, from $85.0 million for the fiscal year ended June 30, 2013. The increase was primarily attributable to new production at Mount Milligan and a production increase at Peñasquito, which resulted in additional depletion expense of approximately $9.8 million during the fiscal 2014. The increase was also attributable to an increase in depletion rates at certain of our non-principal properties, which resulted in additional depletion of approximately $7.6 million. These increases were partially offset by decreases in production primarily at Andacollo, Voisey's Bay, Mulatos and Robinson, which resulted in a decrease in depletion expense of approximately $10.8 million during fiscal 2014.

During the fiscal years ended June 30, 2014 and 2013, the Company recognized losses of $4.5 million and $12.1 million on available-for-sale securities, respectively, related to other-than-temporary impairments on its investment in Seabridge common stock. The effect of the recognized loss, net of any tax, during the fiscal years ended June 30, 2014 and 2013, was $0.07 and $0.23 per basic share, respectively. Refer to Note 5 of the notes to consolidated financial statements in this Annual Report on Form 10-K for further discussion on the other-than-temporary impairment loss.

During the fiscal year ended June 30, 2014, we recognized income tax expense totaling $19.5 million compared with $63.8 million during the fiscal year ended June 30, 2013. This resulted in an effective tax rate of 23.5% during the fiscal 2014, compared with 46.5% in fiscal 2013. The decrease in the effective tax rate for the fiscal year ended June 30, 2014, is primarily attributable to (i) a favorable tax rate associated with certain operations in lower tax jurisdictions, (ii) a decrease in tax expense resulting from a reduction in uncertain tax positions, (iii) an increase in foreign tax credits claimed, and (iv) a reduction of the tax effect on the recognized loss on available-for-sale securities when compared to fiscal 2013.

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 Annual Report on Form 10-K are forward-looking statements that involve risks and uncertainties that could cause actual results to differ

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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 and stream interests. Words such as "may," "could," "should," "would," "believe," "estimate," "expect," "anticipate," "plan," "forecast," "potential," "intend," "continue," "project" and variations of these words, comparable words and similar expressions generally indicate forward-looking statements, which speak only as of the date the statement is made. Do not unduly rely on forward-looking statements. Actual results may differ materially from those expressed or implied by these forward-looking statements. Factors that could cause actual results to differ materially from these forward-looking statements include, among others:

- changes in gold and other metals prices on which our royalty and stream interests are paid or changes in prices of the primary metals mined at properties where we hold royalty and stream interests;
- the production at or performance of properties where we hold royalty and stream 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;
- decisions and activities of the operators of properties where we hold royalty and stream interests;
- liquidity or other problems our operators may encounter;
- hazards and risks at the properties where we hold royalty and stream interests that are normally associated with developing and mining properties, including unanticipated grade and geological, metallurgical, processing or other problems, mine operating and ore processing facility problems, pit wall or tailings dam failures, industrial accidents, environmental hazards and natural catastrophes such as floods or earthquakes and access to raw materials, water and power;
- changes in operators' mining, processing and treatment techniques, which may change the production of minerals subject to our royalty and stream interests;
- changes in the methodology employed by our operators to calculate our royalty and stream interests in accordance with the agreements that govern them;
- changes in project parameters as plans of the operators of properties where we hold royalty and stream interests are refined;
- changes in estimates of reserves and mineralization by the operators of properties where we hold royalty and stream interests;
- contests to our royalty and stream interests and title and other defects to the properties where we hold royalty and stream interests;

economic and market conditions;

future financial needs;

federal, state and foreign legislation governing us or the operators of properties where we hold royalty and stream interests;

the availability of royalty and stream 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 and stream 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 and stream interests or the operators of such properties;

risks associated with issuances of additional common stock or incurrence of indebtedness in connection with acquisitions or otherwise including risks associated with the issuance and conversion of convertible notes;

acquisition and maintenance of permits and authorizations, completion of construction and commencement and continuation of production at the properties where we hold royalty and stream interests;

changes in management and key employees; and

failure to complete future acquisitions;

as well as other factors described elsewhere in this report and our other reports filed with the SEC. Most of these factors are beyond our ability to predict or control. Future events and actual results could differ materially from those set forth in, contemplated by or underlying the forward-looking statements. 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.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE 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 and stream interests and reduce our revenues. Certain contracts governing our royalty and stream interests have features that may amplify the negative effects of a drop in metal prices*," under Part I, Item 1A, Risk Factors, of this report for more information on factors that can affect gold, silver, copper, nickel and other metal prices as well as historical gold, silver, copper and nickel prices.

During the fiscal year ended June 30, 2015, we reported revenue of $278.0 million, with an average gold price for the period of $1,224 per ounce, an average silver price for the period of $17.36 per ounce, an average copper price of $2.89 per pound and an average nickel price of $7.02 per pound. Approximately 81% of our total recognized revenues for the fiscal year ended June 30, 2015 were attributable to gold sales from our gold producing interests, as shown within the MD&A. For the fiscal year ended June 30, 2015, if the price of gold had averaged 10% higher or lower per ounce, we would

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have recorded an increase or decrease in revenue of approximately $24.2 million and $24.0 million, respectively.

Approximately 3% of our total reported revenue for the fiscal year ended June 30, 2015 was attributable to silver sales from our silver producing interests. For the fiscal year ended June 30, 2015, if the price of silver had averaged 10% higher or lower per ounce, we would have recorded an increase or decrease in revenues of approximately $1.1 million.

Approximately 7% of our total reported revenue for the fiscal year ended June 30, 2015 was attributable to copper sales from our copper producing interests. For the fiscal year ended June 30, 2015, if the price of copper had averaged 10% higher or lower per pound, we would have recorded an increase or decrease in revenues of approximately $2.3 million.

Approximately 4% of our total reported revenue for the fiscal year ended June 30, 2015 was attributable to nickel sales from our nickel producing interests. For the fiscal year ended June 30, 2015, if the price of nickel had averaged 10% higher or lower per pound, we would have recorded an increase or decrease in revenues of approximately $1.3 million.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Index to Financial Statements

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have audited the accompanying consolidated balance sheets of Royal Gold, Inc. as of June 30, 2015 and 2014, and the related consolidated statements of operations and comprehensive income, changes in equity and cash flows for each of the three years in the period ended June 30, 2015. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Royal Gold, Inc. at June 30, 2015 and 2014, and the consolidated results of its operations and its cash flows for each of the three years in the period ended June 30, 2015, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Royal Gold Inc.'s internal control over financial reporting as of June 30, 2015, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated August 6, 2015 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Denver, Colorado
August 6, 2015

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ROYAL GOLD, INC.

Consolidated Balance Sheets

As of June 30,

(In thousands except share data)

	2015	2014
ASSETS		
Cash and equivalents	$ 742,849	$ 659,536
Royalty receivables	37,681	46,654
Income tax receivable	6,422	21,947
Prepaid expenses and other	3,798	7,840
Total current assets	790,750	735,977
Royalty and stream interests, net (Note 4)	2,083,608	2,109,067
Available-for-sale securities (Note 5)	6,273	9,608
Other assets	44,801	36,892
Total assets	$ 2,925,432	$ 2,891,544
LIABILITIES		
Accounts payable	4,911	3,897
Dividends payable	14,341	13,678
Foreign withholding taxes payable	199	2,199
Other current liabilities	5,522	2,730
Total current liabilities	24,973	22,504
Debt (Note 6)	322,110	311,860
Deferred tax liabilities	146,603	169,865
Uncertain tax positions (Note 11)	15,130	13,725
Other long-term liabilities	689	1,033
Total liabilities	509,505	518,987
Commitments and contingencies (Note 15)		
EQUITY		
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 65,033,547 and 64,578,401 shares outstanding, respectively	650	646
Exchangeable shares, no par value, 1,806,649 shares issued, less 1,806,649 and 1,426,792 redeemed shares, respectively		16,718
Additional paid-in capital	2,170,643	2,147,650
Accumulated other comprehensive loss	(3,292)	(160)
Accumulated earnings	185,121	189,871
Total Royal Gold stockholders' equity	2,353,122	2,354,725
Non-controlling interests	62,805	17,832
Total equity	2,415,927	2,372,557

Total liabilities and equity	$	2,925,432	$	2,891,544

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

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ROYAL GOLD, INC.

Consolidated Statements of Operations and Comprehensive Income

For the Years Ended June 30,

(In thousands except share data)

	2015	2014	2013
Revenue	$ 278,019	$ 237,162	$ 289,224
Costs and expenses			
Cost of sales	33,450	9,158	
General and administrative	27,869	21,186	24,027
Production taxes	5,446	6,756	9,010
Exploration costs	2,194		
Depreciation, depletion and amortization	93,486	91,342	85,020
Impairment of royalty and stream interests	28,339		
Total costs and expenses	190,784	128,442	118,057
Operating income	87,235	108,720	171,167
Loss on available-for-sale securities	(183)	(4,499)	(12,121)
Interest and other income	883	2,050	2,902
Interest and other expense	(25,691)	(23,344)	(24,780)
Income before income taxes	62,244	82,927	137,168
Income tax expense	(9,566)	(19,455)	(63,759)
Net income	52,678	63,472	73,409
Net income attributable to non-controlling interests	(713)	(831)	(4,256)
Net income attributable to Royal Gold common stockholders	$ 51,965	$ 62,641	$ 69,153
Net income	$ 52,678	$ 63,472	$ 73,409
Adjustments to comprehensive income, net of tax			
Unrealized change in market value of available-for-sale securities	(3,292)	(98)	(4,526)
Recognized loss on available-for-sale securities	160	4,510	13,716
Comprehensive income	49,546	67,884	82,599
Comprehensive income attributable to non-controlling interests	(713)	(831)	(4,256)
Comprehensive income attributable to Royal Gold stockholders	$ 48,833	$ 67,053	$ 78,343
Net income per share available to Royal Gold common stockholders:			
Basic earnings per share	$ 0.80	$ 0.96	$ 1.09

Basic weighted average shares outstanding	65,007,861	64,909,149	63,250,247
Diluted earnings per share	$ 0.80	$ 0.96	$ 1.09
Diluted weighted average shares outstanding	65,125,173	65,026,256	63,429,822
Cash dividends declared per common share	$ 0.87	$ 0.83	$ 0.75

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

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ROYAL GOLD, INC.

Consolidated Statements of Changes in Equity

For the Years Ended June 30, 2015, 2014 and 2013

(In thousands except share data)

	Royal Gold Stockholders								
	Common Shares		**Exchangeable Shares**						
	Shares	**Amount**	**Shares**	**Amount**	**Additional Paid-In Capital**	**Accumulated Other Comprehensive Income (Loss)**	**Accumulated Earnings**	**Non-controlling interests**	**Total Equity**
Balance at June 30, 2012	**58,614,221**	**$ 586**	**798,826**	**$ 35,156**	**$ 1,656,357**	**$ (13,763)**	**$ 160,123**	**$ 24,970**	**$ 1,863,429**
Issuance of common stock for:									
Equity offering	5,250,000	53			471,815				471,868
Exchange of exchangeable shares	131,597	1	(131,597)	(5,791)	5,790				
Other					765				765
Stock-based compensation and related share issuances	188,218	2			7,446				7,448
Net income							69,153	4,256	73,409
Other comprehensive income						9,191			9,191
Distribution to non-controlling interests								(7,477)	(7,477)
Dividends declared							(47,997)		(47,997)
Balance at June 30, 2013	**64,184,036**	**$ 642**	**667,229**	**$ 29,365**	**$ 2,142,173**	**$ (4,572)**	**$ 181,279**	**$ 21,749**	**$ 2,370,636**
Issuance of common stock for:									
Exchange of exchangeable shares	287,372	3	(287,372)	(12,647)	12,644				
Non-controlling interest assignment					(11,463)			(2,250)	(13,713)
Stock-based compensation and related share issuances	106,993	1			4,296				4,297
Net income							62,641	831	63,472
Other comprehensive income						4,412			4,412
Distribution to non-controlling interests								(2,498)	(2,498)
Dividends declared							(54,049)		(54,049)
Balance at June 30, 2014	**64,578,401**	**$ 646**	**379,857**	**$ 16,718**	**$ 2,147,650**	**$ (160)**	**$ 189,871**	**$ 17,832**	**$ 2,372,557**
Issuance of common stock for:									
Exchange of exchangeable shares	379,857	3	(379,857)	(16,718)	16,715				
Peak Gold joint venture								45,700	45,700
Stock-based compensation and related share issuances	75,289	1			6,278				6,279
Net income							51,965	713	52,678
Other comprehensive loss						(3,132)			(3,132)
								(1,440)	(1,440)

Distribution to non-controlling interests								
Dividends declared						(56,715)		(56,715)
Balance at June 30, 2015	**65,033,547**	**$ 650**	**$**	**$ 2,170,643**	**$ (3,292)**	**$ 185,121**	**$ 62,805**	**$ 2,415,927**

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

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ROYAL GOLD, INC.

Consolidated Statements of Cash Flows

For the Years Ended June 30,

(In thousands)

	2015	2014	2013
Cash flows from operating activities:			
Net income	$ 52,678	$ 63,472	$ 73,409
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, depletion and amortization	93,486	91,342	85,020
Recognized loss on available-for-sale securities	183	4,499	12,121
Non-cash employee stock compensation expense	5,141	2,580	5,701
Gain on distribution to non-controlling interest	(46)	(259)	(2,837)
Amortization of debt discount	10,250	9,597	9,015
Impairment of royalty and stream interests	28,339		
Tax benefit of stock-based compensation exercises	(364)	(597)	(2,966)
Deferred tax benefit	(27,651)	(8,166)	(11,419)
Other			100
Changes in assets and liabilities:			
Royalty receivables	8,973	3,731	3,562
Prepaid expenses and other assets	5,487	9,756	(12,300)
Accounts payable	150	1,105	113
Foreign withholding taxes payable	(2,000)	(13,319)	15,294
Income taxes receivable	15,525	(6,183)	(3,127)
Uncertain tax positions	1,405	(7,441)	1,697
Other liabilities	543	(2,915)	(753)
Net cash provided by operating activities	$ 192,099	$ 147,202	$ 172,630
Cash flows from investing activities:			
Acquisition of royalty and stream interests	(60,429)	(80,019)	(314,262)
Tulsequah stream termination	10,000		
Other	(773)	(4,782)	4,820
Net cash used in investing activities	$ (51,202)	$ (84,801)	$ (309,442)
Cash flows from financing activities:			
Net proceeds from issuance of common stock	775	1,120	473,771
Common stock dividends	(56,054)	(53,380)	(43,934)
Purchase of additional royalty interest from non-controlling interest		(11,522)	
Debt issuance costs	(864)	(1,284)	
Distribution to non-controlling interests	(1,805)	(2,431)	(7,412)
Tax expense of stock-based compensation exercises	364	597	2,966
Net cash (used in) provided by financing activities	$ (57,584)	$ (66,900)	$ 425,391
Net increase (decrease) in cash and equivalents	83,313	(4,499)	288,579
Cash and equivalents at beginning of period	659,536	664,035	375,456
Cash and equivalents at end of period	$ 742,849	$ 659,536	$ 664,035

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

ROYAL GOLD, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. THE COMPANY

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Summary of Significant Accounting Policies

Use of Estimates

The preparation of our financial statements in conformity with accounting principles generally accepted in the United States of America requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the dates of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ significantly from those estimates.

Our most critical accounting estimates relate to our assumptions regarding future gold, silver, nickel, copper and other metal prices and the estimates of reserves, production and recoveries of third-party mine operators. We rely on reserve estimates reported by the operators on the properties in which we have royalty and stream interests. These estimates and the underlying assumptions affect the potential impairments of long-lived assets and the ability to realize income tax benefits associated with deferred tax assets. These estimates and assumptions also affect the rate at which we recognize revenue or charge depreciation, depletion and amortization to earnings. On an ongoing basis, management evaluates these estimates and assumptions; however, actual amounts could differ from these estimates and assumptions. Differences between estimates and actual amounts could differ significantly and are recorded in the period that the actual amounts are known.

Basis of Consolidation

The consolidated financial statements include the accounts of Royal Gold, Inc., its wholly-owned subsidiaries and an entity over which control is achieved through means other than voting right (see Note 3). The Company follows the Accounting Standards Codification ("ASC") guidance for identification and reporting for entities over which control is achieved through means other than voting rights. All intercompany accounts, transactions, income and expenses, and profits or losses have been eliminated on consolidation.

Cash and Equivalents

Cash and equivalents consist of all cash balances and highly liquid investments with an original maturity of three months or less. Cash and equivalents were primarily held in cash deposit accounts as of June 30, 2015 and in United States treasury bills with maturities less than 90 days as of June 30, 2014.

ROYAL GOLD, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS (Continued)

Royalty and Stream Interests

Royalty and stream interests include acquired royalty and stream interests in production, development and exploration stage properties. The costs of acquired royalty and stream interests are capitalized as tangible assets as such interests do not meet the definition of a financial asset under ASC guidance.

Acquisition costs of production stage royalty and stream interests are depleted using the units of production method over the life of the mineral property (as royalty payments are recognized or sales occur under stream interests), which is estimated using proven and probable reserves as provided by the operator. Acquisition costs of royalty and stream interests on development stage mineral properties, which are not yet in production, are not amortized until the property begins production. Acquisition costs of royalty interests on exploration stage mineral properties, where there are no proven and probable reserves, are not amortized. At such time as the associated exploration stage mineral interests are converted to proven and probable reserves, the cost basis is amortized over the remaining life of the mineral property, using proven and probable reserves. The carrying values of exploration stage mineral interests are evaluated for impairment at such time as information becomes available indicating that the costs may not be recoverable from future production. Exploration costs are charged to operations when incurred.

Available-for-Sale Securities

Investments in securities that management does not have the intent to sell in the near term and that have readily determinable fair values are classified as available-for-sale securities. Unrealized gains and losses on these investments are recorded in accumulated other comprehensive income as a separate component of stockholders' equity, except that declines in market value judged to be other than temporary are recognized in determining net income. When investments are sold, the realized gains and losses on these investments, determined using the specific identification method, are included in determining net income.

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. This evaluation considers a number of factors including, but not limited to, the length of time and extent to which the fair value has been less than cost, the financial condition and near term prospects of the issuer, and management's ability and intent to hold the securities until fair value recovers. 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. The new cost basis is not changed for subsequent recoveries in fair value. Refer to Note 5 for further discussion on our available-for-sale securities.

Asset Impairment

We evaluate long-lived assets for impairment whenever events or changes in circumstances indicate that the related carrying amounts of an asset or group of assets may not be recoverable. The recoverability of the carrying value of royalty and stream interests in production and development stage

ROYAL GOLD, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS (Continued)

mineral properties is evaluated based upon estimated future undiscounted net cash flows from each royalty and stream interest property using estimates of proven and probable reserves and other relevant information received from the operators. We evaluate the recoverability of the carrying value of royalty interests in exploration stage mineral properties in the event of significant decreases in the price of gold, silver, copper, nickel and other metals, and whenever new information regarding the mineral properties is obtained from the operator indicating that production will not likely occur or may be reduced in the future, thus affecting the future recoverability of our royalty interests. Impairments in the carrying value of each property are measured and recorded to the extent that the carrying value in each property exceeds its estimated fair value, which is generally calculated using estimated future discounted cash flows.

Estimates of gold, silver, copper, nickel and other metal prices, operators' estimates of proven and probable reserves related to our royalty or streaming properties, and operators' estimates of operating and capital costs are subject to certain risks and uncertainties which may affect the recoverability of our investment in these royalty and stream interests in mineral properties. It is possible that changes could occur to these estimates, which could adversely affect the net cash flows expected to be generated from these royalty and stream interests. Refer to Note 4 for discussion and the results of our impairment assessments for the fiscal years ended June 30, 2015 and 2014.

Revenue

Revenue is recognized in accordance with the guidance of ASC 605 and based upon amounts contractually due pursuant to the underlying royalty or stream agreement. Specifically, revenue is recognized in accordance with the terms of the underlying royalty or stream agreements subject to (i) the pervasive evidence of the existence of the arrangements; (ii) the risks and rewards having been transferred; (iii) the royalty or stream being fixed or determinable; and (iv) the collectability being reasonably assured. For our streaming agreements, we sell most of the delivered gold within three weeks of receipt and recognize revenue when the metal received is sold. For royalty payments received in-kind, revenue is recorded at the average spot price of gold for the period in which the royalty was earned.

Gold Sales

Gold received under our metal streaming agreements is sold primarily in the spot market or under average rate gold forward contracts. For our gold sold in the spot market, the sales price is fixed at the delivery date based on the gold spot price, while the sales price for our gold sold under average rate gold forward contracts is determined by the average gold price under the term of the contract, typically 15 consecutive trading days shortly after the receipt and purchase of the gold. Revenue from gold sales is recognized on the date of the settlement, which is also the date that title to the gold passes to the purchaser.

Cost of Sales

Cost of sales is specific to our streaming agreement for Mount Milligan and is the result of the Company's purchases of gold for a cash payment of the lesser of $435 per ounce, or the prevailing market price of gold when purchased.

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ROYAL GOLD, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS (Continued)

Production taxes

Certain royalty payments are subject to production taxes (or mining proceeds taxes), which are recognized at the time of revenue recognition. Production taxes are not income taxes and are included within the costs and expenses section in the Company's consolidated statements of operations and comprehensive income.

Exploration Costs

Exploration costs are specific to our joint venture for exploration and advancement of the Tetlin gold project, as discussed further in Note 3. Exploration costs associated with the Tetlin gold project are expensed when incurred.

Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with the guidance of ASC 718. The Company recognizes all share-based payments to employees, including grants of employee stock options, stock-settled stock appreciation rights ("SSARs"), restricted stock and performance stock, in its financial statements based upon their fair values.

Reportable Segments and Geographical Information

The Company manages its business under two reportable segments, consisting of the acquisition and management of royalty interests and the acquisition and management of stream interests. Royal Gold's long-lived assets (royalty and stream interests, net) as of June 30, 2015 and 2014 are geographically distributed as shown in the following table:

	As of June 30, 2015		
	Royalty interest	**Stream interest**	**Total royalty and stream interests, net**
Canada	$ 251,688	$ 823,091	$ 1,074,779
Chile	653,019		$ 653,019
Mexico	131,742		$ 131,742
United States	110,286		$ 110,286
Australia	50,119		$ 50,119
Africa	12,760		$ 12,760
Other	42,720	8,183	$ 50,903
Total	**$ 1,252,334**	**$ 831,274**	**$ 2,083,608**

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ROYAL GOLD, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS (Continued)

	As of June 30, 2014		
	Royalty interest	Stream interest	Total royalty and stream interests, net
Canada	$ 293,798	$ 816,408	$ 1,110,206
Chile	662,482		$ 662,482
Mexico	145,625		$ 145,625
United States	68,889		$ 68,889
Australia	55,241		$ 55,241
Africa	15,226		$ 15,226
Other	51,398		$ 51,398
Total	**$ 1,292,659**	**$ 816,408**	**$ 2,109,067**

The Company's revenue, cost of sales and net revenue by reportable segment for our fiscal year's ended June 30, 2015, 2014 and 2013 is geographically distributed as show in the following table:

	Fiscal Year Ended June 30, 2015		
	Revenue	Cost of sales	Net revenue
Royalties:			
Canada	$ 37,496	$	$ 37,496
Chile	39,508		39,508
Mexico	43,008		43,008
United States	42,675		42,675
Australia	8,494		8,494
Africa	3,075		3,075
Other	9,659		9,659
Total royalties	$ 183,915	$	$ 183,915
Streams:			
Canada	$ 94,104	$ 33,450	$ 60,654
Total royalties and streams	**$ 278,019**	**$ 33,450**	**$ 244,569**

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ROYAL GOLD, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS (Continued)

	Fiscal Year Ended June 30, 2014		
	Revenue	Cost of sales	Net revenue
Royalties:			
Canada	$ 54,277	$	$ 54,277
Chile	50,733		50,733
Mexico	43,093		43,093
United States	34,671		34,671
Australia	8,353		8,353
Africa	7,943		7,943
Other	10,883		10,883
Total royalties	$ 209,953	$	$ 209,953
Streams:			
Canada	$ 27,209	$ 9,158	$ 18,051
Total royalties and streams	**$ 237,162**	**$ 9,158**	**$ 228,004**

	Fiscal Year Ended June 30, 2013		
	Revenue	Cost of sales	Net revenue
Royalties:			
Canada	$ 68,247	$	$ 68,247
Chile	84,631		84,631
Mexico	53,550		53,550
United States	50,416		50,416
Australia	10,216		10,216
Africa	8,770		8,770
Other	13,394		13,394
Total royalties	**$ 289,224**	**$**	**$ 289,224**

Income Taxes

The Company accounts for income taxes in accordance with the guidance of ASC 740. The Company's annual tax rate is based on income, statutory tax rates in effect and tax planning opportunities available to us in the various jurisdictions in which the Company operates. Significant judgment is required in determining the annual tax expense, current tax assets and liabilities, deferred tax assets and liabilities, and our future taxable income, both as a whole and in various tax jurisdictions, for purposes of assessing our ability to realize future benefit from our deferred tax assets. Actual income taxes could vary from these estimates due to future changes in income tax law, significant changes in the jurisdictions in which we operate or unpredicted results from the final determination of each year's liability by taxing authorities.

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. In evaluating the realizability of the deferred tax assets, management

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS (Continued)

considers both positive and negative evidence that may exist, such as earnings history, reversal of taxable temporary differences, forecasted operating earnings and available tax planning strategies in each tax jurisdiction. A valuation allowance may be established to reduce our deferred tax assets to the amount that is considered more likely than not to be realized through the generation of future taxable income and other tax planning strategies.

The Company has asserted the indefinite reinvestment of certain foreign subsidiary earnings as determined by management's judgment about and intentions concerning the future operations of the Company. As a result, the Company does not record a U.S. deferred tax liability for the excess of the book basis over the tax basis of its investments in foreign corporations to the extent that the basis difference results from earnings that meet the indefinite reversal criteria. Refer to Note 11 for further discussion on our assertion.

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, such as the progress of a tax audit; 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.

Comprehensive Income

In addition to net income, comprehensive income includes changes in equity during a period associated with cumulative unrealized changes in the fair value of marketable securities held for sale, net of tax effects.

Earnings per Share

Basic earnings per share is computed by dividing net income available to Royal Gold common stockholders by the weighted average number of outstanding common shares for the period, considering the effect of participating securities, and include the outstanding exchangeable shares. Diluted earnings per share reflect the potential dilution that could occur if securities or other contracts that may require issuance of common shares were converted. Diluted earnings per share is computed by dividing net income available to common stockholders by the diluted weighted average number of common shares outstanding, including outstanding exchangeable shares, during each fiscal year.

Recently Issued Accounting Standards

In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") guidance related to debt issuance costs. This update simplifies the presentation of debt issuance costs by requiring debt issuance costs to be presented as a deduction from the

ROYAL GOLD, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS (Continued)

corresponding debt liability. The recognition and measurement guidance for debt issuance costs are not affected by the updated guidance. The update is effective for the Company's fiscal year beginning July 1, 2017. We are currently evaluating the impact of this new standard on our consolidated financial statements.

In February 2015, ASU guidance was issued related to consolidations. This update affects reporting entities that are required to evaluate whether they should consolidate certain legal entities. This update makes some targeted changes to current consolidation guidance and impacts both the voting and the variable interest consolidation models. In particular, the update will change how companies determine whether limited partnerships or similar entities are variable interest entities ("VIEs"). The update is effective for us in the first quarter of our fiscal year 2016. We are currently evaluating the impact of this new standard on our consolidated financial statements.

3. ACQUISITIONS

Acquisition of Gold Streams on Wassa, Bogoso and Prestea

On May 7, 2015, RGLD Gold announced signing a $130 million gold stream transaction with a wholly-owned subsidiary of Golden Star Resources Ltd. (together "Golden Star"), pursuant to which RGLD Gold will advance financing to Golden Star, subject to certain conditions, for development projects at certain mines in Ghana, and in return for which Golden Star will sell and deliver gold to RGLD Gold. Separate from the stream transaction and subject to certain conditions, the Company will provide a $20 million, 4-year term loan to Golden Star and will receive warrants to purchase 5 million shares of Golden Star Resources Ltd. common stock. Closing of the gold stream and term loan transactions occurred on July 28, 2015, when the conditions to closing were satisfied.

Pursuant to the stream transaction and subject to certain conditions, RGLD Gold will make $130 million in advance payments to Golden Star in stages, including the $40 million upfront payment made in connection with closing, and the balance on a pro rata basis with spending on the Wassa and Prestea underground projects, which RGLD Gold expects to make in five quarterly payments as follows: (i) $15 million on September 1, 2015, (ii) $30 million on December 1, 2015, and (iii) $15 million on March 1, 2016, June 1, 2016 and September 1, 2016. Golden Star will deliver to RGLD Gold 8.5% of gold produced from the Wassa, Bogoso and Prestea projects, until 185,000 ounces have been delivered, 5.0% until an additional 22,500 have been delivered, and 3.0% thereafter. RGLD Gold will pay Golden Star a cash price equal to 20% of the spot price for each ounce delivered at the time of delivery until 207,500 ounces have been delivered, which cash price shall increase to 30% of the spot price for each ounce delivered thereafter.

In a separate transaction, on July 28, 2015, the Company provided a $20 million, four-year term loan to Golden Star, subject to certain conditions. Interest under the loan will be due quarterly at a rate equal to 62.5% of the average daily gold price for the relevant quarter divided by 10,000, but not to exceed 11.5%. The loan will be subject to mandatory prepayments that will range between 25-50% of excess cash flow after the development period for the projects. Golden Star will also grant warrants to the Company to purchase five million shares of Golden Star common stock. The warrants have a term of four years and an exercise price which equals a 30% premium to Golden Star's weighted average share price for the ten-day period ending two days prior to announcement of the transaction.

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ROYAL GOLD, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. ACQUISITIONS (Continued)

Acquisition of Gold Stream on Euromax's Ilovitza Project

On October 20, 2014, RGLD Gold AG ("RGLD Gold"), a wholly owned subsidiary of the Company, entered into a $175.0 million gold stream transaction with Euromax Resources Ltd ("Euromax") that will finance a definitive feasibility study, permitting work, early stage engineering and a significant portion of the construction at Euromax's Ilovitza gold-copper project located in southeast Macedonia. RGLD Gold will make two advance deposit payments to Euromax totaling $15.0 million, which will be used for completion of the definitive feasibility study and permitting of the project, followed by payments aggregating $160 million towards project construction, in each case subject to certain conditions. Payment of the first $7.5 million deposit was completed in March 2015. RGLD Gold's decision to proceed with the second $7.5 million deposit and the construction payments is conditioned upon, among other things, its satisfaction with the progress of definitive feasibility study and environmental evaluations, demonstrated project viability, and, in the case of the construction payments, sufficient project financing and permits to construct and operate the mine. The construction payments would be paid pro-rata with the balance of the project funding. In exchange, Euromax will deliver physical gold equal to 25% of gold produced from the Ilovitza project until 525,000 ounces have been delivered, and 12.5% thereafter (in each case subject to adjustment). RGLD Gold's purchase price per ounce will be 25% of the spot price at the time of delivery.

The Ilovitza gold stream acquisition has been accounted for as an asset acquisition. The $7.5 million paid as part of the aggregate pre-production commitment of $175 million, plus direct transaction costs, have been recorded as a development stage stream interest within *Royalty and stream interests, net* on our consolidated balance sheets.

Tetlin Royalty Acquisitions and Peak Gold Joint Venture

On September 30, 2014, Royal Gold acquired a 2.0% net smelter return ("NSR") royalty and a 3.0% NSR royalty held by private parties over areas comprising the Tetlin gold project located near Tok, Alaska, for total consideration of $6.0 million. As discussed below, the Tetlin gold project is now held by Peak Gold LLC ("Peak Gold"), a joint venture between subsidiaries of Royal Gold and Contango ORE Inc.

The acquisition of the Tetlin royalties has been accounted for as an asset acquisition. The total purchase price of $6.0 million, plus direct transaction costs, has been recorded as an exploration stage royalty interest within *Royalty and stream interests, net* on our consolidated balance sheets.

On January 8, 2015, Royal Gold, through its wholly-owned subsidiary, Royal Alaska, LLC ("Royal Alaska"), and Contango ORE, Inc., through its wholly-owned subsidiary CORE Alaska, LLC (together, "Contango"), entered into a limited liability company agreement for Peak Gold, a joint venture for exploration and advancement of the Tetlin gold project located near Tok, Alaska (the "Tetlin Project"). Contango contributed all of its assets relating to the Tetlin Project to Peak Gold, including a mining lease and certain state of Alaska mining claims. Royal Alaska contributed $5.0 million in cash to Peak Gold. Contango will initially hold a 100% membership interest in Peak Gold. Royal Alaska has the right to obtain up to 40% of the membership interest in Peak Gold by making contributions of up to $30.0 million (including Royal Alaska's initial $5.0 million contribution) in cash to Peak Gold by October 31, 2018.

ROYAL GOLD, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. ACQUISITIONS (Continued)

Royal Alaska will act as the manager of Peak Gold. As manager of Peak Gold, Royal Alaska is responsible for managing, directing and controlling the overall operations during the earn-in period, and thereafter, provided Royal Alaska holds at least a 40% interest. Royal Alaska will act as manager unless and until it is unanimously removed or resigns that position in the manner provided in Peak Gold's limited liability company agreement.

The Company follows the ASC guidance for identification and reporting of entities for which control is achieved through means other than voting rights. The guidance defines such entities as VIEs. The Company has identified Peak Gold as a VIE, with Royal Alaska as the primary beneficiary, due to the legal structure and certain related factors of the limited liability company agreement for Peak Gold. The Company determined that Peak Gold should be fully consolidated at fair value initially. The fair value of the Company's non-controlling interest is $45.7 million and is based on the underlying value of the mineral property assigned to Peak Gold, which is recorded as an exploration stage property within *Royalty and stream interests, net* on our consolidated balance sheets.

Phoenix Gold Project Stream Acquisition

On February 11, 2014, RGLD Gold entered into a $75 million Purchase and Sale Agreement (the "Agreement") for a gold stream transaction with Rubicon Minerals Corporation ("Rubicon"). Pursuant to the Agreement, the $75 million payment deposit from RGLD Gold is to be used by Rubicon to help pay a significant portion of the construction costs of the Phoenix Gold Project located in Ontario, Canada, which is currently in the development stage.

Pursuant to the Agreement, the $75 million payment deposit to Rubicon is prepayment of the purchase price for refined gold and is payable in five installments. The first installment of $10 million was made in conjunction with execution of definitive documents on February 11, 2014. The second installment of $20 million was paid on March 20, 2014, while the third, fourth and fifth installments of $15 million each were made during our fiscal year ended June 30, 2015.

Upon commencement of production at the Phoenix Gold Project, RGLD Gold will purchase and Rubicon will sell 6.30% of any gold produced from the Phoenix Gold Project until 135,000 ounces have been delivered, and 3.15% thereafter. For each delivery of gold, RGLD Gold will pay a purchase price per ounce of 25% of the spot price of gold at the time of delivery. In the event that RGLD Gold's interests are subordinated to more than $50 million of senior debt, RGLD Gold's per ounce purchase price will be reduced by 5.4% times the amount of the senior debt outstanding and drawn in excess of $50 million, divided by $50 million.

The Phoenix Gold Project gold stream acquisition has been accounted for as an asset acquisition. The $75 million payment deposit, plus direct transaction costs, have been recorded as a development stage stream interest within *Royalty and stream interests, net* on our consolidated balance sheets.

Goldrush Royalty Acquisition

On January 7, 2014, Royal Gold acquired a 1.0% net revenue royalty on the southern end of Barrick Gold Corporation's ("Barrick") Goldrush deposit in Nevada from a private landowner for total consideration of $8.0 million, of which $1.0 million was paid at closing and $1.0 million was paid in January 2015. The remaining $6.0 million will be paid in six annual installments. Goldrush is located

ROYAL GOLD, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. ACQUISITIONS (Continued)

approximately four miles from the Cortez mine. The acquisition has been recorded as an exploration stage royalty interest within *Royalty and stream interests, net* on our consolidated balance sheets.

NVR1 Royalty at Cortez

On January 2, 2014, Royal Gold, through a wholly-owned subsidiary, increased its ownership interest in the limited partnership that owns the 1.25% net value royalty ("NVR1") covering certain portions of the Pipeline Complex at Barrick's Cortez gold mine in Nevada. As a result of the transaction, the NVR1 royalty rate attributable to our interest increased from 0.39% to 1.014% on production from all of the lands covered by the NVR1 royalty excluding production from the mining claims comprising the Crossroad deposit (the "Crossroad Claims"), and from zero to 0.618% on production from the Crossroad Claims. Total consideration for the transaction was approximately $11.5 million.

El Morro Royalty Acquisition

In August 2013, Royal Gold, through a 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. 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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ROYAL GOLD, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. ROYALTY AND STREAM INTERESTS, NET

The following summarizes the Company's royalty and stream interests as of June 30, 2015 and 2014:

As of June 30, 2015 (Amounts in thousands):	Cost	Accumulated Depletion	Impairments	Net
Production stage royalty interests:				
Andacollo	$ 272,998	$ (65,467)	$	$ 207,531
Voisey's Bay	150,138	(76,141)		73,997
Peñasquito	99,172	(24,555)		74,617
Mulatos	48,092	(32,313)		15,779
Holt	34,612	(13,950)		20,662
Robinson	17,825	(12,748)		5,077
Cortez	10,630	(9,933)		697
Other	495,763	(265,727)	(27,586)	202,450
Total production stage royalty interests	1,129,230	(500,834)	(27,586)	600,810
Production stage stream interests:				
Mount Milligan	783,046	(35,195)		747,851
Production stage royalty and stream interests	1,912,276	(536,029)	(27,586)	1,348,661
Development stage royalty interests:				
Pascua-Lama	372,105			372,105
Other	67,017			67,017
Total development stage royalty interests	439,122			439,122
Development stage stream interests:				
Phoenix Gold	75,843			75,843
Other	8,183		(603)	7,580
Total development stage stream interests	84,026		(603)	83,423
Development stage royalty and stream interests	523,148		(603)	522,545
Exploration stage royalty interests	212,552		(150)	212,402
Total royalty and stream interests	$ 2,647,976	$ (536,029)	$ (28,339)	$ 2,083,608

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ROYAL GOLD, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. ROYALTY AND STREAM INTERESTS, NET (Continued)

As of June 30, 2014 (Amounts in thousands):	Cost	Accumulated Depletion	Net
Production stage royalty interests:			
Andacollo	$ 272,998	$ (56,147)	$ 216,851
Voisey's Bay	150,138	(67,377)	82,761
Peñasquito	99,172	(17,801)	81,371
Mulatos	48,092	(28,548)	19,544
Holt	34,612	(10,474)	24,138
Robinson	17,825	(11,887)	5,938
Cortez	10,630	(9,772)	858
Other	488,309	(232,913)	255,396
Total production stage royalty interests	1,121,776	(434,919)	686,857
Production stage stream interests:			
Mount Milligan	783,046	(7,741)	775,305
Production stage royalty and stream interests	1,904,822	(442,660)	1,462,162
Development stage royalty interests:			
Pascua-Lama	372,105		372,105
Other	69,488		69,488
Total development stage royalty interests	441,593		441,593
Development stage stream interests:			
Phoenix Gold	30,620		30,620
Other	10,483		10,483
Total development stage stream interests	41,103		41,103
Development stage royalty and stream interests	482,696		482,696
Exploration stage royalty interests	164,209		164,209
Total royalty and stream interests	$ 2,551,727	$ (442,660)	$ 2,109,067

Impairment of royalty and stream interests

In accordance with our impairment accounting policy discussed in Note 1, impairments in the carrying value of each royalty or stream interest are measured and recorded to the extent that the carrying value in each royalty or stream interest exceeds its estimated fair value, which is generally calculated using estimated future discounted cash-flows. As part of the Company's regular asset impairment analysis, which included the presence of impairment indicators, the Company recorded

ROYAL GOLD, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. ROYALTY AND STREAM INTERESTS, NET (Continued)

impairment charges for the fiscal years ended June 30, 2015, 2014 and 2013, as summarized in the following table:

	Fiscal Years Ended June 30,		
	2015	2014	2013
	(Amounts in thousands)		
Wolverine[(1)]	$ 25,967	$	$
Other	2,372		
Total impairment of royalty and stream interests	$ 28,339	$	$

(1) Included in *Other* production stage royalty interests in the above royalty and stream interests table.

Wolverine

The Company owns a 0.00% to 9.445% sliding-scale NSR royalty on all gold and silver produced from the Wolverine underground mine and milling operation located in Yukon Territory, Canada, and operated by Yukon Zinc Corporation ("Yukon Zinc"). As part of the Company's impairment assessment for the three months ended December 31, 2014, the Company was notified of an updated mine plan at Wolverine, which included a significant reduction in reserves and resources when compared to the previous mine plan. A significant reduction in reserves and resources, along with decreases in the long-term metal price assumptions used by the industry, are indicators of impairment.

As part of the impairment determination, the fair value for Wolverine was estimated by calculating the net present value of the estimated future cash-flows expected to be generated by the mining of the Wolverine deposits subject to our royalty interest. The estimates of future cash-flows were derived from a life-of-mine model developed by the Company using Yukon Zinc's updated mine plan information. The metal price assumptions used in the Company's model were supported by consensus price estimates obtained from a number of industry analysts. The future cash-flows were discounted using a discount rate which reflects specific market risk factors the Company associates with the Wolverine royalty interest. Following the impairment charge during the three months ended December 31, 2014, the Wolverine royalty interest has a carrying value of $5.3 million as of June 30, 2015.

The Company had a royalty receivable of approximately $3.0 million associated with past due royalty payments on the Wolverine interest. As a result of recent financial and operational results experienced by Yukon Zinc and their decision to put the mine on care and maintenance, the Company believes payment of the receivable is uncertain and provided for an allowance against the entire receivable as of June 30, 2015. The expense associated with the allowance is recorded within *General and administrative* expense on the Company's consolidated statements of operations and comprehensive income for the twelve months ended June 30, 2015.

In March 2015, Yukon Zinc filed for, and was granted, creditor protection by the Supreme Court of British Columbia, Canada in a court monitored debtor-in-possession process. Yukon Zinc received court approval to initiate, and as of June 30, 2015, was conducting a sale process. The Company will continue to pursue collection of all past due payments and protection of our royalty interest. The

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ROYAL GOLD, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. ROYALTY AND STREAM INTERESTS, NET (Continued)

Company did not recognize revenue associated with the Wolverine royalty interest during the three month periods ended June 30, 2015, March 31, 2015, and December 31, 2014.

Other

As part of the Company's regular asset impairment analysis during the three months ended September 30, 2014, the Company determined that one production stage royalty interest and one exploration stage royalty interest should be written down to zero for a total impairment of $1.8 million. As part of the termination of the Tulsequah Chief gold and silver stream, as discussed below, the Company wrote-off approximately $0.6 million of direct acquisition costs during the three months ended December 31, 2014.

Termination of the Tulsequah Chief Gold and Silver Stream

On December 22, 2014, RGLD Gold terminated the Amended and Restated Gold and Silver Purchase and Sale Agreement (the "Tulsequah Agreement"), between RGLD Gold, the Company, Chieftain Metals Inc. and Chieftain Metals Corp. (together, "Chieftain"), relating to Chieftain's Tulsequah Chief mining project located in British Columbia, Canada. Pursuant to the terms of the Agreement, Chieftain repaid RGLD Gold's original $10.0 million advance payment. As a result of the termination of the Tulsequah Agreement and repayment of our investment, the carrying value of the Tulsequah Chief gold and silver stream, which included our $10.0 million investment and approximately $0.6 million of direct acquisition costs, was reduced to zero during the three months ended December 31, 2014.

5. AVAILABLE-FOR-SALE SECURITIES

The Company's available-for-sale securities as of June 30, 2015 and 2014 consist of the following:

	As of June 30, 2015			
		Unrealized		
	Cost Basis	Gain	Loss	Fair Value
	(Amounts in thousands)			
Non-current:				
Seabridge	$ 9,565		(3,292)	$ 6,273
	$ 9,565	$	$ (3,292)	$ 6,273

	As of June 30, 2014			
		Unrealized		
	Cost Basis	Gain	Loss	Fair Value
	(Amounts in thousands)			
Non-current:				
Seabridge	$ 9,565			$ 9,565
Other	203		(160)	43
	$ 9,768	$	$ (160)	$ 9,608

ROYAL GOLD, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. AVAILABLE-FOR-SALE SECURITIES (Continued)

Our available-for-sale securities consists of an investment in Seabridge Gold, Inc. common stock, acquired in June 2011. Based on our impairment analysis during the fiscal year ended June 30, 2014, the Company determined that the impairment of its investment in Seabridge common stock is other-than-temporary. As a result of the impairment, the Company recognized a loss on available-for-sale securities of $4.5 million during the fourth quarter of our fiscal year ended June 30, 2014. The Company also recognized a loss on available-for-sale securities related to our investment in Seabridge common stock of $12.1 million during the third quarter of our fiscal year ended June 30, 2013. The recognized losses have been reclassified out of comprehensive income in the respective periods. The Company did not recognize an impairment on its available-for-sale securities during the fiscal year ended June 30, 2015. 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.

6. DEBT

The Company's debt as of June 30, 2015 and 2014 consists of the following:

	As of June 30, 2015	As of June 30, 2014
	Non-current	Non-current
	(Amounts in thousands)	
Convertible notes due 2019, net	$ 322,110	$ 311,860
Total debt	$ 322,110	$ 311,860

Convertible Senior Notes Due 2019

In June 2012, the Company completed an offering of $370 million aggregate principal amount of 2.875% convertible senior notes due 2019 ("2019 Notes"). The 2019 Notes bear interest at the rate of 2.875% per annum, and the Company is required to make semi-annual interest payments on the outstanding principal balance of the 2019 Notes on June 15 and December 15 of each year, beginning December 15, 2012. The 2019 Notes mature on June 15, 2019. Interest expense recognized on the 2019 Notes for the fiscal years ended June 30, 2015, 2014 and 2013 was approximately $22.1 million, $21.4 million and $20.7 million, respectively, and included the contractual coupon interest, the accretion of the debt discount and amortization of the debt issuance costs. During the fiscal years ended June 30, 2015 and 2014, the Company made $10.6 million in interest payments on our 2019 Notes.

Revolving credit facility

The Company maintains a $650 million revolving credit facility. Borrowings under the revolving credit facility bear interest at a floating rate of LIBOR plus a margin of 1.25% to 3.0%, based on Royal Gold's leverage ratio. As of June 30, 2015, the interest rate on borrowings under the revolving credit facility was LIBOR plus 1.25%. Royal Gold may repay any borrowings under the revolving credit facility at any time without premium or penalty. As of June 30, 2015, and during our fiscal year 2015, Royal Gold had no amounts outstanding under the revolving credit facility. At June 30, 2015, the Company was in compliance with each financial covenant (leverage ratio and consolidated net worth, as defined therein).

ROYAL GOLD, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. DEBT (Continued)

On April 29, 2015, the Company entered into Amendment No. 1 (the "Amendment") to the Sixth Amended and Restated Revolving Credit Agreement, dated as of January 29, 2014, by and among the Company, certain subsidiaries of the Company as guarantors, certain lenders from time to time party thereto, and HSBC Bank USA, National Association, as administrative agent for the lenders. Pursuant to the Amendment, the maximum availability under the revolving credit facility increased from $450 million to $650 million and the $150 million accordion feature was eliminated.

7. REVENUE

Revenue is comprised of the following:

	Fiscal Years Ended June 30,		
	2015	2014	2013
	(Amounts in thousands)		
Royalty interests	$ 183,915	$ 209,953	$ 289,224
Stream interests	94,104	27,209	
Total revenue	$ 278,019	$ 237,162	$ 289,224

8. STOCK-BASED COMPENSATION

In November 2004, the Company adopted the Omnibus Long-Term Incentive Plan ("2004 Plan"). Under the 2004 Plan, 2,600,000 shares of common stock have been authorized for future grants to officers, directors, key employees and other persons. The 2004 Plan provides for the grant of stock options, unrestricted stock, restricted stock, dividend equivalent rights, SSARs and cash awards. Any of these awards may, but need not, be made as performance incentives. Stock options granted under the 2004 Plan may be non-qualified stock options or incentive stock options.

The Company recognized stock-based compensation expense as follows:

	For the Fiscal Years Ended June 30,		
	2015	2014	2013
	(Amounts in thousands)		
Stock options	$ 417	$ 468	$ 456
Stock appreciation rights	1,422	1,305	1,107
Restricted stock	2,511	3,110	3,240
Performance stock	791	(2,303)	898
Total stock-based compensation expense	$ 5,141	$ 2,580	$ 5,701

	&D>	1		1	2
Pension and other postretirement plan unrecognized net loss, net of income tax benefit of $1		(3)			(3)
Total comprehensive (loss) income		(2)	62	10	70

Balance as of December 31, 2010	157	16	893	5	213	7	(1)	33	1,159
Stock-based compensation expense			18						18
Deferred tax adjustment on stock-based compensation			(1)						(1)
Dividend declared					(42)				(42)
Dividend for vested stock awards			1		(1)				
Common stock repurchased			(86)		(143)	14	(1)		(230)
Shares repurchased for tax withholdings for vested stock awards			(1)		(2)	1			(3)
Shares issued in non-vested stock award	1								
Elimination due to sale of controlling interests in subsidiaries								(28)	(28)
Distributions to partners of noncontrolling interests in subsidiaries								(6)	(6)
Comprehensive income, net of income taxes:									
Net income					219			8	227
Foreign currency translation				2				(2)	
Pension and other postretirement plan unrecognized net loss, net of income tax benefit of $5				(8)					(8)
Net unrealized gain on derivative instruments				2					2
Total comprehensive (loss) income				(4)	219			6	221
Balance as of December 31, 2011	158	$ 16	$ 824	$ 1	$ 244	22	$ (2)	$ 5	$ 1,088

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

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COVANTA HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The terms we, our, ours, us and Company refer to Covanta Holding Corporation and its subsidiaries; the term Covanta Energy refer subsidiary Covanta Energy Corporation and its subsidiaries.

Organization

Covanta is one of the world s largest owners and operators of infrastructure for the conversion of waste to energy (known as energy-from-waste or EfW), as well as other waste disposal and renewable energy production businesses. Energy-from-waste serves two key markets as both a sustainable waste disposal solution that is environmentally superior to landfilling and as a source of clean energy that reduces overall greenhouse gas emissions and is considered renewable under the laws of many states and under federal law. Our facilities are critical infrastructure assets that allow our customers, which are principally municipal entities, to provide an essential public service.

Our EfW facilities earn revenue from both the disposal of waste and the generation of electricity, generally under long-term contracts, as well as from the sale of metal recovered during the energy-from-waste process. We process approximately 19 million tons of solid waste annually and produce over 10 million megawatt (MW) hours of baseload electricity annually. We operate and/or have ownership positions in 46 energy-from-waste facilities, which are primarily located in North America, and 15 additional energy generation facilities, including other renewable energy production facilities in North America (wood biomass and hydroelectric). We also operate waste management infrastructure that is complementary to our core EfW business.

We own and hold equity interests in energy-from-waste facilities in China and Italy. We are pursuing additional growth opportunities in parts of Europe, primarily in the United Kingdom, where the market demand, regulatory environment or other factors encourage technologies such as energy-from-waste to reduce dependence on landfilling for waste disposal and fossil fuels for energy production in order to reduce greenhouse gas emissions.

We also have investments in subsidiaries engaged in insurance operations in California, primarily in property and casualty insurance; however these collectively account for only approximately 1% of our consolidated revenue.

We have one reportable segment which is Americas and is comprised of waste and energy services operations primarily in the United States and Canada. For additional information, see Note 6. Financial Information by Business Segments.

Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements reflect the results of our operations, cash flows and financial position of our majority-owned or controlled subsidiaries. All intercompany accounts and transactions have been eliminated.

Equity Method Investments

We use the equity method to account for our investments for which we have the ability to exercise significant influence over the operating and financial policies of the investee. Consolidated net income includes our proportionate share of the net income or loss of these companies. Such amounts are classified as equity in net income from unconsolidated investments in our consolidated financial statements. Investments in companies in which we do not have the ability to exercise significant influence are carried at the lower of cost or estimated realizable value. We monitor investments for other-than-temporary declines in value and make reductions when appropriate.

Revenue Recognition

Waste and Service Revenues Revenues from waste and service agreements consist of the following:

1) Fees earned under contract to operate and maintain energy-from-waste and independent power facilities are recognized as revenue when services are rendered, regardless of the period they are billed;

2) Fees earned to service project debt (principal and interest) where such fees are expressly included as a component of the service fee paid by the client community pursuant to applicable energy-from-waste service agreements. Regardless of the timing of amounts paid by client communities relating to project debt principal, we record service revenue with respect to this principal component on a levelized basis over the term of the agreement. Unbilled service receivables related to energy-from-waste operations are discounted in recognizing

COVANTA HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

the present value for services performed currently in order to service the principal component of the project debt;

3) Fees earned for processing waste in excess of contractual requirements are recognized as revenue beginning in the period when we process the excess waste. Some of our contracts include stated fixed fees earned by us for processing waste up to certain base contractual amounts during specified periods. These contracts also set forth the per-ton fees that are payable if we accept waste in excess of the base contractual amounts;

4) Tipping fees earned under waste disposal agreements are recognized as revenue in the period the waste is received; and

5) Other miscellaneous fees, such as revenue for ferrous and non-ferrous metal recovered and recycled, are generally recognized as revenue when ferrous and non-ferrous metal is delivered to metals processors.

Electricity and Steam Sales Revenue from the sale of electricity and steam are earned and recorded based upon output delivered and capacity provided at rates specified under contract terms or prevailing market rates net of amounts due to client communities under applicable service agreements. We account for certain long-term power contracts in accordance with accounting standards for revenue recognition of long-term power sales contracts which require that power revenues under these contracts be recognized as the lesser of (a) amounts billable under the respective contracts; or (b) an amount determinable by the kilowatt hours made available during the period multiplied by the estimated average revenue per kilowatt hour over the term of the contract. The determination of the lesser amount is to be made annually based on the cumulative amounts that would have been recognized had each method been applied consistently from the beginning of the contract. The difference between the amount billed and the amount recognized is included in other long-term liabilities.

Construction Revenues Revenues under current fixed-price construction contracts are recognized using the percentage-of-completion method, measured by the cost-to-cost method. Under this method, total contract costs are estimated, and the ratio of costs incurred to date to the estimated total costs on the contract is used to determine the percentage-of-completion. This method is used because we consider the costs incurred to be the best available measure of progress on these contracts. Construction revenues are recorded as other operating revenues in the consolidated statements of income. These contracts are typically signed in conjunction with agreements to operate the project constructed and are therefore multiple element arrangements. The contractual price of the undelivered service element has been determined to be its fair value. We expect to earn revenue for our current construction contracts over the next 3 years. Upon completion of the construction element of these contracts, we will begin to recognize service revenue over the term of the service element of the contract.

On January 1, 2011, we adopted an accounting standard related to multiple-deliverable revenue arrangements. The standard provides amendments to criteria for separating consideration in multiple element arrangements. We did not enter or materially modify any existing construction contracts on or after January 1, 2011. For any such future contracts, revenue will be allocated between construction revenue and other project revenue (waste disposal revenue and electricity and steam sales) based on the relative fair value of each element provided the delivered elements have value to customers on a standalone basis. Amounts allocated to each element are based on its objectively determined fair value, such as the sales price for the product or service when it is sold separately or competitor prices for similar products or services.

Renewable Energy Credits

Renewable Energy Credits (REC) represent saleable and tradable environmental commodities. One REC represents the renewable energy attributes created when one megawatt hour of electricity is produced from an eligible renewable energy source. The REC is recognized at fair value as a reduction to plant operating expense in the consolidated statements of income and as an intangible asset within other current assets in the consolidated balance sheets on the date the renewable energy is generated. The fair value amount recognized is reduced by a valuation allowance for those RECs which management believes will ultimately be sold at below market or depressed market prices. As the RECs are delivered, the intangible asset is relieved. Fair values for the RECs are based on prices established by executed contracts, pending contracts or management estimates of current market prices.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Pass Through Costs

Pass through costs are costs for which we receive a direct contractually committed reimbursement from the municipal client which sponsors an energy-from-waste project. These costs generally include utility charges, insurance premiums, ash residue transportation and disposal, and certain chemical costs. These costs are recorded net of municipal client reimbursements in our consolidated financial statements. Total pass through costs for the years ended December 31, 2011, 2010, and 2009 were $88 million, $90 million, and $72 million, respectively.

Income Taxes

Deferred income taxes are based on the difference between the financial reporting and tax basis of assets and liabilities. The deferred income tax provision represents the change during the reporting period in the deferred tax assets and deferred tax liabilities, net of the effect of acquisitions and dispositions. Deferred tax assets include tax losses and credit carryforwards and are reduced by a valuation allowance if, based on available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

We file a consolidated Federal income tax return for each of the periods covered by the consolidated financial statements, which include all eligible United States subsidiary companies. Foreign subsidiaries were taxed according to regulations existing in the countries in which they do business. Our subsidiary, Covanta Lake II, Inc. has not been a member of any consolidated tax group since February 20, 2004, however the income taxes recorded for this subsidiary are recorded in our consolidated financial statements. Our federal consolidated income tax return also includes the taxable results of certain grantor trusts, which are excluded from our consolidated financial statements, however certain related tax attributes are recorded in our consolidated financial statements since they are part of our federal tax return. For additional information, see Note 16. Income Taxes.

Stock-Based Compensation

Stock-based compensation is accounted for in accordance with accounting standards for share-based awards to employees which requires entities to recognize compensation expense for these awards. The cost for equity-based stock awards is expensed based on their grant date fair value. For additional information, see Note 18. Stock-Based Award Plans.

Cash and Cash Equivalents

Cash and cash equivalents include all cash balances and highly liquid investments having maturities of three months or less from the date of purchase. These short-term investments are stated at cost, which approximates market value.

Investments

The insurance subsidiaries fixed maturity debt and equity securities portfolio are classified as available-for-sale and are carried at fair value. Investment securities that are traded on a national securities exchange are stated at the last reported sales price on the day of valuation. Changes in fair value are credited or charged directly to Accumulated Other Comprehensive Income (AOCI) in the consolidated statements of equity as unrealized gains or losses, respectively. Investment gains or losses realized on the sale of securities are determined using the specific identification method. Realized gains and losses are recognized in the consolidated statements of income based on the amortized cost of fixed maturities and cost basis for equity securities on the date of trade, subject to any previous adjustments for other-than-temporary declines. Other-than-temporary declines in fair value are recorded as realized losses in the consolidated statements of income to the extent they relate to credit losses, and to AOCI to the extent they are related to other factors. The cost basis of the security is also reduced. We consider the following factors in determining whether declines in the fair value of securities are other-than-temporary:

- the significance of the decline in fair value compared to the cost basis;
- the time period during which there has been a significant decline in fair value;

- whether the unrealized loss is credit-driven or a result of changes in market interest rates;
- a fundamental analysis of the business prospects and financial condition of the issuer; and
- our ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery in fair value.

Other investments, such as investments in companies in which we do not have the ability to exercise significant influence, are carried at the lower of cost or estimated realizable value. For additional information, see Note 13. Financial Instruments.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Restricted Funds Held in Trust

Restricted funds held in trust are primarily amounts received by third party trustees relating to certain projects we own which may be used only for specified purposes. We generally do not control these accounts. They primarily include debt service reserves for payment of principal and interest on project debt, and deposits of revenues received with respect to projects prior to their disbursement, as provided in the relevant indenture or other agreements. Such funds are invested principally in money market funds, bank deposits and certificates of deposit, United States treasury bills and notes, and United States government agency securities. Restricted fund balances are as follows (in millions):

	000000	000000	000000	000000
	As of December 31,			
	2011		**2010**	
	Current	**Noncurrent**	**Current**	**Noncurrent**
Debt service funds - principal	$ 56	$ 57	$ 85	$ 72
Debt service funds - interest	8		6	
Total debt service funds	64	57	91	72
Revenue funds	16		18	
Other funds	21	33	17	35
Total	$ 101	$ 90	$ 126	$ 107

Of the $191 million in total restricted funds as of December 31, 2011, approximately $113 million was designated for future payment of project debt principal. For a discussion of debt service funds under some of our service arrangements, see Note 15. Supplementary Information.

Restricted Funds Other

As of December 31, 2011 and 2010, we had $13 million and $36 million, respectively, in restricted accounts. These restricted funds were held to pay for certain taxes which may be due relating to Covanta Energy s bankruptcy, which occurred prior to its acquisition by us, and for surety and bail bond collateral related to our insurance subsidiary. As of December 31, 2011, $12 million was paid to pre-petition claimants and $3 million of the non-current restricted funds was reclassified to other current assets on our consolidated balance sheet and is expected to be paid to third party claimants in the first half of 2012. The remaining $5 million was reclassified to cash and cash equivalents on our consolidated balance sheet as of December 31, 2011. See Note 16. Income Taxes for additional information. Restricted funds are invested principally in money market funds, bank deposits and certificates of deposit, and are not available for general corporate purposes.

Deferred Financing Costs

As of December 31, 2011 and 2010, we had $19 million and $25 million, respectively, of net deferred financing costs recorded on the consolidated balance sheets. These costs were incurred in connection with our various financing arrangements. These costs are being amortized using the effective interest rate method over the expected period that the related financing is to be outstanding.

Deferred Revenue

Deferred revenue consisted of the following (in millions):

	000000	000000	000000	000000
	As of December 31,			
	2011		**2010**	
	Current	**Noncurrent**	**Current**	**Noncurrent**
Advance billings to municipalities	$ 8	$	$ 10	$
Unearned insurance premiums	1		2	
Other	52	3	60	3
Total	$ 61	$ 3	$ 72	$ 3

Advance billings to various customers are billed one or two months prior to performance of service and are recognized as income in the period the service is provided. Other current deferred revenue relates primarily to pre-construction billings for the expansion project at our Honolulu, Hawaii energy-from-waste facility. Noncurrent deferred revenue relates to electricity contract levelization and is included in other noncurrent liabilities in the consolidated balance sheets.

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COVANTA HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Property, Plant and Equipment

Property, plant, and equipment acquired in business acquisitions were recorded at our estimate of their fair values on the date of the acquisition. Additions, improvements and major expenditures are capitalized if they increase the original capacity or extend the remaining useful life of the original asset more than one year. Maintenance repairs and minor expenditures are expensed in the period incurred. Depreciation is computed using the straight-line method over the estimated remaining useful lives of the assets, which range up to 34 years for energy-from-waste facilities. The original useful lives generally range from three years for computer equipment to 50 years for components of energy-from-waste facilities. Leaseholds improvements are depreciated over the remaining life of the lease or the asset, whichever is shorter. Upon retirement or disposal of assets, the cost and related accumulated depreciation are removed from the consolidated balance sheets and any gain or loss is reflected in the consolidated statements of income.

Property, plant and equipment consisted of the following (in millions):

	000000	000000	000000
		As of December 31,	
	Useful Lives	**2011**	**2010**
Land		$ 25	$ 25
Facilities and equipment	3-34 years	3,353	3,244
Landfills (primarily ash)	3-37 years	44	45
Construction in progress		41	55
Total		3,463	3,369
Less: accumulated depreciation and amortization		(1,040)	(891)
Property, plant, and equipment net		$ 2,423	$ 2,478

Depreciation and amortization expense related to property, plant and equipment was $165 million, $160 million, and $163 million, for the years ended December 31, 2011, 2010, and 2009, respectively.

Asset Retirement Obligations

In accordance with accounting standards for asset retirement obligations, we recognize a liability for asset retirement obligations when it is incurred which is generally upon acquisition, construction, or development. Our liabilities include closure and post-closure costs for landfill cells and site restoration for certain energy-from-waste and power producing sites. We principally determine the liability using internal estimates of the costs using current information, assumptions, and interest rates, but also use independent appraisals as appropriate to estimate costs. When a new liability for asset retirement obligation is recorded, we capitalize the cost of the liability by increasing the carrying amount of the related long-lived asset. The liability is accreted to its present value each period and the capitalized cost is depreciated over the useful life of the related asset. We recognize period-to-period changes in the liability resulting from revisions to the timing or the amount of the original estimate of the undiscounted cash flows. Any changes are incorporated into the carrying amount of the liability and will result in an adjustment to the amount of asset retirement cost allocated to expense in subsequent periods.

Our asset retirement obligation is presented as follows (in millions):

As of December 31,

	2011	2010
Beginning of period asset retirement obligation	$ 29	$ 26
Accretion expense	2	2
Deductions [1]	(5)	(1)
Additions [2]		2
End of period asset retirement obligation	$ 26	$ 29
Less: current portion	(5)	(4)
Noncurrent Asset retirement obligation	$ 21	$ 25

(1) Deductions in 2011 and 2010 related to expenditures and settlements of the asset retirement obligation liability, net revisions based on current estimates of the liability and revised expected cash flows and life of the liability.

(2) Additions in 2010 related primarily to expansion projects for an existing landfill. See Note 3. Business Development, Acquisitions and Dispositions.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Amortization of Waste, Service and Energy Contracts and Intangible Assets

Our waste, service and energy contracts are intangible assets related to long-term operating contracts at acquired facilities. Intangible assets and liabilities, as well as lease interest, and other indefinite-lived assets, are recorded at their estimated fair market values based primarily upon discounted cash flows in accordance with accounting standards related to business combinations. See Note 7. Amortization of Waste, Service and Energy Contracts and Note 8. Other Intangible Assets and Goodwill.

Impairment of Goodwill, Other Intangibles and Long-Lived Assets

We evaluate goodwill and indefinite-lived intangible assets not subject to amortization for impairment on an annual basis, or more frequently if events occur or circumstances change indicating that the fair value of a reporting unit may be below its carrying amount, in accordance with accounting standards related to goodwill and other intangible assets. Fair value is generally determined utilizing a discounted cash flow approach, based on management s best estimate of the highest and best use of future waste and service revenues, electricity revenues and operating expenses, discounted at an appropriate market participant risk adjusted rate.

The evaluation of goodwill requires a comparison of the estimated fair value of the reporting unit to which the goodwill has been assigned to its carrying value. The goodwill is related to the Americas reporting unit. A reporting unit is defined as an operating segment or a component of an operating segment to the extent discrete financial information is available that is reviewed by segment management. As the components of the Americas reporting unit share similar economic characteristics, we have aggregated them into one reporting unit as permitted by the accounting standard related to goodwill and intangible assets. If the carrying value of the reporting unit exceeds the fair value, the reporting unit s goodwill is compared to its implied value of goodwill. If the carrying value of the reporting unit s goodwill exceeds the implied value, an impairment charge is recognized to reduce the carrying value to the implied value.

In September 2011, the Financial Accounting Standards Board (FASB) issued new guidance related to the testing of goodwill for impairment which we have applied in our annual review as of October 1, 2011. The amendments provide an option to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. The qualitative assessment takes into consideration both external factors (including the macroeconomic and industry conditions) and our own internal factors (including internal costs, recent financial performance, management, business strategy, customers, and stock price). If we conclude it is more likely than not that the fair value of the reporting unit is not less than its carrying amount based on that qualitative assessment, then we are no longer required to calculate its fair value. We performed the required annual impairment review of our recorded goodwill for our reporting unit using a qualitative assessment as of October 1, 2011 and determined that it was more likely than not that the fair value of our reporting unit was not less than its carrying value and no further assessment was necessary.

For indefinite-lived intangible assets, the evaluation requires a comparison of the estimated fair value of the asset to the carrying value. If the carrying value of an indefinite-lived intangible asset exceeds its fair value, an impairment charge is recognized to reduce the carrying value of the asset to its fair value. As of December 31, 2011, the fair value of all indefinite-lived intangible assets exceeded their carrying value.

Intangible and other long-lived assets such as property, plant and equipment and purchased intangible assets with finite lives, are evaluated for impairment whenever events or changes in circumstances indicate their carrying value may not be recoverable over their estimated useful life. In reviewing for impairment, we compare the carrying value of the relevant assets to their estimated undiscounted future cash flows. When the estimated undiscounted future cash flows are less than their carrying amount, an impairment charge is recognized to reduce the asset s carrying value to their fair value. As of December 31, 2011, there were no indicators of impairment identified.

There were no impairment charges recognized related to our evaluation of goodwill, indefinite-lived intangible assets, or intangible assets for the years ended December 31, 2011, 2010, and 2009. During the year ended, December 31, 2010, we recorded a write- down of assets related to other long-lived assets of $34 million, pre-tax. For additional information, see Note 15. Supplementary Information.

COVANTA HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Business Combinations

In accordance with accounting standards for business combinations, we recognize at fair value the assets acquired and liabilities assumed in the transaction including any noncontrolling interest of the acquired entity; recognize any goodwill acquired or gain resulting from a bargain purchase; establish the acquisition-date fair value based on the highest and best use by market participants for the asset as the measurement objective; and disclose information needed to evaluate and understand the nature and financial effect of the business combination. We expense direct transaction costs as incurred; capitalize in-process research and development costs, if any; and record a liability for contingent consideration at the measurement date with subsequent remeasurement recognized in the results of operations. Any costs for business restructuring and exit activities related to the acquired company are included in the post-combination results of operations. Tax adjustments related to previously recorded business combinations, if any, will be recognized in the results of operations.

Accumulated Other Comprehensive Income

AOCI, in the consolidated statements of equity, includes unrealized gains and losses excluded from the consolidated statements of income. These unrealized gains and losses consist of unrecognized gains or losses on our pension and other postretirement benefit obligations, foreign currency translation adjustments, unrealized gains or losses on securities, and net unrealized gains and losses on derivatives. AOCI, net of income taxes, consists of the following (in millions):

	00000	00000
	As of December 31,	
	2011	**2010**
Foreign currency translation	$ 3	$ 1
Pension and other postretirement plan unrecognized net (loss) gain	(5)	3
Net unrealized gain on derivatives	2	
Net unrealized gain on securities	1	1
Accumulated other comprehensive income	$ 1	$ 5

Derivative Instruments

We recognize derivative instruments not designated as hedging instruments on the balance sheet at their fair value. The Cash Conversion Option and Note Hedge are derivative instruments which are recorded at fair value quarterly with any change in fair value being recognized in our consolidated statements of income as non-cash convertible debt related expense. We have entered into swap agreements with various financial institutions to hedge our exposure to energy price risk. Changes in the fair value of the energy derivatives are recognized as a component of AOCI. For additional information, see Note 14. Derivative Instruments.

Foreign Currency Translation

For foreign operations, assets and liabilities are translated at year-end exchange rates and revenues and expenses are translated at the average exchange rates during the year. Gains and losses resulting from foreign currency translation are included in the consolidated statements of equity as a component of AOCI. Currency transaction gains and losses are recorded in other operating expenses in the consolidated statements of income.

Pension and Postretirement Benefit Obligations

Our pension and other postretirement benefit plans are accounted for in accordance with accounting standards for defined benefit pension and other postretirement plans which require costs and the related obligations and assets arising from the pension and other postretirement benefit plans to be accounted for based on actuarially-determined estimates. For additional information, see Note 17. Employee Benefit Plans.

Unpaid Losses and Loss Adjustment Expenses

Unpaid losses and loss adjustment expenses (LAE) are based on estimates of reported losses and historical experience for incurred but unreported claims, including losses reported by other insurance companies for reinsurance assumed, and estimates of expenses for investigating and adjusting all incurred and unadjusted claims. We believe that the provisions for unpaid losses and LAE are adequate to cover the cost of losses and LAE incurred to date. However, such liability is based upon estimates which may change and there can be no assurance that the ultimate liability will not exceed such estimates. Unpaid losses and LAE are continually monitored and reviewed, and as settlements are made or reserves adjusted, differences are included in current operations.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table summarizes the activity in the insurance subsidiaries liability for unpaid losses and LAE (in millions):

	00000	00000	00000
		As of December 31,	
	2011	**2010**	**2009**
Net unpaid losses and LAE at beginning of year	$ 25	$ 22	$ 20
Incurred, net, related to:			
Current year	9	10	12
Prior years	3	7	3
Total net incurred	12	17	15
Paid, net, related to:			
Current year	(5)	(6)	(7)
Prior years	(8)	(8)	(5)
Total net paid	(13)	(14)	(12)
Effect of deconsolidation of subsidiary			(1)
Net unpaid losses and LAE at end of year	24	25	22
Plus: Reinsurance recoverable on unpaid losses	10	9	12
Gross unpaid losses and LAE at end of year	$ 34	$ 34	$ 34

Use of Estimates

The preparation of financial statements requires us to make estimates and assumptions that affect the reported amounts of assets or liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include useful lives of long-lived assets, asset retirement obligations, unbilled service receivables, fair value of financial instruments, fair value of the reporting units for goodwill impairment analysis, fair value of long-lived assets for impairment analysis, renewable energy credits, stock-based compensation, purchase accounting allocations, cash flows and taxable income from future operations, deferred taxes, unpaid losses and LAE, allowances for uncollectible receivables, and liabilities related to pension obligations, employee medical benefit obligations, workers compensation, severance and certain litigation.

Reclassifications

During the year ended December 31, 2011, we corrected our presentation of the consolidated balance sheet at December 31, 2010 to adjust a portion of the excess of purchase price over par value for treasury stock transactions from additional paid-in capital to retained earnings in the years ended December 31, 2010, 2009, and 2008. At December 31, 2010, an aggregate of $80 million increased additional paid-in capital and decreased retained earnings. This change had no impact on total equity.

NOTE 2. RECENT ACCOUNTING PRONOUNCEMENTS

In May 2011, the FASB issued guidance related to amendments to disclosures about fair value measurements. The amendments in this update improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. Generally Accepted Accounting Principles (U.S. GAAP) and International Financial Reporting Standards (IFRS). We are required to adopt this standard for the first quarter of 2012. Early adoption is not permitted. We do not expect this accounting standard to have a material impact on our consolidated financial statements.

In June 2011, the FASB issued guidance related to the presentation of comprehensive income. This guidance eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders equity. The amendments require that all other comprehensive income changes in stockholders equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The guidance does not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. In December 2011, the FASB issued additional guidance which deferred indefinitely the requirement for companies to present reclassification adjustments out of accumulated comprehensive income by component in both the statement where net income is presented and the statement where comprehensive income is presented. The guidance does not affect how earnings per share is calculated

COVANTA HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

or presented. We are required to adopt this standard for the first quarter of 2012, however early adoption is permitted. The amendments should be applied retrospectively. We are currently evaluating the presentational changes to our consolidated financial statements required by this guidance.

In September 2011, the FASB issued guidance related to testing goodwill for impairment. The amendments provide an option to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Under that option, an entity no longer would be required to calculate the fair value of a reporting unit unless the entity determines, based on that qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. We are required to adopt this standard for the first quarter of 2012. We early adopted this guidance, as permitted, during the fourth quarter of 2011. For additional information, see Note 1. Organization and Summary of Significant Accounting Policies.

In December 2011, the FASB and International Accounting Standards Board (IASB) issued joint requirements related to balance sheet disclosures related to offsetting assets and liabilities. Entities are required to disclose both gross information and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting arrangement. This scope would include derivatives, sale and repurchase agreements and reverse sale and repurchase agreements, and securities borrowing and securities lending arrangements. The objective of this disclosure is to facilitate comparison between those entities that prepare their financial statements on the basis of U.S. GAAP and those entities that prepare their financial statements on the basis of IFRS. Disclosures are required to be retrospective for all comparative periods presented. We are required to adopt this standard for the first quarter of 2013. We do not expect this accounting standard to have an impact on our consolidated financial statements.

NOTE 3. BUSINESS DEVELOPMENT, ACQUISITIONS AND DISPOSITIONS

Our growth opportunities include: organic growth, new energy-from-waste and other renewable energy projects, existing project expansions, contract extensions, acquisitions, and businesses ancillary to our existing business, such as additional waste transfer, transportation, processing and disposal businesses. We also intend to maintain a focus on research and development of technologies that we believe will enhance our competitive position, and offer new technical solutions to waste and energy problems that augment and complement our business. The results of operations reflect the period of ownership of the acquired businesses, business development projects and dispositions. The acquisitions in the section below are not material to our consolidated financial statements individually or in the aggregate and therefore, disclosures of pro forma financial information have not been presented.

Development Projects

China Energy-from-Waste Facilities and Joint Ventures

We currently own 85% of Taixing Covanta Yanjiang Cogeneration Co., Ltd. which, in 2009, entered into a 25 year concession agreement and waste supply agreements to build, own and operate a 350 metric tons per day (tpd) energy-from-waste facility for Taixing Municipality, in Jiangsu Province, People s Republic of China. The project, which was built on the site of our existing coal-fired facility in Taixing, supplies steam to an adjacent industrial park under short-term arrangements. We will continue to operate our existing coal-fired facility. The project company has obtained Rmb 165 (approximately $26 million as of December 31, 2011) million in project financing which, together with available cash from existing operations, funded construction costs. The facility began processing waste during the second quarter of 2011.

In 2008, we and Chongqing Iron & Steel Company (Group) Ltd. entered into an agreement to build, own, and operate an 1,800 metric tpd energy-from-waste facility for Chengdu Municipality in Sichuan Province, People s Republic of China. We also executed a 25 year waste concession agreement for this project. In connection with this project, we acquired a 49% equity interest in the project company. Construction commenced in 2009 and the facility began processing waste during the third quarter of 2011. The project company has obtained Rmb 480 million (approximately $76 million as of December 31, 2011) in project financing, of which 49% is guaranteed by us and 51% is guaranteed by Chongqing Iron & Steel Company (Group) Ltd. for one year after operations fully commence.

Durham-York Energy-from-Waste Facility

During 2011, we received the notice to proceed with design, construction and operation of a municipally-owned 140,000 tonne-per-year greenfield energy-from-waste facility to be built in Clarington, Ontario, located in Durham Region, Canada. The facility will process waste from the Regions of Durham and York. The fixed-price construction

COVANTA HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

contract for the project is for approximately C$250 million. The project will be funded and owned by the Durham and York Regions. The project is expected to begin operations during 2014, after which we will operate the facility under a 20 year contract.

Honolulu Energy-from-Waste Facility

We operate and maintain the energy-from-waste facility located in and owned by the City and County of Honolulu, Hawaii. In December 2009, we entered into agreements with the City and County of Honolulu to expand the facility s waste processing capacity from 2,160 tpd to 3,060 tpd and to increase gross electricity capacity from 57 MW to 90 MW. The agreements also extend the contract term by 20 years. The $302 million expansion project is a fixed-price construction contract which is funded and owned by the City and County of Honolulu. The project is expected to begin operations in 2012.

Business Development

Americas

Union County Energy-from-Waste Facility

In December 2011, we amended the waste disposal agreement with the Union County Utilities Authority to extend their terms from 2023 to 2031 and to increase the Union County Utilities Authority s waste disposal commitment.

Niagara Energy-from-Waste Facility

We extended an existing steam sale contract until 2021 and entered into a new steam sale contract that will run from 2011 to 2024; together these contracts represent 35% of the historical steam sold at the facility.

Fairfax County Energy-from-Waste Facility

In August 2010, our service fee contract with Fairfax County was extended from 2011 to 2016 pursuant to a unilateral option held by the County. The terms of the contract remain unchanged under the extension; however, the project debt on the facility was repaid in February 2011, and since Fairfax County had previously paid debt service as a component of the service fee during the term of the original contract, the County will effectively retain the benefit of the debt repayment during the five year extension period.

Huntington Energy-from-Waste Facility

In December, 2010, our service fee contract with the Town of Huntington was extended from 2012 to 2019.

In March 2010, for cash consideration of $2 million, we acquired a nominal limited partnership interest held by a third party in Covanta Huntington Limited Partnership, our subsidiary which owns and operates an energy-from-waste facility in Huntington, New York.

Wallingford Energy-from-Waste Facility

We entered into new tip fee contracts which commenced upon expiration of the existing service fee contract in June 2010. These contracts in total are expected to supply waste utilizing most or all of the facility s capacity through 2020.

Stanislaus County, California Energy-from-Waste Facility

In May 2009, our service fee contract with Stanislaus County was extended from 2010 to 2016.

Tulsa Energy-from-Waste Facility

In 2009, we entered into a new tip fee agreement with the City of Tulsa which expires in 2012 and a new steam contract for a term of 10 years expiring in 2019.

Hempstead Energy-from-Waste Facility

We entered into a new tip fee contract with the Town of Hempstead, New York for a term of 25 years which commenced upon expiration of the previous contract in August 2009. This contract provides approximately 50% of the facility s waste capacity. We also entered into new tip fee contracts with other customers that expire on various dates prior to December 2014. These contracts utilize an additional 40% of the facility s waste capacity.

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COVANTA HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Acquisitions

Dade Metals Recycling Facility

In May 2011, we acquired a metals processing facility located on our Dade energy-from-waste facility site. This facility shreds and processes recovered ferrous scrap metal to enhance marketability and price.

Portfolio of Energy-from-Waste Businesses

We completed the following transactions and acquired businesses which have a combined capacity of 9,600 tpd. Each of the operations acquired included a long-term operating contract with their respective municipal client.

Between August 2009 and February 2010, we acquired one transfer station business and seven energy-from-waste businesses (Burnaby, Dade, Hudson Valley, Long Beach, MacArthur, Plymouth, and York) located in New York, Pennsylvania, California, Florida and British Columbia. Six of the energy-from-waste facilities and the transfer station are publicly-owned facilities. We paid cash consideration of $259 million in August 2009 for six energy-from-waste businesses and one transfer station, and in February 2010, we paid $128 million for the seventh energy-from-waste business. During the fourth quarter of 2010, we paid $2 million as a final post-closing purchase price adjustment.

The businesses acquired in August 2009 included a majority ownership stake in one energy-from-waste facility and in November 2009, we acquired the remaining ownership stake in that facility for cash consideration of $24 million.

The final purchase price allocation included $140 million of property, plant and equipment, $329 million of intangible assets related to long-term operating contracts at each acquired EfW business except for the facility which we own, $27 million related to goodwill and $114 million of assumed debt. The acquired intangible assets will be amortized over an initial average remaining useful facility life of 31 years.

Philadelphia Transfer Stations

In May 2009, we acquired two waste transfer stations with combined capacity of 4,500 tpd in Philadelphia, Pennsylvania for cash consideration of approximately $18 million, inclusive of final working capital adjustments. The final purchase price allocation included $6 million of identifiable intangible assets related primarily to customer relationships and goodwill of $1 million.

Dispositions

Landfill Gas Projects

In 2011, we sold two landfill gas projects located in California and received cash proceeds of approximately $12 million and recorded a gain of $9 million.

Discontinued Operations Independent Power Production Facilities

In 2010, we adopted a plan to sell our interests in our fossil fuel independent power production facilities in the Philippines, India, and Bangladesh. In 2011, we completed the sale of our majority equity interests in a 106 MW (gross) heavy fuel-oil fired electric power generation facility in Tamil Nadu, India (Samalpatti) and our interests in a 106 MW (gross) heavy fuel-oil fired electric power generation facility in Tamil Nadu, India (Madurai). The Madurai assets sold included our entire interest in Covanta Madurai Operating Private Limited, which provided operation and maintenance services to the facility, as well as our approximately 77% ownership interest in the project company, Madurai Power

Corporation Private Ltd. We also completed the sale of our interests in a 510 MW (gross) coal-fired electric power generation facility in the Philippines (Quezon). The Quezon assets sold consisted of our entire interest in Covanta Philippines Operating, Inc., which provided operation and maintenance services to the facility, as well as our 26% ownership interest in the project company, Quezon Power, Inc. During 2011, we received a combined total of cash proceeds of $255 million, net of transaction costs, for our interests in the three fossil fuel independent power production facilities that we have sold. See Note 4. Assets Held for Sale for additional information.

Detroit Energy-from-Waste Facility

In June 2009, our long-term operating contract with the Greater Detroit Resource Recovery Authority (GDRRA) to operate the 2,832 tpd energy-from-waste facility located in Detroit, Michigan (the Detroit Facility) expired.

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COVANTA HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In June 30 2009, we purchased an undivided 30% owner-participant interest in the Detroit Facility for total cash consideration of approximately $8 million and entered into certain agreements for continued operation of the Detroit Facility for a term expiring June 30, 2010. During this one-year period, we were unable to secure an acceptable steam off-take arrangement.

In November 2010, we completed the sale of our entire interest in the Detroit Facility and received consideration of $9 million. We recorded a pre-tax gain of approximately $1 million in connection with this transaction.

NOTE 4. ASSETS HELD FOR SALE

In 2010, we adopted a plan to sell our interests in our fossil fuel independent power production facilities in the Philippines, India, and Bangladesh. As of December 31, 2011, the remaining asset held for sale was our interest in a barge-mounted 126 MW (gross) diesel/natural gas-fired electric power generation facility located near Haripur, Bangladesh. In October 2011, we entered into an agreement to sell our interest in the Haripur project and expect the sale to close in the first quarter of 2012.

The assets and liabilities associated with these businesses are presented in our consolidated balance sheets as Current Assets Held for Sale and Current liabilities Held for Sale . The results of operations of these businesses are included in the consolidated statements of income as Income (loss) earnings from discontinued operations, net of tax. The cash flows of these businesses are also presented separately in our consolidated statements of cash flows.

The following table summarizes the operating results of the discontinued operations for the periods indicated (in millions):

	0000		0000		0000	
			As of December 31,			
		2011		**2010**		**2009**
Revenues	$	84	$	152	$	167
Operating expenses, including net gain on disposal of assets held for sale and loss on assets held for sale (1)	$	54	$	(134)	$	(135)
Income before income tax expense and equity in net income from unconsolidated investments	$	138	$	20	$	34
Equity in net income from unconsolidated investments	$	8	$	24	$	20
Income from discontinued operations, net of income tax expense of $3, $8, and $7, respectively	$	143	$	36	$	46

(1) During the years ended December 31, 2011 and 2010, we recorded a net after-tax gain (loss) on assets held for sale of $119 million and $(8) million, respectively.

The following table sets forth the assets and liabilities of the asset held for sale included in the consolidated balance sheets as of the dates indicated (in millions):

	As of December 31,			
		2011		**2010**
Cash and cash equivalents	$	2	$	14
Restricted funds held in trust				19
Accounts receivable		1		20
Prepaid expenses and other assets				26

Property, plant and equipment				30
Investments in investees and joint ventures		15		81
Other long-term assets				1
Assets held for sale	$	18	$	191
Accounts payable	$		$	3
Accrued expenses and other		3		11
Project debt				16
Other noncurrent liabilities				4
Liabilities held for sale	$	3	$	34

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COVANTA HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 5. EARNINGS PER SHARE AND EQUITY

Earnings Per Share

Per share data is based on the weighted average number of outstanding shares of our common stock, par value $0.10 per share, during the relevant period. Basic earnings per share are calculated using only the weighted average number of outstanding shares of common stock. Diluted earnings per share computations, as calculated under the treasury stock method, include the weighted average number of shares of additional outstanding common stock issuable for stock options, restricted stock, rights and warrants whether or not currently exercisable.

Diluted earnings per share for all the periods presented does not include securities if their effect was anti-dilutive (in millions, except per share amounts).

	0000	0000	0000
	For the Years Ended December 31,		
	2011	**2010**	**2009**
Net income from continuing operations	$ 79	$ 30	$ 61
Net income from discontinued operations	140	32	41
Net income attributable to Covanta Holding Corporation	$ 219	$ 62	$ 102
Basic earnings per share:			
Weighted average basic common shares outstanding	141	153	154
Continuing operations	$ 0.56	$ 0.19	$ 0.39
Discontinued operations	0.99	0.21	0.27
Covanta Holding Corporation	$ 1.55	$ 0.40	$ 0.66
Diluted earnings per share:			
Weighted average basic common shares outstanding	141	153	154
Dilutive effect of stock options			
Dilutive effect of restricted stock	1	1	1
Dilutive effect of convertible debentures			
Dilutive effect of warrants			
Weighted average diluted common shares outstanding	142	154	155
Continuing operations	$ 0.56	$ 0.19	$ 0.39
Discontinued operations	0.98	0.21	0.27
Covanta Holding Corporation	$ 1.54	$ 0.40	$ 0.66
Securities excluded from the weighted average dilutive common shares outstanding because their inclusion would have been antidilutive:			
Stock options	2	2	2

Restricted stock			
Restricted stock units			
Warrants	28	27	25

In 2007, we issued 1.00% Senior Convertible Debentures due 2027 (the Debentures). The Debentures were convertible under certain circumstances if the closing sale price of our common stock exceeds a specified conversion price ($28.20 in any of the periods presented) before February 1, 2025. In connection with the quarterly cash dividend payable on January 5, 2012, the conversion rate for the Debentures was adjusted to 39.7608 shares of our common stock per $1,000 principal amount of the Debentures. The adjusted conversion rate is equivalent to an adjusted conversion price of $25.15 per share and became effective on December 19, 2011. As of December 31, 2011, the Debentures did not have a dilutive effect on earnings per share because the average market price during the periods presented was below the strike price.

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COVANTA HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In 2009, we entered into privately negotiated warrant transactions in connection with the issuance of 3.25% Cash Convertible Senior Notes due 2014 (the 3.25% Notes). These warrants could have a dilutive effect to the extent that the price of our common stock exceeds the applicable strike price of $22.99. As of December 31, 2011, the warrants did not have a dilutive effect on earnings per share because the average market price during the periods presented was below the strike price.

Equity

During the year ended December 31, 2011, we granted 0.8 million restricted stock awards. For information related to stock-based award plans, see Note 18. Stock-Based Award Plans.

In 2011, we declared quarterly cash dividends totaling $0.30 per share and we repurchased 14.4 million shares of our common stock at a weighted average cost of $15.99 per share for an aggregate amount of approximately $230 million. In 2010, we declared a special cash dividend of $1.50 per share and we repurchased 6.1 million shares of our common stock at a weighted average cost of $15.56 per share for an aggregate amount of approximately $95 million.

As of December 31, 2011, there were 158 million shares of common stock issued of which 136 million shares were outstanding; the remaining 22 million shares of common stock issued but not outstanding were held as treasury stock. As of December 31, 2011, there were 3 million shares of common stock reserved and available for future issuance under equity plans.

As of December 31, 2011, there were 10 million shares of preferred stock authorized, with none issued or outstanding. The preferred stock may be divided into a number of series as defined by our Board of Directors. The Board of Directors are authorized to fix the rights, powers, preferences, privileges and restrictions granted to and imposed upon the preferred stock upon issuance.

NOTE 6. FINANCIAL INFORMATION BY BUSINESS SEGMENTS

We have one reportable segment which is Americas and is comprised of waste and energy services operations primarily in the United States and Canada. The results of our reportable segment are as follows (in millions):

	00000 **Americas**	00000 **All Other [1]**	00000 **Total**
Year Ended December 31, 2011:			
Operating revenues	$ 1,608	$ 42	$ 1,650
Depreciation and amortization expense	191	2	193
Operating income (loss)	249	(31)	218
Interest expense, net	38	53	91
Equity in net income from unconsolidated investments		5	5
As of December 31, 2011:			
Total assets (includes goodwill of $232 in the Americas segment)	$ 3,955	$ 430	$ 4,385
Capital additions	100	18	118
Year Ended December 31, 2010:			
Operating revenues	$ 1,541	$ 42	$ 1,583
Depreciation and amortization expense	188	2	190
Write-down of assets	11	23	34
Operating income (loss)	213	(58)	155
Interest expense, net	42	41	83
Equity in net income from unconsolidated investments		2	2
As of December 31, 2010:			
Total assets (includes goodwill of $230 in the Americas segment)	$ 4,235	$ 441	$ 4,676

Capital additions	89	26	115
Year Ended December 31, 2009:			
Operating revenues	$ 1,346	$ 38	$ 1,384
Depreciation and amortization expense	195	2	197
Operating income (loss)	195	(31)	164
Interest expense, net	40	20	60
Equity in net (loss) income from unconsolidated investments	(1)	4	3

(1) All other is comprised of the financial results of our insurance subsidiaries operations and our remaining international assets that are not classified as assets held for sale (See Note 4. Assets Held for Sale).

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COVANTA HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Our operations are principally in the United States. See the list of projects for the Americas segment in *Item 1. Business.* Operations outside of the United States are primarily in Asia, with some projects in Europe and Latin America. A summary of revenues and total assets by geographic area is as follows (in millions):

	0000 **United States**	0000 **Other**	0000 **Total**
Operating Revenues:			
Year Ended December 31, 2011	$ 1,592	$ 58	$ 1,650
Year Ended December 31, 2010	$ 1,541	$ 42	$ 1,583
Year Ended December 31, 2009	$ 1,358	$ 26	$ 1,384

	0000 **United States**	0000 **Assets Held for Sale**	0000 **Other**	0000 **Total**
Total Assets:				
As of December 31, 2011	$ 4,010	$ 18	$ 357	$ 4,385
As of December 31, 2010	$ 4,383	$ 191	$ 102	$ 4,676

NOTE 7. AMORTIZATION OF WASTE, SERVICE AND ENERGY CONTRACTS

Waste, Service and Energy Contracts

Our waste, service and energy contracts are intangible assets and liabilities relating to long-term operating contracts at acquired facilities and are recorded upon acquisition at their estimated fair market values based upon discounted cash flows. Intangible assets and liabilities are amortized using the straight line method over their remaining useful lives, which average approximately 23 years for the waste, service and energy intangible contract assets and 7 years for the waste and service intangible contract liabilities.

Waste, Service and Energy contracts consisted of the following (in millions):

	00000	00000	00000	00000	00000	00000	00000
		As of December 31, 2011			**As of December 31, 2010**		
	Useful Life	**Gross Carrying Amount**	**Accumulated Amortization**	**Net**	**Gross Carrying Amount**	**Accumulated Amortization**	**Net**
Waste, service and energy contracts (asset)	1 36 years	$ 632	$ 198	$ 434	$ 654	$ 182	$ 472
Waste and service contracts (liability)	1 11 years	$ (155)	$ (79)	$ (76)	$ (155)	$ (66)	$ (89)

The following table details the amount of the actual/estimated amortization expense and contra-expense associated with these intangible assets and liabilities as of December 31, 2011 included or expected to be included in our consolidated statements of income for each of the years indicated (in millions):

	Waste, Service and Energy Contracts (Amortization Expense)	Waste and Service Contracts (Contra-Expense)
Year ended December 31, 2011	$ 38	$ (13)
2012	$ 36	$ (13)
2013	32	(12)
2014	29	(12)
2015	26	(8)
2016	22	(8)
Thereafter	289	(23)
Total	$ 434	$ (76)

The weighted average number of years prior to the next renewal period for contracts that we have an intangible recorded is 9 years.

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COVANTA HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 8. OTHER INTANGIBLE ASSETS AND GOODWILL

Other Intangible Assets

Other intangible assets consisted of the following (in millions):

	00000	00000	00000	00000	00000	00000	00000
		As of December 31, 2011			**As of December 31, 2010**		
	Useful Life	**Gross Carrying Amount**	**Accumulated Amortization**	**Net**	**Gross Carrying Amount**	**Accumulated Amortization**	**Net**
Lease interest and other	7 18 years	$ 85	$ 21	$ 64	$ 80	$ 17	$ 63
Landfill (primarily ash)	2 years	18	14	4	18	12	6
Total amortizable intangible assets		103	35	68	98	29	69
Other intangibles	Indefinite	10		10	10		10
Intangible assets, net		$ 113	$ 35	$ 78	$ 108	$ 29	$ 79

The following table details the amount of the actual/estimated amortization expense associated with other intangible assets as of December 31, 2011 included or expected to be included in our statements of income for each of the years indicated (in millions):

	2012	**2013**	**2014**	**2015**	**2016**	**Thereafter**	**Total**
Annual Remaining Amortization	$ 6	$ 6	$ 4	$ 4	$ 4	$ 44	$ 68

Amortization Expense related to other intangible assets was $6 million, $6 million, and $5 million for the years ended December 31, 2011, 2010, and 2009, respectively. Lease interest amortization is recorded as rent expense in plant operating expenses and was $3 million for each of the years ended December 31, 2011, 2010, and 2009.

Goodwill

Goodwill was $232 million and $230 million as of December 31, 2011 and 2010, respectively. Goodwill represents the total consideration paid in excess of the fair value of the net tangible and identifiable intangible assets acquired and the liabilities assumed in acquisitions. Goodwill has an indefinite life and is not amortized but is reviewed for impairment under the provisions of accounting standards for goodwill. We performed the required annual impairment review of our recorded goodwill for our reporting unit using a qualitative assessment as of October 1, 2011 and determined that it was more likely than not that the fair value of our reporting unit was not less than its carrying value and no further assessment was necessary. As of December 31, 2011, goodwill of approximately $41 million was deductible for federal income tax purposes.

The following table details the changes in carrying value of goodwill for the years ended December 31, 2011 and 2010 (in millions):

	0000
	Total
Balance as of December 31, 2009	$ 203

Goodwill related to the acquisition of the EfW businesses (See Note 3)	27
Balance as of December 31, 2010	$ 230
Goodwill related to the acquisition of the Dade Metals Recycling Facility (See Note 3)	2
Balance as of December 31, 2011	$ 232

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COVANTA HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 9. EQUITY METHOD INVESTMENTS

Our subsidiaries are party to joint venture agreements through which we have equity investments in several operating projects. The joint venture agreements generally provide for the sharing of operational control as well as voting percentages. We record our share of earnings from our equity investees in equity in net income from unconsolidated investments in our consolidated statements of income.

As of December 31, 2011 and 2010, investments in investees and joint ventures accounted for under the equity method were as follows (in millions):

	00000	00000	00000	00000
	Ownership Interest as of December 31, 2011	**2011**	**Ownership Interest as of December 31, 2010**	**2010**
Pacific Ultrapower Chinese Station Plant (U.S.)	55%	$ 3	55%	$ 5
South Fork Plant (U.S.)	50%	1	50%	1
Koma Kulshan Plant (U.S.)	50%	5	50%	6
Ambiente 2000 (Italy)	40%	1	40%	1
Sanfeng (China) [(1)]	40%	12	40%	14
Chengdu (China) [(1)]	49%	21	49%	19
Total investments		$ 43		$ 46

(1) See Note 3. Business Development, Acquisitions and Dispositions for a discussion related to these equity investments.

In 2010, we adopted a plan to sell our interests in our fossil fuel independent power production facilities which included our interests in a 510 MW (gross) coal-fired electric power generation facility in the Philippines (Quezon). The Quezon assets sold consisted of our entire interest in Covanta Philippines Operating, Inc., which provided operation and maintenance services to the facility, as well as our 26% ownership interest in the project company, Quezon Power, Inc. For additional information, see Note 3. Business Development, Acquisitions and Dispositions and Note 4. Assets Held for Sale. The following is a summary of the unaudited results of operations and financial position of Quezon for the period of January 1, 2011 to March 25, 2011, the disposal date (in millions):

	00000
Condensed Statement of Operations for the period January 1 to March 25, 2011:	
Revenues	$ 74
Operating income	32
Net income	15
Company s share of net income	4
Condensed Balance Sheet as of March 25, 2011:	
Current assets	$ 161

Noncurrent assets	602
Total assets	763
Current liabilities	107
Noncurrent liabilities	249
Total liabilities	356

NOTE 10. LEASES

Leases are primarily operating leases for leaseholds on energy-from-waste facilities and independent power projects, as well as for trucks and automobiles, office space and machinery and equipment. Some of these operating leases have renewal options. Expense under operating leases was $31 million, $30 million, and $31 million, for the years ended December 31, 2011, 2010, and 2009, respectively.

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COVANTA HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following is a schedule, by year, of future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of December 31, 2011 (in millions):

	2012	2013	2014	2015	2016	Thereafter	Total
Future Minimum Rental Payments	$ 35	$ 26	$ 25	$ 24	$ 24	$ 139	$ 273
Non-Recourse Portion of Future Minimum Rental Payments	$ 21	$ 12	$ 12	$ 12	$ 11	$ 96	$ 164

Future minimum rental payment obligations include $164 million of future non-recourse rental payments that relate to energy-from-waste facilities. Of this amount $87 million is supported by third-party commitments to provide sufficient service revenues to meet such obligations. The remaining $77 million is related to an energy-from-waste facility at which we serve as the operator and directly market one half of the facility s disposal capacity. This facility currently generates sufficient revenues from short-, medium-, and long-term contracts to meet rental payments. We anticipate renewing the contracts or entering into new contracts to generate sufficient revenues to meet remaining future rental payments.

Covanta Delaware Valley, L.P. (Delaware Valley) leases a facility pursuant to an operating lease that expires in July 2019. In certain default circumstances under such lease, Delaware Valley becomes obligated to pay a contractually specified stipulated loss value that declines over time and was approximately $86 million as of December 31, 2011.

NOTE 11. LONG-TERM DEBT

Long-Term Debt

Long-term debt is as follows (in millions):

	As of December 31, 2011	As of December 31, 2010
7.25% Senior Notes due 2020	$ 400	$ 400
3.25% Cash Convertible Senior Notes due 2014	460	460
Debt discount related to 3.25% Cash Convertible Senior Notes	(67)	(91)
Cash conversion option derivative at fair value	49	116
3.25% Cash Convertible Senior Notes, net	442	485
1.00% Senior Convertible Debentures due 2027	25	57
Debt discount related to 1.00% Senior Convertible Debentures		(3)
1.00% Senior Convertible Debentures, net [(1)]	25	54
Term Loan Facility due 2014	619	626
Total	1,486	1,565
Less: current portion	(32)	(7)
Total long-term debt	$ 1,454	$ 1,558

(1) On February 1, 2012, holders of $23 million of outstanding Debentures exercised their option for us to redeem the Debentures at par. We plan to exercise our call option to redeem the remaining $2 million of Debentures during the first quarter of 2012. See additional information below under *1.00% Senior Convertible Debentures*.

Credit Facilities

We have the ability to make investments in our business and to take advantage of opportunities to grow our business through investments and acquisitions, both domestically and internationally, by utilizing Credit Facilities which are comprised of:

- a $300 million revolving credit facility due 2013, which includes a $200 million sub-facility for the issuance of letters of credit (the Revolving Credit Facility);
- a $320 million funded letter of credit facility due 2014 (the Funded L/C Facility); and
- a term loan facility, due 2014, in the initial amount of $650 million and of which $619 million was outstanding as of December 31, 2011 (the Term Loan Facility).

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COVANTA HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of December 31, 2011, we had available credit for liquidity as follows (in millions):

	00000 Total Available Under Facility	00000 Maturing	00000 Outstanding Letters of Credit as of December 31, 2011	00000 Available as of December 31, 2011
Revolving Credit Facility [1]	$ 300	2013	$	$ 300
Funded L/C Facility	$ 320	2014	$ 277	$ 43

(1) Up to $200 million of which may be utilized for letters of credit.

Amortization Terms

The Credit Facilities include mandatory annual amortization of the Term Loan Facility to be paid in quarterly installments through the date of maturity as follows (in millions):

	0000 **2012**	0000 **2013**	0000 **2014**	0000 **Total**
Annual Remaining Amortization	$ 7	$ 7	$ 605	$ 619

Under the Credit Facilities, we are obligated to apply a portion of excess cash from operations on an annual basis (calculated pursuant to the credit agreement), as well as specified other sources, to repay borrowings under the Term Loan Facility. The portion of excess cash (as defined in the credit agreement) to be used for this purpose is 50%, 25%, or 0%, based on measurement of the leverage ratio under the financial covenants.

Interest and Fee Terms

Loans under the Credit Facilities are designated, at our election, as Eurodollar rate loans or base rate loans. Eurodollar loans bear interest at a reserve adjusted British Bankers Association Interest Settlement Rate, commonly referred to as LIBOR, for deposits in dollars plus a borrowing margin as described below. Interest on Eurodollar rate loans is payable at the end of the applicable interest period of one, two, three or six months (and at the end of every three months in the case of six month Eurodollar loans). Base rate loans bear interest at (a) a rate per annum equal to the greater of (1) the prime rate designated in the relevant facility or (2) the Federal Funds rate plus 0.5% per annum, plus (b) a borrowing margin as described below.

Letters of credit that may be issued in the future under the Revolving Credit Facility will accrue fees at the then effective borrowing margins on Eurodollar rate loans (described below), plus a fee on each issued letter of credit payable to the issuing bank. Letter of credit availability under the Funded L/C Facility accrues fees (whether or not letters of credit are issued thereunder) at the then effective borrowing margin for Eurodollar rate loans times the total availability for issuing letters of credit (whether or not then utilized), plus a fee on each issued letter of credit payable to the issuing bank. In addition, we have agreed to pay to the participants under the Funded L/C Facility a fee equal to 0.10% times the average daily amount of the credit linked deposit paid by such participants for their participation under the Funded L/C Facility.

The borrowing margins referred to above for the Credit Facilities are as follows:

	000	000	000	000
Leverage Ratio	**Borrowing Margin for Revolving Credit (Eurodollar Loans)**	**Borrowing Margin for Revolving Credit (Base Rate Loans)**	**Borrowing Margin for Term Loans, Funded Letters of Credit and Credit-Linked Deposits (Eurodollar Loans)**	**Borrowing Margin for Term Loans, Funded Letters of Credit and Credit-Linked Deposits (Base Rate Loans)**
³ 4.00:1.00	2.00%	1.00%	1.75%	0.75%
< 4.00:1.00 and ³ 3.25:1.00	1.75%	0.75%	1.50%	0.50%
< 3.25:1.00 and ³ 2.75:1.00	1.50%	0.50%	1.50%	0.50%
< 2.75:1.00	1.25%	0.25%	1.50%	0.50%

Guarantees and Securitization

The Credit Facilities are guaranteed by us and by certain of our subsidiaries. The subsidiaries that are party to the Credit Facilities agreed to secure all of the obligations under the Credit Facilities by granting, for the benefit of secured parties, a first priority lien on substantially all of their assets, to the extent permitted by existing contractual obligations, a pledge of substantially all of the capital stock of each of our domestic subsidiaries and 65% of substantially all the capital stock of each of our foreign subsidiaries which are directly owned, in each case to the extent not otherwise pledged.

COVANTA HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Credit Facilities Financial Covenants

The loan documentation under the Credit Facilities contains customary affirmative and negative covenants and financial covenants. We were in compliance with all required covenants as of December 31, 2011.

The affirmative covenants of the Credit Facilities include covenants relating to the following:

- financial statements and other reports;
- continued existence;
- payment of taxes and claims;
- maintenance of properties;
- insurance coverage;
- inspections by lenders (subject to frequency and cost reimbursement limitations);
- lenders meetings;
- compliance with laws;
- environmental matters;
- additional material real estate assets;
- designation of subsidiaries; and
- post-closing matters.

The negative covenants of the Credit Facilities include limitations on the following:

- indebtedness (including guarantee obligations);
- liens;
- negative pledge clauses;
- restricted junior payments;
- clauses restricting subsidiary distributions;
- investments;
- fundamental changes;
- disposition of assets;
- acquisitions;
- conduct of business;
- amendments or waivers of certain agreements;
- changes in fiscal year; and
- hedge agreements.

The financial covenants of the Credit Facilities, which are measured on a trailing four quarter period basis, include the following:

- maximum Covanta Energy leverage ratio of 3.50 to 1.00 for the four quarter period ended December 31, 2011 and thereafter, which measures Covanta Energy s principal amount of consolidated debt less certain restricted funds dedicated to repayment of project debt principal and construction costs (Consolidated Adjusted Debt) to its adjusted earnings before interest, taxes, depreciation and amortization, as calculated under the Credit Facilities (Adjusted EBITDA). The definition of Adjusted EBITDA in the Credit Facilities excludes certain non-cash charges, and for purposes of calculating the leverage ratio and interest coverage ratios is adjusted on a pro forma basis for acquisitions and dispositions made during the relevant period.

- maximum Covanta Energy capital expenditures incurred to maintain existing operating businesses of $100 million per fiscal year, subject to adjustment due to an acquisition by Covanta Energy; and
- minimum Covanta Energy interest coverage ratio of 3.00 to 1.00, which measures Covanta Energy s Adjusted EBITDA to its consolidated interest expense plus certain interest expense of ours, to the extent paid by Covanta Energy.

Defaults under the Credit Facilities include:

- non-payment of principal when due;
- non-payment of any amount payable to an issuing bank in reimbursement of any drawing under a letter of credit when due;
- non-payment of interest, fees or other amounts after a grace period of five days;
- cross-default to material indebtedness;

COVANTA HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- violation of a covenant (subject, in the case of certain affirmative covenants, to a grace period of thirty days);
- material inaccuracy of a representation or warranty when made;
- bankruptcy events with respect to us, Covanta Energy or any material subsidiary or group of subsidiaries of Covanta Energy;
- material judgments;
- certain material ERISA events;
- change of control (subject to exceptions for certain of our existing owners);
- failure of subordination; and
- actual or asserted invalidity of any guarantee or security document.

7.25% Senior Notes due 2020 (the 7.25% Notes)

In 2010, we sold $400 million aggregate principal amount of 7.25% Senior Notes due 2020. Interest on the 7.25% Notes is payable semi-annually on June 1 and December 1 of each year, commencing on June 1, 2011 and the 7.25% Notes will mature on December 1, 2020 unless earlier redeemed or repurchased. In 2010, we used $317 million of the net proceeds of the 7.25% Notes offering to purchase 85% of the total outstanding 1.00% Senior Convertible Debentures due 2027 (described below), for an aggregate purchase price of $313 million plus $1 million in accrued and unpaid interest. The remaining net proceeds were used for general corporate purposes. Net proceeds from the sale of the 7.25% Notes were $390 million, consisting of gross proceeds of $400 million net of $10 million in offering expenses.

The 7.25% Notes are senior unsecured obligations, ranking equally in right of payment with all of our existing and future senior unsecured indebtedness and senior to our future subordinated indebtedness. The 7.25% Notes are effectively subordinated to our existing and future secured indebtedness to the extent of the value of the assets securing that indebtedness and to the existing and future indebtedness and other liabilities of our subsidiaries. None of our subsidiaries guarantee the 7.25% Notes. The 7.25% Notes were rated Ba3 by Moody s Investors Service, Inc. and Single-B by Standard & Poor s Ratings Group Inc. at the time of the offering.

The indenture for the 7.25% Notes may limit our ability and the ability of certain of our subsidiaries to:

- incur additional indebtedness;
- pay dividends or make other distributions or repurchase or redeem their capital stock;
- prepay, redeem or repurchase certain debt;
- make loans and investments;
- sell restricted assets;
- incur liens;
- enter into transactions with affiliates;
- alter the businesses they conduct;
- enter into agreements restricting our subsidiaries ability to pay dividends; and
- consolidate, merge or sell all or substantially all of their assets.

If and for so long as the 7.25% Notes have an investment grade rating from both Standard & Poor s Ratings Group Inc. and Moody s Investors Service, Inc. and no default under the indenture has occurred, certain of the covenants will be suspended.

At our option, the 7.25% Notes are subject to redemption at any time on or after December 1, 2015, in whole or in part, at the redemption prices set forth in the indenture, together with accrued and unpaid interest, if any, to the date of redemption. At any time prior to December 1, 2013, we may redeem up to 35% of the original principal amount of the 7.25% Notes with the proceeds of certain equity offerings at a redemption price of 107.25% of the principal amount of the 7.25% Notes, together with accrued and unpaid interest, if any, to the date of redemption. In addition, at any time prior to December 1, 2015, we may redeem some or all of the 7.25% Notes at a price equal to 100% of the principal amount, plus accrued and unpaid interest, plus a make-whole premium.

If we sell certain of our assets or experience specific kinds of changes in control, we must offer to purchase the 7.25% Notes. The occurrence of specific kinds of changes in control will be a triggering event requiring us to offer to purchase from the holders all or a portion of the 7.25% Notes at a price equal to 101% of the principal amount, together with accrued and unpaid interest, if any, to the date of purchase. In addition, certain asset dispositions will be triggering events that may require us to use the proceeds from those asset dispositions to make an offer to purchase the 7.25% Notes at 100% of the principal amount, together with accrued and unpaid interest, if any, to the date of purchase if such proceeds are not otherwise used within 365 days to repay indebtedness or to invest or commit to invest such proceeds in additional assets related to our business or capital stock of a restricted subsidiary.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3.25% Cash Convertible Senior Notes due 2014 (the 3.25% Notes)

In 2009, we issued $460 million aggregate principal amount of the 3.25% Notes due in 2014 in a private transaction exempt from registration under the Securities Act of 1933, as amended. We have used the net proceeds from the offering for general corporate purposes, including capital expenditures, permitted investments or permitted acquisitions.

The 3.25% Notes constitute general unsecured senior obligations and rank equally in right of payment with our existing and future senior unsecured indebtedness. The 3.25% Notes are effectively junior to our existing and future secured indebtedness to the extent of the value of the assets securing such indebtedness. The 3.25% Notes are not guaranteed by any of our subsidiaries and are effectively subordinated to all existing and future indebtedness and liabilities (including trade payables) of our subsidiaries.

Interest for the 3.25% Notes is payable semi-annually in arrears, on June 1 and December 1 of each year, commencing on December 1, 2009 until they mature on June 1, 2014. Under limited circumstances, we may be required to pay contingent interest on the 3.25% Notes as a result of failure to comply with the reporting obligations in the indenture, failure to file required Securities and Exchange Commission documents and reports or if the holders cannot freely trade the 3.25% Notes. When applicable, the contingent interest payable per $1,000 principal amount of 3.25% Notes ranges from 0.25% to 0.50% per annum over the applicable term as provided under the indenture for the 3.25% Notes. The contingent interest features of the 3.25% Notes are embedded derivative instruments. The fair value of the contingent interest features of the 3.25% Notes was $0 as of December 31, 2011.

Under limited circumstances, the 3.25% Notes are convertible by the holders thereof into cash only, based on a conversion rate of 60.3521 shares of our common stock per $1,000 principal amount of 3.25% Notes (which represents a conversion price of approximately $16.57 per share) subject to certain customary adjustments as provided in the indenture for the 3.25% Notes. We will not deliver common stock (or any other securities) upon conversion under any circumstances. Holders may convert their 3.25% Notes only under the following circumstances:

- prior to March 1, 2014, on any date during any fiscal quarter commencing at any time after June 30, 2009 and only during such fiscal quarter if the closing sale price of our common stock for at least 20 trading days during the period of 30 consecutive trading days ending on the last trading day of the immediately preceding fiscal quarter is greater than or equal to 130% of the then effective conversion price; or
- upon the occurrence of specified corporate transactions (as provided in the indenture for the 3.25% Notes); or
- upon certain fundamental changes (as defined in the indenture for the 3.25% Notes in which case the conversion rate will be increased as provided in the indenture); or
- during the five consecutive business day period following any five consecutive trading day period in which the trading price for the 3.25% Notes for each day during such five day period was less than 95% of the product of the closing sale price of our common stock on such day multiplied by the then effective conversion rate; or
- at any time on or after March 1, 2014.

The 3.25% Notes are also subject to repurchase by us, at the holder s option, if a fundamental change occurs, for cash at a repurchase price equal to 100% of the principal amount of the 3.25% Notes, plus accrued and unpaid interest (including contingent interest, if any).

The 3.25% Notes are recognized as long-term debt in our consolidated financial statements. The difference between the face value of the 3.25% Notes ($460 million as of the date of issuance of the 3.25% Notes) and the amount recognized in the financial statements ($336 million as of the date of the issuance of the 3.25% Notes) is the debt discount ($124 million as of the date of the issuance of the 3.25% Notes) which is accreted to the 3.25% Notes over their life and recognized as non-cash convertible debt related expense. For the years ended December 31, 2011, 2010 and 2009, the pre-tax non-cash convertible debt related expense recognized in our consolidated statements of income related to the 3.25% Notes was $24 million, $21 million and $12 million, respectively. The amount of the debt discount accretion expected to be included in our consolidated financial statements is $26 million, $29 million and $13 million for the years ended December 31, 2012, 2013, and 2014, respectively.

The 3.25% Notes are convertible into cash only, and therefore the cash conversion option that is part of the 3.25% Notes is accounted for as a derivative. The initial valuation of the cash conversion option (the Cash Conversion Option) is an embedded derivative of $124 million, which is recognized as long-term debt in our consolidated financial statements. The Cash Conversion Option is recorded at fair value quarterly with any change in fair value being recognized in our consolidated statements of income as non-cash convertible debt related expense. As of

COVANTA HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2011, the fair value of the Cash Conversion Option was $49 million. See Note 13. Financial Instruments and Note 14. Derivative Instruments for additional information regarding the Cash Conversion Option.

In connection with the 3.25% Notes offering, we entered into privately negotiated cash convertible note hedge transactions (the Note Hedge) with affiliates of certain of the initial purchasers of the 3.25% Notes (the Option Counterparties) that are expected to reduce our exposure to potential cash payments in excess of the principal amount of the 3.25% Notes that may be required to be made by us upon the cash conversion of the 3.25% Notes. The Note Hedge consisted of our purchase for $112 million of cash settled call options on our common stock (initially correlating to the same number of shares as those initially underlying the 3.25% Notes subject to generally similar customary adjustments) that have economic characteristics similar to those of the Cash Conversion Option embedded in the 3.25% Notes. The Note Hedge was recorded as a noncurrent asset in our consolidated financial statements for $112 million. The Note Hedge is also accounted for as a derivative instrument and as such, is recorded at fair value quarterly with any change in fair value being recognized in our consolidated statements of income as non-cash convertible debt related expense. As of December 31, 2011, the fair value of the Note Hedge was $47 million. See Note 13. Financial Instruments and Note 14. Derivative Instruments for additional information regarding the Note Hedge.

We expect the gain or loss associated with changes to the valuation of the Note Hedge to substantially offset the gain or loss associated with changes to the valuation of the Cash Conversion Option. However, they will not be completely offsetting as a result of changes in the credit spreads of the Option Counterparties.

In connection with the 3.25% Notes offering, we also sold warrants (the Warrants) to the Option Counterparties, in privately negotiated transactions, initially correlating to the same number of shares as those initially underlying the 3.25% Notes, which could have a dilutive effect to the extent that the market price of our common stock exceeds the then effective strike price of the Warrants. The Warrants were sold for aggregate proceeds of $54 million. The strike price of the Warrants was approximately $25.74 per share and was subject to customary adjustments. As a result of cash dividends paid since the Warrants were issued, the conversion rate for the Warrants has been adjusted to $22.99. The Warrants are exercisable only at expiration in equal tranches over 60 days beginning on September 2, 2014 and ending on November 26, 2014. The Warrants are only net share settled which means that, with respect to any exercise date, we will deliver to the Warrant holders a number of shares for each warrant equal to the excess (if any) of the volume weighted average price of the shares on the exercise date over the then effective strike price of the Warrants, divided by such volume weighted average price of the shares, with a cash payment in lieu of fractional shares. Accordingly, the Warrants were recorded as additional paid-in capital in our consolidated financial statements for $54 million. The Warrant transactions meet the definition of an equity derivative under current accounting principles because they were indexed to our common stock. As such, the Warrants were recorded at their fair value upon their issuance in 2009 within equity in our consolidated balance sheet and are not re-measured at fair value on a quarterly basis.

Net proceeds from the above transactions were $387 million, consisting of gross proceeds of $460 million from the 3.25% Notes and $54 million of proceeds from the Warrants, less the $112 million purchase price for the Note Hedge and $14 million of purchase discounts and other offering expenses.

The Note Hedge transactions and the Warrant transactions are separate transactions, each of which we have entered into with the Option Counterparties, and are not part of the terms of the Notes and will not affect any rights of holders under the 3.25% Notes. Holders of the 3.25% Notes do not have any rights with respect to the Note Hedge transactions or Warrant transactions.

1.00% Senior Convertible Debentures due 2027 (the Debentures)

In 2007, we completed an underwritten public offering of $374 million aggregate principal amount of Debentures. In November 2010, we commenced a tender offer to purchase for cash any and all of our outstanding 1.00% Senior Convertible Debentures due 2027. We offered to purchase the Debentures at a purchase price of $990 for each $1,000 principal amount of Debentures, plus accrued and unpaid interest. During the year ended December 31, 2011 and 2010, $32 million and $317 million, respectively, of the Debentures were purchased. We used a portion of the net proceeds of the 7.25% Note offering discussed above to fund the purchase price and accrued and unpaid interest of the Debentures. As of December 31, 2011, there were $25 million aggregate principal amount of the Debentures outstanding.

At our option, the Debentures are subject to redemption at any time on or after February 1, 2012, in whole or in part, at a redemption price equal to 100% of the principal amount of the Debentures being redeemed, plus accrued and

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

unpaid interest (including contingent interest, if any). On February 1, 2012, holders of $23 million of outstanding Debentures exercised their option for us to redeem the Debentures at par. We plan to exercise our call option to redeem the remaining $2 million of Debentures during the first quarter of 2012.

Loss on Extinguishment of Debt

For the years ended December 31, 2011 and 2010, as a result of the tender offer to purchase outstanding Debentures, we recorded a loss on extinguishment of debt of $1 million and $15 million, respectively, pre-tax, which was comprised of the difference between the fair value and carrying value of the liability component of the Debentures tendered, a write off of deferred financing costs and fees incurred in conjunction with the tender offer. In 2010, we also reduced additional paid-in-capital by $8 million, pre-tax, which represented the difference between the amount paid in the tender offer and the fair value of the liability.

Financing Costs

All deferred financing costs are amortized to interest expense over the life of the related debt using the effective interest method. Amortization of deferred financing costs is included as a component of interest expense and was $6 million, $7 million, and $5 million for the years ended December 31, 2011, 2010, and 2009, respectively.

NOTE 12. PROJECT DEBT

Project debt is presented below (in millions):

	0000	0000
	As of December 31,	
	2011	**2010**
Americas Project Debt related to Service Fee structures		
3.00-6.25% serial revenue bonds due 2012 through 2019	$ 148	$ 232
3.7-7.0% term revenue bonds due 2012 through 2022	141	161
5.248% other debt obligations due 2012 through 2020	2	2
Subtotal	291	395
Unamortized debt premium, net	4	7
Total Service Fee structure related project debt	295	402
Americas Project Debt related to Tip Fee structures		
5.10-6.70% serial revenue bonds due 2012 through 2019	134	163
5.450-8.375% term revenue bonds due 2012 through 2019	221	223
Subtotal	355	386
Unamortized debt premium, net	4	5
Total Tip Fee structure related project debt	359	391
Other Project Debt	26	10

Total project debt		680		803
Less: Current project debt (includes $3 and $5 of unamortized premium, respectively)		(147)		(141)
Noncurrent project debt	$	533	$	662

On December 1, 2010, one of our client communities refinanced project debt ($30 million outstanding) with the proceeds from new bonds and cash on hand. As a result of the refinancing, the client community issued $28 million tax exempt bonds bearing interest from 2% to 4% due 2015 in order to pay down the existing project debt. Consistent with other private, non-tip fee structures, the client community will pay us debt service revenue equivalent to the principal and interest on the bonds.

On June 1, 2010, we elected to repurchase $43 million of project bonds (issued in connection with our Hempstead facility) under a mandatory tender. The bonds were simultaneously amended to extend their final maturity from December 1, 2010 to June 1, 2015. As a result of this transaction, the bonds have been reflected as repaid in the consolidated financial statements, but may be remarketed to third party investors at any time. In the event we effect such a remarketing, the aggregate amount of our project debt would be increased accordingly.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The maturities of long-term project debt as of December 31, 2011 are as follows (in millions):

	0000	0000	0000	0000	0000	0000	0000	0000	0000
	2012	**2013**	**2014**	**2015**	**2016**	**Thereafter**	**Total**	**Less: Current Portion**	**Total Noncurrent Project Debt**
Debt	$ 144	$ 129	$ 120	$ 95	$ 42	$ 143	$ 673	$ (144)	$ 529
Premium	3	2	1	1			7	(3)	4
Total	$ 147	$ 131	$ 121	$ 96	$ 42	$ 143	$ 680	$ (147)	$ 533

Project debt associated with the financing of energy-from-waste facilities is arranged by municipal entities through the issuance of tax-exempt and taxable revenue bonds or other borrowings. For those facilities we own, that project debt is recorded as a liability on our consolidated financial statements. Generally, debt service for project debt related to Service Fee Structures is the primary responsibility of municipal entities, whereas debt service for project debt related to Tip Fee structures is paid by our project subsidiary from project revenue expected to be sufficient to cover such expense.

Payment obligations for our project debt associated with energy-from-waste facilities are limited recourse to the operating subsidiary and non-recourse to us, subject to operating performance guarantees and commitments. These obligations are secured by the revenues pledged under various indentures and are collateralized principally by a mortgage lien and a security interest in each of the respective energy-from-waste facilities and related assets. As of December 31, 2011, such revenue bonds were collateralized by property, plant and equipment with a net carrying value of $2 billion and restricted funds held in trust of approximately $167 million.

Other project debt includes $26 million due to financial institutions denominated in Rmb, relating to the construction of a 350 tpd energy-from-waste line in Taixing Municipality, in Jiangsu Province, People s Republic of China. The debt bears a floating interest rate based on a 5% discount on the benchmark interest rate (for loans with repayment period terms of five years or more) announced by the People s Bank of China. As of December 31, 2011, the benchmark interest rate is 7.05% and the interest rate applicable to the outstanding loan was 6.70%. The construction related debt is payable in scheduled annual installments until 2019. The entire debt is secured by the project assets for the entire term of the loan and is backed by a guarantee from Covanta Energy Asia Pacific Holdings, Limited (China) effective until one year after maturity date of the loan.

NOTE 13. FINANCIAL INSTRUMENTS

Fair Value Measurements

Authoritative guidance associated with fair value measurements provides a framework for measuring fair value and establishes a fair value hierarchy that prioritizes the inputs used to measure fair value, giving the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs). The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

For cash and cash equivalents, restricted funds, and marketable securities, the carrying value of these amounts is a reasonable estimate of their fair value. The fair value of restricted funds held in trust is based on quoted market prices of the investments held by the trustee.

Fair values for long-term debt and project debt are determined using quoted market prices.

The fair value of the Note Hedge and the Cash Conversion Option are determined using an option pricing model based on observable inputs such as implied volatility, risk free rate, and other factors. The fair value of the Note Hedge is adjusted to reflect counterparty risk of non-performance, and is based on the counterparty s credit spread in the credit derivatives market. The contingent interest features related to the Debentures and the Notes are valued quarterly using the present value of expected cash flow models incorporating the probabilities of the contingent events occurring.

The estimates presented herein are not necessarily indicative of the amounts that we would realize in a current market exchange. The fair-value estimates presented herein are based on pertinent information available to us as of December 31, 2011. However, such amounts have not been comprehensively revalued for purposes of these financial statements since December 31, 2011, and current estimates of fair value may differ significantly from the amounts presented herein.

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The following table presents information about the fair value measurement of our assets and liabilities as of December 31, 2011:

	00000	00000	00000	00000	00000
			Fair Value Measurements at Reporting Date Using		
	As of December 31, 2011				
Financial Instruments Recorded at Fair Value on a Recurring Basis:	**Carrying Amount**	**Estimated Fair Value**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
			(In millions)		
Assets:					
Cash and cash equivalents:					
Bank deposits and certificates of deposit	$ 225	$ 225	$ 225	$	$
Money market funds	7	7	7		
Total cash and cash equivalents:	232	232	232		
Restricted funds held in trust:					
Bank deposits and certificates of deposit	5	5	5		
Money market funds	119	119	119		
U.S. Treasury/Agency obligations (1)	15	15	15		
State and municipal obligations	7	7	7		
Commercial paper/Guaranteed investment contracts/Repurchase agreements	45	45	45		
Total restricted funds held in trust:	191	191	191		
Restricted funds other:					
Bank deposits and certificates of deposit (2)(3)	5	5	5		
Money market funds (3)	7	7	7		
Residential mortgage-backed securities (3)	1	1	1		
Total restricted funds other:	13	13	13		
Investments:					
Mutual and bond funds (2)	2	2	2		
Investments available for sale:					
U.S. Treasury/Agency obligations (4)	8	8	8		
Residential mortgage-backed securities (4)	7	7	7		
Other government obligations (4)	3	3	3		
Corporate investments (4)	13	13	13		
Equity securities (3)	1	1	1		
Total investments:	34	34	34		
Derivative Asset Note Hedge	47	47		47	
Derivative Asset Energy Hedges	3	3		3	

Total assets:	$ 520	$ 520	$ 470	$ 50	$
Liabilities:					
Derivative Liability Cash Conversion Option	$ 49	$ 49	$	$ 49	$
Derivative Liabilities Contingent interest features of the 3.25% Notes and Debentures	0	0		0	
Total liabilities:	$ 49	$ 49	$	$ 49	$

	00000	00000
	As of December 31, 2011	
Financial Instruments Recorded at Carrying Amount:	**Carrying Amount**	**Estimated Fair Value**
Assets:		
Accounts receivables [(5)]	$ 274	$ 274
Liabilities:		
Long-term debt (excluding Cash Conversion Option)	$ 1,437	$ 1,470
Project debt	$ 680	$ 693

(1) The U.S. Treasury/Agency obligations in restricted funds held in trust are primarily comprised of Federal Home Loan Mortgage Corporation securities at fair value.

(2) Included in other noncurrent assets in the consolidated balance sheets.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(3) Included in prepaid expenses and other current assets in the consolidated balance sheets.
(4) Included in investments in fixed maturities at market in the consolidated balance sheets.
(5) Includes $17 million of noncurrent receivables in other noncurrent assets in the consolidated balance sheets.

The following table presents information about the fair value measurement of our assets and liabilities as of December 31, 2010:

	00000	00000	00000	00000	00000
			Fair Value Measurements at Reporting Date Using		
	As of December 31, 2010				
Financial Instruments Recorded at Fair Value on a Recurring Basis:	**Carrying Amount**	**Estimated Fair Value**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
			(In millions)		
Assets:					
Cash and cash equivalents:					
Bank deposits and certificates of deposit	$ 48	$ 48	$ 48	$	$
Money market funds	78	78	78		
Total cash and cash equivalents:	126	126	126		
Restricted funds held in trust:					
Bank deposits and certificates of deposit	4	4	4		
Money market funds	117	117	117		
U.S. Treasury/Agency obligations (1)	56	56	56		
State and municipal obligations	7	7	7		
Commercial paper/Guaranteed investment contracts/Repurchase agreements	49	49	49		
Total restricted funds held in trust:	233	233	233		
Restricted funds other:					
Bank deposits and certificates of deposit (2)	22	22	22		
Money market funds (3)	11	11	11		
Residential mortgage-backed securities (3)	1	1	1		
Other government obligations (3)	1	1	1		
Corporate investments (3)	1	1	1		
Total restricted funds other:	36	36	36		
Investments:					
Mutual and bond funds (2)	3	3	3		
Investments available for sale:					
U.S. Treasury/Agency obligations (4)	6	6	6		
Residential mortgage-backed securities (4)	5	5	5		
Other government obligations (4)	2	2	2		
Corporate investments (4)	16	16	16		

Equity securities [3]	1	1	1		
Total investments:	33	33	33		
Derivative Asset Note Hedge	112	112		112	
Total assets:	$ 540	$ 540	$ 428	$ 112	$
Liabilities:					
Derivative Liability Energy Hedges	$ 1	$ 1	$	$ 1	$
Derivative Liability Cash Conversion Option	116	116		116	
Derivative Liabilities Contingent interest features of the 3.25% Notes and Debentures	0	0		0	
Total liabilities:	$ 117	$ 117	$	$ 117	$

	00000	**00000**
	As of December 31, 2010	
Financial Instruments Recorded at Carrying Amount:	**Carrying Amount**	**Estimated Fair Value**
Assets:		
Accounts receivables [5]	$ 293	$ 293
Liabilities:		
Long-term debt (excluding Cash Conversion Option)	$ 1,448	$ 1,497
Project debt	$ 803	$ 823

(1) The U.S. Treasury/Agency obligations in restricted funds held in trust are primarily comprised of Federal Home Loan Mortgage Corporation securities at fair value.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(2) Included in other noncurrent assets in the consolidated balance sheets.
(3) Included in prepaid expenses and other current assets in the consolidated balance sheets.
(4) Included in investments in fixed maturities at market in the consolidated balance sheets.
(5) Includes $25 million of noncurrent receivables in other noncurrent assets in the consolidated balance sheets.

Investments

Our insurance subsidiaries fixed maturity debt and equity securities portfolio are classified as available-for-sale and are carried at fair value. Other investments, such as investments in companies in which we do not have the ability to exercise significant influence, are carried at the lower of cost or estimated realizable value. For accounting policy information related to investments, see Note 1. Organization and Summary of Significant Accounting Policies.

The cost or amortized cost, unrealized gains, unrealized losses and the fair value of our investments categorized by type of security, were as follows (in millions):

	00000	00000	00000	00000	00000	00000	00000	00000
	As of December 31, 2011				As of December 31, 2010			
	Cost or Amortized Cost	Unrealized Gain	Unrealized Loss	Fair Value	Cost or Amortized Cost	Unrealized Gain	Unrealized Loss	Fair Value
Current investments:								
Fixed maturities	$	$	$	$	$	$	$	$
Equity securities - insurance business	1			1	1			1
Total current investments	$ 1	$	$	$ 1	$ 1	$	$	$ 1
Noncurrent investments:								
Fixed maturities - insurance business:								
U.S. government obligations	$	$	$	$	$	$	$	$
U.S. government agencies	8			8	6			6
Residential mortgage-backed securities	7			7	5			5
Other government obligations	3			3	2			2
Corporate investments	13			13	15	1		16
Total fixed maturities - insurance business	31			31	28	1		29
Mutual and bond funds	2			2	3			3
Total noncurrent investments	$ 33	$	$	$ 33	$ 31	$ 1	$	$ 32

The following table sets forth a summary of temporarily impaired investments held by our insurance subsidiary (in millions):

	00000	00000	00000	00000
	As of December 31, 2011		As of December 31, 2010	
Description of Investments				

	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury and other direct U.S. Government obligations	$	$	$ 1	$
Residential mortgage-backed securities	4		2	
Other government obligations	1		1	
Corporate bonds	6		4	
Total fixed maturities	11		8	
Equity securities				
Total temporarily impaired investments	$ 11	$	$ 8	$

As of December 31, 2011, the number of U.S. Treasury and federal agency obligations, other government obligations, mortgage-backed securities, and corporate bonds temporarily impaired are 0, 2, 5 and 17, respectively. As of December 31, 2011, all of the temporarily impaired fixed maturity investments with a fair value of $11 million had maturities greater than 12 months.

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COVANTA HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Our fixed maturities held by our insurance subsidiary include mortgage-backed securities and collateralized mortgage obligations, collectively (MBS) representing 21.8% and 15.4% of the total fixed maturities as of December 31, 2011 and 2010, respectively. Our MBS holdings are issued by the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, or the Government National Mortgage Association all of which are rated AAA by Moody s Investors Services. MBS and callable bonds, in contrast to other bonds, are more sensitive to market value declines in a rising interest rate environment than to market value increases in a declining interest rate environment.

The expected maturities of fixed maturity securities, by amortized cost and fair value are shown below (in millions):

	0000000000	0000000000
	As of December 31, 2011	
	Amortized Cost	Fair Value
Available-for-sale:		
One year or less	$ 4	$ 4
Over one year to five years	20	20
Over five years to ten years	7	7
More than ten years		
Total fixed maturities	$ 31	$ 31

The change in net unrealized gain on securities included as a separate component of AOCI in the consolidated statements of equity was not material for the year ended December 31, 2011, 2010 and 2009.

NOTE 14. DERIVATIVE INSTRUMENTS

The following disclosures summarize the fair value of derivative instruments not designated as hedging instruments in the consolidated balance sheets and the effect of changes in fair value related to those derivative instruments on the consolidated statements of income (in millions).

	0000000	0000000	0000000
Derivative Instruments Not Designated		**Fair Value as of December 31,**	
As Hedging Instruments	**Balance Sheet Location**	**2011**	**2010**
Asset Derivatives:			
Note Hedge	Other noncurrent assets	$ 47	$ 112
Liability Derivatives:			
Cash Conversion Option	Long-term debt	$ 49	$ 116
Contingent interest features of the Debentures and 3.25% Notes	Other noncurrent liabilities	$ 0	$ 0

00000	00000	00000	00000
Effect on Income of Derivative Instruments Not Designated As Hedging Instruments	**Location of Gain or (Loss) Recognized in Income on Derivatives**	**Amount of Gain or (Loss) Recognized In Income on Derivative For the Years Ended December 31,**	

		2011	2010	2009
Note Hedge	Non-cash convertible debt related expense	$ (65)	$ (11)	$ 11
Cash Conversion Option	Non-cash convertible debt related expense	67	12	(4)
Contingent interest features of the 3.25% Notes and Debentures	Non-cash convertible debt related expense			
Interest rate swap	Non-cash convertible debt related expense			
Effect on income of derivative instruments not designated as hedging instruments		$ 2	$ 1	$ 7

Cash Conversion Option, Note Hedge and Contingent Interest features related to the 3.25% Cash Convertible Senior Notes

The Cash Conversion Option is a derivative instrument which is recorded at fair value quarterly with any change in fair value being recognized in our consolidated statements of income as non-cash convertible debt related expense. The Note Hedge is accounted for as a derivative instrument and as such, is recorded at fair value quarterly with any change in fair value being recognized in our consolidated statements of income as non-cash convertible debt related expense.

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COVANTA HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

We expect the gain or loss associated with changes to the valuation of the Note Hedge to substantially offset the gain or loss associated with changes to the valuation of the Cash Conversion Option. However, they will not be completely offsetting as a result of changes in the credit valuation adjustment related to the Note Hedge. Our most significant credit exposure arises from the Note Hedge. The fair value of the Note Hedge reflects the maximum loss that would be incurred should the Option Counterparties fail to perform according to the terms of the Note Hedge agreement. See Note 11. Long-Term Debt for specific details related to the Cash Conversion Option, Note Hedge and contingent interest features of the 3.25% Notes.

Contingent Interest feature of the 1.00% Senior Convertible Debentures

The contingent interest feature in the Debentures is an embedded derivative instrument. The first contingent cash interest payment period commenced on February 1, 2012, and the fair value for the embedded derivative was $0 as of December 31, 2011. See Note 22. Subsequent Events for information related to the repurchase of outstanding Debentures.

Energy Price Risk

Following the expiration of certain long-term energy sales contracts, we may have exposure to market risk, and therefore revenue fluctuations, in energy markets. We have entered into contractual arrangements that will mitigate our exposure to this volatility through a variety of hedging techniques, and will continue to do so in the future. Our efforts in this regard will involve only mitigation of price volatility for the energy we produce, and will not involve speculative energy trading. Consequently, we have entered into swap agreements with various financial institutions to hedge our exposure to market risk. As of December 31, 2011, the fair value of the energy derivatives of $3 million, pre-tax, was recorded as a current asset and as a component of AOCI.

Interest Rate Swaps

On August 20, 2009, one of our client communities refinanced project debt ($64 million outstanding) and we terminated a related interest rate swap ($10 million liability) with the proceeds from new bonds and cash on hand. Prior to this refinancing, we had an interest rate swap agreement related to the existing project debt that economically fixed the interest rate on the adjustable-rate revenue bonds. Any payments made or received under the swap agreement, including amounts upon termination, were included as an explicit component of the client community s obligation under the related service agreement. Therefore, all payments made or received under the swap agreement were a pass through to the client community. The swap agreement resulted in increased debt service expense, which is a pass through to the client community, of $2 million for the year ended December 31, 2009.

NOTE 15. SUPPLEMENTARY INFORMATION

Other Operating Expenses

The components of other operating expenses are as follows (in millions):

	000000	000000	000000
	For the Years Ended December 31,		
	2011	2010	2009
Construction expense	$ 143	$ 101	$ 27
Insurance subsidiary operating expenses [1]	16	23	21
Gain on the sale of businesses	(9)		
Insurance recoveries	(5)	(1)	
Development costs	5		
Foreign exchange gain	(5)	(1)	

Other		(2)		(2)		
Total other operating expenses	$	143	$	120	$	48

(1) Insurance subsidiary operating expenses are primarily comprised of incurred but not reported loss reserves, loss adjustment expenses and policy acquisition costs.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Write-down of Assets

Americas

Harrisburg Energy-from-Waste Facility

In 2008, we entered into a ten year agreement with The Harrisburg Authority to maintain and operate an 800 tpd energy-from-waste facility located in Harrisburg, Pennsylvania. We also agreed to provide construction management services and to advance up to $26 million in funding to The Harrisburg Authority for certain facility improvements required to enhance facility performance, which improvements were substantially completed during 2010. The repayment of this funding is guaranteed by the City of Harrisburg, but is otherwise unsecured, and is junior to project bondholders rights. We had advanced $22 million, of which $20 million was outstanding as of December 31, 2010 under this funding arrangement. On October 5, 2010, we filed suit against the City of Harrisburg in the Dauphin County Court of Common Pleas seeking to enforce our rights under the City s guaranty. On December 15, 2010, the City of Harrisburg was formally admitted to the State oversight program for distressed municipalities known as Act 47. In 2010, we recorded a non-cash impairment charge of $7 million, pre-tax, to write-down the receivable to $13 million, which was calculated based on a range of potential outcomes utilizing various estimated cash flows for the receivable. In October 2011, the City of Harrisburg filed for protection under the bankruptcy laws. In November 2011, the bankruptcy court dismissed the filing, and the City appealed the dismissal. The City s appeal was denied in February 2012. We intend to continue to pursue our lawsuit in parallel with efforts to work with the City of Harrisburg and other stakeholders to protect the full recovery of our advance and to maintain our position in the project.

Other Assets

During the year ended December 31, 2010, we recorded a non-cash impairment charge of $4 million which is comprised primarily of the write-down of real estate for our corporate office and certain project assets to estimated fair value.

Other

Dublin Joint Venture

In 2007, we entered into agreements to build, own, and operate a 1,700 metric tpd energy-from-waste project serving the City of Dublin, Ireland and surrounding communities at an estimated cost of 350 million. Dublin Waste to Energy Limited, which we control and co-own with DONG Energy Generation A/S, developed the project and has a 25 year tip fee type contract to provide disposal service for 320,000 metric tons of waste annually, representing approximately 50% of the facility s processing capacity. The project was expected to sell electricity into the local electricity grid, at rates partially supported by a preferential renewable tariff. While the primary approvals and licenses for the project have been obtained, the longstop date for acquiring necessary property rights and achieving certain other conditions precedent under the project agreement expired in September 2010, without the satisfaction of all the conditions precedent. The parties will need to agree to proceed and are currently working toward addressing the current project issues. We recorded a non-cash impairment charge of $23 million, pre-tax, during the year ended December 31, 2010, reducing the carrying value of the net assets to the present value of the expected cash flows to be recovered (Level 3 measure of fair value). This charge was comprised of the entire capitalized pre-construction and construction costs for the project, net of approximately $8 million in recoverable assets net of liabilities, of which approximately $6 million remain on the consolidated balance sheet as of December 31, 2011 and primarily related to recoverable premiums under project insurance.

Non-cash convertible debt related expense

The components of non-cash convertible debt related expense are as follows (in millions):

	00000	00000	00000

	For the Years Ended December 31,		
	2011	2010	2009
Debt discount accretion related to the 3.25% Notes	$ 24	$ 21	$ 12
Debt discount accretion related to the Debentures	3	19	19
Fair value changes related to the Note Hedge	65	11	(11)
Fair value changes related to the Cash Conversion Option	(67)	(12)	4
Total non-cash convertible debt related expense	$ 25	$ 39	$ 24

Other Expenses, Net

For the year ended December 31, 2011, other expenses, net included a $15 million expense for a liability to pre-petition claimants and a $4 million foreign currency loss related to intercompany loans. See Note 16. Income Taxes for additional information related to the liability to pre-petition claimants.

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COVANTA HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Selected Supplementary Balance Sheet Information

Selected supplementary balance sheet information is as follows (in millions):

	00000	00000
	As of December 31,	
	2011	**2010**
Note Hedge (Note 11)	$ 47	$ 112
Prepaid expenses	86	61
Land use rights and capitalized development costs (1)	65	53
Reinsurance recoverable on unpaid losses (Note 1)	10	9
Other	57	93
Total other noncurrent assets	$ 265	$ 328
Operating expenses, payroll and related expenses	$ 121	$ 111
Accrued liabilities to client communities	27	32
Interest payable	12	16
Dividends payable	11	1
Other	40	26
Total accrued expenses and other current liabilities	$ 211	$ 186

(1) During the year ended December 31, 2011, we recorded a non-cash write-off of $5 million of capitalized development costs related to a development project which we ceased to pursue in the United Kingdom.

NOTE 16. INCOME TAXES

We file a federal consolidated income tax return with our eligible subsidiaries. Our federal consolidated income tax return also includes the taxable results of certain grantor trusts described below. The components of income tax expense were as follows (in millions):

	00000	**00000**	**00000**
	For the Years Ended December 31,		
	2011	**2010**	**2009**
Current:			
Federal	$ (12)	$ (11)	$ (1)
State	6	13	10
Foreign	4	2	1
Total current	(2)	4	10
Deferred:			
Federal	22	38	18
State	8	(17)	14
Foreign		(1)	

Total deferred	30	20	32
Total income tax expense	$ 28	$ 24	$ 42

Domestic and foreign pre-tax income was as follows (in millions):

	00000	00000	00000
	For the Years Ended December 31,		
	2011	**2010**	**2009**
Domestic	$ 121	$ 89	$ 117
Foreign	(14)	(32)	(13)
Total	$ 107	$ 57	$ 104

The effective income tax rate was 26.8%, 41.3%, and 41.1% for the years ended December 31, 2011, 2010, and 2009, respectively. The decrease in the effective tax rate for the year ended December 31, 2011, compared to the year ended December 31, 2010, was primarily a result of the release of the liability for uncertain tax positions related to the lapse of the statute of limitations with respect to tax issues arising at the time Covanta Energy emerged from bankruptcy.

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COVANTA HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

A reconciliation of our income tax expense at the federal statutory income tax rate of 35% to income tax expense at the effective tax rate is as follows (in millions):

	00000	00000	00000
	For the Years Ended December 31,		
	2011	**2010**	**2009**
Income tax expense at the federal statutory rate	$ 37	$ 20	$ 36
State and other tax expense	8	(2)	17
Change in valuation allowance	(3)	(2)	(5)
Grantor trust income(loss)	1	(2)	1
Subpart F income and foreign dividends	1	1	2
Tax impact of Dublin impairment		8	
Taxes on foreign earnings	9	4	5
Production tax credits/R&E tax credits	(5)	(5)	(13)
Liability for uncertain tax positions	(22)	(2)	(1)
Stock-based compensation		4	
Non-deductible expense incurred to pre-petition claimants from Covanta Energy s bankruptcy	5		
Other, net	(3)		
Total income tax expense	$ 28	$ 24	$ 42

We had consolidated federal NOLs estimated to be approximately $427 million for federal income tax purposes as of the end of 2011. These consolidated federal NOLs will expire, if not used, in the following amounts in the following years (in millions):

	Amount of Carryforward Expiring
2023	$ 56
2024	1
2025	6
2026	2
2027	1
2028	333
2029	
2030	28
	$ 427

In addition to the consolidated federal NOLs, as of December 31, 2011, we had state NOL carryforwards of approximately $223 million, which expire between 2012 and 2031, capital loss carryforwards of $4 million expiring between 2012 and 2015, net foreign NOL carryforwards of approximately $2 million expiring between 2015 and 2031, and federal tax credit carryforwards, including production tax credits and minimum tax credits, of $51 million. These deferred tax assets are offset by a valuation allowance of approximately $22 million.

During 2011, we increased our valuation allowance by $2 million primarily related to an increase for state net operating losses offset by the related federal effect and a release of the federal valuation allowance for net operating losses of Covanta Lake II, Inc.

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COVANTA HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The tax effects of temporary differences that give rise to the deferred tax assets and liabilities are presented as follows (in millions):

	00000	00000
	As of December 31,	
	2011	**2010**
Deferred Tax Assets:		
Loss reserve discounting	$ 2	$ 2
Capital loss carryforward	2	
Net operating loss carryforwards	50	35
Accrued expenses	17	17
Prepaids and other costs	27	26
Deferred tax assets attributable to pass-through entities	10	10
Other	3	1
AMT and other credit carryforwards	51	45
Total gross deferred tax asset	162	136
Less: valuation allowance	(22)	(20)
Total deferred tax asset	140	116
Deferred Tax Liabilities:		
Unbilled accounts receivable	18	33
Property, plant and equipment	528	492
Intangible assets	65	83
Deferred tax liabilities attributable to pass-through entities	75	66
Accrued original issue discount and related deferral on convertible debt	36	2
Prepaid expenses	22	15
Other, net		3
Total gross deferred tax liability	744	694
Net deferred tax liability	$ (604)	$ (578)

We employ the permanent reinvestment exception whereby we do not provide deferred taxes on the undistributed earnings of our international subsidiaries. We intend to permanently reinvest our international earnings outside of the United States in our existing international operations and in any new international business which may be developed or acquired. Cumulative undistributed foreign earnings for which United States taxes were not provided were included in consolidated retained earnings in the amount of approximately $359 million and $215 million as of December 31, 2011 and 2010, respectively. Determining the unrecognized deferred tax liability for these undistributed foreign earnings is not practicable.

Deferred tax assets relating to employee stock based compensation deductions were reduced to reflect exercises of non-qualified stock option grants and vesting of restricted stock. Some exercises of non-qualified stock option grants and vesting of restricted stock resulted in tax deductions in excess of previously recorded benefits resulting in a windfall. Although these additional deductions were reported on the corporate tax returns and increased NOLs, the additional tax benefit associated with the windfall was not recognized for financial reporting purposes. These windfalls will not be recognized until the related deductions result in a reduction of taxes payable and cash tax payments. Accordingly, since the tax benefit does not reduce our current taxes payable, these windfall tax benefits were not reflected in deferred tax assets for financial reporting purposes for 2011 and 2010. Windfalls included in NOLs but not reflected in deferred tax assets were approximately $17 million for both 2011 and 2010.

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COVANTA HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in millions):

Balance at December 31, 2008	$ 132
Additions based on tax positions related to the current year	
Additions for tax positions of prior years	1
Reductions for lapse in applicable statute of limitations	(2)
Reductions for tax positions of prior years	
Balance at December 31, 2009	$ 131
Additions based on tax positions related to the current year	$
Additions for tax positions of prior years	1
Reductions for lapse in applicable statute of limitations	(2)
Reductions for tax positions of prior years	
Balance at December 31, 2010	$ 130
Additions based on tax positions related to the current year	$ 3
Additions for tax positions of prior years	5
Reductions for lapse in applicable statute of limitations	(19)
Reductions for tax positions of prior years	
Balance at December 31, 2011	$ 119

The uncertain tax positions, exclusive of interest and penalties, were $119 million and $130 million as of December 31, 2011 and 2010, respectively, which also represent potential tax benefits that if recognized, would impact the effective tax rate.

For the year ended December 31, 2011, the income tax provision included a $24 million benefit due to the reversal of uncertain tax positions, following the expiration of applicable statutes of limitations related to pre-emergence tax matters in the Covanta Energy bankruptcy. Since March 2004, we had held $20 million in restricted funds intended to cover those uncertain tax positions. The restricted funds were included in other assets on our consolidated balance sheet. The expiration of the statutes of limitations triggered a liability to pre-petition claimants of approximately 73% of the restricted fund balance. Therefore, we recorded approximately $15 million as other expense during the year ended December 31, 2011. As of December 31, 2011, $12 million of the noncurrent funds were paid to claimants and $3 million of these funds were reclassified to other current assets on our consolidated balance sheet and are expected to be paid to third party claimants in the first half of 2012. The remaining $5 million was reclassified to cash and cash equivalents on our consolidated balance sheet as of December 31, 2011.

We record interest accrued on liabilities for uncertain tax positions and penalties as part of the tax provision. For the year ended December 31, 2011 and 2010, we recognized $1 million in each year of interest and penalties on liabilities for uncertain tax positions. As of December 31, 2011 and 2010, we had accrued interest and penalties associated with liabilities for uncertain tax positions of $2 million and $7 million, respectively. We continue to reflect interest accrued on uncertain tax positions and penalties as part of the tax provision.

In the ordinary course of our business, the Internal Revenue Service (IRS) and state tax authorities will periodically audit our federal and state tax returns. As issues are examined by the IRS and state auditors, we may decide to adjust the existing liability for uncertain tax positions for issues that were not previously deemed an exposure. Federal income tax returns for Covanta Energy are closed for the years through 2003. However, to the extent NOLs are utilized from earlier years, federal income tax returns for Covanta Holding Corporation, formerly known as Danielson Holding Corporation, are still open. The IRS is currently auditing our tax returns for the years 2004 through 2009. If the IRS were successful in challenging our NOLs, it is possible that some portion of the NOLs would not be available to offset consolidated taxable income.

State income tax returns are generally subject to examination for a period of three to six years after the filing of the respective return. The state impact of any federal changes remains subject to examination by various states for a period of up to one year after formal notification to the states. We have various state income tax returns in the process of examination, administrative appeals or litigation.

Our NOLs predominantly arose from our predecessor insurance entities (which were subsidiaries of our predecessor, formerly named Mission Insurance Group, Inc., Mission). These Mission insurance entities have been in state insolvency proceedings in California and Missouri since the late 1980 s. The amount of NOLs available to us will be

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

reduced by any taxable income or increased by any taxable losses generated by current members of our consolidated tax group, which include grantor trusts associated with the Mission insurance entities.

In January 2006, we executed agreements with the California Commissioner of Insurance (the California Commissioner), who administers the majority of the grantor trusts, regarding the final administration and conclusion of such trusts. The agreements, which were approved by the California state court overseeing the Mission insolvency proceedings (the Mission Court), settled matters that had been in dispute regarding the historic rights and obligations relating to the conclusion of the grantor trusts. These included the treatment of certain claims against the grantor trusts which are entitled to distributions of an aggregate of 1.6 million shares of our common stock issued to the California Commissioner in 1990 under existing agreements entered into at the inception of the Mission insurance entities reorganization.

Pursuant to a claims evaluation process that we administered pursuant to such agreements with, and overseen by, the Conservation and Liquidation Office, all claim holders entitled to receive distributions of shares of our common stock from the California Commissioner were identified. As a result of this process, approximately $1 billion in claims were approved pursuant to orders of the Mission Court. As part of the wind down process and final claims evaluation by the Conservation and Liquidation Office, and in accordance with the parties contractual obligations and the requirements of the Internal Revenue Code governing such exchanges of stock for debt, the California Commissioner distributed shares of our common stock in settlement of these claims. This distribution, which is among the final steps necessary to conclude the insolvency cases relating to the trusts being administered by the California Commissioner, was conducted in December 2008 pursuant to orders of the Mission Court. These events resulted in our recognition of $515 million of additional NOLs in 2008, or a deferred tax asset of $180 million. Of this $180 million deferred tax asset, $111 million was previously recognized on the balance sheet.

We have discussed with the Director of the Division of Insurance of the State of Missouri (the Missouri Director), who administers the balance of the grantor trusts relating to the Mission Insurance entities, similar arrangements for distribution of the remaining 0.2 million shares of our common stock by the Missouri Director to claimants of the Missouri grantor trusts. Given the claims activity relating to the Missouri grantor trusts, and the lack of disputed matters with the Missouri Director, we do not expect to enter into additional or amended contractual arrangements with the Missouri Director with respect to the final administration of the Missouri grantor trusts or the related distribution by the Missouri Director of shares of our common stock.

While we cannot predict what amounts, if any, may be includable in taxable income as a result of the final administration of these grantor trusts, substantial actions toward such final administration have been taken and we believe that neither arrangements with the California Commissioner nor the final administration by the Missouri Director will result in a material reduction in available NOLs.

NOTE 17. EMPLOYEE BENEFIT PLANS

We sponsor various retirement plans covering the majority of our employees and retirees in the United States, as well as other postretirement benefit plans for a small number of retirees in the United States that include healthcare benefits and life insurance coverage. Employees in the United States not participating in our retirement plans generally participate in retirement plans offered by collective bargaining units of which these employees are members. The majority of our international employees participate in defined benefit or defined contribution retirement plans as required or available in accordance with local laws.

Our insurance subsidiary has a defined benefit plan that has had its service credits frozen since December 31, 2001. Since that date, participants cash balance accounts have only been increased by interest credits. In September 2010, we filed a single employer plan termination form with the Pension Benefit Guaranty Corporation (PBGC) and a request for a Determination Letter upon Plan Termination with the IRS to terminate the plan effective August 1, 2010. Final approval is yet to be received from the PBGC and the IRS. Final approval is expected in the first half of 2012. All participants including active and terminated employees who were eligible participants in the defined benefit pension plan will be 100% vested and have a non-forfeitable right to these benefits as of such date. As of December 31, 2011, the fair value of the pension plan assets for our insurance subsidiary was approximately $1 million and the plan is expected to be paid out in early 2012 following receipt of IRS approval. The employees of our insurance subsidiary currently participate in a defined contribution retirement plan.

COVANTA HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Defined Contribution Plans

Substantially all of our employees in the United States are eligible to participate in the defined contribution plans we sponsor. The defined contribution plans allow employees to contribute a portion of their compensation on a pre-tax basis in accordance with specified guidelines. We match a percentage of employee contributions up to certain limits. We also provide a company contribution to the defined contribution plans for eligible employees. Our costs related to all defined contribution plans were $15 million, $16 million, and $15 million for the years ended December 31, 2011, 2010, and 2009, respectively.

Pension and Postretirement Benefit Obligations

Effective December 31, 2005, we froze service accruals in the defined benefit pension plan for employees in the United States who do not participate in retirement plans offered by collective bargaining units or our insurance subsidiaries. All active employees who were eligible participants in the defined benefit pension plan, as of December 31, 2005, became 100% vested and have a non-forfeitable right to these benefits as of such date. Effective January 1, 2010, the defined benefit pension plan was further amended to exclude future compensation increases received by eligible participants after December 31, 2009. During the second quarter of 2011, we informed employees who were eligible participants in the pension plan of our plan to terminate the pension plan, subject to approval by the IRS, with the intention of fully distributing plan assets as promptly as practicable following such approval. The actual settlement amount will fluctuate based on future market performance, such as the interest rate at the final settlement, actual return on plan assets, and employees disbursement elections. The actual settlement will take place following receipt of IRS approval.

Assumptions

Costs and the related obligations and assets arising from the pension and other postretirement benefit plans are accounted for based on actuarially-determined estimates. On an annual basis, we evaluate the assumed discount rate and expected return on assets used to determine pension benefit and other postretirement benefit obligations. The discount rate is determined based on the timing of future benefit payments and expected rates of return currently available on high quality fixed income securities whose cash flows match the timing and amount of future benefit payments of the plan. We record a pension plan liability equal to the amount by which the present value of the projected benefit obligations (using the discount rate) exceeded the fair value of pension assets.

The discount rate and net (loss) gain recognized are as follows:

	Discount Rate	Net (Loss) Gain Recognized in AOCI (dollars in millions)	Net (Loss) Gain Net of Tax, Recognized in AOCI
Year Ended December 31, 2011	4.30%	$ (13)	$ (8)
Year Ended December 31, 2010	5.50%	$ (4)	$ (3)
Year Ended December 31, 2009	6.00%	$ 15	$ 9

An annual rate of increase of 8.5% in the per capita cost of health care benefits was assumed for 2011 for covered employees. An average increase of 8.0% was assumed for 2012. The average increase is then projected to gradually decline to 5.5% in 2017 and remain at that level. Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plan. A one-percentage point change (either increase or decrease) in the assumed health care trend rate would have an immaterial (less than $0.5 million) effect on either total service and interest cost components or postretirement benefit obligations.

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COVANTA HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Obligation and Funded Status

The following table is a reconciliation of the changes in the benefit obligations and fair value of assets for our defined benefit pension and other postretirement benefit plans, the funded status (using a December 31 measurement date) of the plans and the related amounts recognized in our consolidated balance sheets (in millions, except percentages as noted):

	000	000	000	000
	Pension Benefits		**Other Benefits**	
	For the Year Ended December 31, 2011	**For the Year Ended December 31, 2010**	**For the Year Ended December 31, 2011**	**For the Year Ended December 31, 2010**
Change in benefit obligation:				
Benefit obligation at beginning of year	$ 82	$ 72	$ 6	$ 8
Service cost				
Interest cost	4	4	1	1
Amendments				
Actuarial loss (gain)	18	8	1	(2)
Benefits paid	(2)	(2)	(1)	(1)
Benefit obligation at end of year	$ 102	$ 82	$ 7	$ 6
Change in plan assets:				
Plan assets at fair value at beginning of year	$ 78	$ 64	$	$
Actual return on plan assets	10	8		
Contributions	1	8	1	1
Benefits paid	(2)	(2)	(1)	(1)
Plan assets at fair value at end of year	$ 87	$ 78	$	$
Reconciliation of accrued benefit liability and net amount recognized:				
Funded status of the plan	$ (15)	$ (4)	$ (7)	$ (6)
Unrecognized net gain				
Net amount recognized	$ (15)	$ (4)	$ (7)	$ (6)
Accumulated other comprehensive (income) loss recognized:				
Net actuarial loss (gain)	$ 19	$ 6	$ (3)	$ (3)
Net prior service credit	(10)	(10)		
Total as of December 31, 2011	$ 9	$ (4)	$ (3)	$ (3)
Weighted average assumptions used to determine net periodic benefit expense for years ending December 31:				
Discount rate	5.50%	6.00%	5.50%	6.00%

Expected return on plan assets	6.75%	7.50%	N/A	N/A
Rate of compensation increase	N/A	N/A	N/A	N/A
Weighted average assumptions used to determine projected benefit obligations as of December 31:				
Discount rate	4.30%	5.50%	4.30%	5.50%
Rate of compensation increase	N/A	N/A	N/A	N/A

For the pension plans with accumulated benefit obligations in excess of plan assets, the projected benefit obligation, accumulated benefit obligation, and fair value of plan assets were $102 million, $102 million and $87 million, respectively as of December 31, 2011 and $5 million, $5 million, and $0, respectively as of December 31, 2010.

For the pension plans with accumulated benefit obligations less than plan assets, the projected benefit obligation, accumulated benefit obligation, and fair value of plan assets were each $0 as of December 31, 2011 and $77 million, $77 million, and $78 million, respectively as of December 31, 2010.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

We estimate that the future benefits payable for the retirement and postretirement plans in place are as follows (in millions).

	0000000	0000000	0000000	0000000	0000000	0000000
			As of December 31,			
	2012	**2013**	**2014**	**2015**	**2016**	**2017 - 2021**
Pension Benefits	$ 3	$ 98	$	$	$ 1	$ 3
Other Benefits (Net of Medicare Part D Subsidy)	$ 1	$ 1	$ 1	$ 1	$ 1	$ 2
Attributable to Medicare Part D Subsidy	$	$	$	$	$	$

Pension costs for our defined benefit plans and other post-retirement benefit plans included the following components (in millions):

	Pension Benefits		**Other Benefits**	
	For the Year Ended December 31, 2011	**For the Year Ended December 31, 2010**	**For the Year Ended December 31, 2011**	**For the Year Ended December 31, 2010**
Components of Net Periodic Benefit Cost:				
Service cost	$	$	$	$
Interest cost	4	4	1	1
Expected return on plan assets	(5)	(5)		
Amortization of net prior service cost				
Amortization of net actuarial gain			(1)	(1)
Net periodic benefit cost	(1)	(1)		
Settlement cost				
Final net periodic benefit cost	$ (1)	$ (1)	$	$

Plan Assets

Plan assets had a fair value of $87 million and $78 million as of December 31, 2011 and 2010, respectively. The allocation of plan assets was as follows:

	As of December 31,	
	2011	**2010**
Total Equities	%	51%
Total Debt Securities	97%	46%
Other	3%	3%
Total	100%	100%

Our expected return on plan assets assumption is based on historical experience and by evaluating input from the trustee managing the plan assets. The expected return on the plan assets is also impacted by the target allocation of assets, which we have shifted entirely to debt securities in anticipation of a potential termination of the plan within the next two years. With this in mind, we have concentrated the plan assets in debt securities in order to reduce near-term volatility in asset values, as well as to hedge more effectively against changes in the estimated termination liability, which will be calculated based on prevailing interest rates that the time of termination. The target ranges of allocation of assets are as follows:

Total Equities	0%
Total Debt Securities	100%
Other	0%

We anticipate that the long-term asset allocation on average will approximate the targeted allocation. Actual asset allocations are reviewed and the pension plans investments are rebalanced to reflect the targeted allocation when considered appropriate.

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COVANTA HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following sets forth the types of assets measured at fair value and a brief description of the valuation technique for each asset type:

Type of Fund	Types of Investments	Valuation Technique
U.S. Stock Funds	Funds comprised of domestic equity securities.	Securities are typically priced using the closing price from the applicable exchange, such as the NYSE, NASDAQ, etc.
U.S. Bond Funds	Funds comprised of domestic fixed income securities.	Securities are priced by a third-party evaluation service using inputs such as benchmark yields, reported trades, broker/dealer quotes, issuer spreads.
International Stock Funds	Funds comprised of international equity securities.	Securities are priced using the closing price from the local international stock exchange, such as the International Stock Index.
Real Estate Funds	Comprised of real estate investments either directly owned or through partnership interests and mortgage and other loans on income producing real estate.	The fair value of real estate properties is determined quarterly through an independent appraisal process utilizing traditional real estate valuation methodologies.
Short-Term Funds	Portfolios comprised of short-term securities.	Securities are valued initially at cost and thereafter adjusted for amortization of any discount or premium, i.e. amortized cost, which approximates fair value.

The fair value of pension plan assets, by asset category, is as follows (in millions):

		Fair Value Measurements as of December 31, 2011		
	Total	Quoted Market Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equity securities:				
U.S. companies [1]	$	$	$	$
International companies [2]				
U.S. Bonds [3]	85		85	
Real estate [4]				
Short-term securities [5]	2		2	
Total pension plan assets, at fair value	$ 87	$	$ 87	$

		Fair Value Measurements as of December 31, 2010		
	Total	Quoted Market Prices in Active Markets for Identical Assets	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)

		(Level 1)		
Equity securities:				
U.S. companies [1]	$ 34	$	$ 34	$
International companies [2]	6		6	
U.S. Bonds [3]	36		36	
Real estate [4]	2		2	
Short-term securities[5]				
Total pension plan assets, at fair value	$ 78	$	$ 78	$

(1) As of December 31, 2011 and 2010, approximately 0% and 43%, respectively, of the pension plan assets are in U.S. Stock Funds held in trusts, which are comprised of a well diversified portfolio of U.S. large-cap and mid-cap companies.

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COVANTA HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(2) As of December 31, 2011 and 2010, approximately 0% and 8%, respectively, of the pension plan assets are in International Equity Funds held in trusts, of which in 2010 approximately 50% was invested in equity securities of foreign companies primarily located in the United Kingdom and Europe. The remaining 50% was invested in equity securities of foreign companies primarily in growth markets located in the United Kingdom and Europe or emerging markets in Asia and Latin America.

(3) As of December 31, 2011 and 2010, approximately 97% and 46%, respectively, of the pension plan assets are in U.S. Bond Funds held in trusts, which are primarily invested in U.S. Government obligations, U.S. Agency securities and corporate debt securities with an investment grade of A or better.

(4) As of December 31, 2011 and 2010, approximately 0% and 3% of the pension plan assets are in Real Estate Funds held in trusts, which are comprised primarily of real estate investments either directly owned or through partnership interests and mortgage and other loans on income producing real estate.

(5) As of December 31, 2011 and 2010, approximately 3% and 0% of the pension plan assets are in Short-term securities.

NOTE 18. STOCK-BASED AWARD PLANS

Stock-Based Award Plans

We adopted the Covanta Holding Corporation Equity Award Plan for Employees and Officers (the Employees Plan) and the Covanta Holding Corporation Equity Award Plan for Directors (the Directors Plan) (collectively, the Award Plans), effective with stockholder approval on October 5, 2004.

The purpose of the Award Plans is to promote our interests (including our subsidiaries and affiliates) and our stockholders interests by using equity interests to attract, retain and motivate our management, non-employee directors and other eligible persons and to encourage and reward their contributions to our performance and profitability. The Award Plans provide for awards to be made in the form of (a) shares of restricted stock, (b) restricted stock units, (c) incentive stock options, (d) non-qualified stock options, (e) stock appreciation rights, (f) performance awards, or (g) other stock-based awards which relate to or serve a similar function to the awards described above. Awards may be made on a standalone, combination or tandem basis. The maximum aggregate number of shares of common stock available for issuance is 12,000,000 under the Employees Plan and 700,000 under the Directors Plan. The maximum number of shares that may be granted to any participant in any calendar year is 250,000 shares of restricted stock and options to purchase 650,000 shares of our common stock.

Stock-Based Compensation

We recognize stock-based compensation expense in accordance with the accounting standards for stock-based compensation in effect at the date of grant. We recognize compensation costs using the graded vesting attribution method over the requisite service period of the award, which is generally three to five years. We recognize compensation expense based on the number of stock options and restricted stock awards expected to vest by using an estimate of expected forfeitures. We review the forfeiture rates at least annually and revise compensation expense, if necessary. During 2011, the average forfeiture rates were 12% for restricted stock awards and 15% for stock options and restricted stock units. Stock-based compensation expense is as follows (in millions, except for weighted average years):

	Total Compensation Expense for the Years Ended December 31,			As of December 31, 2011	
	2011	2010	2009	Unrecognized stock-based compensation expense	Weighted-average years to be recognized
Restricted Stock Awards	$ 14	$ 13	$ 10	$ 9	2
Restricted Stock Units	$ 3	$ 2	$	$ 4	2
Stock Options	$ 1	$ 2	$ 4	$ 0.3	1

Restricted Stock Awards

Restricted stock awards that have been issued to employees typically vest over a three year period. Restricted stock awards are stock-based awards for which the employee or director does not have a vested right to the stock (nonvested) until the requisite service period has been rendered or the required financial performance factor has been reached for each pre-determined vesting date. A percentage of each employee restricted stock awards granted have financial performance factors. Stock-based compensation expense for each financial performance factor is recognized

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COVANTA HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

beginning in the period when management has determined it is probable the financial performance factor will be achieved for the respective vesting period. The fair value of shares vested during the year was $11 million.

Restricted stock awards to employees are subject to forfeiture if the employee is not employed on the vesting date. Restricted stock awards issued to directors are not subject to forfeiture in the event a director ceases to be a member of the Board of Directors, except in limited circumstances. Restricted stock awards will be expensed over the requisite service period, subject to an assumed forfeiture rate. Prior to vesting, restricted stock awards have all of the rights of common stock (other than the right to sell or otherwise transfer or to receive unrestricted dividends, when issued). We calculate the fair value of share-based stock awards based on the closing price on the date the award was granted.

During the year ended December 31, 2011, we awarded certain employees approximately 728,986 restricted stock awards. The restricted stock awards will be expensed over the requisite service period, subject to an assumed 12% average forfeiture rate. The terms of the restricted stock awards include vesting provisions based solely on continued service. If the service criteria are satisfied, the majority of the restricted stock awards vest during March of 2012, 2013, and 2014.

On May 5, 2011, in accordance with our existing program for annual director compensation, we awarded 36,000 shares of restricted stock under the Directors Plan. We determined that the service vesting condition of these restricted stock awards to be non-substantive and, in accordance with accounting principles for stock compensation, recorded the entire fair value of the award as compensation expense on the grant date.

Changes in nonvested restricted stock awards were as follows (in thousands, except per share amounts):

	00000	00000	00000	00000	00000	00000
			As of December 31,			
	2011		2010		2009	
	Number of Shares	Weighted-Average Grant Date Fair Value	Number of Shares	Weighted-Average Grant Date Fair Value	Number of Shares	Weighted-Average Grant Date Fair Value
Nonvested at the beginning of the year	1,392	$ 17.35	1,130	$ 19.72	857	$ 23.61
Granted	765	16.61	943	16.41	742	16.59
Vested	(654)	18.35	(522)	20.66	(447)	21.86
Forfeited	(68)	16.60	(159)	17.76	(22)	22.05
Nonvested at the end of the year	1,435	$ 16.54	1,392	$ 17.35	1,130	$ 19.72

Restricted Stock Units

In 2010, we adopted a Growth Equity Plan, which is to be used for awards pursuant to our Equity Award Plan for Employees and Officers. The Growth Equity Plan provides for the award of restricted stock units (RSUs) to certain employees in connection with specified growth-based acquisitions that have been completed or development projects that have commenced.

The Growth Equity Plan provides that as of the award date of the RSUs, the Compensation Committee shall determine the net present value of cash flows for the applicable acquisitions or development projects (Projected NPV). Vesting of RSUs will not occur until at least three years have passed following an acquisition or upon the later of three years from the grant date or one year following the commencement of commercial operations for development projects. Upon the vesting date, the Compensation Committee will re-calculate the net present values of the cash flows (Bring Down NPV). If the ratio of the Bring Down NPV to the Projected NPV is greater than 95% all of the RSUs related to the particular project will vest. If the ratio is less than 95%, the number of RSUs originally issued will be proportionately reduced.

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COVANTA HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Changes in nonvested restricted stock units were as follows (in thousands, except per share amounts):

	00000	00000	00000	00000
	As of December 31,			
	2011		2010	
	Number of Shares	Weighted-Average Grant Date Fair Value	Number of Shares	Weighted-Average Grant Date Fair Value
Nonvested at the beginning of the year	968	$ 16.64		$
Granted	36	16.57	1,085	16.64
Vested				
Forfeited			(117)	16.64
Nonvested at the end of the year	1,004	$ 16.64	968	$ 16.64

Stock Options

We have also awarded stock options to certain employees and directors. Stock options awarded to directors vest immediately. Stock options awarded to employees have typically vested annually over 3 to 5 years and expire over 10 years. We calculate the fair value of our share-based option awards using the Black-Scholes option pricing model which requires estimates of the expected life of the award and stock price volatility. During the years ended December 31, 2011, 2010 and 2009, we did not grant options to purchase shares of common stock to employees or directors.

The following table summarizes activity and balance information of the options under the Award Plans and 1995 Plan (in thousands, except per share amounts):

	00000	00000	00000	00000	00000	00000
	As of December 31,					
	2011		2010		2009	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
1995 Stock Option Plan						
Outstanding at the beginning of the year		$	70	$ 3.06	108	$ 3.86
Granted						
Exercised			(70)	3.06	(38)	5.31
Forfeited						
Outstanding at the end of the year		$		$	70	$ 3.06
Options exercisable at year end		$		$	70	$ 3.06
Options available for future grant						
2004 Stock Option Plan						
Outstanding at the beginning of the year	2,264	$ 18.04	2,681	$ 18.83	2,770	$ 18.76

Granted						
Exercised	(68)	5.93	(219)	6.30	(38)	9.34
Expired	(144)	20.84	(54)	22.41	(6)	22.02
Forfeited			(144)	23.04	(45)	22.02
Outstanding at the end of the year	2,052	$ 18.24	2,264	$ 18.04	2,681	$ 18.83
Options exercisable at year end	1,469	$ 17.09	1,354	$ 15.97	1,476	$ 15.54
Options available for future grant	3,282		4,082		6,110	

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COVANTA HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of December 31, 2011, options for shares were in the following price ranges (in thousands, except years and per share amounts):

	00000	00000	00000	00000	00000
	Options Outstanding		Weighted Average Remaining	Options Exercisable	
Exercise Price Range	**Number of Shares**	**Weighted Average Exercise Price**	**Contractual Life (Years)**	**Number of Shares**	**Weighted Average Exercise Price**
$5.93	326	$ 5.93	2.8	326	$ 5.93
$11.40	93	11.40	3.7	93	11.40
$18.85 $20.52	1,403	20.52	5.2	907	20.52
$23.30 $26.84	230	24.57	6.5	143	24.51
	2,052			1,469	

The total received from the exercise of stock options was less than $1 million in the year ended December 31, 2011, and approximately $1 million for both years ended December 31, 2010, and 2009 respectively. The tax benefits related to the exercise of the non-qualified stock options and the vesting of the restricted stock award were not recognized during 2011, 2010 and 2009 due to our NOLs. When the NOLs have been fully utilized by us, we will recognize a tax benefit and an increase in additional paid-in capital for the excess tax deductions received on the exercised non-qualified stock options and vested restricted stock. Future realization of the tax benefit will be presented in cash flows from financing activities in the consolidated statements of cash flows in the period the tax benefit is recognized. Previously recorded tax benefits that are in excess of the realized tax benefit on a particular non-qualified stock option or restricted stock are recorded as an increase to income tax expense since there is no APIC pool available to offset these reduced tax benefits.

The aggregate intrinsic value as of December 31, 2011 for options exercisable was $3 million for both options outstanding and options vested and was $0 for options expected to vest. The aggregate intrinsic value represents the total pre-tax intrinsic value (the difference between the closing stock price on the last trading day of 2011 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on the last trading day of 2011 (December 30, 2011). The intrinsic value changes based on the fair market value of our common stock. The total intrinsic value of options exercised for the years ended as of December 31, 2011, 2010, and 2009 was $1 million, $3 million, and $1 million, respectively.

As of December 31, 2011, there were options to purchase 2 million shares of common stock that had vested and were expected to vest in future periods at a weighted average exercise price of $18.11. The fair value of options vested during the years ended December 31, 2011, 2010, and 2009 was $6 million, $7 million, and $4 million, respectively.

NOTE 19. RELATED-PARTY TRANSACTIONS

One member of our current Board of Directors is Senior Counsel to a major international law firm which provides Covanta Energy with certain legal services. We paid this law firm approximately $3 million, $2 million, and $0 for the years ended December 31, 2011, 2010 and 2009, respectively. Such member of the Board of Directors has had no direct or indirect involvement in the procurement, provision, or oversight of billings of such legal services and does not directly or indirectly benefit from amounts paid to such law firm.

NOTE 20. COMMITMENTS AND CONTINGENCIES

We and/or our subsidiaries are party to a number of claims, lawsuits and pending actions, most of which are routine and all of which are incidental to our business. We assess the likelihood of potential losses on an ongoing basis and when losses are considered probable and reasonably estimable, record as a loss an estimate of the outcome. If we can only estimate the range of a possible loss, an amount representing the low end of the range of possible outcomes is recorded. The final consequences of these proceedings are not presently determinable with certainty.

Environmental Matters

Our operations are subject to environmental regulatory laws and environmental remediation laws. Although our operations are occasionally subject to proceedings and orders pertaining to emissions into the environment and other environmental violations, which may result in fines, penalties, damages or other sanctions, we believe that we are in substantial compliance with existing environmental laws and regulations.

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COVANTA HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

We may be identified, along with other entities, as being among parties potentially responsible for contribution to costs associated with the correction and remediation of environmental conditions at disposal sites subject to federal and/or analogous state laws. In certain instances, we may be exposed to joint and several liabilities for remedial action or damages. Our ultimate liability in connection with such environmental claims will depend on many factors, including our volumetric share of waste, the total cost of remediation, and the financial viability of other companies that also sent waste to a given site and, in the case of divested operations, its contractual arrangement with the purchaser of such operations.

The potential costs related to the matters described below and the possible impact on future operations are uncertain due in part to the complexity of governmental laws and regulations and their interpretations, the varying costs and effectiveness of cleanup technologies, the uncertain level of insurance or other types of recovery and the questionable level of our responsibility. Although the ultimate outcome and expense of any litigation, including environmental remediation, is uncertain, we believe that the following proceedings will not have a material adverse effect on our consolidated financial position or results of operations.

Wallingford Matter. In 2010, compliance stack testing indicated that one of the three combustion units at the Wallingford energy-from-waste facility had exceeded the permit limit for dioxin/furan emissions. We promptly shut down the affected combustion unit and self-reported the test results to the Connecticut Department of Energy and Environmental Protection (CTDEEP). On August 18, 2010, the Connecticut Office of the Attorney General (AG), on behalf of the CTDEEP, commenced an enforcement action in Connecticut Superior Court (Hartford) with respect to the results of the compliance stack testing. We, the CTDEEP and AG reached agreement on a restart and test program to demonstrate that the affected combustion unit has been returned to compliance and to settle all claims (approximately $0.4 million) relating to this matter. That agreement became final as of July 20, 2011, and we have since restarted the affected unit, consistent with the approved agreement.

Lower Passaic River Matter. In August 2004, the United States Environmental Protection Agency (EPA) notified Covanta Essex Company (Essex) that it was a potentially responsible party (PRP) for Superfund response actions in the Lower Passaic River Study Area, referred to as LPRSA, a 17 mile stretch of river in northern New Jersey. Essex is one of 71 PRPs named thus far that have joined the LPRSA PRP group, which is undertaking a Remedial Investigation/Feasibility Study (Study) of the LPRSA under EPA oversight. Essex s share of the Study costs to date are not material to its financial position and results of operations; however, the Study costs are exclusive of any LPRSA remedial costs or natural resource damages that may ultimately be assessed against PRPs. In February 2009, Essex and over 300 other PRPs were named as third-party defendants in a suit brought by the State of New Jersey Department of Environmental Protection (NJDEP) in New Jersey Superior Court of Essex County against Occidental Chemical Corporation and certain related entities (Occidental) with respect to alleged contamination of the LPRSA by Occidental. The Occidental third-party complaint seeks contribution with respect to any award to NJDEP of damages against Occidental in the matter. Considering the history of industrial and other discharges into the LPRSA from other sources, including named PRPs, Essex believes any releases to the LPRSA from its facility to be de minimis; however, it is not possible at this time to predict that outcome or to estimate Essex s ultimate liability in the matter, including for LPRSA remedial costs and/or natural resource damages and/or contribution claims made by Occidental and/or other PRPs.

Other Commitments

Other commitments as of December 31, 2011 were as follows (in millions):

	00000	00000	00000
	Commitments Expiring by Period		
	Total	Less Than One Year	More Than One Year
Letters of credit	$ 277	$ 6	$ 271
Surety bonds	354		354
Total other commitments net	$ 631	$ 6	$ 625

The letters of credit were issued under various credit facilities (primarily the Funded L/C Facility) to secure our performance under various contractual undertakings related to our domestic and international projects or to secure obligations under our insurance program. Each letter of credit relating to a project is required to be maintained in effect for the period specified in related project contracts, and generally may be drawn if it is not renewed prior to expiration of that period.

COVANTA HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

We believe that we will be able to fully perform under our contracts to which these existing letters of credit relate, and that it is unlikely that letters of credit would be drawn because of a default of our performance obligations. If any of these letters of credit were to be drawn by the beneficiary, the amount drawn would be immediately repayable by us to the issuing bank. If we do not immediately repay such amounts drawn under these letters of credit, unreimbursed amounts would be treated under the Credit Facilities as additional term loans in the case of letters of credit issued under the Funded L/C Facility, or as revolving loans in the case of letters of credit issued under the Revolving Credit Facility.

The surety bonds listed on the table above relate primarily to performance obligations ($341 million) and support for closure obligations of various energy projects when such projects cease operating ($13 million). Were these bonds to be drawn upon, we would have a contractual obligation to indemnify the surety company.

We have certain contingent obligations related to the 7.25% Notes and the 3.25% Notes. These arise as follows:

- holders may require us to repurchase their 7.25% Notes and their 3.25% Notes if a fundamental change occurs; and
- holders may exercise their conversion rights upon the occurrence of certain events, which would require us to pay the conversion settlement amount in cash.

For specific criteria related to contingent interest, conversion or redemption features of the 7.25% Notes and the 3.25% Notes, see Note 11. Long-Term Debt.

We have issued or are party to guarantees and related contractual support obligations undertaken pursuant to agreements to construct and operate waste and energy facilities. For some projects, such performance guarantees include obligations to repay certain financial obligations if the project revenues are insufficient to do so, to repurchase interests of project investors under limited circumstances, or to obtain or guarantee financing for a project. With respect to our businesses, we have issued guarantees to municipal clients and other parties that our subsidiaries will perform in accordance with contractual terms, including, where required, the payment of damages or other obligations. Additionally, damages payable under such guarantees for our energy-from-waste facilities could expose us to recourse liability on project debt. If we must perform under one or more of such guarantees, our liability for damages upon contract termination would be reduced by funds held in trust and proceeds from sales of the facilities securing the project debt and is presently not estimable. Depending upon the circumstances giving rise to such damages, the contractual terms of the applicable contracts, and the contract counterparty s choice of remedy at the time a claim against a guarantee is made, the amounts owed pursuant to one or more of such guarantees could be greater than our then-available sources of funds. To date, we have not incurred material liabilities under such guarantees.

COVANTA HOLDING CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Concluded)

NOTE 21. QUARTERLY DATA (UNAUDITED)

The following table presents quarterly unaudited financial data for the periods presented on the consolidated statements of income (in millions, except per share amounts):

	0000	0000	0000	0000	0000	0000	0000	0000
	Calendar Quarter Ended							
	March 31,		June 30,		September 30,		December 31,	
	2011	2010	2011	2010	2011	2010	2011	2010
Operating revenue	$ 377	$ 368	$ 411	$ 393	$ 432	$ 403	$ 430	$ 419
Operating (loss) income	(2)	(4)	53	50	87	46	80	63
(Loss) income from continuing operations	(14)	(15)	18	17	51	12	29	21
Income (loss) from discontinued operations	149	10	2	11	(7)	11	(1)	4
Net income (loss)	135	(5)	20	28	44	23	28	25
Net income (loss) attributable to Covanta Holding Corporation	133	(7)	18	26	42	20	26	23
Earnings (loss) per share:								
Basic:								
Continuing operations	$ (0.09)	$ (0.10)	$ 0.12	$ 0.10	$ 0.35	$ 0.07	$ 0.20	$ 0.13
Discontinued operations	1.00	0.05	0.01	0.07	(0.05)	0.06	(0.01)	0.02
Covanta Holding Corporation	$ 0.91	$ (0.05)	$ 0.13	$ 0.17	$ 0.30	$ 0.13	$ 0.19	$ 0.15
Diluted:								
Continuing operations	$ (0.09)	$ (0.10)	$ 0.12	$ 0.10	$ 0.35	$ 0.07	$ 0.20	$ 0.13
Discontinued operations	1.00	0.05	0.01	0.07	(0.05)	0.06	(0.01)	0.02
Covanta Holding Corporation	$ 0.91	$ (0.05)	$ 0.13	$ 0.17	$ 0.30	$ 0.13	$ 0.19	$ 0.15
Cash dividend declared per share:	$ 0.075	$	$ 0.075	$ 1.50	$ 0.075	$	$ 0.075	$

NOTE 22. SUBSEQUENT EVENTS

Stanislaus EfW Facility

On January 14, 2012, our Stanislaus, California energy-from-waste facility experienced a turbine generator failure. Damage to the turbine generator was extensive and operations at the facility were suspended promptly to assess the cause and extent of damage. The facility is capable of processing waste without utilizing the turbine generator to generate electricity, and we expect to resume waste processing operations during the first quarter of 2012. We expect the facility will not be able to generate electricity for a substantial portion of 2012. The cost of repair or replacement, and business interruption losses, are insured under the terms of applicable insurance policies, subject to deductibles. We believe this event will not have a material impact our results of operations.

1.00% Senior Convertible Debentures due 2027

In 2007, we completed an underwritten public offering of $374 million aggregate principal amount of Debentures. In November 2010, we commenced a tender offer to purchase for cash any and all of our outstanding 1.00% Senior Convertible Debentures due 2027. During the year ended December 31, 2011 and 2010, $32 million and $317 million, respectively, of the Debentures were purchased. As of December 31, 2011, there were $25 million aggregate principal amount of the Debentures outstanding.

At our option, the Debentures were subject to redemption at any time on or after February 1, 2012, in whole or in part, at a redemption price equal to 100% of the principal amount of the Debentures being redeemed, plus accrued and unpaid interest (including contingent interest, if any). In January 2012, we provided notice to the holders of the remaining Debentures related to our option to repurchase all of their Debentures, or any portion thereof that is a multiple of $1,000 principal amount, on February 1, 2012. On February 1, 2012, holders of $23 million of outstanding Debentures exercised their option for us to redeem the Debentures at par. We plan to exercise our call option to redeem the remaining $2 million of Debentures during the first quarter of 2012.

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Schedule II Valuation and Qualifying Accounts

Receivables Valuation and Qualifying Accounts

		00000	00000	00000	00000	00000
			Additions			
		Balance Beginning of Year	Charged to Costs and Expense	Charged to Other Accounts (In millions)	Deductions	Balance at End of Period
2011	Reserves for doubtful accounts[1]	$ 3	$ 2	$	$	$ 5
2010	Reserves for doubtful accounts[1]	$ 3	$ 3	$	$ 3	$ 3
2009	Reserves for doubtful accounts[1]	$ 4	$ 2	$	$ 3	$ 3

(1) Reserves for doubtful accounts are primarily current assets.

Item 9. ***CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE***
There were no disagreements with accountants on accounting and financial disclosure.

Item 9A. ***CONTROLS AND PROCEDURES***
Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of Covanta s disclosure controls and procedures, as required by Rule 13a-15(b) and 15d-15(b) under the Securities Exchange Act of 1934 (the Exchange Act) as of December 31, 2011. Our disclosure controls and procedures are designed to reasonably assure that information required to be disclosed by us in reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding disclosure and is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms.

Our Chief Executive Officer and Chief Financial Officer have concluded that, based on their review, our disclosure controls and procedures are effective to provide such reasonable assurance.

Our management, including the Chief Executive Officer and Chief Financial Officer, believes that any disclosure controls and procedures or internal controls and procedures, 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 consider the benefits of controls relative to their costs. Inherent limitations within a control system include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the control. While the design of any system of controls is to provide reasonable assurance of the effectiveness of disclosure controls, such design is also based in part upon certain assumptions about the likelihood of future events, and such assumptions, while reasonable, may not take into account all potential future conditions. Accordingly, because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and may not be prevented or detected.

Our management has conducted an assessment of its internal control over financial reporting as of December 31, 2011 as required by Section 404 of the Sarbanes-Oxley Act. Management s report on our internal control over financial reporting is included on page 129. The Independent Registered Public Accounting Firm s report with respect to the effectiveness of our internal control over financial reporting is included on page 130. Management has concluded that internal control over financial reporting is effective as of December 31, 2011.

Changes in Internal Control over Financial Reporting

There has not been any change in our system of internal control over financial reporting during the fiscal quarter ended December 31, 2011 that has materially affected, or is reasonably likely to materially affect, internal control over financial reporting.

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Management s Report on Internal Control over Financial Reporting

The management of Covanta Holding Corporation (Covanta) is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f).

All internal control systems, no matter how well designed, have inherent limitations including the possibility of human error and the circumvention or overriding of controls. Further, because of changes in conditions, the effectiveness of internal controls may vary over time. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Accordingly, even those systems determined to be effective can provide us only with reasonable assurance with respect to financial statement preparation and presentation.

Covanta s management has assessed the effectiveness of internal control over financial reporting as of December 31, 2011, following the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control Integrated Framework.* Based on our assessment under the framework in *Internal Control Integrated Framework*, Covanta s management has concluded that our internal control over financial reporting was effective as of December 31, 2011.

Our independent auditors, Ernst & Young LLP, have issued an attestation report on our internal control over financial reporting. This report appears on page 130 of this report on Form 10-K for the year ended December 31, 2011.

/s/ Anthony J. Orlando
Anthony J. Orlando
President and Chief Executive Officer

/s/ Sanjiv Khattri
Sanjiv Khattri
Executive Vice President and Chief Financial Officer

February 15, 2012

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Covanta Holding Corporation

We have audited Covanta Holding Corporation s internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Covanta Holding Corporation s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Covanta Holding Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Covanta Holding Corporation as of December 31, 2011 and 2010, and the related consolidated statements of income, equity, and cash flows for each of the three years in the period ended December 31, 2011 and our report dated February 15, 2012 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

MetroPark, New Jersey

February 15, 2012

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Item 9B. ***OTHER INFORMATION***
None.

PART III

Item 10. ***DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE***
Information regarding our executive officers is incorporated by reference herein from the discussion under *Item 1. Business Executive Officers* of this Annual Report on Form 10-K. We have a Code of Conduct and Ethics for Senior Financial Officers and a Policy of Business Conduct. The Code of Conduct and Ethics applies to our Chief Executive Officer, Chief Financial Officer, Chief Accounting Officer, Controller or persons performing similar functions. The Policy of Business Conduct applies to all of our directors, officers and employees and those of our subsidiaries. Both the Code of Conduct and Ethics and the Policy of Business Conduct are posted on our website at www.covantaholding.com on the Corporate Governance page. We will post on our website any amendments to or waivers of the Code of Conduct and Ethics or Policy of Business Conduct for executive officers or directors, in accordance with applicable laws and regulations. The remaining information called for by this Item 10 is incorporated by reference herein from the discussions under the headings Election of Directors, Board Structure and Composition Committees of the Board, and Security Ownership of Certain Beneficial Owners and Management Section 16(a) Beneficial Ownership Reporting Compliance in our definitive Proxy Statement for the 2012 Annual Meeting of Stockholders.

Item 11. ***EXECUTIVE COMPENSATION***
The information required by Item 11 of Form 10-K is incorporated by reference herein from the discussions under the headings Compensation Committee Report, Board Structure and Composition Compensation of the Board, and Executive Compensation in our definitive Proxy Statement for the 2012 Annual Meeting of Stockholders.

Item 12. ***SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS***
The information required by Item 12 of Form 10-K with respect to directors, executive officers and certain beneficial owners is incorporated by reference herein from the discussion under the heading Security Ownership of Certain Beneficial Owners and Management in our definitive Proxy Statement for the 2012 Annual Meeting of Stockholders.

Equity Compensation Plans

The following table sets forth information regarding the number of our securities which could be issued upon the exercise of outstanding options, the weighted average exercise price of those options in the 2004 and 1995 Stock and Incentive Plans and the number of securities remaining for future issuance under the 2004 Stock and Incentive Plan as of December 31, 2011. Upon adoption of the 2004 Stock and Incentive Plans, future issuances under the 1995 Stock and Incentive Plan were terminated. We do not have any equity compensation plans that have not been approved by our security holders.

Plan Category	00000 Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (A)	00000 Weighted Average Exercise Price of Outstanding Options, Warrants and Rights (B)	00000 Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column A)

			(C)
Equity Compensation Plans Approved By Security Holders	2,052,227	$ 18.24	3,648,128[1]
Equity Compensation Plans Not Approved By Security Holders	N/A	N/A	N/A
Total	2,052,227	$ 18.24	3,648,128

(1) Of the 3,648,128 shares that remain available for future issuance, 3,281,677 shares are currently reserved for issuance under the equity compensation plans.

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Item 13. ***CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE***
The information required by Item 13 of Form 10-K is incorporated by reference herein from the discussions under the headings Board Structure and Composition and Certain Relationships and Related Transactions in the definitive Proxy Statement for the 2012 Annual Meeting of Stockholders.

Item 14. ***PRINCIPAL ACCOUNTANT FEES AND SERVICES***
The information required by Item 14 of Form 10-K is incorporated by reference herein from the discussion under the heading Independent Auditor Fees in the definitive Proxy Statement for the 2012 Annual Meeting of Stockholders.

PART IV

Item 15. ***EXHIBITS, FINANCIAL STATEMENT SCHEDULES***
(a) Documents filed as part of this report:

(1) Consolidated Financial Statements of Covanta Holding Corporation:
Included in Part II of this Report:

Consolidated Statements of Income for the years ended December 31, 2011, 2010, and 2009

Consolidated Balance Sheets as of December 31, 2011 and 2010

Consolidated Statements of Cash Flows for the years ended December 31, 2011, 2010, and 2009

Consolidated Statements of Equity for the years ended December 31, 2011, 2010, and 2009

Notes to Consolidated Financial Statements, for the years ended December 31, 2011, 2010, and 2009

Report of Ernst & Young LLP, Independent Auditors, on the consolidated financial statements of Covanta Holding Corporation for the years ended December 31, 2011, 2010, and 2009

(2) Financial Statement Schedules of Covanta Holding Corporation:
Included in Part II of this report: Schedule II Valuation and Qualifying Accounts

Included as Exhibit F in this Part IV: Separate financial statements of fifty percent or less owned persons. See Appendix F-1 through F-28.

All other schedules are omitted because they are not applicable, not significant or not required, or because the required information is included in the financial statement notes thereto.

(3) Exhibits:

EXHIBIT INDEX

Exhibit No.	Description
Plan of Acquisition, Reorganization, Arrangement, Liquidation or Succession.	
2.1	Share Purchase Agreement by and among Covanta Holding Corporation and Veolia Environmental Services North America Corp. (incorporated herein by reference to Exhibit 2.1 of Covanta Holding Corporation s Current Report on Form 8-K dated July 3, 2009 and filed with the SEC on July 6, 2009).
2.2	Sale and Purchase Agreement, dated December 13, 2010, by and between Covanta Energy International Investments Ltd. and New Growth V.B.
Articles of Incorporation and By-Laws.	
3.1	Restated Certificate of Incorporation of Covanta Holding Corporation (incorporated herein by reference to Exhibit 3.1 of Covanta Holding Corporation s Current Report on Form 8-K dated January 19, 2007 and filed with the SEC on January 19, 2007).
3.2	Amended and Restated Bylaws of Covanta Holding Corporation, effective December 8, 2011 (incorporated herein by reference to Exhibit 3.1(ii) of Covanta Holding Corporation s Current Report on Form 8-K dated December 8, 2011 filed with the SEC on December 9, 2011).

Instruments Defining Rights of Security Holders, Including Indentures.

4.1	Specimen certificate representing shares of Covanta Holding Corporation s common stock (incorporated herein by reference to Exhibit 4.1 of Covanta Holding Corporation s Amendment No. 3 to Registration Statement on Form S-1 filed with the SEC on December 19, 2005).
4.2	Registration Rights Agreement dated November 8, 2002 among Covanta Holding Corporation and SZ Investments, L.L.C. (incorporated herein by reference to Exhibit 10.6 of Covanta Holding Corporation s Annual Report on Form 10-K for the year ended December 27, 2002 and filed with the SEC on March 27, 2003).
4.3	Registration Rights Agreement between Covanta Holding Corporation, D.E. Shaw Laminar Portfolios, L.L.C., SZ Investments, L.L.C., and Third Avenue Trust, on behalf of The Third Avenue Value Fund Series, dated December 2, 2003 (incorporated herein by reference to Exhibit 4.1 of Covanta Holding Corporation s Current Report on Form 8-K dated December 2, 2003 and filed with the SEC on December 5, 2003).
4.4	Indenture dated as of January 18, 2007 between Covanta Holding Corporation and Wells Fargo Bank, National Association, as trustee (incorporated herein by reference to Exhibit 4.1 of Covanta Holding Corporation s Registration Statement on Form S-3 (Reg. No. 333-140082) filed with the SEC on January 19, 2007).
4.5	First Supplemental Indenture dated as of January 31, 2007 between Covanta Holding Corporation and Wells Fargo Bank, National Association, as trustee (including the Form of Global Debenture) (incorporated herein by reference to Exhibit 4.2 of Covanta Holding Corporation s Current Report on Form 8-K dated January 31, 2007 and filed with the SEC on February 6, 2007).
4.6	Second Supplemental Indenture dated as of December 1, 2010 between Covanta Holding Corporation and Wells Fargo Bank, National Association, as trustee (including the Form of Note) (incorporated herein by reference to Exhibit 4.3 of Covanta Holding Corporation s Current Report on Form 8-K dated December 1, 2010 and filed with the SEC on December 1, 2010).
4.7	Indenture dated May 22, 2009 by and among Covanta Holding Corporation and Wells Fargo Bank, National Association (incorporated herein by reference to Exhibit 4.1 of Covanta Holding Corporation s Current Report on Form 8-K dated May 22, 2009 and filed with the SEC on May 22, 2009).
4.8	First Supplemental Indenture dated as of June 10, 2009 between Covanta Holding Corporation and Wells Fargo Bank, National Association, as trustee (incorporated herein by reference to Exhibit 4.1 of Covanta Holding Corporation s Current Report on Form 8-K dated June 15, 2009 and filed with the SEC on June 15, 2009).

Material Contracts.

10.1	Tax Sharing Agreement, dated as of March 10, 2004, by and between Covanta Holding Corporation, Covanta Energy Corporation, and Covanta Power International Holdings, Inc. (incorporated herein by reference to Exhibit 10.25 of Covanta Holding Corporation s Annual Report on Form 10-K for the year ended December 31, 2003 and filed with the SEC on March 15, 2004).
10.2	Corporate Services and Expenses Reimbursement Agreement, dated as of March 10, 2004, by and between Covanta Holding Corporation and Covanta Energy Corporation (incorporated herein by reference to Exhibit 10.26 of Covanta Holding Corporation s Annual Report on Form 10-K for the year ended December 31, 2003 and filed with the SEC on March 15, 2004).
10.3	Management Services and Reimbursement Agreement, dated March 10, 2004, among Covanta Energy Corporation, Covanta Energy Group, Inc., Covanta Projects, Inc., Covanta Power International Holdings, Inc., and certain Subsidiaries listed therein (incorporated herein by reference to Exhibit 10.30 of Covanta Holding Corporation s Annual Report on Form 10-K for the year ended December 31, 2003 and filed with the SEC on March 15, 2004).
10.4 *	Covanta Energy Savings Plan, as amended by December 2003 amendment (incorporated herein by reference to Exhibit 10.25 of Covanta Holding Corporation s Annual Report on Form 10-K for the year ended December 31, 2004 and filed with the SEC on March 16, 2005).

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10.5 *	Covanta Holding Corporation Equity Award Plan for Directors, as amended (incorporated herein by reference to Exhibit B of Covanta Holding Corporation s 2008 Definitive Proxy Statement on Form DEF 14A filed with the SEC on April 1, 2008).
10.6 *	Covanta Holding Corporation Equity Award Plan for Employees and Officers, as amended (incorporated herein by reference to Exhibit 10.1 of Covanta Holding Corporation s Current Report on Form 8-K dated May 12, 2009 and filed with the SEC on May 12, 2009).
10.7 *	Form of Covanta Holding Corporation Stock Option Agreement for Employees and Officers (incorporated herein by reference to Exhibit 4.3 of Covanta Holding Corporation s Registration Statement on Form S-8 filed with the SEC on May 7, 2008).
10.8 *	Form of Covanta Holding Corporation Restricted Stock Award Agreement (incorporated herein by reference to Exhibit 4.4 of Covanta Holding Corporation s Registration Statement on Form S-8 filed with the SEC on May 7, 2008).
10.9 *	Covanta Holding Corporation 1995 Stock and Incentive Plan (as amended effective December 12, 2000 and as further amended effective July 24, 2002) (incorporated herein by reference to Appendix A to Covanta Holding Corporation s Proxy Statement filed with the SEC on June 24, 2002).
10.10 *	Form of Growth Equity Award Agreement (incorporated herein by reference to Exhibit 10.1 of Covanta Holding Corporation s Current Report on Form 8-K dated February 24, 2010 and filed with the SEC on March 2, 2010).
10.11 *	Covanta Energy Corporation Senior Officers Severance Plan (incorporated herein by reference to Exhibit 10.2 of Covanta Holding Corporation s Current Report on Form 8-K dated February 24, 2010 and filed with the SEC on March 2, 2010).
10.12 *	Form of Covanta Holding Corporation Amendment to Stock Option Agreement for Employees and Officers (incorporated herein by reference to Exhibit 10.1 of Covanta Holding Corporation s Current Report on Form 8-K dated March 18, 2005 and filed with the SEC on March 24, 2005).
10.13 *	Summary Description of Covanta Holding Corporation Cash Bonus Program, dated February 2008 (incorporated herein by reference to Exhibit 10.14 of Covanta Holding Corporation s Annual Report on Form 10-K for the fiscal year ended December 31, 2007).
10.14	Amendment No. 1 to Tax Sharing Agreement, dated as of June 24, 2005, by and between Covanta Holding Corporation, Covanta Energy Corporation and Covanta Power International Holdings, Inc., amending Tax Sharing Agreement between Covanta Holding Corporation, Covanta Energy Corporation and Covanta Power International Holdings, Inc. dated as of March 10, 2004 (incorporated herein by reference to Exhibit 10.8 of Covanta Holding Corporation s Current Report on Form 8-K dated June 24, 2005 and filed with the SEC on June 30, 2005).
10.15 *	Offer Letter between Sanjiv Khattri and Covanta Holding Corporation dated August 3, 2010 (incorporated by reference to Exhibit 10.1 of Covanta Holding Corporation s Current Report on Form 8-K dated August 9, 2010 and filed with the SEC on August 10, 2010).
10.16	Rehabilitation Plan Implementation Agreement, dated January 11, 2006, by and between John Garamendi, Insurance Commissioner of the State of California, in his capacity as Trustee of the Mission Insurance Company Trust, the Mission National Insurance Company Trust and the Enterprise Insurance Company Trust, on the one hand, and Covanta Holding Corporation, on the other hand (incorporated herein by reference to Exhibit 10.1 of Covanta Holding Corporation s Current Report on Form 8-K dated March 2, 2006 and filed with the SEC on March 6, 2006).
10.17	Amendment to Rehabilitation Plan Implementation Agreement, accepted and agreed to on March 17, 2006 (incorporated herein by reference to Exhibit 10.1 of Covanta Holding Corporation s Current Report on Form 8-K dated March 17, 2006 and filed with the SEC on March 20, 2006).
10.18	Amendment to Agreement Regarding Closing (Exhibit A to the Rehabilitation Plan Implementation Agreement), dated January 10, 2006, by and between John Garamendi, Insurance Commissioner of the State of California, in his capacity as Trustee of the Mission Insurance Company Trust, the Mission National Insurance Company Trust, and the Enterprise Insurance Company Trust, on the one hand, and Covanta Holding Corporation, on the other hand (incorporated herein by reference to Exhibit 10.2 of Covanta Holding Corporation s Current Report on Form 8-K dated March 2, 2006 and filed with the SEC on March 6, 2006).

10.19	Latent Deficiency Claims Administration Procedures Agreement (Exhibit B to the Rehabilitation Plan Implementation Agreement), dated January 11, 2006, by and between John Garamendi, Insurance Commissioner of the State of California, in his capacity as Trustee of the Mission Insurance Company Trust, the Mission National Insurance Company Trust and the Enterprise Insurance Company Trust, on the one hand, and Covanta Holding Corporation on the other hand (incorporated herein by reference to Exhibit 10.3 of Covanta Holding Corporation s Current Report on Form 8-K dated March 2, 2006 and filed with the SEC on March 6, 2006).
10.20 *	Form of Covanta Holding Corporation Restricted Stock Award Agreement for Directors (incorporated herein by reference to Exhibit 10.1 of Covanta Holding Corporation s Current Report on Form 8-K dated May 31, 2006 and filed with the SEC on June 2, 2006).
10.21	Credit and Guaranty Agreement, dated as of February 9, 2007, among Covanta Energy Corporation, Covanta Holding Corporation, certain subsidiaries of Covanta Energy Corporation, as guarantors, the lenders party thereto, JPMorgan Chase Bank, N.A., as Administrative Agent, Collateral Agent, Revolving Issuing Bank and a Funded LC Issuing Bank, UBS AG, Stamford Branch, as a Funded LC Issuing Bank, Lehman Commercial Paper Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as Syndication Agents, and Bank of America, N.A. and Barclays Bank PLC, as Documentation Agents (incorporated herein by reference to Exhibit 10.1 of Covanta Holding Corporation s Current Report on Form 8-K dated February 9, 2007 and filed with the SEC on February 15, 2007).
10.22	Pledge and Security Agreement, dated as of February 9, 2007, between each of Covanta Energy Corporation and the other grantors party thereto, and JPMorgan Chase Bank, N.A., as Collateral Agent (incorporated herein by reference to Exhibit 10.2 of Covanta Holding Corporation s Current Report on Form 8-K dated February 9, 2007 and filed with the SEC on February 15, 2007).
10.23	Pledge Agreement, dated as of February 9, 2007, between Covanta Holding Corporation and JPMorgan Chase Bank, N.A., as Collateral Agent (incorporated herein by reference to Exhibit 10.3 of Covanta Holding Corporation s Current Report on Form 8-K dated February 9, 2007 and filed with the SEC on February 15, 2007).
10.24	Intercompany Subordination Agreement, dated as of February 9, 2007, among Covanta Energy Corporation, Covanta Holding Corporation, certain subsidiaries of Covanta Energy Corporation, as Guarantor Subsidiaries, certain other subsidiaries of Covanta Energy Company, as Excluded Subsidiaries or Unrestricted Subsidiaries, and JPMorgan Chase Bank, N.A., as Administrative Agent (incorporated herein by reference to Exhibit 10.4 of Covanta Holding Corporation s Current Report on Form 8-K dated February 9, 2007 and filed with the SEC on February 15, 2007).
10.25	Form of Covanta Holding Corporation Indemnification Agreement, entered into with each of the following: David M. Barse, Ronald J. Broglio, Peter C.B. Bynoe, Linda J. Fisher, Joseph M. Holsten, Anthony J. Orlando, William C. Pate, Robert S. Silberman, Jean Smith, Samuel Zell, Timothy J. Simpson, Sanjiv Khattri, Thomas E. Bucks, John M. Klett and Seth Myones (incorporated herein by reference to Exhibit 10.1 of Covanta Holding Corporation s Current Report on Form 8-K dated December 6, 2007 and filed with the SEC on December 12, 2007.
10.26	Equity Commitment for Rights Offering between Covanta Holding Corporation and SZ Investments L.L.C. dated February 1, 2005 (incorporated herein by reference to Exhibit 10.2 of Covanta Holding Corporation s Current Report on Form 8-K dated January 31, 2005 and filed with the SEC on February 2, 2005).
10.27	Equity Commitment for Rights Offering between Covanta Holding Corporation and EGI-Fund (05-07) Investors, L.L.C. dated February 1, 2005 (incorporated herein by reference to Exhibit 10.3 of Covanta Holding Corporation s Current Report on Form 8-K dated January 31, 2005 and filed with the SEC on February 2, 2005).
10.28	Equity Commitment for Rights Offering between Covanta Holding Corporation and Third Avenue Trust, on behalf of The Third Avenue Value Fund Series dated February 1, 2005 (incorporated herein by reference to Exhibit 10.4 of Covanta Holding Corporation s Current Report on Form 8-K dated January 31, 2005 and filed with the SEC on February 2, 2005).

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10.29	Purchase Agreement dated May 18, 2009 by and among Covanta Holding Corporation and Barclays Capital Inc., Citigroup Global Markets Inc. and J.P. Morgan Securities Inc., as representatives of the several initial purchasers named therein (incorporated herein by reference to Exhibit 10.1 of Covanta Holding Corporation s Current Report on Form 8-K dated May 22, 2009 and filed with the SEC on May 22, 2009).
10.30	Form of Confirmation of Cash Convertible Note Hedge Transaction (incorporated herein by reference to Exhibit 10.1 of Covanta Holding Corporation s Current Report on Form 8-K dated May 22, 2009 and filed with the SEC on May 22, 2009).
10.31	Form of Confirmation of Warrant (incorporated herein by reference to Exhibit 10.1 of Covanta Holding Corporation s Current Report on Form 8-K dated May 22, 2009 and filed with the SEC on May 22, 2009).
10.32	Sale and Purchase Agreement, dated December 13, 2010, by and between Covanta Energy International Investments Ltd. and New Growth B.V. (incorporated herein by reference to Exhibit 2.1 of Covanta Holding Corporation s Current Report on Form 8-K dated March 28, 2011 and filed with the SEC on March 28, 2011).
12.1	Computation of Ratio of Earnings to Fixed Charges.
21.1	List of Subsidiaries.
23.1	Consent of Independent Registered Public Accounting Firm of Covanta Holding Corporation and Subsidiaries: Ernst & Young LLP.
23.2	Consent of Independent Registered Public Accounting Firm of Quezon Power, Inc.: Sycip Gorres Velayo & Co., a member practice of Ernst & Young Global.
31.1	Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended).
31.2	Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended).
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 from the Chief Executive Officer and the Chief Financial Officer of Covanta Holding Corporation.
101.INS	XBRL Instance Document**
101.SCH	XBRL Taxonomy Extension Schema**
101.CAL	XBRL Taxonomy Extension Calculation Linkbase**
101.DEF	XBRL Taxonomy Extension Definition Document**
101.LAB	XBRL Taxonomy Extension Labels Linkbase**
101.PRE	XBRL Taxonomy Extension Presentation Linkbase**

Not filed herewith, but incorporated herein by reference.
* Management contract or compensatory plan or arrangement.
** XBRL information is furnished, not filed.

Pursuant to paragraph 601(b)(4)(iii)(A) of Regulation S-K, the registrant has omitted from the foregoing list of exhibits, and hereby agrees to furnish to the Securities and Exchange Commission, upon its request, copies of certain instruments, each relating to long-term debt not exceeding 10% of the total assets of the registrant and its subsidiaries on a consolidated basis.

(b) Exhibits: See list of Exhibits in this Part IV, Item 15(a)(3) above.

(c) Financial Statement Schedules: See Part IV, Item 15(a)(2) above.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

COVANTA HOLDING CORPORATION

(Registrant)

By: /s/ ANTHONY J. ORLANDO
Anthony J. Orlando
President and Chief Executive Officer

Date: February 15, 2012

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Name	Title	Date
/s/ ANTHONY J. ORLANDO Anthony J. Orlando	President and Chief Executive Officer and Director (Principal Executive Officer)	February 15, 2012
/s/ SANJIV KHATTRI Sanjiv Khattri	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	February 15, 2012
/s/ THOMAS E. BUCKS Thomas E. Bucks	Vice President and Chief Accounting Officer (Principal Accounting Officer)	February 15, 2012
/s/ SAMUEL ZELL Samuel Zell	Chairman of the Board	February 15, 2012
/s/ DAVID M. BARSE David M. Barse	Director	February 15, 2012
/s/ RONALD J. BROGLIO Ronald J. Broglio	Director	February 15, 2012
/s/ PETER C. B. BYNOE Peter C. B. Bynoe	Director	February 15, 2012
/s/ LINDA J. FISHER Linda J. Fisher	Director	February 15, 2012
/s/ JOSEPH M. HOLSTEN Joseph M. Holsten	Director	February 15, 2012
/s/ WILLIAM C. PATE	Director	February 15, 2012

William C. Pate		
/s/ ROBERT S. SILBERMAN	Director	February 15, 2012
Robert S. Silberman		
/s/ JEAN SMITH	Director	February 15, 2012
Jean Smith		

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Quezon Power, Inc.

Consolidated Financial Statements
December 31, 2010 and 2009
and Years Ended December 31, 2010, 2009 and 2008
(In United States Dollars)

and

Report of Independent Registered Public Accounting Firm

SyCip Gorres Velayo & Co.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Management Committee of

Quezon Power, Inc.

We have audited the accompanying consolidated balance sheets of Quezon Power, Inc. (incorporated in the Cayman Islands, British West Indies) and subsidiary (the Company) as of December 31, 2010 and 2009, and the related consolidated statements of income, changes in equity, and cash flows for each of the three years in the period ended December 31, 2010. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company s internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Quezon Power, Inc. and subsidiary as of December 31, 2010 and 2009, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles.

/s/ Sycip Gorres Velayo & Co.

a Member Practice of Ernst & Young Global

Makati City, Philippines

January 25, 2011

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QUEZON POWER, INC.

CONSOLIDATED BALANCE SHEETS

	As of December 31	
	2010	2009
ASSETS		
Current Assets		
Cash	**$59,420,264**	$48,083,678
Accounts receivable - trade (Note 9)	**39,242,064**	34,615,934
Fuel inventories	**12,002,766**	22,930,156
Spare parts	**17,997,484**	16,328,184
Due from related parties (Note 7)	**106,518**	262,841
Deferred income taxes (Note 4)		748,659
Prepaid expenses and other current assets	**7,607,816**	8,331,404
Total Current Assets	**136,376,912**	131,300,856
Property, Plant and Equipment - net (Notes 3 and 6)	**592,594,199**	609,508,348
Deferred Financing Costs (Notes 5 and 6)	**6,106,075**	9,257,834
Deferred Income Taxes - net (Note 4)	**8,408,679**	13,066,407
Deferred Input Value-added Tax	**138,543**	240,518
	$743,624,408	$763,373,963
LIABILITIES AND EQUITY		
Current Liabilities		
Short-term notes payable (Note 5)	**$19,000,000**	$19,000,000
Accounts payable and accrued expenses	**18,418,678**	18,542,175
Due to related parties (Note 7)	**464,406**	348,699
Current portion of (Notes 5 and 6):		
Long-term notes payable	**6,250,000**	6,250,000
Long-term loans payable	**35,389,726**	35,389,726
Bonds payable	**12,900,000**	12,900,000
Income taxes payable (Note 4)	**8,070,606**	5,916,040
Deferred income taxes (Note 4)	**129,783**	
Total Current Liabilities	**100,623,199**	98,346,640
Long-term Notes Payable - net of current portion (Note 5)	**81,250,000**	87,500,000
Long-term Loans Payable - net of current portion (Note 6)	**35,389,725**	70,779,451
Bonds Payable - net of current portion (Note 6)	**120,400,000**	133,300,000
Asset Retirement Obligation (Note 2)	**5,441,629**	5,143,495
Deferred Income Tax (Note 4)	**58,170,228**	53,640,893
Other Noncurrent Liability (Note 9)	**2,610,338**	1,196,616
Total Liabilities	**403,885,119**	449,907,095

(Forward)

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	As of December 31	
	2010	2009
Equity		
Capital Stock - $0.01 par value (Note 8)		
Class A - 26,151 shares issued and outstanding	**$262**	$262
Class B - 2,002 shares issued and outstanding	**20**	20
Class C - 71,947 shares issued and outstanding	**719**	719
Class D - 10 shares issued and outstanding		
Total Capital Stock	**1,001**	1,001
Additional Paid-in Capital	**207,641,266**	207,641,266
Retained Earnings	**124,246,927**	98,590,742
Total Quezon Power, Inc s Equity	**331,889,194**	306,233,009
Noncontrolling Interest	**7,850,095**	7,233,859
Total Equity	**339,739,289**	313,466,868
	$743,624,408	$763,373,963

See accompanying Notes to Consolidated Financial Statements.

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QUEZON POWER, INC.

CONSOLIDATED STATEMENTS OF INCOME

	For the Years Ended December 31		
	2010	2009	2008
OPERATING REVENUES (Note 9)	**$338,207,261**	$324,127,186	$311,983,231
OPERATING EXPENSES			
Fuel costs	**133,935,368**	130,494,648	116,811,397
Operations and maintenance	**36,192,836**	39,752,110	35,344,253
Depreciation and amortization (Note 3)	**17,837,895**	17,819,243	17,989,675
General and administrative	**3,997,045**	3,855,125	4,864,729
	191,963,144	191,921,126	175,010,054
INCOME FROM OPERATIONS	**146,244,117**	132,206,060	136,973,177
OTHER INCOME (CHARGES)			
Discount on non-interest bearing advances (Note 9)	**1,618,053**	1,734,410	
Foreign exchange gains (losses) - net	**542,757**	997,107	(1,176,568)
Interest income	**86,305**	101,820	1,392,288
Interest expense (Notes 5 and 6)	**(27,630,840)**	(31,807,496)	(35,484,934)
Amortization of deferred financing costs	**(3,151,759)**	(3,814,342)	(4,425,569)
Others - net	**(1,172,799)**	(729,247)	(1,489,522)
	(29,708,283)	(33,517,748)	(41,184,305)
INCOME BEFORE INCOME TAX	**116,535,834**	98,688,312	95,788,872
PROVISIONS FOR (BENEFITS FROM) INCOME TAX (Note 4)			
Current	**40,959,908**	33,896,873	43,911,685
Deferred	**10,065,505**	9,106,407	(13,361,437)
	51,025,413	43,003,280	30,550,248
NET INCOME	**65,510,421**	55,685,032	65,238,624
Net income attributable to noncontrolling interest in subsidiary [Note 1(a)]	**(1,536,236)**	(1,305,690)	(1,530,043)
NET INCOME ATTRIBUTABLE TO QUEZON POWER, INC.	**$63,974,185**	$54,379,342	$63,708,581

See accompanying Notes to Consolidated Financial Statements.

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QUEZON POWER, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended December 31		
	2010	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	**$65,510,421**	$55,685,032	$65,238,624
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**17,837,895**	17,819,243	17,989,675
Deferred income taxes - net	**10,065,505**	9,106,407	(13,361,437)
Amortization of deferred financing costs	**3,151,759**	3,814,342	4,425,569
Accretion expense on asset retirement obligation	**298,134**	280,644	325,808
Amortization of discount on non-interest bearing advances	**181,775**	81,026	
Unrealized foreign exchange losses (gains) - net	**148,462**	(560,196)	1,186,126
Losses on retirement of property, plant and equipment	**727**	223,980	118,902
Discount on non-interest bearing advances	**(1,618,053)**	(1,734,410)	
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Accounts receivable - trade	**(4,850,538)**	4,060,230	(2,233,802)
Fuel inventories	**10,927,390**	(4,476,878)	2,892,792
Spare parts	**(1,669,300)**	(566,622)	93,406
Prepaid expenses and other current assets	**825,563**	(4,849,532)	1,595,826
Increase (decrease) in:			
Accounts payable and accrued expenses	**(245,121)**	(1,294,409)	(1,047,878)
Income taxes payable	**2,154,566**	(4,281,007)	3,853,498
Net cash generated from operating activities	**102,719,185**	73,307,850	81,077,109
CASH FLOW USED IN INVESTING ACTIVITIES			
Additions to property, plant and equipment	**(924,473)**	(1,273,548)	(1,727,856)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from:			
Short-term notes payable	**10,666,667**	8,333,333	
Cash advances from Meralco	**2,850,000**	2,850,000	
Payments of:			
Long-term loans payable	**(35,389,726)**	(35,389,726)	(35,389,726)
Bonds payable	**(12,900,000)**	(12,900,000)	(12,900,000)
Short-term notes payable	**(10,666,667)**	(8,333,333)	
Long-term notes payable	**(6,250,000)**	(6,250,000)	
Distributions to noncontrolling interest in subsidiary	**(920,000)**	(652,000)	(1,414,000)
Dividends paid to holders of capital stock	**(38,318,000)**	(27,155,800)	(58,893,100)
Net changes in accounts with related parties	**276,474**	(621,731)	434,468
Net cash used in financing activities	**(90,651,252)**	(80,119,257)	(108,162,358)

(Forward)

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	For the Years Ended December 31		
	2010	2009	2008
EFFECT OF EXCHANGE RATE CHANGES ON CASH	**$193,126**	$434,139	($987,701)
NET INCREASE (DECREASE) IN CASH	**11,336,586**	(7,650,816)	(29,800,806)
CASH AT BEGINNING OF YEAR	**48,083,678**	55,734,494	85,535,300
CASH AT END OF YEAR	**$59,420,264**	$48,083,678	$55,734,494
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash paid during the year for:			
Interest	**$27,864,944**	$32,077,577	$36,122,989
Income taxes	**38,805,342**	38,177,880	40,058,187

See accompanying Notes to Consolidated Financial Statements.

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QUEZON POWER, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008

	Quezon Power, Inc. Stockholders				
	Capital Stock (Note 8)	Additional Paid-in Capital	Retained Earnings	Noncontrolling Interest in Subsidiary	Total
Balances at January 1, 2008	$1,001	$207,641,266	$66,551,719	$6,464,126	$280,658,112
Comprehensive income					
Net income			63,708,581	1,530,043	65,238,624
Other comprehensive income					
Total comprehensive income			63,708,581	1,530,043	65,238,624
Distributions to noncontrolling interest in subsidiary				(1,414,000)	(1,414,000)
Dividends declared to holders of capital stock at $600.3 per share			(58,893,100)		(58,893,100)
Balances at December 31, 2008	1,001	207,641,266	71,367,200	6,580,169	285,589,636
Comprehensive income					
Net income			54,379,342	1,305,690	55,685,032
Other comprehensive income					
Total comprehensive income			54,379,342	1,305,690	55,685,032
Distributions to noncontrolling interest in subsidiary				(652,000)	(652,000)
Dividends declared to holders of capital stock at $276.8 per share			(27,155,800)		(27,155,800)
Balances at December 31, 2009	1,001	207,641,266	98,590,742	7,233,859	313,466,868
Comprehensive income					
Net income			63,974,185	1,536,236	65,510,421
Other comprehensive income					
Total comprehensive income			63,974,185	1,536,236	65,510,421
Distributions to noncontrolling interest in subsidiary				(920,000)	(920,000)
Dividends declared to holders of capital stock at $390.6 per share			(38,318,000)		(38,318,000)
Balances at December 31, 2010	$1,001	$207,641,266	$124,246,927	$7,850,095	$339,739,289

See accompanying Notes to Consolidated Financial Statements.

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QUEZON POWER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. **Organization and Business**

(a) Organization

Quezon Power, Inc. (QPI; the Company), an exempted company with limited liability, was incorporated in the Cayman Islands, British West Indies on August 4, 1995 primarily: (i) to be a promoter, a general or limited partner, member, associate, or manager of any general or limited partnership, joint venture, trust or other entity, whether established in the Republic of the Philippines or elsewhere and (ii) to engage in the business of power generation and transmission and in any development or other activity related thereto; provided that the Company shall only carry on the business for which a license is required under the laws of the Cayman Islands when so licensed under the terms of such laws. The Philippine Branch (the Branch) was registered with the Philippine Securities and Exchange Commission on March 15, 1996 to carry out the Company s business in the Republic of the Philippines to the extent allowed by law including, but not limited to, developing, designing and arranging financing for a 470-megawatt (MW; net) base load pulverized coal-fired power plant and related electricity transmission line (the Project) located in Quezon Province, Republic of the Philippines. In addition, the Branch is responsible for the organization and is the sole general partner of Quezon Power (Philippines), Limited Co. (the Partnership), a limited partnership in the Philippines. The Partnership is responsible for financing, constructing, owning and operating the Project.

The Branch is the legal and beneficial owner of (i) the entire general partnership interest in the Partnership representing 21% of the economic interest in the Partnership and (ii) a limited partnership interest representing 77% of the economic interest in the Partnership. The remaining 2% economic interest in the Partnership is in the form of a limited partnership interest held by PMR Limited Co. (PMRL). PMRL does not have any equity funding obligation. The accompanying financial statements include the consolidated results of operations of the Company and the Partnership.

Ultimately, 100% of the aggregate capital contributions of QPI to the Partnership were indirectly made by Quezon Generating Company, Ltd. (QGC), a Cayman Islands limited liability company, and Ogden Power Development - Cayman, Inc. (OPD), an indirect wholly-owned subsidiary of Covanta Energy Corporation (CEC), a Delaware corporation. The shareholders of QGC are QGC Holdings, Ltd. (QGCHL) and GPI Quezon, Ltd. (GPIQ), both Cayman Islands companies.

QGCHL is a wholly-owned subsidiary of InterGen N.V. InterGen N.V. is a limited liability company organized under the laws of the Netherlands and is jointly owned by Ontario Teachers Pension Plan and GMR Infrastructure Limited (GMR), a company listed on the Bombay Stock Exchange. In November 2010, GMR signed a purchase and sale agreement to sell its 50% stake to an affiliate of the China Huaneng Group. The acquisition is expected to close during the first half of 2011 and will be subject to relevant consents and closing conditions.

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Following its acquisition of a 90% interest in GPIQ in November 2008, EGCO International (B.V.I.) Limited (EGCO), a British Virgin Islands company, which is a subsidiary of Electricity Generating Public Company Limited, a company listed on the Stock Exchange of Thailand, completed the acquisition of the remaining interest in GPIQ in March 2009.

The economic ownership percentages among QGC, OPD and PMRL in the Partnership are 71.875%, 26.125% and 2%, respectively.

On December 13, 2010, EGCO entered into a definitive agreement with Covanta Energy International Investments, Ltd. (CEIIL) for the acquisition of CEIIL s beneficial economic interest in QPI and its equity interest in Covanta Philippines Operating, Inc. [CPOI; see Note 9(d)]. The acquisition is expected to close during the first half of 2011 and will be subject to customary consents and closing conditions.

(b) Allocation of Earnings

Each item of income and loss of the Partnership for each fiscal year (or portion thereof) shall be allocated 21% to the Company, as a general partner; 77% to the Company, as a limited partner; and 2% to PMRL, as a limited partner.

(c) The Project

The Project is a 470-MW base load pulverized coal-fired electricity generation facility and related transmission line. The Project receives substantially all of its revenue from a 25-year take-or-pay Power Purchase Agreement (PPA) and a Transmission Line Agreement (TLA) with Manila Electric Company (Meralco). Construction of the Project commenced in December 1996 and started commercial operations on May 30, 2000. The total cost of the Project was $895.4 million.

(d) Principal Business Risks

The principal risks associated with the Project include operating risks, dependence on one customer (Meralco), environmental matters, permits and political and economic factors.

The risks associated with operating the Project include the breakdown or failure of equipment or processes and the performance of the Project below expected levels of output or efficiency due to operator fault and/or equipment failure. Meralco is subject to regulation by the Energy Regulatory Commission (ERC) with respect to sales charged to consumers. In addition, pursuant to the Philippine Constitution, the Philippine government at any time may purchase Meralco s property upon payment of just compensation. If the Philippine government was to purchase Meralco s property or the ERC ordered any substantial disallowance of costs, Meralco would remain obligated under the PPA to make the firm payments to the Partnership. Such purchase or disallowance, however, could result in Meralco being unable to fulfill its obligations under the PPA, which would have a material adverse effect on the ability of the Partnership to meet its obligations under the credit facilities [see Notes 5, 6, 9(a) and 9(b)].

The Partnership evaluated all subsequent events through January 25, 2011, the date the consolidated financial statements were available to be issued.

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2. **Summary of Significant Accounting Policies**

Basis of Presentation

The accompanying consolidated financial statements of the Company include the financial position and results of operations of the Partnership and have been prepared in conformity with U.S. generally accepted accounting principles (US GAAP).

Principles of Consolidation

The accompanying consolidated financial statements reflect the results of operations, cash flows and financial position of the Partnership, a 98%-owned and controlled limited partnership. All intercompany transactions have been eliminated. Noncontrolling interest in subsidiary is the portion of equity (net assets) in the Partnership not attributable to the Company.

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include useful lives of long-lived property, plant and equipment, impairment of property, plant and equipment, realizability of the deferred income tax assets, measurement of inventories and asset retirement obligation.

Accounts Receivable

Accounts receivable are recognized and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful accounts is made when collection of the full amount is no longer probable based on an assessment of specific evidence indicating troubled collection, historical experience and prevailing market conditions. An accounts receivable is written off after all collection efforts have ceased.

Inventories

Fuel and spare parts inventories are valued at the lower of cost and market value, net of any provision for inventory losses. Cost is determined using the moving average cost method.

Property, Plant and Equipment

Property, plant and equipment are carried at cost less accumulated depreciation and amortization. Cost includes the fair value of asset retirement obligation, capitalized interest and amortized deferred financing costs incurred in connection with the construction of the Power Plant. Capitalization of interest and amortization of deferred financing costs ceased upon completion of the Power Plant.

Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets. The estimated useful lives of the assets are as follows:

Category	Number of years
Power plant	50
Transmission lines	25
Others	3 to 5

The cost of routine maintenance and repairs is charged to income as incurred while significant renewals and betterments are capitalized. When assets are retired or otherwise disposed of, both the cost and related accumulated depreciation and amortization are removed from the accounts and any resulting gain or loss is credited to or charged against current operations.

Deferred Financing Costs

Deferred financing costs represent the costs incurred in connection with the Partnership s various financing arrangements. These costs are amortized using the effective interest rate method over the terms of the related loans.

Revenue Recognition

Revenue is recognized when electric capacity and energy are delivered to Meralco [see Note 9(a)]. Commencing on the Commercial Operations Date and continuing throughout the term of the PPA, the Partnership receives payment, net of penalty obligation for each kilowatt hour (kWh) of shortfall deliveries, consisting of a Monthly Capacity Payment, Monthly Operating Payment and Monthly Energy Payment as defined in the PPA.

Revenue from transmission lines consists of Capital Cost Recovery Payment (CCRP) and the Transmission Line Monthly Operating Payment as defined in the TLA. Transmission Line Monthly Operating Payment is recognized as revenue in the period it is intended for.

Income Taxes

Under the present Philippine taxation laws, a regular corporate income tax (RCIT) rate of 35% is levied against Philippine taxable income effective November 1, 2005 and 30% starting January 1, 2009 (see Note 4). Net operating losses can be carried forward for three immediately succeeding years.

The Partnership accounts for corporate income taxes in accordance with Accounting Standard Codification (ASC) 740, *Income Taxes*, which requires an asset and liability approach in determining income tax liabilities. The standard recognizes deferred income tax assets and liabilities for the future tax consequences attributable to differences between the financial reporting bases of assets and liabilities and their related tax bases. Deferred income tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred income tax assets are reduced by a valuation allowance if, based on weight of available evidence, it is more likely than not that some or all of the deferred income tax assets will not be realized.

The Company is not subject to RCIT as a result of the Company s incorporation in the Cayman Islands. However, the Philippine branch profit remittance tax of 15% is levied against the total profit applied or earmarked for remittance by the Branch to the Company.

Accounting for Uncertain Income Tax Positions

Uncertain income tax provisions are accounted for under ASC 740. ASC 740 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. The amount recognized is measured as the largest amount of benefit that is more likely than not of being realized upon ultimate settlement. The Company and the Partnership elected to classify interest due on any underpayment of income taxes, if and when required, to general and administrative expenses.

Functional Currency

The functional currency of the Company and the Partnership has been designated as the US dollar because borrowings under the credit facilities are made and repaid in US dollars. In addition, all major agreements are primarily denominated in US dollars or are US dollar linked. Consequently, the transactions and the consolidated financial statements of the Company and the Partnership have been recorded in US dollars.

Valuation of Long-lived Assets

Long-lived assets are evaluated for impairment in accordance with ASC 360, *Property, Plant, and Equipment.* The Partnership periodically evaluates its long-lived assets for events or changes in circumstances that might indicate that the carrying amount of the assets may not be recoverable. The Partnership assesses the recoverability of the assets by determining whether the amortization of such long-lived assets over their estimated lives can be recovered through projected undiscounted future cash flows. The amount of impairment, if any, is measured based on the fair value of the assets. For each of the three years in the period ended December 31, 2010, no such impairment was recorded in the accompanying consolidated statements of income.

Asset Retirement Obligation

The Partnership accounts for asset retirement obligations in accordance with ASC 410, *Asset Retirement and Environmental Obligations*. The Partnership recognizes asset retirement obligations in the period in which they are incurred if a reasonable estimate of fair value can be made. In estimating fair value, the Partnership did not use a market risk premium since a reliable estimate of the premium is not obtainable given that the retirement activities will be performed many years into the future and the Partnership has insufficient information on how much a third party contractor would charge to assume the risk that the actual costs will change in the future. The associated asset retirement costs are capitalized as part of the carrying amount of the Power Plant. No payments of asset retirement obligation were made in 2010 and 2009.

The following table describes all changes to the Partnership s asset retirement obligation as of December 31, 2010 and 2009:

	2010	2009
Asset retirement obligation at beginning of year	**$ 5,143,495**	$ 4,862,851
Accretion expense for the year	**298,134**	280,644
Asset retirement obligation at end of year	**$ 5,441,629**	$ 5,143,495

Fair Value Measurement and Disclosures

The Company and the Partnership apply ASC 820, *Fair Value Measurements and Disclosures,* to determine the fair value of financial instruments measured at fair value and the nonrecurring fair value measurements of nonfinancial assets and liabilities.

Fair value, as defined in ASC 820, is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, or exit price. To increase consistency and enhance disclosure of the fair value of financial instruments, ASC 820 creates a fair value hierarchy to prioritize the inputs used to measure fair value into three categories. The level within the fair value hierarchy is based on the lowest level of input significant to the fair value measurement, where Level 1 is the highest and Level 3 is the lowest. The three levels are defined as follows:

Level 1 - Quoted prices in active markets for identical assets or liabilities.
Level 2 - Quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
Level 3 - Values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable and when determination of the fair value requires significant management judgment or estimation.

None of the Company s and the Partnership s financial instruments are measured at fair value on a recurring basis and no adjustment has been made to any of the nonfinancial assets or liabilities measured at fair value on a nonrecurring basis to fair value for each of the three years in the period ended December 31, 2010.

Fair Value Disclosures of Financial Instruments

As described in Note 10, the estimated fair value amounts of financial instruments have been determined using available market information and appropriate valuation methodologies. However, considerable judgment is necessarily required in interpreting market data to develop estimates of fair value. Accordingly, the estimates presented are not necessarily indicative of the amounts that the Company and the Partnership would realize in a current market exchange. The methods and assumptions are described in Note 10 to the consolidated financial statements.

New Accounting Pronouncements Adopted During the Year

Fair Value Measurement and Disclosures

In August 2009, the FASB issued Accounting Standard Update (ASU) No. 2009-05 which amended the fair value measurement and disclosure accounting guidance for the fair value measurement of liabilities. ASU No. 2009-05 clarified that when estimating the fair value of a liability, a reporting entity is not required to include a separate input or adjustment to other inputs to reflect the existence of a restriction that prevents the transfer of the liability. It also clarified that Level 1 fair value measurements include a quoted price in an active market for the identical liability at the measurement date and the quoted price for the identical liability when traded as an asset in an active market when no adjustments to the quoted price of the asset are required. Adoption of this standard did not have a material impact on the consolidated financial statements.

In January 2010, FASB issued ASU No. 2010-06 which amends ASC Topic 820. This amendment focuses on the improvements on the required disclosures by introducing new ones and by clarifying those that are existing. Among the improvements introduced by this ASU are required disclosures of (1) transfers in and out of Levels 1 and 2 and (2) activity in Level 3 fair value measurements. Except for the amendments in the roll forward activity of Level 3 fair value measurements, which is effective for period beginning on or after December 15, 2010, the adoption of this standard did not have a material impact on the consolidated financial statements.

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New Accounting Pronouncements Not Yet Effective

The following accounting standards have been issued, but as of December 31, 2010 are not yet effective for and have not been adopted by the Company and the Partnership. The adoption of the following accounting standards are not expected to have a material impact on the consolidated financial statements:

In July 2010, FASB issued ASU No. 2010-20 which provides disclosure requirements about the credit quality of financing receivables and the allowance for credit losses. The standard requires greater transparency about an entity s financing receivables which include loans, long-term receivables, lease receivables, and other long-term receivables. This accounting standard is effective for annual reporting periods ending on or after December 15, 2011.

In October 2009, FASB issued ASU No. 2009-13 which amends ASC Topic 605, *Revenue Recognition*. This amends the criteria for separating consideration in multiple element arrangements. As a result, multiple deliverable arrangements generally will be separated in more circumstances than under existing standard. This accounting standard is effective for annual reporting periods beginning on or after June 15, 2010.

3. **Property, Plant and Equipment**

	2010	2009
Power plant	**$ 693,239,695**	$ 692,336,748
Transmission lines	**86,596,580**	86,596,580
Furniture and fixtures	**4,259,302**	4,240,711
Transportation equipment	**341,183**	341,183
Leasehold improvements	**191,265**	191,265
	784,628,025	783,706,487
Less accumulated depreciation and amortization	**192,033,826**	174,198,139
	$ 592,594,199	$ 609,508,348

Approximately $99.0 million of interest on borrowings and $11.8 million of amortization of deferred financing costs have been capitalized as part of the cost of property, plant and equipment and depreciated over the estimated useful life of the Power Plant.

No interest on borrowings and amortization of deferred financing costs were capitalized to property, plant and equipment starting from the commercial operations of the Power Plant on May 30, 2000. Substantially all of these assets serve as collateral to the Partnership s debt (see Note 6).

Total depreciation and amortization related to property, plant and equipment charged to statement of income amounted to $17.8 million, $17.8 million and $18.0 million in 2010, 2009 and 2008, respectively.

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4. **Income Taxes**

The components of the Partnership s deferred income tax assets and liabilities are as follows:

	2010	2009
Current:		
Deferred income tax assets:		
Loss on retirement of property, plant and equipment	**$39,738**	$67,077
Unrealized foreign exchange losses		369,136
Others	**251,165**	312,446
Current deferred income tax assets	**290,903**	748,659
Deferred income tax liability:		
Unrealized foreign exchange gains	**(420,686)**	
Net current deferred income tax assets (liabilities)	**($129,783)**	$748,659
Noncurrent:		
Deferred income tax assets:		
Unrealized foreign exchange losses	**$12,239,493**	$15,938,869
Asset retirement obligation, net of the corresponding capitalized asset	**899,668**	791,439
Noncurrent deferred income tax assets	**13,139,161**	16,730,308
Deferred income tax liabilities:		
Excess of tax over book depreciation	**(3,803,584)**	(3,167,886)
Discount on cash advances from Meralco	**(926,898)**	(496,015)
Net noncurrent deferred income tax assets	**$8,408,679**	$13,066,407
Noncurrent deferred income tax liability:		
Accumulated earnings of the Partnership	**$58,170,228**	$53,640,893

A reconciliation of the statutory income tax rates to the effective income tax rates as a percentage of income before income taxes is as follows:

	2010	2009	2008
Statutory income tax rates	**30.0%**	30.0%	35.0%
Tax effects of:			
The Company s operations	**9.7**	9.7	11.7
Effect of using the local currency for tax purposes	**3.9**	3.4	(17.7)
Interest income already subject to income tax and others	**0.2**	0.5	2.9
Effective income tax rates	**43.8%**	43.6%	31.9%

In accordance with Republic Act (RA) No. 9337, the statutory income tax rate is reduced from 35% to 30% and unallowable interest rate from 42% to 33% beginning January 1, 2009.

The Partnership files income tax returns in the Philippine jurisdiction. Under current Philippine tax law, the Bureau of Internal Revenue (BIR) must perform a tax assessment within three (3) years from the last day prescribed by law for the filing of the tax return for the tax that is being subjected to assessment or from the day the return was filed, if filed late. Any assessments issued

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after the applicable period are deemed to have prescribed, and can no longer be collected from a taxpayer. Tax audits by their nature are often complex and can require several years to complete. The Company regularly assesses the potential outcome of these examinations and while it is often difficult to predict the final outcome or the timing of resolution of any particular uncertain tax position, management believes that the tax positions taken are more-likely-than-not to be sustained upon examination by the taxing authorities.

The Partnership is no longer subject to income tax examinations by tax authorities for years before 2006. The Partnership received letters of authority covering all internal revenue taxes of 2007 and value-added taxes of 2008. As of January 25, 2011, the Partnership has not received any formal tax assessments from the BIR covering these years.

There are no uncertain tax positions both individually and in the aggregate, that if recognized, would materially affect the effective income tax rate for each of the three years in the period ended December 31, 2010.

5. **Notes Payable**

a) Credit Facility Agreement (CFA)

The Partnership entered into a CFA with Banco de Oro Universal Bank (BDO) dated May 11, 2005 for the general working capital requirements of the Partnership.

The existing facility is comprised of an $8.3 million and a $10.7 million notes payable. The Partnership has been able to extend the maturity dates of both notes payable. The latest current maturity date and details of the outstanding balances of the facility are as follows:

	Amount Outstanding			
	2010	2009	Interest Rate	Current Maturity
Tranche 1	**$8,333,333**	$8,333,333	Floating rate subject to monthly or quarterly repricing	January 14, 2011
Tranche 2	**10,666,667**	10,666,667	Floating rate subject to monthly or quarterly repricing	March 15, 2011
	$19,000,000	$19,000,000		

Total interest expense pertaining to the credit facility amounted to $0.9 million, $1.1 million and $1.2 million for the years ended December 31, 2010, 2009 and 2008, respectively.

(b) Notes Facility and Purchase Agreement (NFPA)

The Partnership entered into a $100.0 million NFPA with Banco de Oro-EPCI, Inc., Bank of Philippine Islands, China Banking Corporation, Rizal Commercial Banking Corporation, BDO Capital and Investment Corporation and Banco de Oro-EPCI, Inc.-Trust Banking Group on November 12, 2007. The net proceeds from the NFPA were used by the Partnership to fund its operational, business, financing and recapitalization requirements.

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The NFPA has a seven-year term and is amortized in 12 semi-annual payments on May 15 and November 15 of each year, with the first payment date being May 15, 2009. The interest is payable semi-annually in arrears on the outstanding principal amount of notes on each interest payment date as defined in the NFPA at 6.93% (net of final tax) per annum for the first five years and 7.43% (net of final tax) per annum for the remaining years.

The NFPA shall constitute direct, unconditional, unsubordinated (except with respect to the Senior Debt under the terms of the Intercreditor and Subordination Agreement) and unsecured obligations of the Partnership, ranking pari passu with all its other present and future direct, unconditional, unsubordinated and unsecured obligations (other than subordinated obligations, the Senior Debt and those preferred pursuant to mandatory provisions of Law). The NFPA are subject to special and optional redemption by the Partnership in whole. Special redemption allows the Partnership to redeem the loan on November 15, 2012 by paying all sums then due and payable under the NFPA, whether by way of interest, principal or penalty, including any applicable fees. Optional redemption allows the Partnership to redeem the loan at any repayment date after the second anniversary of the issue date, except on November 15, 2012, by paying the sum of (a) all sums then due and payable under the NFPA, whether by way of interest, principal or penalty, including any applicable fees; (b) all unpaid and undue principal then outstanding; and (c) make-whole premium.

Total interest expense pertaining to the NFPA amounted to $7.0 million, $7.5 million and $7.7 million for the years ended December 31, 2010, 2009 and 2008, respectively.

Annual future principal payments for the next four years ending December 31 are as follows:

2011	$6,250,000
2012	6,250,000
2013	37,500,000
2014	37,500,000
	$87,500,000

6. **Debt Financing Agreements**

The Partnership was financed through the collective arrangement of the Common Agreement, Eximbank-Supported Construction Credit Facility, Trust Agreement, Uninsured Alternative Credit Agreement, Indenture, Bank Notes, Bank Letters of Credit, Bonds, Interest Hedge Contracts, Eximbank Political Risk Guarantee, OPIC Political Risk Insurance Policy, Eximbank Term Loan Agreement, Intercreditor Agreement, Side Letter Agreements, Security Documents and Equity Documents.

The Common Agreement contains affirmative and negative covenants including, among other items, restrictions on the sale of assets, modifications to agreements, certain transactions with affiliates, incurrence of additional indebtedness, capital expenditures and distributions and collateralization of the Project s assets. The debt is collateralized by substantially all of the assets of the Partnership and a pledge of certain related parties shares of stock. The Partnership has complied with the provisions of the debt financing agreements, in all material respects, or has obtained a waiver for noncompliance from the lenders [see Note 11(c)].

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(a) Term Loan Agreement

The debt financing agreements contemplated that the outstanding principal amount of the Eximbank-Supported Construction Loans will be repaid on the Eximbank Conversion Date with the proceeds of a loan from Eximbank under the Eximbank Term Loan.

Under the Eximbank Term Loan Agreement, Eximbank was to provide for a $442.1 million direct term loan, the proceeds of which could only be used to refinance the outstanding Eximbank-Supported Construction Credit Facility and to pay the Eximbank Construction Exposure Fee to Eximbank. This term loan, which would have had interest at a fixed rate of 7.10% per annum, would have had a 12-year term and would have been amortized in 24 approximately equal semi-annual payments during such term.

In April 2001, in lieu of the Eximbank Term Loan, the Partnership availed of the alternative refinancing of the Eximbank-Supported Construction Loans allowed under the Eximbank Option Agreement through an Export Credit Facility guaranteed by Eximbank and financed by Private Export Funding Corporation (PEFCO). Under the terms of the agreement, PEFCO established credit in an aggregate amount of $424.7 million which bears interest at a fixed rate of 6.20% per annum and payable under the payment terms identical with the Eximbank Term Loan. Upon compliance with the conditions precedent as set forth in the Term Loan Agreement, the PEFCO Term Loan was drawn and the proceeds were applied to the Eximbank-Supported Construction Loans. Amendments to the Omnibus Agreement were made to include, among other things, PEFCO as a party to the Agreement in the capacity of a lender.

Total interest expense pertaining to the loans payable amounted to $5.8 million, $8.0 million and $10.2 million for the years ended December 31, 2010, 2009 and 2008, respectively.

Annual future principal payments for the next two years ending December 31 are as follows:

2011	$35,389,726
2012	35,389,725
	$70,779,451

(b) Trust and Retention Agreement

The Trust and Retention Agreement provides, among others, for (i) the establishment, maintenance and operation of one or more US dollar and Philippine peso accounts into which power sales revenues and other project-related cash receipts of the Partnership will be deposited and from which all operating and maintenance disbursements, debt service payments and equity distributions will be made; and (ii) the sharing by the lenders on a pari passu basis of the benefit of certain security.

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(c) Bonds Payable

Bonds payable represents the proceeds from the issuance of the $215.0 million in aggregate principal amount of the Partnership s 8.86% (net of final tax) Senior Secured Bonds Due 2017 (the Series 1997 Bonds). The interest rate is 8.86% per annum and is payable quarterly on March 15, June 15, September 15 and December 15 of each year (each, a Bond Payment Date), with the first Bond Payment Date being September 15, 1997. The principal amount of the Series 1997 Bonds is payable in quarterly installments on each Bond Payment Date occurring on or after September 15, 2001 with the Final Maturity Date on June 15, 2017. The proceeds of the Series 1997 Bonds were applied primarily by the Partnership to the payment of a portion of the development, construction and certain initial operating costs of the Project.

The Series 1997 Bonds are treated as senior secured obligations of the Partnership and rank pari passu in right of payment with all other credit facilities, as well as all other existing and future senior indebtedness of the Partnership (other than a working capital facility of up to $15.0 million, subject to escalation), and senior in right of payment to all existing and future indebtedness of the Partnership that is designated as subordinate or junior in right of payment to the Series 1997 Bonds. The Series 1997 Bonds are subject to redemption by the Partnership in whole or in part, beginning five years from the date of issuance, at par plus a make-whole premium, calculated using a discount rate equal to the applicable United States Treasury rate plus 0.75%.

Total interest expense pertaining to the bonds payable amounted to $13.9 million, $15.2 million and $16.4 million for the years ended December 31, 2010, 2009 and 2008, respectively.

Annual future principal payments for the next five years ending December 31 are as follows:

2011	$ 12,900,000
2012	15,050,000
2013	18,275,000
2014	20,425,000
And thereafter	66,650,000
	$ 133,300,000

7. **Related Party Transactions**

Due to the nature of the ownership structure, the majority of the transactions were among the Company, the Partnership, the stockholders, and their related entities.

The following amounts were paid to related parties of the stockholders for the operation and maintenance and management of the Project under the agreements as discussed in Note 9:

	2010	2009	2008
CPOI	**$ 33,753,269**	$ 44,890,181	$ 30,388,097
InterGen Management Services (Philippines), Ltd. (IMS)	**1,961,188**	2,137,583	1,814,818

As of December 31, 2010 and 2009, the net amounts due to related parties in relation to costs and expenses incurred and cash advanced by the Project were $0.4 million and $0.1 million, respectively.

8. **Capital Stock**

	2010		2009	
	Number of Shares	**Amount**	Number of Shares	Amount
Class A, $0.01 par value:				
Authorized	**1,000,000**		1,000,000	
Issued	**26,151**	**$ 262**	26,151	$ 262
Class B, $0.01 par value:				
Authorized	**1,000,000**		1,000,000	
Issued	**2,002**	**20**	2,002	20
Class C, $0.01 par value:				
Authorized	**1,000,000**		1,000,000	
Issued	**71,947**	**719**	71,947	719
Class D, $0.01 par value:				
Authorized	**10**		10	
Issued	**10**		10	
		$ 1,001		$ 1,001

Class A and Class C shares have an aggregate 100% beneficial economic interest and 98% voting interest in the Company divided among the holders of the Class A and Class C shares. Class B shares have a 2% voting interest in the Company. On October 18, 2004, the shareholders of the Company entered into a Third Amended and Restated Development and Shareholders Agreement (D&S Agreement) to, among others, add GPI as party to the D&S Agreement as a shareholder and holder of newly issued Class D shares. Class D shares have no economic interest, no right to dividends and other distributions and no voting rights other than the power to appoint a director and an alternate director.

During 2010, 2009 and 2008, the Company s BOD approved the declaration of cash dividends at $390.6, $276.8 and $600.3 per share, respectively, out of its unrestricted retained earnings to all Class A and C stockholders.

9. **Commitments and Contingencies**

The Partnership has entered into separate site lease, construction, energy sales, electric transmission, coal supply and transportation, operations and maintenance and project management agreements.

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In connection with the construction and operation of the Project, the Partnership is obligated under the following key agreements:

(a) Offtake Agreements - General Terms

PPA

The Partnership and Meralco are parties to the PPA (as amended on June 9, 1995 and December 1, 1996). The PPA provides for the sale of electricity from the Partnership s Generation Facility to Meralco. The term extends 25 years from the Commercial Operations Date, as defined in the PPA. As disclosed in Note 1(c), the Commercial Operations Date occurred on May 30, 2000.

The PPA provides that commencing on the Commercial Operations Date, the Partnership is required to deliver to Meralco, and Meralco is required to take and pay for, in each year a Minimum Guaranteed Electricity Quantity (MGEQ) of kWhs of Net Electrical Output (NEO). The Partnership s delivery obligations are measured monthly and annually.

Meralco is obligated to pay to the Partnership each month a monthly payment consisting of the following: (i) a Monthly Capacity Payment, (ii) a fixed Monthly Operating Payment, (iii) a variable Monthly Operating Payment and (iv) a Monthly Energy Payment. Under the PPA and related foreign exchange protocols between the parties, Meralco may pay the dollar-denominated components of the Monthly Capacity Payment, the Monthly Energy Payment and the Monthly Operating Payment in US dollars or in Philippine pesos based on prevailing exchange rates at the time of payment.

Under the PPA, the Partnership has provided Meralco with a letter of credit in the amount of $6.5 million to secure its obligations under the PPA.

TLA

Under the TLA dated June 13, 1996 (as amended on December 1, 1996) between the Partnership and Meralco, the Partnership accepted responsibility for obtaining all necessary rights-of-way for, and the siting, design, construction, operation and maintenance of the Transmission Line. The term of the TLA will extend for the duration of the term of the PPA, commencing on the date of execution of the TLA and expiring on the 25th anniversary of the Commercial Operations Date. Under the TLA, Meralco is obligated to make a monthly CCRP and a Monthly Operating Payment to the Partnership.

(b) Offtake Agreements - Re-Negotiation

PPA and TLA Settlement Discussions

On February 21, 2008 (the Amendment Date), the parties signed certain key agreements to finally resolve outstanding issues on the PPA and TLA. This includes Amendment No. 2 to the TLA which reduces the CCRP by approximately 30% from the Amendment Date and retroactively reduced each monthly CCRP from March 27, 2003 through the Amendment Date by approximately $350,000; a side letter agreement which resulted in Meralco paying the Partnership in 2008, without interest and penalties, $8.5 million representing the aggregate amount previously withheld by Meralco in 2001, net of applicable shortfall payments payable by the Partnership; and a side letter agreement to the PPA relating to excess generation arrangements.

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The side letter agreement relating to excess generation sets out an arrangement that allows Meralco to dispatch the Power Plant and increase the Partnership s near-term revenues based on sales of excess generation output at the discounted per kWh tariff for such generation. Meralco agreed to a base generation and a Target Excess Generation (TEG) of the Power Plant during each December 26 to December 25 Annual Period ending 2008 to 2017 (each, a Guarantee Year).

The TEG is equal to 74,000,000 kWh per annum. Meralco will pay for each kWh of excess generation during the Guarantee Years in accordance with the existing terms of the PPA relating to excess generation. If the TEG is not reached in a Guarantee Year, Meralco will pay the Partnership an amount (an Advance Payment) reflecting the difference in the TEG and Actual Excess Generation (AEG) on January 25 of the following contract year based on the following formula:

Advance Payment = $2,850,000 - [$2,850,000 x (AEG / TEG)]

Where AEG is greater than the TEG, Meralco will be entitled to bank each such excess kWh for use in calculating AEG in a subsequent Guarantee Year. The Excess Generation Side Letter does not alter Meralco s obligation to pay for each kWh it actually receives at either the base tariff rate or the excess generation tariff rate. The terms of the side letter relating to excess generation apply irrespective of the actual performance of the Power Plant.

During the Annual Periods ending 2018 to 2025, the Partnership will be obligated to repay the aggregate Advance Payments to Meralco in eight approximately equal annual installments without interest. The Partnership will not be obligated to repay any amounts that constituted payments for actual deliveries of power by it to Meralco.

During 2010 and 2009, the Partnership received a cash advance from Meralco amounting to $2.85 million for each year in accordance with the provision of the side letter agreement on excess generation. The cash advance from Meralco is carried at amortized cost using the effective interest rate at the time the advances was received from Meralco of 7.70% and 7.92% as of December 31, 2010 and 2009, respectively. The carrying value of the cash advance received from Meralco amounting to $2.6 million and $1.2 million as of December 31, 2010 and 2009, respectively, is presented as Other noncurrent liability in the consolidated balance sheets.

Proposal from Meralco to Renegotiate the PPA

In July 2008 and February 2009, the Partnership received letters from Meralco citing the section on stranded costs of the Electric Power Industry Reform Act (EPIRA) and requesting a further negotiation of the PPA with the aim of exploring areas to reduce contract cost.

The Partnership expressed its disagreement in reopening discussions on potential PPA amendments and mentioned, among others, the recent resolution of all issues under the PPA and the TLA with the signing on February 21, 2008 of the side letter agreements and the amendment to the TLA.

(c) Coal Supply Agreements (CSA)

In order to ensure that there is an adequate supply of coal to operate the Generation Facility, the Partnership has entered into two CSA with the intent to purchase approximately 70% of its coal requirements from PT Adaro Indonesia (Adaro) and the remainder of its coal

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requirements from PT Kaltim Prima Coal (Kaltim Prima, and together with Adaro, the Coal Suppliers). The agreement with Adaro (the Adaro CSA) will continue to be in effect until October 1, 2022. If the term of the Coal Cooperation Agreement between Adaro and the Ministry of Mines and Energy of the Government of the Republic of Indonesia is extended beyond October 1, 2022, the Partnership may elect to extend the Adaro CSA until the earlier of the expiration of the PPA or the expiration of the extended Coal Cooperation Agreement, subject to certain conditions. The agreement with Kaltim Prima (the Kaltim Prima CSA) has a scheduled termination date 15 years after the Commercial Operations Date.

The Partnership may renew the Kaltim Prima CSA for two additional five-year periods by giving not less than one year prior written notice. The second renewal period will be subject to the parties agreeing to the total base price to be applied during that period.

The Partnership is subject to minimum take obligations of 900,000 Metric Tonnes (MT) for Adaro and 360,000 MT for Kaltim Prima.

In 2004, the Adaro CSA was amended to reflect the change in the benchmark price from the Australian-Japanese benchmark price to the six-month rolling average of the ACR Asia Index with a certain discount. The new benchmark price was applied retroactively to April 1, 2003.

For the year ended December 31, 2010, the Partnership was able to meet the minimum take obligations both for Adaro and Kaltim Prima. For the year ended December 31, 2009, the Partnership did not meet its minimum take obligations for Adaro by 84,000 MT. However, the Partnership was able to secure a waiver from Adaro for this shortfall.

(d) Operations and Maintenance Agreement (O&M Agreement)

The Partnership and CPOI (the Operator), a wholly-owned subsidiary of Covanta Projects, Inc. (CPI), a subsidiary of CEC, have entered into the Plant O&M Agreement dated December 1, 1995 (as amended on February 29, 1996, December 10, 1996 and October 18, 2004, the O&M Agreement) under which the Operator assumed responsibility for the operation and maintenance of the Project pursuant to a cost-reimbursable contract. CPI, pursuant to an O&M Agreement Guarantee, guarantees the obligations of the Operator. The initial term of the O&M Agreement extends 25 years from the Commercial Operations Date. Two automatic renewals for successive five year periods are available to the Operator, provided that (i) the PPA has been extended; (ii) no default by the Operator exists; and (iii) the O&M Agreement has not been previously terminated by either party. The Partnership is obligated to compensate the Operator for services under the O&M Agreement, to reimburse the Operator for all reimbursable costs one month in advance of the incurrence of such costs and to pay the Operator a base fee and certain bonuses. In certain circumstances, the Operator could be required to pay liquidated damages depending on the operating performance of the Project, subject to contractual limitations. Beginning on Provisional Acceptance, as defined in the O&M Agreement, the Partnership is obligated to pay the Operator a monthly fee of $160,000, subject to escalation.

The Operator may earn additional fees or reduced fees based on defined results with respect to output or reduced operating costs. The 2004 amendments to the O&M Agreement brought several changes including changes in the terms concerning material breach of the O&M Agreement; introduction of surviving service fees to the Operator in case the agreement is pre-terminated; changes in the methodology of computing additions or reduction in fees when NEO is greater or less than the MGEQ of each contract year; and introduction of banked hours that can be applied to future reductions in fees or exchanged for cash subject to a 5-year expiration period. The adjustments in Operator s fee, including the cash value of all banked hours accrued during a contract year, shall not exceed $1.0 million, adjusted pursuant to an escalation index. These amendments in the O&M Agreement were effective beginning December 26, 2003.

See Note 1(a) for CEIIL s sale of its equity interest in CPOI.

(e) Management Services Agreement (MSA)

The Partnership has entered into the Project MSA, dated September 20, 1996 (as amended, the MSA), with IMS (as assignee of International Generating Company, Inc.), an affiliate of InterGen N.V., (the Manager), pursuant to which, the Manager is providing management services for the Project. Pursuant to the MSA, the Manager nominates a person to act as a General Manager of the Partnership, and, acting on behalf of the Partnership, to be responsible for the day-to-day management of the Project. The initial term of the MSA extends for a period ending 25 years after the Commercial Operations Date, unless terminated earlier, with provisions for extension upon mutually acceptable terms and conditions. InterGen N.V., pursuant to a Project MSA Guarantee dated December 10, 1996, guarantees the obligations of the Manager.

The Partnership is obligated to pay the Manager an annual fee equal to $400,000 subject to escalation after the first year relative to an agreed-upon index payable in 12 equal monthly installments.

Similar to the O&M Agreement, amendments to the MSA were made in 2004. Significant changes to the MSA include, among others, amendments to the duties of the Manager, General Manager, rights of the Partnership, acting through the BOD of QPI, to audit the Manager s procedures and past practices, changes in termination provisions and the introduction of a Surviving Management Fee in case the agreement is pre-terminated. The amendments to the MSA also have a retroactive effect beginning December 26, 2003.

(f) Project Site Lease, Transmission Line Site Lease and Foreshore Lease Agreements

Due to Philippine legal requirements that limit the ownership interests in real properties and foreshore piers and utilities to Philippine nationals and in order to facilitate the exercise by Meralco of its power of condemnation should it be obligated to exercise such powers on the Partnership s behalf, Meralco owns the Project Site and leases the Project Site to the Partnership. Meralco has also agreed in the Foreshore Lease Agreement dated January 1, 1997, as amended, to lease from the Philippine government the foreshore property on which the Project piers were constructed, to apply for and maintain in effect the permits necessary for the construction and operation of the Project piers and to accept ownership of the piers.

The Partnership has obtained rights-of-way for the Transmission Line for a majority of the sites necessary to build, operate and maintain the Transmission line. Meralco has agreed, pursuant to a letter agreement dated December 19, 1996, that notwithstanding the provisions of the TLA that anticipates that Meralco would be the lessor of the entire Transmission Line Site, Meralco will only be the Transmission Line Site Lessor with respect to rights-of-way acquired through the exercise of its condemnation powers.

Meralco, as a lessor, and the Partnership, as a lessee, have entered into the Transmission Line Site Leases, dated December 20, 1996, with respect to real property required for the construction, operation and maintenance of the Transmission Line other than rights-of-way to

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be acquired through the exercise of Meralco s condemnation powers. The initial term of each of the Project Site Leases and each of the Transmission Line Site Leases (collectively, the Site Leases) extends for the duration of the PPA, commencing on the date of execution of such Site Lease and expiring 25 years following the Commercial Operations Date. The Partnership has the right to extend the term of any Site Lease for consecutive periods of five years each, provided that the extended term of such Site Lease may not exceed 50 years in the aggregate.

(g) Community Memorandum of Agreement (MOA)

The Partnership has entered into a Community MOA with the Province of Quezon, the Municipality of Mauban, the Barangay of Cagsiay and the Department of Environmental and Natural Resources (DENR) of the Philippines. Under the MOA, the Partnership is obligated to consult with local officials and residents of the Municipality and Barangay and other affected parties about Project related matters and to provide for relocation and compensation of affected families, employment and community assistance funds. The funds include an electrification fund, development and livelihood fund and reforestation, watershed management, health and/or environmental enhancement fund. Total estimated amount to be contributed by the Partnership over the 25-year life and during the construction period is approximately $16.0 million. In accordance with the MOA, a certain portion of this amount will be in the form of advance financial assistance to be given during the construction period.

In addition, the Partnership is obligated to design, construct, maintain and decommission the Project in accordance with existing rules and regulations. The Partnership deposited the amount of ?5.0 million (about $94,000) to an Environmental Guarantee Fund for rehabilitation of areas affected by damage in the environment, monitoring compensation for parties affected and education activities.

10. **Fair Value of Financial Instruments**

The required disclosures under ASC 825, *Financial Instruments*, are as follows:

The financial instruments recorded in the consolidated balance sheets include cash, accounts receivable - trade, due from (to) related parties, short-term notes payable, accounts payable and accrued expenses, long-term notes payable, loans payable, bonds payable and other noncurrent liability.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate such value:

Cash, Due from (to) Related Parties and Short-term Notes Payable

The carrying amounts of cash, due from (to) related parties and short-term notes payable approximate their fair values due to the short-term maturity of these financial instruments.

Accounts Receivable - Trade and Accounts Payable and Accrued Expenses

The carrying amounts of accounts receivable - trade and accounts payable and accrued expenses, which are all subject to normal trade credit terms, approximate their fair values.

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Other Noncurrent Liability

The fair values of the noncurrent non-interest bearing advances from Meralco were calculated based on discounted value of future cash flows using the applicable risk free rates for similar types of accounts adjusted for credit risk. The discount rates used were 9.22% and 7.74% in 2010 and 2009, respectively.

Long-term Debt

The fair values of long-term debt were based on the following:

Debt Type	*Fair Value Assumptions*
NFPA	Estimated fair value is based on the discounted value of future cash flows using the applicable risk free rates for similar types of loans adjusted for credit risk. The discount rate used was 7.28% and 8.66% in 2010 and 2009, respectively.
Term loan	Estimated fair value is based on the discounted value of future cash flows using the applicable risk free rates for similar types of loans adjusted for credit risk. The discount rate used was 6.39% and 7.71% in 2010 and 2009, respectively.
Bonds payable	Estimated fair value is based on the discounted value of future cash flows using the latest available yield percentage of the Partnership s bonds prior to reporting dates. The discount rate used was 8.23% and 9.33% in 2010 and 2009, respectively. Bonds payable yield percentage is based on market quotes from Bloomberg.

Following is a summary of the estimated fair value (in millions) of the Partnership s financial instruments other than those whose carrying amounts approximate their fair values as of December 31, 2010 and 2009:

	2010		2009	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Bonds payable	**$ 133.3**	**$ 136.1**	$ 146.2	$ 143.9
Term loan	**70.8**	**71.1**	106.2	104.4
NFPA	**87.5**	**87.8**	93.8	89.8
Other noncurrent liability	**2.6**	**2.1**	1.2	1.2

11. **Other Matters**

(a) EPIRA

RA No. 9136, the EPIRA, and the covering Implementing Rules and Regulations (IRR) provide for significant changes in the power sector, which include, among others:

(i) The unbundling of the generation, transmission, distribution and supply and other disposable assets of a company, including its contracts with independent power producers and electricity rates;
(ii) Creation of a Wholesale Electricity Spot Market; and
(iii) Open and non discriminatory access to transmission and distribution systems.

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The law also requires public listing of not less than 15% of common shares of generation and distribution companies within 5 years from the effective date of the EPIRA. It provides cross ownership restrictions between transmission and generation companies and between transmission and distribution companies and a cap of 50% of its demand that a distribution utility is allowed to source from an associated company engaged in generation except for contracts entered into prior to the effective date of the EPIRA. In 2005, the Partnership has requested for clarification from the ERC on the applicability of the public offering requirement under the provisions of the EPIRA since it is in the form of a limited partnership and not a stock corporation. As of January 25, 2011, the Partnership has not yet received any confirmation from ERC on this matter.

The ERC is currently in the process of drafting the IRR in connection with the public offering requirement.

There are also certain sections of the EPIRA which provide for a cap on the concentration of ownership to only 30% of the installed capacity of the grid and/or 25% of the national installed generating capacity.

The Partnership is complying with the applicable provisions of the EPIRA and its law.

(b) Clean Air Act

The Clean Air Act and the related IRR contain provisions that have an impact on the industry as a whole, and to the Partnership in particular, that needs to be complied with within 44 months from the effective date or by July 2004. Based on the assessment made on the Partnership s existing facilities, the Partnership believes it complies with the provisions of the Clean Air Act and the related IRR.

(c) Insurance Coverage Waiver

In November 2010, the Partnership obtained a renewal of its Industrial All Risk Insurance Coverage from December 1 to May 31, 2012. However, the insurance coverage amounts required by the lenders under the debt financing agreements still have not been met due to market unavailability on commercially reasonable terms, based on determinations of the Partnership s insurance advisor and the lenders insurance advisor. Consequently, the Partnership requested, and was granted by the requisite lender representatives a waiver of certain insurance requirements for a period of 18 months until May 31, 2012.

(d) Environmental Compliance Certificate (ECC) on Quezon Power Plant 500-MW Coal-Fired Expansion Project

On June 4, 2007, the DENR issued an ECC to the Partnership. The ECC covers the proposed Quezon Power Plant 500 MW (Maximum Gross) Coal-Fired Expansion Project to be located within the existing 100 hectare facility of the Partnership in Barangay Cagsiay I, Mauban, Quezon. The proposed expansion includes the construction of a second generating unit utilizing existing support facilities such as the coal unloading pier and coal stockpile.