

ROYAL GOLD INC

FORM 10-Q (Quarterly Report)

Filed 11/08/06 for the Period Ending 09/30/06

Address	1660 WYNKOOP STREET SUITE 1000 DENVER, CO 80202-1132
Telephone	3035731660
CIK	0000085535
Symbol	RGLD
SIC Code	6795 - Mineral Royalty Traders
Industry	Gold & Silver
Sector	Basic Materials
Fiscal Year	06/30

ROYAL GOLD INC

FORM 10-Q (Quarterly Report)

Filed 11/8/2006 For Period Ending 9/30/2006

Address	1660 WYNKOOP STREET SUITE 1000 DENVER, Colorado 80202-1132
Telephone	303-573-1660
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Fiscal Year	06/30

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

Quarterly report pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934 for the quarterly period ended September 30, 2006

Commission File Number 001-13357



(a Delaware corporation)

Royal Gold, Inc.
1660 Wynkoop Street, Suite 1000
Denver, Colorado 80202-1132
(303) 573-1660

(Name, State of Incorporation, Address and Telephone Number)

I.R.S. Employer Identification Number **84-0835164**

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date: 23,597,416 shares of the Company's Common Stock, par value \$0.01 per share, were outstanding as of October 31, 2006.

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ROYAL GOLD, INC.
Consolidated Balance Sheets
(Unaudited)

	September 30, 2006	June 30, 2006
Current assets		
Cash and equivalents	\$ 73,220,304	\$ 78,449,383
Royalty receivables	7,006,767	5,962,053
Deferred tax assets	110,312	131,621
Prepaid expenses and other	404,969	232,839
Total current assets	80,742,352	84,775,896
Royalty interests in mineral properties, net (Note 2)	95,178,745	84,589,569
Available for sale securities (Note 3)	2,177,466	1,988,443
Deferred tax assets	611,152	495,018
Other assets	419,106	410,895
Total assets	<u>\$179,128,821</u>	<u>\$172,259,821</u>
Current liabilities		
Accounts payable	\$ 1,556,881	\$ 1,075,644
Income taxes payable	2,496,464	334,767
Dividend payable	1,299,695	1,300,623
Accrued compensation	562,500	375,000
Other	250,840	237,482
Total current liabilities	6,166,380	3,323,516
Deferred tax liabilities	7,060,617	7,178,907
Other long-term liabilities	91,149	97,749
Total liabilities	<u>13,318,146</u>	<u>10,600,172</u>
Commitments and contingencies (Note 7)		
Stockholders' equity		
Common stock, \$.01 par value, authorized 40,000,000 shares; and issued 23,816,640 and 23,816,640 shares, respectively	238,165	238,165
Additional paid-in capital	166,872,510	166,459,671
Accumulated other comprehensive income	576,207	498,462
Accumulated deficit	(779,335)	(4,439,777)
Less treasury stock, at cost (229,224 shares)	(1,096,872)	(1,096,872)
Total stockholders' equity	<u>165,810,675</u>	<u>161,659,649</u>
Total liabilities and stockholders' equity	<u>\$179,128,821</u>	<u>\$172,259,821</u>

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

ROYAL GOLD, INC.
 Consolidated Statements of Operations and Comprehensive Income
 (Unaudited)

	For The Three Months Ended	
	September 30, 2006	September 30, 2005
Royalty revenues	\$ 9,745,793	\$ 6,827,619
Costs and expenses		
Costs of operations	658,517	489,698
General and administrative	1,133,656	959,508
Exploration and business development	418,541	434,710
Depreciation, depletion and amortization	1,072,215	898,025
Total costs and expenses	<u>3,282,929</u>	<u>2,781,941</u>
Operating income	6,462,864	4,045,678
Interest and other income	971,185	437,095
Interest and other expense	(66,314)	(21,007)
Income before income taxes	<u>7,367,735</u>	<u>4,461,766</u>
Current tax expense	(2,650,944)	(1,763,491)
Deferred tax benefit	243,346	359,156
Net income	<u>\$ 4,960,137</u>	<u>\$ 3,057,431</u>
Adjustments to comprehensive income		
Unrealized change in market value of available for sale securities, net of tax	77,745	85,957
Comprehensive income	<u>\$ 5,037,882</u>	<u>\$ 3,143,388</u>
Basic earnings per share	<u>\$ 0.21</u>	<u>\$ 0.14</u>
Basic weighted average shares outstanding	<u>23,587,416</u>	<u>21,126,609</u>
Diluted earnings per share	<u>\$ 0.21</u>	<u>\$ 0.14</u>
Diluted weighted average shares outstanding	<u>23,817,728</u>	<u>21,366,843</u>

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

ROYAL GOLD, INC.

Consolidated Statement of Stockholders' Equity for the Three Months Ended September 30, 2006
(Unaudited)

	<u>Common Shares</u>		Additional Paid-In Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	<u>Treasury Stock</u>		Total Stockholders' Equity
	Shares	Amount				Shares	Amount	
Balance at June 30, 2006	23,816,640	\$238,165	\$166,459,671	\$ 498,462	\$(4,439,777)	229,224	\$(1,096,872)	\$161,659,649
Recognition of non-cash compensation expense for share- based compensation (Note 4)			412,839					412,839
Net income and comprehensive income for the quarter				77,745	4,960,137			5,037,882
Dividends declared					(1,299,695)			(1,299,695)
Balance at September 30, 2006	<u>23,816,640</u>	<u>\$238,165</u>	<u>\$166,872,510</u>	<u>\$ 576,207</u>	<u>\$ (779,335)</u>	<u>229,224</u>	<u>\$(1,096,872)</u>	<u>\$165,810,675</u>

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

ROYAL GOLD, INC.
Consolidated Statements of Cash Flows
(Unaudited)

	For The Three Months Ended	
	September 30, 2006	September 30, 2005
Cash flows from operating activities		
Net income	\$ 4,960,137	\$ 3,057,431
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	1,072,215	898,025
Deferred tax benefit	(243,346)	(359,156)
Non-cash employee stock compensation expense	412,839	238,341
Changes in assets and liabilities:		
Royalty receivables	(1,044,714)	717,504
Prepaid expenses and other assets	(172,130)	(109,890)
Accounts payable	481,237	775,541
Income taxes payable	2,161,697	1,502,675
Accrued liabilities and other current liabilities	200,857	268,498
Other long-term liabilities	(6,600)	(6,600)
Net cash provided by operating activities	<u>\$ 7,822,192</u>	<u>\$ 6,982,369</u>
Cash flows from investing activities		
Capital expenditures for property and equipment	\$ (34,602)	\$ (5,066)
Acquisition of royalty interests in mineral properties (Note 2)	(11,635,000)	—
Purchase of available for sale securities	(81,046)	—
Net cash used in investing activities	<u>\$(11,750,648)</u>	<u>\$ (5,066)</u>
Cash flows from financing activities:		
Tax benefit from exercise of stock options	\$ —	\$ 816
Dividends paid	(1,300,623)	(1,050,628)
Net proceeds from issuance of common stock	—	54,716,378
Net cash (used in) provided by financing activities	<u>\$ (1,300,623)</u>	<u>\$ 53,666,566</u>
Net (decrease) increase in cash and equivalents	<u>(5,229,079)</u>	<u>60,643,869</u>
Cash and equivalents at beginning of period	<u>78,449,383</u>	<u>48,840,371</u>
Cash and equivalents at end of period	<u>\$ 73,220,304</u>	<u>\$109,484,240</u>
Supplemental cash flow information:		
Cash paid during the period for:		
Income taxes	<u>\$ 489,248</u>	<u>\$ 260,000</u>

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

ROYAL GOLD, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

Operations

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

We seek to acquire existing royalties or to finance projects that are in production or near production in exchange for royalty interests. We also fund exploration on properties thought to contain precious metals and seek to obtain royalties and other carried ownership interests in such properties through the subsequent transfer of operating interests to other mining companies. Substantially all of our revenues are and will be expected to be derived from royalty interests. We do not conduct mining operations at this time.

Summary of Significant Accounting Policies

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for annual financial statements. In the opinion of management, all adjustments which are of a normal recurring nature considered necessary for a fair statement have been included in this Form 10-Q. Operating results for the three months ended September 30, 2006, are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2007. These interim unaudited financial statements should be read in conjunction with the Company’s Annual Report on Form 10-K for the fiscal year ended June 30, 2006.

Recently Issued Accounting Pronouncements

On July 13, 2006, Financial Accounting Standards Board (“FASB”) Interpretation No. 48 (“FIN 48”), *Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement No. 109*, was issued. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company’s financial statements in accordance with SFAS 109. FIN 48 also prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The provisions of FIN 48 are effective for our fiscal year beginning July 1, 2007. The Company is evaluating the impact, if any, the adoption of FIN 48 could have on our financial statements.

ROYAL GOLD, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements*. Statement No. 157 provides guidance for using fair value to measure assets and liabilities. Statement No. 157 applies whenever other accounting standards require (or permit) assets or liabilities to be measured at fair value but does not expand the use of fair value in any new circumstances. Under Statement No. 157, fair value refers to the price that would be received to sell an asset or paid to transfer a liability between market participants in the market in which the reporting entity transacts. In this standard, the FASB clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability. The provisions of Statement No. 157 are effective for our fiscal year beginning July 1, 2008, and interim periods within the fiscal year. The Company is evaluating the impact, if any, the adoption of Statement No. 157 could have on our financial statements.

Also in September 2006, the Securities and Exchange Commission (“SEC”) issued Staff Accounting Bulletin No. 108 (“SAB 108”), *Financial Statements – Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements.* SAB 108 provides guidance on how prior year misstatements should be taken into consideration when quantifying misstatements in current year financial statements for purposes of determining whether the current year’s financial statements are materially misstated. SAB 108 provides that once a current year misstatement has been quantified, the guidance in SAB No. 99, *Financial Statements – Materiality*, should be applied to determine whether the misstatement is material and should result in an adjustment to the financial statements. We will apply the provisions of SAB 108 with the preparation of our annual financial statements for the fiscal year ending June 30, 2007. The Company is currently evaluating, but does not expect the application of the provisions of SAB 108 to have a material impact, if any, on our financial statements for the fiscal year ending June 30, 2007.

ROYAL GOLD, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

2. ROYALTY INTERESTS IN MINERAL PROPERTIES

The following table summarizes the net book value of each of our royalty interests in mineral properties as of September 30, 2006 and June 30, 2006.

As of September 30, 2006:

	Gross	Accumulated Depletion & Amortization	Net
Production stage royalty interests:			
Pipeline Mining Complex			
GSR1	\$ —	\$ —	\$ —
GSR2	—	—	—
GSR3	8,105,020	(6,064,978)	2,040,042
NVR1	2,135,107	(1,557,548)	577,559
Bald Mountain	1,978,547	(1,824,181)	154,366
SJ Claims	20,788,444	(5,445,369)	15,343,075
Robinson mine	17,824,776	(526,227)	17,298,549
Mulatos mine	7,441,779	(234,601)	7,207,178
Troy mine GSR royalty	7,250,000	(1,345,225)	5,904,775
Troy mine Perpetual royalty	250,000	—	250,000
Leeville South	1,775,809	(1,773,237)	2,572
Leeville North	14,240,418	(244,456)	13,995,962
Martha	172,810	(172,810)	—
	<u>81,962,710</u>	<u>(19,188,632)</u>	<u>62,774,078</u>
Development stage royalty interests:			
Taparko Project			
TB-GSR1	22,490,871	—	22,490,871
TB-GSR2	6,574,101	—	6,574,101
TB-GSR3	926,721	—	926,721
	<u>29,991,693</u>	<u>—</u>	<u>29,991,693</u>
Exploration stage royalty interests:			
Taparko Project			
TB-GSR3	186,541	—	186,541
TB-MR1	121,658	—	121,658
Leeville North	2,305,845	(271,187)	2,034,658
Buckhorn South	70,117	—	70,117
	<u>2,684,161</u>	<u>(271,187)</u>	<u>2,412,974</u>
Total royalty interests in mineral properties	<u><u>\$114,638,564</u></u>	<u><u>\$(19,459,819)</u></u>	<u><u>\$95,178,745</u></u>

ROYAL GOLD, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

As of June 30, 2006:

	Gross	Accumulated Depletion & Amortization	Net
Production stage royalty interests:			
Pipeline Mining Complex			
GSR1	\$ —	\$ —	\$ —
GSR2	—	—	—
GSR3	8,105,020	(5,976,531)	2,128,489
NVR1	2,135,107	(1,548,577)	586,530
Bald Mountain	1,978,547	(1,817,586)	160,961
SJ Claims	20,788,444	(5,122,209)	15,666,235
Robinson mine	17,824,776	(301,460)	17,523,316
Mulatos mine	7,441,779	(128,798)	7,312,981
Troy mine GSR royalty	7,250,000	(1,140,870)	6,109,130
Troy mine Perpetual royalty	250,000	—	250,000
Leeville South	1,775,809	(1,753,588)	22,221
Leeville North	14,240,418	(180,379)	14,060,039
Martha	172,810	(172,810)	—
	<u>81,962,710</u>	<u>(18,142,808)</u>	<u>63,819,902</u>
Development stage royalty interests:			
Taparko Project			
TB-GSR1	13,859,877	—	13,859,877
TB-GSR2	4,053,927	—	4,053,927
TB-GSR3	569,062	—	569,062
	<u>18,482,866</u>	<u>—</u>	<u>18,482,866</u>
Exploration stage royalty interests:			
Taparko Project			
TB-GSR3	110,173	—	110,173
TB-MR1	71,853	—	71,853
Leeville North	2,305,845	(271,187)	2,034,658
Buckhorn South	70,117	—	70,117
	<u>2,557,988</u>	<u>(271,187)</u>	<u>2,286,801</u>
Total royalty interests in mineral properties	<u>\$103,003,564</u>	<u>\$(18,413,995)</u>	<u>\$84,589,569</u>

ROYAL GOLD, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Discussed below is a status of each of our royalty interests in mineral properties.

Pipeline Mining Complex

We own two sliding-scale gross smelter return royalties (GSR1 ranging from 0.40% to 5.0% and GSR2 ranging from 0.72% to 9.0%), a 0.71% fixed gross smelter royalty (GSR3), and a 0.39% net value royalty (NVR1) over the Pipeline Mining Complex that includes the Pipeline, South Pipeline, GAP and Crossroads gold deposits in Lander County, Nevada.

The Pipeline Mining Complex is owned by the Cortez Joint Venture, a joint venture between Barrick Gold Corporation (“Barrick”) (60%), and Kennecott Explorations (Australia) Ltd. (40%), a subsidiary of Rio Tinto plc.

Bald Mountain

We own a 1.75% to 3.5% sliding-scale net smelter return, or NSR, royalty that burdens a portion of the Bald Mountain mine, in White Pine County, Nevada. Bald Mountain is an open pit, heap leach mine operated by Barrick. The sliding-scale royalty increases or decreases with the gold price, adjusted by the 1986 Producer Price Index. Our royalty rate is calculated quarterly and would currently increase to 2%, from 1.75%, at a quarterly average gold price of approximately \$684 per ounce in today’s dollars.

SJ Claims

We own a 0.9% NSR on the SJ Claims that covers a portion of the Betze-Post mine, in Eureka County, Nevada. Betze-Post is an open pit mine operated by Barrick at its Goldstrike property.

Leeville Project

We own a 1.8% carried working interest, equal to a 1.8% NSR royalty, which covers the majority of the Leeville Project, in Eureka County, Nevada. Current production from the Leeville Project is derived from Leeville South and Leeville North underground mines, which are operated by Newmont Mining Corporation (“Newmont”).

During our first fiscal quarter of 2006, Newmont began mining operations at Leeville North. Accordingly, during our first fiscal quarter of 2006, we reclassified our cost basis in Leeville North as a production stage royalty interest. As such, we began depleting our cost basis using the units of production method during our first fiscal quarter of 2006.

We carry our interest in the non-reserve portion of Leeville North as an exploration stage royalty interest, which is not subject to periodic amortization. In the event that future proven and probable reserves are developed at Leeville North associated with our royalty interest, the cost basis of our exploration stage royalty interest will be reclassified as a development stage royalty interest or a production stage royalty interest in future periods, as appropriate. In the event that future circumstances indicate that the non-reserve portion of Leeville North will not be converted into proven and probable reserves, we will evaluate our carrying value in the exploration stage interest for impairment.

**ROYAL GOLD, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

Martha Mine

We own a 2% NSR royalty on the Martha mine located in the Santa Cruz Province of Argentina, operated by Coeur d'Alene Mining Corporation. The Martha mine is a high grade underground silver mine.

Troy Mine

We own a production payment equivalent to a 7.0% GSR royalty from all metals and products produced and sold from the Troy mine, located in northeastern Montana and operated by Revett Silver Company ("Revett"). The GSR royalty will extend until either cumulative production of approximately 9.9 million ounces of silver and 84.6 million pounds of copper, or the Company receives \$10.5 million in cumulative payments, whichever occurs first. As of September 30, 2006, we have received payments associated with the GSR royalty totaling \$3.0 million.

We also own a perpetual royalty at the Troy mine. The royalty rate for the perpetual royalty begins at 6.1% on any production in excess of 11.0 million ounces of silver and 94.1 million pounds of copper, and steps down to a perpetual 2% after cumulative production has exceeded 12.7 million ounces of silver and 108.2 million pounds of copper. Effective January 1, 2006, we have re-classified our interest in the perpetual royalty from an exploration stage royalty interest to a production stage royalty interest due to an increase in reserves at the Troy mine.

Taparko Mine

We hold a production payment equivalent to a 15.0% GSR (TB-GSR1) royalty on all gold produced from the Taparko Project, located in Burkina Faso and operated by Somita. TB-GSR1 will remain in-force until cumulative production of 804,420 ounces of gold is achieved or until cumulative payments of \$35 million have been made to Royal Gold, whichever is earlier. We also hold a production payment equivalent to a GSR sliding-scale royalty (TB-GSR2 ranging from 0% to 10%) on all gold produced from the Taparko Project. TB-GSR2 is effective concurrently with TB-GSR1, and will remain in-force from completion of funding commitment until the termination of TB-GSR1. We carry our interests in TB-GSR1 and TB-GSR2 as development stage royalty interests, which are not currently subject to periodic amortization.

We also hold a perpetual 2% GSR royalty (TB-GSR3) on all gold produced from the Taparko Project area. TB-GSR3 will commence upon termination of the TB-GSR1 and TB-GSR2 royalties. A portion of the TB-GSR3 royalty is associated with existing proven and probable reserves and has been classified as a development stage royalty interest, which is not subject to periodic amortization at this time. The remaining portion of the TB-GSR3 royalty, which is not currently associated with proven and probable reserves, is classified as an exploration stage royalty interest, which is also not subject to periodic amortization at this time.

In addition, we hold a 0.75% milling fee royalty (TB-MR1) on all gold processed through the Taparko Project processing facilities that is mined from any area outside of the Taparko Project area. TB-MR1 is classified as an exploration stage royalty interest and is not subject to periodic amortization at this time.

The royalty documents for the foregoing royalties have been signed and we are holding them pending completion of our \$35 million funding commitment (of which we have funded \$33.6 million as of October 31, 2006) to Somita. Upon completion of our funding commitment, the royalty documents will be released and recorded and be legally effective. See Note 7 below for more information about the Amended and Restated Funding Agreement.

ROYAL GOLD, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Robinson Mine

We own a 3% NSR royalty on the Robinson mine, located in eastern Nevada. The Robinson mine is an open pit copper mine with significant gold production. The mine is owned and operated by Quadra.

Mulatos Mine

We own a sliding-scale NSR royalty on the Mulatos mine, located in Sonora, Mexico. The Mulatos mine, owned and operated by Alamos, is an open pit, heap leach gold mine. The Mulatos mine sliding-scale royalty, capped at two million ounces of gold production, ranges from 0.30% for gold prices below \$300 up to 1.50% for gold prices above \$400.

Buckhorn South

We hold a 16.5% net profits interest royalty on the Buckhorn South property, located in Eureka County, Nevada. The Buckhorn South interest is classified as an exploration stage royalty interest.

3. AVAILABLE FOR SALE SECURITIES

Investments in securities that have readily determinable market values are classified as available for sale investments. Unrealized gains and losses on these investments are recorded in accumulated other comprehensive income (net of tax) as a separate component of stockholders' equity. We recorded an unrealized gain of \$77,745 (net of tax) for the quarter ended September 30, 2006, compared to an unrealized gain of \$85,957 (net of tax) for the quarter ended September 30, 2005. When investments are sold, the realized gains and losses on the sale of these investments, as determined using the specific identification method, and any unrealized gain or loss recorded in accumulated other comprehensive income are included in determining net income. We had no sales of available for sale investments during the three months ended September 30, 2006 and 2005.

We hold 1.3 million shares of Revett that are recorded as an investment in available for sale securities on the Consolidated Balance Sheets. The market value for our investment in the shares of Revett was \$1,599,880 as of September 30, 2006. Our cost basis in the Revett shares is \$1.0 million.

We hold 1,037,500, 518,750, and 100,000 shares of common stock, warrants and stock options, respectively, in Taranis. The market value for our investment in Taranis' common stock, warrants and stock options was \$577,586 as of September 30, 2006. Our cost basis in the Taranis common stock, warrants and stock options is \$285,761.

ROYAL GOLD, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

4. STOCKHOLDERS' EQUITY AND STOCK-BASED COMPENSATION

The Company accounts for its stock-based compensation in accordance with FASB Statement No. 123 (revised 2004), *Share-Based Payment* ("SFAS 123(R)"), which is a revision of FASB Statement No. 123, *Accounting for Stock-Based Compensation* ("SFAS 123"). SFAS 123(R) requires all stock-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values.

2004 Omnibus Long-Term Incentive Plan

In November 2004, the Company adopted the Omnibus Long-Term Incentive Plan ("2004 Plan"). The 2004 Plan replaces the Company's Equity Incentive Plan. Under the 2004 Plan, 900,000 shares of Common Stock are available for future grants to officers, directors, key employees and other persons. The Plan provides for the grant of stock options, unrestricted stock, restricted stock, dividend equivalent rights, stock appreciation rights, 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.

In accordance with SFAS 123(R), for the three months ended September 30, 2006 and 2005, we recorded total non-cash stock compensation expense related to our equity compensation plans of \$412,839 and \$238,341, respectively, which is allocated among cost of operations, general and administrative, and exploration and business development in our consolidated statements of operations and comprehensive income. The total non-cash compensation expense allocated to cost of operations, general and administrative, and exploration and business development for the three months ended September 30, 2006, was \$57,429, \$233,430 and \$121,980, respectively. The total non-cash compensation expense allocated to cost of operations, general and administrative, and exploration and business development for the three months ended September 30, 2005, was \$28,585, \$121,955 and \$87,801, respectively. The total income tax benefit associated with non-cash stock compensation expense was approximately \$146,000 and \$86,000 for the three months ended September 30, 2006 and 2005, respectively.

As of September 30, 2006, there are 489,584 shares of common stock reserved for future issuance under our equity compensation plan.

Stock Options

Stock option awards are granted with an exercise price equal to the closing market price of the Company's common stock at the date of grant. Stock option awards granted to officers, key employees and other persons vest based on one to three years of continuous service. Stock option awards granted to directors vest immediately with respect to 50% of the shares granted and after one year with respect to the remaining 50% granted. Stock option awards have 10 year contractual terms.

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To determine non-cash stock compensation expense for stock option awards, the fair value of each stock option award is estimated on the date of grant using the Black-Scholes option pricing model for all periods presented. The Black-Scholes model requires key assumptions in order to determine fair value and those key assumptions as of our November 2005 grant are noted in the following table:

Weighted average expected volatility	61.20%
Weighted average expected option term in years	5.4
Weighted average dividend yield	1.00%
Weighted average risk free interest rate	4.5%
Weighted average grant fair value	\$12.04

A summary of stock option activity under our equity compensation plans for the three months ended September 30, 2006, is presented below:

Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at July 1, 2006	528,414	\$ 14.86		
Granted	—	—		
Exercised	—	—		
Forfeited and Expired	—	—		
Outstanding at September 30, 2006	<u>528,414</u>	<u>\$ 14.86</u>	<u>6.2</u>	<u>\$6,479,849</u>
Exercisable at September 30, 2006	<u>396,080</u>	<u>\$ 12.86</u>	<u>3.8</u>	<u>\$5,653,824</u>

The Company did not grant any stock options during the period ended September 30, 2006 and 2005. The total intrinsic value of options exercised during the period ended September 30, 2006, and 2005, was \$0 and \$8,525, respectively.

A summary of the status of the Company's non-vested stock options for the three months ended September 30, 2006, is presented below:

	Shares	Weighted-Average Grant Date Fair Value
Non-vested at July 1, 2006	132,334	\$ 11.24
Granted	—	\$ —
Vested	—	\$ —
Forfeited	—	\$ —
Non-vested at September 30, 2006	<u>132,334</u>	<u>\$ 11.24</u>

For the quarter ended September 30, 2006 and 2005, we recorded non-cash stock compensation expense associated with stock options of \$238,922 and \$195,252, respectively. As of September 30, 2006, there was \$552,049 of total unrecognized non-cash stock compensation expense related to non-vested stock options granted under our equity compensation plans, which is expected to be recognized over a weighted-average period of 2.1 years. The total fair value of shares vested during the period ended September 30, 2006, and 2005, was \$0 and \$53,130, respectively.

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Stock-based Compensation

As defined in the 2004 Plan, officers and certain employees may be granted shares of restricted common stock that can be earned only if defined multi-year performance goals are met within five years of the date of grant (“Performance Shares”). If the performance goals are not earned by the end of this five year period, the Performance Shares will be forfeited. Vesting of Performance Shares is subject to certain performance measures being met and can be based on interim earn outs of 25%, 50%, 75% or 100%.

A summary of the status of the Company’s non-vested Performance Shares for the three months ended September 30, 2006, is presented below:

	<u>Shares</u>	<u>Weighted-Average Grant Date Fair Value</u>
Non-vested at July 1, 2006	41,500	\$ 19.19
Granted	—	\$ —
Vested	—	\$ —
Forfeited	—	\$ —
Non-vested at September 30, 2006	<u>41,500</u>	<u>\$ 19.19</u>

We measure the fair value of the Performance Shares based upon the market price of our common stock as of the date of grant. In accordance with SFAS 123(R), the measurement date for the Performance Shares will be determined at such time that the performance goals are attained or that it is probable they will be attained. At such time that it is probable that a performance condition will be achieved, compensation expense will be measured by the number of shares that will ultimately be earned based on the grant date market price of our common stock. Interim recognition of compensation expense will be made at such time as management can reasonably estimate the number of shares that will be earned. As of September 30, 2006, our estimates indicated that it is probable that 100% of our non-vested Performance Shares will be earned. For the quarter ended September 30, 2006 and 2005, we recorded non-cash stock compensation expense associated with our Performance Shares of \$89,179 and \$0, respectively. As of September 30, 2006, total unrecognized non-cash stock compensation expense related to our Performance Shares is \$360,705, which is expected to be recognized over the next 1.5 years, the period over which it is probable that the performance goals will be attained.

As also defined in the 2004 Plan, directors, officers, and certain employees may be granted shares of restricted common stock, which vest by continued service alone (“Restricted Stock”). For officers and certain employees, the vesting period for Restricted Stock begins after a three-year holding period from the date of grant with one-third of the shares vesting in years four, five and six, respectively. Restricted Stock awards granted to directors vest immediately with respect to 50% of the shares granted and after one year with respect to the remaining 50% granted. Shares of Restricted Stock represent issued and outstanding shares of common stock, with dividend and voting rights. Unvested shares of Restricted Stock are subject to forfeiture upon termination of employment with the Company.

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A summary of the status of the Company's non-vested Restricted Stock for the three months ended September 30, 2006, is presented below:

	Shares	Weighted-Average Grant Date Fair Value
Non-vested at July 1, 2006	77,250	\$ 20.60
Granted	—	\$ —
Vested	—	\$ —
Forfeited	—	\$ —
Non-vested at September 30, 2006	<u>77,250</u>	\$ 20.60

For the quarter ended September 30, 2006 and 2005, we recorded non-cash stock compensation expense associated with the Restricted Stock of \$84,738 and \$43,089, respectively. As of September 30, 2006, total unrecognized non-cash stock compensation expense related to Restricted Stock was \$1,173,883, which is expected to be recognized over the remaining average vesting period of 4.5 years.

Stock Issuances

In September 2005, we sold 2,227,912 shares of our common stock, at a price of \$26.00 per share, resulting in proceeds of approximately \$54.7 million, which is net of the underwriter's discount of \$2.9 million and transaction costs of approximately \$327,000. The net proceeds in this equity offering have been and will continue to be used to fund the acquisition and financing of additional royalty interests and for general corporate purposes.

During the quarter ended September 30, 2005, options to purchase 1,000 shares were exercised, resulting in proceeds of \$14,115.

5. EARNINGS PER SHARE ("EPS") COMPUTATION

	For The Three Months Ended September 30, 2006		
	Income	Shares	Per-Share
	(Numerator)	(Denominator)	Amount
Basic EPS Income available to common stockholders	\$4,960,137	23,587,416	\$ 0.21
Effect of dilutive securities		230,312	
Diluted EPS	<u>\$4,960,137</u>	<u>23,817,728</u>	<u>\$ 0.21</u>

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As of September 30, 2006, all outstanding options were included in the computation of diluted EPS because the exercise price of all the options was less than the average market price of our common shares for the period.

	For The Three Months Ended September 30, 2005		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Basic EPS			
Income available to common stockholders	\$3,057,431	21,126,609	\$ 0.14
Effect of dilutive securities		<u>240,234</u>	
Diluted EPS	<u>\$3,057,431</u>	<u>21,366,843</u>	<u>\$ 0.14</u>

Options to purchase 50,000 shares of common stock, at a purchase price of \$23.73 per share, were outstanding at September 30, 2005, but were not included in the computation of diluted EPS because the exercise price of these options was greater than the average market price of the common shares for the period.

6. INCOME TAXES

For the three months ended September 30, 2006, we recorded current and deferred tax expense of \$2,407,598 compared with \$1,404,335 during the three months ended September 30, 2005. Our effective tax rate for the three months ended September 30, 2006, was 32.7%, compared with 31.5% for the three months ended September 30, 2005. The increase in our effective tax rate is due to a decrease in our estimated deductions associated with percentage depletion. The increase was also partially offset by a decrease in our State of Colorado tax rates.

7. COMMITMENTS AND CONTINGENCIES

Taparko Project

On March 1, 2006, Royal Gold entered into an Amended and Restated Funding Agreement with Somita related to the Taparko Project in Burkina Faso, West Africa. We have a \$35 million funding commitment pursuant to the Amended and Restated Funding Agreement, of which we have funded approximately \$30.3 million as of September 30, 2006. During October 2006, we funded an additional \$3.3 million to the Taparko Project, resulting in total funding by us of approximately \$33.6 million as of October 31, 2006. Subsequent funding of the Taparko Project will be made in installments over the remaining construction period. The Amended and Restated Funding Agreement outlines the construction milestones that must be met prior to each specific funding installment. We expect the project to meet all construction requirements (as defined in the Amended and Restated Funding Agreement) no later than second quarter of calendar 2007. We estimate the \$35 million will be funded by the second quarter of calendar 2007, subject to construction milestones. Our royalties are subject to completion of our funding commitment.

Under a separate Contribution Agreement, High River Gold Mines Ltd (“High River”) is responsible for contributing additional equity contributions for any cost overruns incurred during the construction and construction warranty periods. If High River is unable to make the required equity contributions, we have

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the right to either (a) provide funding that High River failed to fund, or (b) declare a default under the Funding Agreement. In the event that we elect to provide funding in the amount that High River fails to fund, we may elect to acquire either an equity interest in High River, consisting of units of common shares and warrants of High River as defined, or to obtain additional royalty interests in the Taparko Project in an amount in proportion to the amount of the additional funding compared with our original \$35 million funding commitment. As of October 31, 2006, High River has made all required equity commitments as scheduled, under its Contribution Agreement.

Taranis

On November 4, 2005, we entered into a strategic alliance with Taranis for exploration on the Kettukuusikko project located in Finland. During our fiscal year 2006, we have funded exploration totaling \$500,000 in return for a 2% NSR royalty. We also have an option to fund up to an additional \$600,000. The Company has elected to exercise this option. If we fund the entire additional amount, we will earn a 51% joint venture interest in the Kettukuusikko project, and we will release our 2% NSR royalty. In the event that Royal Gold does not fully fund the \$600,000 to earn the joint venture interest, we would retain our 2% NSR royalty. As of September 30, 2006, we have funded \$0 of the additional \$600,000 option.

Revett

Under the terms of the Revett purchase agreement, the Company has the right, but not the obligation, to cure any default by Revett under their obligations pursuant to an existing mortgage payable, secured by a promissory note, to Kennecott Montana Company, a third party and prior joint venture interest owner of the Troy mine. If the Company elects to exercise its right, it would have the subsequent right to reimbursement from Revett for any amounts disbursed in curing such defaults. The principal and accrued interest under the promissory note as of September 30, 2006, was approximately \$6.0 million with a maturity date of February 2008.

Casmalia

On March 24, 2000, the United States Environmental Protection Agency (“EPA”) notified Royal Gold and 92 other entities that they were considered potentially responsible parties (“PRPs”) under the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended (“Superfund”), at the Casmalia Resources Hazardous Waste Disposal Site (the “Site”) in Santa Barbara County, California. EPA’s allegation that Royal Gold was a PRP was based on the disposal of allegedly hazardous petroleum exploration wastes at the Site by Royal Gold’s predecessor, Royal Resources, Inc., during 1983 and 1984.

After extensive negotiations, on September 23, 2002, Royal Gold, along with 35 members of the PRP group targeted by EPA, entered into a Partial Consent Decree with the United States of America intending to settle their liability for the United States of America’s past and future clean-up costs incurred at the Site. Based on the minimal volume of allegedly hazardous waste that Royal Resources, Inc. disposed of at the Site, our share of the \$25.3 million settlement amount was \$107,858, which we deposited into the escrow account that the PRP group set up for that purpose in January 2002. The funds were paid to the United States of America on May 9, 2003. The United States of America may only pursue Royal Gold and the other PRPs for additional clean-up costs if the United States of America total clean-up costs at the Site

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significantly exceed the expected cost of approximately \$272 million. We believe our potential liability with the United States of America to be a remote possibility.

The Partial Consent Decree does not resolve Royal Gold's potential liability to the State of California ("State") for its response costs or for natural resource damages arising from the Site. The State has not expressed any interest in pursuing natural resource damages. However, on October 1, 2002, the State notified Royal Gold and the rest of the PRP group that participated in the settlement with the United States of America that the State would be seeking response costs totaling approximately \$12.5 million from them. It is not known what portion of these costs the State expects to recover from this PRP group in settlement. If the State agrees to a volumetric allocation, we will be liable for 0.438% of any settlement amount. However, we expect that our share of liability will be completely covered by a \$15 million, zero-deductible insurance policy that the PRP group purchased specifically to protect itself from claims such as that brought by the State. No notices or any other forms of actions with respect to Royal Gold have been made by the State since its October 1, 2002 notice.

8. SUBSEQUENT EVENT

Effective October 20, 2006, the Company entered into an agreement with Nevada Star Resource Corp. ("Nevada Star") to acquire certain unpatented mining claims and to purchase a sliding-scale NSR royalty on the Gold Hill deposit for \$3.3 million. The sliding-scale NSR royalty on the Gold Hill deposit 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 royalty is also subject to a minimum royalty payment of \$100,000 per year. Round Mountain Gold Corporation ("RMGC") has the right, at anytime, to purchase the royalty interest for \$10 million, less any royalty received by Nevada Star and Royal Gold. The closing of the acquisition is subject to customary conditions and is expected to occur in November 2006.

The Gold Hill deposit, located just north of the Round Mountain gold mine in Nye County, Nevada, is controlled by RMGC, a joint venture between Kinross Gold, the operator, and Barrick.

On November 8, 2006 the Company announced that its Board of Directors increased the Company's annual (calendar year) dividend from \$0.22 to \$0.26, payable on a quarterly basis of \$0.065 per share of common stock, beginning with the quarterly dividend payable January 19, 2007.

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

General

Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) is intended to provide information to assist you in better understanding and evaluating our financial condition and results of operations. We recommend that you read this MD&A in conjunction with our consolidated financial statements included in Item 1 of this Quarterly Report on Form 10-Q, as well as our 2006 Annual Report on Form 10-K.

This MD&A contains forward-looking information. Our important note about forward-looking statements, which you will find following this MD&A and the MD&A in our 2006 Annual Report on Form 10-K, applies to these forward-looking statements.

We refer to “GSR,” “NSR” and other types of royalty interests throughout this MD&A. These terms are defined in our 2006 Annual Report on Form 10-K.

Overview

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

We seek to acquire existing royalties or to finance projects that are in production or near production in exchange for royalty interests. We also fund exploration on properties thought to contain precious metals and seek to obtain royalties and other carried ownership interests in such properties through the subsequent transfer of operating interests to other mining companies. Substantially all of our revenues are and will be expected to be derived from royalty interests. We do not conduct mining operations at this time. During the quarter ended September 30, 2006, we focused on the management of our existing royalty interests, the acquisition of royalty interests, and the creation of royalty interests through financing and strategic exploration alliances.

Our financial results are primarily tied to the price of gold and other metals, as well as production from our royalty properties. For the quarter ended September 30, 2006, the price of gold averaged \$621 per ounce compared with an average price of \$439 per ounce for the quarter ended September 30, 2005. As a result of the increased gold price, our GSR1 sliding-scale royalty rate at the Pipeline Mining Complex was 5.0% compared with a rate of 4.5% during the prior period. Payments received from the recently acquired Mulatos and Robinson royalties, along with an increase in production at the Bald Mountain mine contributed to royalty revenue of \$9,745,793 during the quarter ended September 30, 2006, compared to royalty revenue of \$6,827,619 during the quarter ended September 30, 2005. These increases to our royalty revenue were partially offset by lower production at the Pipeline Mining Complex .

Our principal mineral property interests are set forth below:

- Pipeline: Four royalty interests at the Pipeline Mining Complex, which includes the Pipeline and South Pipeline, GAP and Crossroads gold deposits. The Pipeline Mining Complex is operated by the Cortez Joint Venture, which is a joint venture between Barrick (60%), and Kennecott Explorations (Australia) Ltd. (40%), a subsidiary of Rio Tinto plc. Our four royalty interests at the Pipeline Mining Complex are:

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- GSR1 – A sliding-scale GSR royalty that covers the current mine footprint, which includes the Pipeline and South Pipeline deposits, and ranges from 0.4% at a gold price below \$210 per ounce to 5.0% at a gold price of \$470 per ounce or above;
- GSR2 – A sliding-scale GSR royalty that covers areas outside the Pipeline deposit and ranges from 0.72% at a gold price below \$210 per ounce to 9.0% at a gold price of \$470 per ounce or above;
- GSR3 – A 0.71% fixed rate GSR royalty on the production covered by GSR1 and GSR2; and
- NVR1 – A fixed rate 0.39% net value royalty on all production on the South Pipeline, Crossroads and some of the GAP deposit, but not covering the Pipeline deposit.
- Leeville: We hold a 1.8% carried working interest, equal to a 1.8% NSR royalty, on the majority of the Leeville Project, which includes both the Leeville South and Leeville North underground mines, located in Nevada and operated by Newmont;
- SJ Claims: We hold a 0.9% NSR royalty on the SJ Claims, which covers a portion of the Betze-Post open pit mine, at the Goldstrike operation, located in Nevada and operated by Barrick;
- Troy: Two royalty interests in the Troy underground silver and copper mine, operated by Revett, located in northwestern Montana:
 - A production payment equivalent to a 7.0% GSR royalty until either cumulative production of approximately 9.9 million ounces of silver and 84.6 million pounds of copper, or we receive \$10.5 million in cumulative payments, whichever occurs first; and
 - A GSR royalty which begins at 6.1% on any production in excess of 11.0 million ounces of silver and 94.1 million pounds of copper, and steps down to a 2% GSR royalty after cumulative production has exceeded 12.7 million ounces of silver and 108.2 million pounds of copper;
- Martha: A 2% NSR royalty on a number of properties in Santa Cruz Province, Argentina, including the Martha mine, which is a high grade underground silver mine and is operated by Coeur d'Alene Mines Corporation; and
- Bald Mountain: A 1.75% NSR sliding-scale royalty interest that increases to 2% at a gold price of approximately \$684 per ounce and covers a portion of the Bald Mountain mine in Nevada, operated by Barrick.
- Taparko: Subject to completion of our funding commitment we hold four royalty interests on the Taparko Project, located in Burkina Faso and operated by High River. Our four royalty interests at the Taparko Project are:
 - TB-GSR1 – A production payment equivalent to a 15% GSR royalty on all gold produced from the Taparko Project until either cumulative production of 804,420 ounces of gold is achieved or until we receive \$35 million in cumulative payments;
 - TB-GSR2 – A production payment equivalent to a GSR sliding-scale royalty, which ranges from 0% to 10%, on all gold produced from the Taparko Project. At a gold price of \$600 per ounce, the sliding-scale royalty rate would be 6.0%. TB-GSR2 remains in force until the termination of TB-GSR1;

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- TB-GSR3 – A perpetual 2% GSR royalty on all gold produced from the Taparko Project area. TB-GSR3 will commence upon the termination of the TB-GSR1 and TB-GSR2 royalties; and
- TB-MR1 – A 0.75% milling fee royalty on all gold, subject to annual caps, processed through the Taparko Project processing facilities that is mined from any area outside the Taparko Project area.
- Robinson: A 3% NSR royalty on the Robinson mine, located in eastern Nevada and operated by Quadra; and
- Mulatos: A sliding-scale NSR royalty on the Mulatos mine, located in Sonora, Mexico, and operated by Alamos. The sliding-scale NSR royalty, capped at two million ounces of gold production, ranges from 0.30% payout for gold prices below \$300 per ounce up to a maximum rate of 1.50% for gold prices above \$400 per ounce.

During the first quarter of calendar 2006, we received production estimates, attributable to our royalty interests, for calendar year 2006. The calendar 2006 production estimates and production attributable to our royalty interests during the first nine months of calendar 2006 are as follows:

Royalty	Operator	Metal	Calendar 2006 Production Estimate	Reported Production Through September 30, 2006 ⁽⁴⁾
Pipeline GSR1	Barrick	Gold	385,000 oz.	299,741 oz.
Pipeline GSR3	Barrick	Gold	385,000 oz.	299,741 oz.
Pipeline NVR1	Barrick	Gold	213,000 oz.	92,117 oz.
Leeville North	Newmont	Gold	196,000 oz.	29,941 oz.
Leeville South	Newmont	Gold	29,000 oz.	28,015 oz.
SJ Claims	Barrick	Gold	903,000 oz.	653,252 oz.
Bald Mountain	Barrick	Gold	248,000 oz.	149,481 oz.
Robinson	Quadra	Gold	53,500 oz. ⁽¹⁾	23,241 oz. ⁽¹⁾
Mulatos	Alamos	Gold	110,000 to 120,000 oz. ⁽¹⁾	43,555 oz. ⁽¹⁾
Troy	Revelt	Silver	1.8 million oz.	653,344 oz.
Martha	Coeur D'Alene	Silver	2.5 million oz.	1.9 million oz.
Troy	Revelt	Copper	15.6 million lbs.	5.2 million lbs.
Robinson	Quadra	Copper	115 million lbs. ⁽¹⁾⁽²⁾	47.2 million lbs. ⁽¹⁾
Robinson	Quadra	Molybdenum	0.5 to 1.0 million lbs. ⁽¹⁾⁽³⁾	101,678 lbs. ⁽¹⁾

⁽¹⁾ Production estimates are for the full 2006 calendar year. The reported production through September 30, 2006, reflects the production received since the fourth quarter of fiscal year 2006, or the acquisition period.

⁽²⁾ In October 2006, Quadra reported that their original copper production estimate of 125 to 130 million pounds of copper in concentrate will not be met due to the presence of high levels of oxide copper contained within the ore supergene zone currently being mined by Quadra.

⁽³⁾ In August 2006, Quadra reported that their original molybdenum production estimates will not be met. Quadra was not able to provide updated molybdenum production estimates at this time.

⁽⁴⁾ Reported production relates to the amount of metal sales, subject to our royalty interests, through September 30, 2006.

Royalty Acquisition

As discussed in Note 8 in the accompanying Notes to Consolidated Financial Statements, effective October 20, 2006, the Company entered into an agreement with Nevada Star Resource Corp. (“Nevada Star”) to acquire certain unpatented mining claims and to purchase a sliding-scale NSR royalty on the Gold Hill deposit for \$3.3 million. The sliding-scale NSR royalty on the Gold Hill deposit 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 royalty is also subject to a minimum royalty payment of \$100,000 per year. Round Mountain Gold Corporation (“RMGC”) has the right, at anytime, to purchase the royalty interest for \$10 million, less any royalty received by Nevada Star and Royal Gold. The closing of the acquisition is subject to customary conditions and is expected to occur in November 2006.

The Gold Hill deposit, located just north of the Round Mountain gold mine in Nye County, Nevada, is controlled by RMGC, a joint venture between Kinross Gold, the operator, and Barrick.

Results of Operations

Quarter Ended September 30, 2006, Compared to Quarter Ended September 30, 2005

For the quarter ended September 30, 2006, we recorded net earnings of \$4,960,137, or \$0.21 per basic and diluted share, as compared to net earnings of \$3,057,431, or \$0.14 per basic and diluted share, for the quarter ended September 30, 2005.

For the quarter ended September 30, 2006, we received total royalty revenue of \$9,745,793, at an average gold price of \$621 per ounce, compared to royalty revenue of \$6,827,619, at an average gold price of \$439 per ounce for the quarter ended September 30, 2005. Royalty revenue and the corresponding production, attributable to our royalty interests, for the quarter ended September 30, 2006 compared to the quarter ended September 30, 2005 is as follows:

Royalty Revenue and Production Subject to Our Royalty Interests
Quarter Ended September 30, 2006 and 2005

Royalty	Metal(s)	Quarter Ended September 30, 2006		Quarter Ended September 30, 2005	
		Royalty Revenue	Production	Royalty Revenue	Production
Pipeline	Gold	\$4,532,610	125,365 oz.	\$5,370,420	227,981 oz.
Leeville	Gold	\$ 212,462	19,254 oz.	\$ 158,144	19,691 oz.
SJ Claims	Gold	\$ 823,432	149,300 oz.	\$ 913,061	229,459 oz.
Bald Mountain	Gold	\$ 531,662	48,883 oz.	\$ 69,219	9,000 oz.
Robinson ⁽¹⁾		\$2,709,312			
	Gold		10,159 oz.	N/A	N/A
	Copper		19,936,888 lbs.	N/A	N/A
	Molybdenum		40,935 lbs.	N/A	N/A
Mulatos ⁽¹⁾	Gold	\$ 185,983	19,643 oz.	N/A	N/A
Troy		\$ 569,693		\$ 268,514	
	Silver		204,269 oz.		191,416 oz.
	Copper		1,661,989 lbs.		1,583,471 lbs.
Martha	Silver	\$ 180,639	775,851 oz.	\$ 48,261	344,230 oz.

⁽¹⁾ Receipt of royalty revenue commenced during our fourth quarter of fiscal year 2006.

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The increase in royalty revenue for the quarter ended September 30, 2006 compared with the quarter ended September 30, 2005, resulted from an increase in metal prices, increased production at the Bald Mountain mine, and payments from the recently acquired Mulatos and Robinson royalties. These increases were partially offset by a decrease in production at the Pipeline Mining Complex.

Cost of operations increased to \$658,517 for the quarter ended September 30, 2006, compared to \$489,698 for the quarter ended September 30, 2005. The increase was primarily due to an increase in the Nevada Net Proceeds Tax expense, which resulted primarily from an increase in royalty revenue from Bald Mountain and the recently acquired Robinson royalty.

General and administrative expenses increased to \$1,133,656 for the quarter ended September 30, 2006, from \$959,508 for the quarter ended September 30, 2005. The increase was primarily due to an increase in non-cash compensation expense allocated to general and administrative expenses of approximately \$112,000.

Exploration and business development expenses decreased to \$418,541 for the quarter ended September 30, 2006, from \$434,710 for the quarter ended September 30, 2005. The decrease is primarily due to fewer consulting services utilized during the quarter.

As discussed in Note 4 in the accompanying Notes to Consolidated Financial Statements, the Company accounts for its stock-based compensation in accordance with the Financial Accounting Standards Board Statement No. 123 (revised 2004), *Share -Based Payment* ("SFAS 123(R)"). SFAS 123(R) requires all stock-based payments to employees, including grants of employee stock options, restricted stock, and performance shares, to be recognized in the financial statements based on their fair values. In accordance with SFAS 123(R), for the three months ended September 30, 2006 and 2005, we recorded total non-cash stock compensation expense related to our equity compensation plans of \$412,839 and \$238,341, respectively, which is allocated among cost of operations, general and administrative, and exploration and business development in our consolidated statements of operations and comprehensive income. The total non-cash compensation expense allocated to cost of operations, general and administrative, and exploration and business development for the three months ended September 30, 2006, was \$57,429, \$233,430 and \$121,980, respectively. The total non-cash compensation expense allocated to cost of operations, general and administrative, and exploration and business development for the three months ended September 30, 2005, was \$28,585, \$121,955 and \$87,801, respectively. The total income tax benefit associated with non-cash stock compensation expense was approximately \$146,000 and \$86,000 for the three months ended September 30, 2006 and 2005, respectively. As of September 30, 2006, there was \$552,049, \$360,705 and \$1,173,883 of total unrecognized non-cash stock compensation expense related to non-vested stock options, Performance Shares and Restricted Stock, respectively, granted under our equity compensation plan. The unrecognized non-cash stock compensation expense related to our non-vested stock options, Performance Shares and Restricted Stock is expected to be recognized over a period of 2.1 years, 1.5 years and 4.5 years, respectively.

Depreciation and depletion increased to \$1,072,215 for the quarter ended September 30, 2006, from \$898,025 for the quarter ended September 30, 2005. The increase was primarily due to increased production at the Troy mine, along with the addition of the Mulatos and Robinson mine royalties, both resulting in additional depletion.

Interest and other income increased to \$971,185 for the quarter ended September 30, 2006, from \$437,095 for the quarter ended September 30, 2005. The increase is primarily due to higher interest rates and an increase in funds available for investing over the prior period.

During the three months ended September 30, 2006, we recognized current and deferred tax expense totaling \$2,407,598 compared with \$1,404,335 during the three months ended September 30, 2005. This resulted in an effective tax rate of 32.7% in the current period, compared with 31.5% in the prior period.

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The increase in our effective tax rate is due to a decrease in our estimated deductions associated with percentage depletion. The increase was partially offset by a decrease in our State of Colorado tax rates.

Liquidity and Capital Resources

At September 30, 2006, we had current assets of \$80,742,352 compared to current liabilities of \$6,166,380 for a current ratio of 13 to 1. This compares to current assets of \$84,775,896 and current liabilities of \$3,323,516 at June 30, 2006, resulting in a current ratio of 26 to 1. The decrease in the current ratio is due primarily to a decrease in available cash of approximately \$5.2 million and an increase in our income taxes payable of approximately \$2.2 million. Our available cash decreased as a result of our additional funding of the High River royalties of approximately \$11.6 million and a dividend payment of \$1.3 million during the period. These payments were partially offset by cash received from operations of approximately \$7.8 million. We continue to have no long-term debt.

During the three months ended September 30, 2006, liquidity needs were met from \$9,745,793 in royalty revenues, our available cash resources, and interest and other income of \$971,185.

We have a \$30 million line of credit from HSBC that may be used to acquire producing royalties and for general corporate purposes. Any loan under the line of credit will be secured by a mortgage on our GSR1, GSR3 and NVR1 royalties at the Pipeline Mining Complex, and by a security interest in the cash proceeds from our royalty interests. The maturity date of our line of credit was extended in July 2006 for one year to December 31, 2009. As of September 30, 2006, no funds have been drawn under the line of credit.

We believe that our current financial resources and funds generated from operations will be adequate to cover anticipated expenditures for general and administrative expense costs, exploration and business development costs, and capital expenditures for the foreseeable future. Our current financial resources are also available for royalty acquisitions and to fund dividends. Our long-term capital requirements are primarily affected by our ongoing acquisition activities. In the event of a substantial royalty or other acquisition, we may seek additional debt or equity financing opportunities.

On November 8, 2006 the Company announced that its Board of Directors increased the Company's annual (calendar year) dividend from \$0.22 to \$0.26, payable on a quarterly basis of \$0.065 per share of common stock, beginning with the quarterly dividend payable January 19, 2007.

Recently Issued Accounting Pronouncements

On July 13, 2006, Financial Accounting Standards Board ("FASB") Interpretation No. 48 ("FIN 48"), *Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement No. 109*, was issued. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with SFAS 109. FIN 48 also prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of tax position taken or expected to taken in a tax return. FIN 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The provisions of FIN 48 are effective for our fiscal year beginning July 1, 2007. The Company is evaluating the impact, if any, the adoption of FIN 48 could have on our financial statements.

In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements*. Statement No. 157 provides guidance for using fair value to measure assets and liabilities. Statement No. 157 applies whenever other accounting standards require (or permit) assets or liabilities to be measured at fair value but does not expand the use of fair value in any new circumstances. Under Statement No. 157, fair value refers to the price that would be received to sell an asset or paid to transfer a liability between market participants in the market in which the reporting entity transacts. In this standard, the FASB clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability. The provisions of Statement No. 157 are effective for our fiscal year beginning

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July 1, 2008, and interim periods within the fiscal year. The Company is evaluating the impact, if any, the adoption of Statement No. 157 could have on our financial statements.

Also in September 2006, the Securities and Exchange Commission (“SEC”) issued Staff Accounting Bulletin No. 108 (“SAB 108”), *Financial Statements – Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements.*” SAB 108 provides guidance on how prior year misstatements should be taken into consideration when quantifying misstatements in current year financial statements for purposes of determining whether the current year’s financial statements are materially misstated. SAB 108 provides that once a current year misstatement has been quantified, the guidance in SAB No. 99, *Financial Statements – Materiality*, should be applied to determine whether the misstatement is material and should result in an adjustment to the financial statements. We will apply the provisions of SAB 108 with the preparation of our annual financial statements for the fiscal year ending June 30, 2007. The Company is currently evaluating, but does not expect the application of the provisions of SAB 108 to have a material impact, if any, on our financial statements for the fiscal year ending June 30, 2007.

Forward-Looking Statements

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

- changes in gold, silver and copper prices;
- the performance of the Pipeline Mining Complex and our other producing royalty properties;
- decisions and activities of the operators of our royalty properties;
- unanticipated grade, geological, metallurgical, processing or other problems at these properties;
- changes in project parameters as plans of the operators are refined;
- changes in estimates of reserves and mineralization by the operators of our royalty properties;
- the completion of the construction of the Taparko Project in 2007;
- economic and market conditions;
- future financial needs;
- the availability and size of acquisitions; and
- the ultimate additional liability, if any, to the State of California in connection with Casmalia matter;

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as well as other factors described elsewhere in our Annual Report on Form 10-K and other reports filed with the Securities and Exchange Commission (the “SEC”). Most of these factors are beyond our ability to predict or control. We disclaim any obligation to update any forward-looking statement made herein. Readers are cautioned not to put undue reliance on forward-looking statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our earnings and cash flow are significantly impacted by changes in the market price of gold. Gold prices can fluctuate widely 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 “Decreases in prices of gold, silver and copper would reduce our royalty revenues,” under Part I, Item 1A of our 2006 Annual Report on Form 10-K for more information that can affect gold prices. During the last five years, the market price for gold has fluctuated between \$278 per ounce and \$725 per ounce.

During the three month period ended September 30, 2006, we reported royalty revenues of \$9,745,793, with an average gold price for the period of \$621 per ounce. The Company’s GSR1 royalty, on the Pipeline Mining Complex, which produced approximately 39% of the Company’s revenues for the period, is a sliding-scale royalty with variable royalty rate steps based on the average London PM gold price for the period. These variable steps are described in the Company’s Annual Report on Form 10-K. For the quarter ended September 30, 2006, if the price of gold had averaged higher or lower by \$20 per ounce, the Company would have recorded an increase or decrease in revenues of approximately \$218,000. Due to the set price steps in GSR1, the effects of changes in the price of gold cannot be extrapolated on a linear basis.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Securities and Exchange Commission (the “SEC”) defines the term “disclosure controls and procedures” to mean a company’s controls and other procedures that are designed to ensure that information required to be disclosed in the reports that it files or submits under the Securities Exchange Act of 1934 (“Exchange Act”) is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. The definition further states that disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that the information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure. Our President and Chief Executive Officer and our Chief Financial Officer, based on their evaluation of our disclosure controls and procedures as of September 30, 2006, concluded that our disclosure controls and procedures were effective for this purpose.

Changes in Internal Controls

During the fiscal quarter ended September 30, 2006, there was no change in our internal controls over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Not applicable.

ITEM 1A. RISK FACTORS

Information regarding risk factors appears in Item 2 “MD&A – Forward-Looking Statements,” and various risks faced by us are also discussed elsewhere in Item 2 “MD&A” of this Quarterly Report on Form 10-Q. In addition, risk factors are included in Part I, Item 1A of our 2006 Annual Report on Form 10-K. There have been no material changes from the risk factors previously disclosed in our 2006 Annual Report on Form 10-K.

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

Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS

31.1 Certification of the President and Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of the President and Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).

32.2 Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).

99.1 Purchase Agreement dated as of October 20, 2006, between Royal Gold, Inc. and Nevada Star Resource Corp. for the Gold Hill royalty, including Exhibit B, Assignment and Mining Lease with Option to Purchase, to the Purchase Agreement.

SIGNATURES

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

ROYAL GOLD, INC.

Date: November 8, 2006

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

Date: November 8, 2006

By: /s/ Stefan Wenger
Stefan Wenger
Chief Financial Officer

EXHIBITS INDEX

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- 99.1 Purchase Agreement dated as of October 20, 2006, between Royal Gold, Inc. and Nevada Star Resource Corp. for the Gold Hill royalty, including Exhibit B, Assignment and Mining Lease with Option to Purchase, to the Purchase Agreement.

EXHIBIT 31.1

I, Tony Jensen, certify that:

- (1) I have reviewed this quarterly report on Form 10-Q of Royal Gold, Inc.;
- (2) Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
- (3) Based on my knowledge, the financial statements and other financial information included in this quarterly report fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the period presented in this quarterly report;
- (4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-a5(f), for the registrant and have:
 - (a) Designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and
 - (d) Disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- (5) The registrant's other certifying officer and I, have disclosed, based on our most recent evaluation of internal controls over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

November 8, 2006

/s/ Tony Jensen
Tony Jensen
President and Chief Executive Officer

EXHIBIT 31.2

I, Stefan Wenger, certify that:

- (1) I have reviewed this quarterly report on Form 10-Q of Royal Gold, Inc.;
- (2) Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact nor omits to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
- (3) Based on my knowledge, the financial statements and other financial information included in this quarterly report fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the period presented in this annual report;
- (4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-a5(f), for the registrant and have:
 - (a) Designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and
 - (d) Disclosed in this quarterly report any change in the registrant's internal controls over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- (5) The registrant's other certifying officer and I, have disclosed, based on our most recent evaluation of internal controls over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

November 8, 2006

/s/ Stefan Wenger

Stefan Wenger
Chief Financial Officer

EXHIBIT 32.1

In connection with the quarterly report on Form 10-Q of Royal Gold, Inc. (the "Company"), for the period ending September 30, 2006, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Tony Jensen, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that, to my knowledge:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

November 8, 2006

/s/ Tony Jensen _____

Tony Jensen
President and Chief Executive Officer

EXHIBIT 32.2

In connection with the quarterly report on Form 10-Q of Royal Gold, Inc. (the "Company"), for the period ending September 30, 2006, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Stefan Wenger, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that, to my knowledge:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

November 8, 2006

/s/ Stefan Wenger

Stefan Wenger
Chief Financial Officer

PURCHASE AGREEMENT

THIS PURCHASE AGREEMENT (“**Agreement**”), dated as of October 20, 2006 (the “**Effective Date**”), is between Royal Gold, Inc., a Delaware corporation (“**Royal Gold**”), and Nevada Star Resource Corp., a Nevada corporation (“**Nevada Star**”).

RECITALS

A. Effective as of March 23, 1995, Nevada Star entered into a Mining Lease and Option to Purchase with Everett L. Manley and Patricia J. Manley, with respect to certain unpatented mining claims in Nye County, Nevada. That Mining Lease and Option to Purchase was amended by documents dated September 26, 1997, July 20, 1999 and February 14, 2000. Copies of the original Mining Lease and Option to Purchase and those amendments are attached collectively hereto as Exhibit A and shall be described herein as the “**Manley Lease**”.

B. Effective as of May 2, 2000, Nevada Star and its affiliate company MSM Resource, L.L.C., a Nevada limited liability company (“**MSM**”), entered into an Assignment and Mining Lease with Option to Purchase (the “**2000 Assignment**”) with Round Mountain Gold Corporation (“**RMGC**”), pursuant to which Nevada Star assigned to RMGC all of Nevada Star’s right, title and interest in the Manley Lease; and Nevada Star and MSM leased to RMGC unpatented mining claims owned by them in Nye County, Nevada, reserving to Nevada Star and MSM a Net Smelter Return production royalty (the “**Royalty**”), as described in the 2000 Assignment. A copy of the 2000 Assignment is attached hereto as Exhibit B.

C. RMGC exercised the purchase option under the Manley Lease and now owns all claims described in Exhibit A to the Manley Lease, subject to the Royalty.

D. MSM has conveyed to Nevada Star all of MSM’s right, title and interest in and to all of the unpatented mining claims that were described on pages 5 and 6 of Exhibit B to the 2000 Assignment as being owned by MSM, including but not limited to MSM’s right to the Royalty in those claims. Those claims, together with the unpatented mining claims described on pages 2 through 5 of Exhibit B to the 2000 Assignment as being owned by Nevada Star, shall be described collectively herein as the “**Claims**”.

E. Nevada Star desires to sell and convey the Claims and the Royalty (collectively, the “**Assets**”) to Royal Gold, and Royal Gold desires to purchase the Assets from Nevada Star, on the terms and conditions hereinafter stated.

AGREEMENT

In consideration of the mutual covenants contained in this Agreement, and other valuable consideration, the receipt and adequacy of which hereby are acknowledged by the parties hereto, Nevada Star and Royal Gold agree as follows:

ARTICLE I

PURCHASE AND SALE OF ASSETS

1.1 Purchase and Sale of Assets . Upon the terms and provisions of this Agreement, at the Closing, as defined in Section 1.4 below, Royal Gold shall purchase and accept delivery from Nevada Star, and Nevada Star shall sell, convey, assign, transfer and deliver to Royal Gold, all of Nevada Star's right, title and interest in and to the Assets, subject to all terms and conditions of the 2000 Assignment, except the Excluded Liabilities, described in Section 1.2 below.

1.2 Excluded Liabilities . Notwithstanding any provision hereof or any exhibit hereto, and regardless of any disclosure to or due diligence by Royal Gold, Royal Gold is not assuming any liability or obligation of Nevada Star, whether known or unknown, actual or contingent, now-existing or arising with notice or lapse of time, and expressly disclaims, in whole and in part, the assumption of all such liabilities, obligations or commitments that result from or arise under any breach or violation of any obligation or representation or warranty of, or default in performance by Nevada Star under, the Manley Lease or the 2000 Assignment (“ **Excluded Liabilities** ”).

1.3 Purchase Price . In exchange for the Assets, Royal Gold shall pay to Nevada Star at the Closing THREE MILLION SEVEN HUNDRED THOUSAND AND NO/100 U.S. DOLLARS (\$3,700,000), less the cumulative total of all advance royalty payments that RMGC is entitled to deduct from the Royalty pursuant to the 2000 Assignment as of the Closing Date described in Section 1.4 below (the “ **Purchase Price** ”).

1.4 Closing . Nevada Star and Royal Gold shall consummate and close the transaction contemplated herein (“ **Closing** ”) at the Reno, Nevada offices of Nevada counsel to Royal Gold in this matter (or at such other place as the parties may mutually agree) at 10:00 a.m., local time, on or before thirty (30) days after the Effective Date (the “ **Closing Date** ”).

1.5 Documents to be Delivered at Closing and after Closing .

(a) At the Closing, Nevada Star shall deliver to Royal Gold the following:

- (i) a Deed in the form of Exhibit C hereto;
- (ii) copies or originals of all reports and correspondence (including materials included in electronic form) in Nevada Star's possession or control from RMGC to Nevada Star and from Nevada Star to RMGC relating in any way to the Claims, the Royalty, the Manley Lease or the 2000 Assignment, including but not limited to information described in Section 3.1(e) below; and

(iii) copies of all geologic, sampling, assaying or other technical data relating to the Assets, and copies of any title opinions or reports regarding any of the Assets in Nevada Star's possession or control.

(b) At the Closing, Royal Gold shall deliver the Purchase Price to Nevada Star by transfer of immediately available funds to such account at such location as Nevada Star may direct.

(c) Within five (5) business days after the Closing, Nevada Star shall send a notice to RGMC in the form attached as Exhibit D hereto.

1.6 Passage of Title at Closing. At the Closing, all right, title and interest of Nevada Star in and to all of the Assets, but not including the Excluded Liabilities, will be vested in Royal Gold, subject to all terms and conditions of the 2000 assignment.

ARTICLE II

REPRESENTATIONS AND WARRANTIES OF NEVADA STAR AND ROYAL GOLD

As of the Effective Date and the Closing Date, Nevada Star and Royal Gold represent and warrant to each other as follows:

2.1 Organization. It is (a) a corporation duly organized, validly existing, and in good standing under the laws of its State of incorporation, as set forth in the introductory paragraph of this Agreement, and (b) is duly authorized to conduct business and is in good standing under the law of each jurisdiction where such qualification is required in connection with the performance or satisfaction of an obligation hereunder.

2.2 Authorization of Transaction. It has the corporate power and authority to execute and deliver this Agreement and to perform its obligations hereunder, and it has been duly authorized by all requisite corporate action to execute, deliver and fully perform hereunder. This Agreement constitutes the valid and legally binding obligation upon it, enforceable in accordance with its terms. It need not give any notice to, make any filing with, or obtain any authorization, consent or approval of any person or governmental agency in order to consummate the transactions contemplated by this Agreement.

2.3 Brokers' Fees. It has no liability to pay any fees or commissions to any broker, finder or agent with respect to the transactions contemplated by this Agreement for which the other party could become liable or obligated.

2.4 Litigation. There is no claim, action, suit, proceeding or governmental investigation pending or, to its knowledge, threatened against or involving it that questions the validity of this Agreement or seeks to prohibit, enjoin, or otherwise challenge the transactions contemplated by this Agreement.

ARTICLE III

ADDITIONAL REPRESENTATIONS, WARRANTIES AND COVENANTS

3.1 Of Nevada Star . As of the Effective Date and the Closing Date, Nevada Star makes the following additional representations, warranties and covenants to Royal Gold:

(a) Disclosure . Within ten (10) days after the Effective Date and prior to the Closing Date, it will have provided Royal Gold with copies of all information in its possession or control relating to the Assets.

(b) RMGC Credits against the Royalty . As of the Effective Date and the Closing Date, RMGC was entitled under the 2000 Assignment to credits against Royalty payments that otherwise would become due in the amount of THREE HUNDRED SEVENTY-FIVE THOUSAND AND NO/100 U.S. DOLLARS (\$375,000.00) for advance royalty payments. RMGC is not entitled to any other or further credits against the Royalty under the 2000 Assignment or under any other agreement or instrument.

(c) No RMGC or Nevada Star Defaults . Nevada Star has sent no notices of default to RMGC, nor is Nevada Star aware of any acts or omissions of RMGC that would constitute a material default under the 2000 Assignment requiring a notice of default to RMGC. Nevada Star has received no notices of default from RMGC, nor is Nevada Star aware of any acts or omissions by it that would constitute a default under the 2000 Assignment.

(d) Assist in Title Work and Curative Measures . Nevada Star shall assist and cooperate with Royal Gold in Royal Gold's examination of title to the Claims and the Royalty. Nevada Star shall execute such curative instruments that Royal Gold may reasonably request in order to perform curative title work with respect to the Claims, the Royalty, or both.

(e) Information Provided by RMGC . Within ten (10) business days after the Effective Date and prior to the Closing Date, Nevada Star shall make available for review and copying by Royal Gold, or provide copies to Royal Gold, of all information produced by Nevada Star and, also, that information provided to Nevada Star by RMGC pursuant to the 2000 Assignment, including but not limited to the following materials pursuant to the following Sections of the 2000 Assignment: annual reports, Section 9(f); real estate tax records, Section 12; records provided pursuant to inspections by Nevada Star, Section 13; property maintenance payments, Section 15; certificates of insurance, Section 29(c); and holding agreement or escrow instructions with deposited deed, Section 30(c).

3.2 Of Royal Gold . As of the Effective Date and the Closing Date, Royal Gold makes the following additional representations, warranties and covenants to Nevada Star: Royal Gold, as part of its due diligence investigation, retained a consultant, Enviroscientists, Inc. ("Enviroscientists"), to conduct a physical inspection of the Claims and the mining claims that were subject to the Manley Lease. Enviroscientists issued a memorandum report to

Royal Gold, dated September 18, 2006 (the "Report"). Within five (5) business days after the Effective Date, as consideration for the rights granted to it by Nevada Star pursuant to this Agreement, Royal Gold shall provide Nevada Star with a copy of the Report, at no cost to Nevada Star; provided, however, that neither Royal Gold nor Enviroscientists shall make any representations or warranties to Nevada Star regarding the accuracy or completeness of same, and any use of or reliance upon the Report shall be at Nevada Star's sole risk and expense.

ARTICLE IV
CLOSING CONDITIONS

4.1 Conditions to Each Party's Obligation. The respective obligations of the parties hereunder are subject to the satisfaction, at or prior to the Closing, of the following conditions:

(a) No temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or other legal restraint or prohibition preventing the consummation of the transactions contemplated herein shall be in effect (each party agreeing to use all reasonable efforts to have any such order reversed or injunction lifted).

(b) No claim, action, litigation or proceeding shall be pending or threatened against Nevada Star or Royal Gold for the purpose of enjoining or preventing the consummation of the transactions contemplated hereby or otherwise claiming that this Agreement or the consummation of the transactions contemplated hereby are illegal; provided, however, that the party against which such matter is pending or threatened shall use all reasonable efforts to remove or dismiss same, and the other party shall have the option of waiving such matter as a condition to Closing.

4.2 Conditions to Nevada Star's Closing Obligation. Nevada Star's obligation to close the transactions contemplated hereunder is subject to the satisfaction by Royal Gold, at or prior to the Closing, of the following conditions (unless waived in writing by Nevada Star):

(a) The representations and warranties of Royal Gold set forth herein are correct in all material respects as of the Closing, as though they were made as of the Closing.

(b) Royal Gold shall have fully performed and complied in all material respects with covenants hereunder that are to be performed or complied with by it at or prior to the Closing.

4.3 Conditions to Royal Gold's Closing Obligation. Royal Gold's obligation to close the transactions contemplated hereunder is subject to the satisfaction by Nevada Star of, or Royal Gold's satisfaction with, at or prior to the Closing, the following conditions (unless waived in writing by Royal Gold):

(a) The representations and warranties of Nevada Star as set forth herein are correct in all material respects as of the Closing as though they were made as of the Closing.

(b) Nevada Star shall have fully performed and complied in all material respects with the covenants hereunder that are to be performed or complied with by it at or prior to the Closing.

(c) Royal Gold shall have satisfied itself with respect to the status of the titles to the Claims and the Royalty.

ARTICLE V

TERMINATION

5.1 Termination . This Agreement may be terminated at any time prior to the Closing:

(a) by mutual written consent of Nevada Star and Royal Gold;

(b) by Nevada Star if any of the representations or warranties of Royal Gold herein are inaccurate in any material respect and if such inaccuracy cannot reasonably be expected to be cured prior to the Closing;

(c) by Nevada Star if any obligation to be performed by Royal Gold hereunder has not been performed in any material respect at or prior to the time specified in this Agreement;

(d) by Royal Gold if any of the representations or warranties of Nevada Star herein are inaccurate in any material respect and if such inaccuracy cannot reasonably be expected to be cured prior to the Closing;

(e) by Royal Gold if any obligation to be performed by Nevada Star hereunder has not been performed in any material respect at or prior to the time specified in this Agreement;

(f) by either Nevada Star or Royal Gold if any of the conditions in Section 4.1 have not been satisfied;

(g) by Nevada Star if any of the conditions in Section 4.2 have not been satisfied; and

(h) by Royal Gold if any of the conditions in Section 4.3 have not been satisfied.

5.2 Effect of Termination . If validly terminated pursuant to Section 5.1, this Agreement will become null and void, and all further obligations of the parties under this Agreement will terminate, and there will be no liability or obligation on the part of any party.

ARTICLE VI

MISCELLANEOUS

6.1 Press Releases and Public Announcements. Neither party shall issue any press release or make any public announcement relating to the subject matter of this Agreement prior to the Closing without the prior written approval of the other party; provided, however, that either party may make any public disclosure that it believes in good faith is required by applicable law or any listing or trading agreement concerning its publicly-traded securities (in which case the disclosing party will use its reasonable best efforts to advise the other party prior to making the disclosure as to the form, content and timing of such disclosure and will provide the other party the opportunity to make comment thereon).

6.2 No Third-Party Beneficiaries. This Agreement will not confer any rights or remedies upon any person other than the parties and their respective successors and permitted assigns.

6.3 Entire Agreement. This Agreement constitutes the entire agreement among the parties and supersedes any prior understandings, agreements or representations by or among the parties, written or oral, to the extent that they relate to the subject matter hereof.

6.4 Succession and Assignment. This Agreement will be binding upon and inure to the benefit of the parties named herein and their respective successors and assigns.

6.5 Notices. All notices, requests, demands, claims and other communications hereunder (“**Notices**”) must be in writing. Any party may send any Notice to the intended recipient at the address set forth below using certified mail, nationally recognized express courier, personal delivery or facsimile transmittal, and any such Notice will be deemed to have been duly given (a) three (3) days after being deposited in the U.S. mail, postage prepaid, (b) the next business day after being deposited with a nationally recognized overnight courier and upon confirming delivery with such courier, and (c) when actually received by an individual at the intended recipient’s facsimile number and acknowledged as received.

If to Nevada Star : Nevada Star Resource Corp.
P.O. Box 1089
Fall City, WA 98024
Attention: Robert Angrisano, President/CEO
Fax: (425) 222-0894

If to Royal Gold : Royal Gold, Inc.
1660 Wynkoop Street
Suite 1000
Denver, CO 80202
Attention: President and CEO
Fax: (303) 595-9385

Any party may change the address to which Notices are to be delivered by giving the other party Notice in the manner set forth herein.

6.6 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Nevada without giving effect to any choice or conflict of law provision or rule that would cause the application of the laws of any jurisdiction other than the State of Nevada.

6.7 Amendments and Waivers. No amendment or waiver of any provision of this Agreement will be valid unless it is in writing and signed by each party to this Agreement.

6.8 Severability. Any term or provision of this Agreement that is invalid or unenforceable in any situation in any jurisdiction will not affect the validity or enforceability of the remaining terms and provisions hereof or the validity or enforceability of the offending term or provision in any other situation or in any other jurisdiction.

6.9 Expenses. Nevada Star and Royal Gold shall each bear its own costs and expenses (including but not limited to legal fees and expenses) incurred in connection with this Agreement and the transactions contemplated hereby. Any transfer or sales taxes arising by virtue of the sale of the Assets by Nevada Star to Royal Gold shall be borne by Nevada Star.

6.10 Construction. The parties have participated jointly in the negotiation and drafting of this Agreement. In the event an ambiguity or question of intent or interpretation arises, this Agreement will be construed as if drafted jointly by the parties, and no presumption or burden of proof will arise favoring or disfavoring any party by virtue of the authorship of this Agreement.

6.11 Specific Performance. Each party acknowledges and agrees that the other party would be damaged irreparably if any provision of this Agreement is not performed in accordance with its specific terms or otherwise is breached. Accordingly, the obligations of the parties hereunder will be specifically enforceable.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement to be effective as of the date first above written.

Nevada Star Resource Corp.

/s/ Robert Angrisano

Robert Angrisano
President/CEO

Royal Gold, Inc.

/s/ Tony A. Jensen

Tony A. Jensen
President and CEO

EXHIBIT B

to
Purchase Agreement dated as of October 20, 2006
between and among Nevada Star Resource Corp. and Royal Gold, Inc.

**ASSIGNMENT
AND
MINING LEASE WITH OPTION TO PURCHASE**

Assignment and Mining Lease with Option to Purchase dated as of May 2, 2000, ("Effective Date") between NEVADA STAR RESOURCE CORP., a Nevada corporation and MSM RESOURCE, L.L.C, a Nevada limited liability company whose address is 10735 Stone Avenue North, Seattle, Washington 98133 (collectively "Nevada Star") and ROUND MOUNTAIN GOLD CORPORATION, a Delaware corporation whose address is P.O. Box 480, Round Mountain, Nevada 89045 ("RMGC") hereinafter referred to as the "Agreement".

1. ASSIGNMENT AND ASSUMPTION (a) Nevada Star hereby assigns, transfers, sets over and conveys to RMGC, for the full remaining term thereof with Nevada Star having no right of reversion or remainder or re-entry, all of its right, title and interest in and to that certain Mining Lease and Option to Purchase dated effective as of March 23, 1995 by and between Everett L. Manley and Patricia J. Manley, Lessors, and Nevada Star Resource Corp., Lessee, a memorandum of which was recorded as Document No. 375219 in the Official Records of Nye County, Nevada on July 5, 1995, as amended by the letter agreement dated September 26, 1997, and further amended by the letter agreement dated July 20, 1999, and lastly amended by the February 14, 2000 revision ("Manley Lease") including the lease, the option to purchase the Property contained in the Manley Lease, and Nevada Star's interest in all payments made to lessor/optionor thereunder and (ii) the Property. Copies of the Manley Lease and the amendments thereto are attached hereto as Exhibit A.

(b) RMGC hereby assumes for so long as this Agreement and the Manley Lease continue in effect all of the obligations of the lessee/optionee under the Manley Lease accruing after the Effective Date and shall indemnify and hold Nevada Star harmless from any liability resulting from RMGC's use or occupancy of the Mining Property or RMGC's default under the Manley Lease while this Agreement is in effect.

(c) RMGC shall have the right in its sole discretion to unilaterally renegotiate, renew or extend or modify in any way the Manley Lease without any further consent from Nevada Star and without liability or obligation of any kind to Nevada Star.

(d) RMGC shall have the right in its sole discretion to exercise the option provided in the Manley Lease without any further consent from Nevada Star and without liability or obligation of any kind to Nevada Star except as otherwise expressly set forth in this Agreement.

2. LEASE AND TERM (a) Nevada Star leases to RMGC all of the property described in Exhibit B, together with, except as may be expressly provided in Exhibit B, all (i) tailings, dumps and mine wastes on such property, (ii) surface rights, easements and rights of way incident or appurtenant to such property, (iii) mining, mineral and water rights incident or appurtenant to such property, and (iv) improvements, fixtures, personal property, mining machinery and tools on such property that are or may be useful or convenient for mining, milling, and beneficiation of ores and minerals and related uses ("Nevada Star Claims"). For purposes of this Agreement the Manley Lease and the Property covered thereby and the Nevada Star Claims may collectively be called the Mining Property.

(b) This Agreement shall commence on the Effective Date and continue for an initial term of ten years.

(c) By giving Nevada Star notice of extension thirty days or more before the end of the then current term, RMGC may extend this Agreement (i) for a second term of ten years and (ii) thereafter, if exploration, development or mining is then being conducted in connection with the Mining Property, for additional successive terms of ten years each.

3. CONSIDERATION (a) Promptly after RMGC's execution of this Agreement RMGC shall pay Nevada Star \$40,000. Further, provided this Agreement is in force and effect RMGC shall make the following payments to Nevada Star:

<u>Amount</u>	<u>Payment Due Date</u>
\$10,000	on the 1 st anniversary date of this Agreement
\$25,000	on the 2 nd anniversary date of this Agreement
\$50,000	on the 3 rd anniversary date of this Agreement
\$50,000	on the 4 th anniversary date of this Agreement
\$100,000	on the 5 th anniversary date of this Agreement and annually thereafter while this Agreement is in effect.

(b) In the event RMGC mines and exhausts all the ore upon or in the Mining Property, but is required to maintain this Agreement for reclamation or monitoring purposes, the annual advance royalty payments set forth above shall cease and RMGC shall pay to Nevada Star an annual payment of \$5,000 per year which payment shall be due on or before the anniversary date hereof.

4. ROYALTY (a) RMGC shall pay Nevada Star a production royalty of one percent (1%) of Net Smelter Returns for all ores and minerals mined or otherwise recovered from the Mining Property and thereafter sold by or for the account of RMGC before or after processing, smelting or refining when the Deemed Sales Price for gold is \$350 per ounce or less and two percent (2%) of Net Smelter Returns when the Deemed Sales Price of gold is more than \$350 per ounce ("Mineral Products").

(b) Net Smelter Returns shall mean:

(i) In the case of Mineral Products refined by or for the account of RMGC into gold or silver of a purity of at least .995 in the case of gold and at least .999 in the case of silver (collectively "Refined Precious Metals") and whether or not transferred by RMGC to any Affiliate prior to any such refining, the net number of troy ounces of Refined Precious Metals delivered or credited to the account of RMGC, its Affiliates, or their order, as the case may be, as evidenced by the metals return statements received from the refinery, subject in each case to final adjustments with the refinery, multiplied by the Deemed Sales Price as defined below, less the deductions set forth in Section 4 (b)(v) hereof.

(ii) In the case of Mineral Products (including refined metals) that are not Refined Precious Metals and which are sold and delivered by RMGC or its Affiliates, the gross amount actually received by RMGC or its Affiliates from the purchaser for the Mineral Products so sold less the deductions set forth in Section 4 (b)(v) hereof.

(iii) "Deemed Sales Price" means: In the case of gold, the average of the London PM fixings in U.S. Dollars for refined gold (as shown in the column of the Wall Street Journal entitled "Cash Prices" under the sub-entry entitled "Precious Metals") for each trading day during the calendar month in which the final settlement date with the refinery falls, such date to be evidenced by the refinery metal return statements and, for any subsequent adjustment' for the calendar month in which such adjustment is made. In the case of silver, the average of the Handy & Harmon base price for silver in U.S. Dollars (as shown in the column of the Wall Street Journal entitled "Cash Prices" under the sub-entry entitled "Precious Metals") for each trading day during the calendar month in which the final settlement date with the refinery falls, such date to be evidenced by the refinery metal return statements and, for any subsequent adjustment, for the calendar month in which such adjustment is made. If either of such fixings, or prices are not available for any reason for more than half of the trading days in the relevant month, or are discontinued, the average of the daily calculated spot COMEX closing prices for such month shall be used.

(iv) RMGC and its Affiliates acknowledge that one or more of them may from time to time undertake forward sale and/or purchase contracts, spot-deferred contracts, and option contracts and/or other price hedging and price protection arrangements and mechanisms and speculative purchases and sales of forward, futures and option contracts, both on and off commodity exchanges in connection with some or all of the Refined Precious Metals and other Mineral Products ("Trading Activities"). Such Trading Activities, and any profits and losses generated thereby, shall not, in any manner, be taken into account in the calculation of royalties due Nevada Star whether in connection with the determination of price, the date of sale, or the date any royalty payment is due. Nevada Star acknowledges that RMGC and its Affiliates' engaging in Trading Activities may result in their realizing from time to time fewer or more dollars for Refined Precious Metals or other Mineral Products than is utilized in the royalty calculation and Nevada Star hereby waives any claim

for additional royalty should RMGC or its Affiliates at any time realize more dollars per troy ounce or other units of sale for Refined Precious Metals or other Mineral Products than is utilized in the royalty calculation. Similarly, RMGC waives and Nevada Star shall not be obligated to share in any losses generated by any such Trading Activities with respect to Refined Precious Metals or other Mineral Products.

(v) RMGC shall deduct from the calculation of Net Smelter Returns as set forth in Section 4(b) hereof, but only to the extent actually incurred and borne by RMGC:

(1) charges and costs, if any, for transportation to places where Mineral Products are smelted, refined and sold; and

(2) charges, costs and penalties, if any, for smelting and refining with respect to the Mining Property and any ores, minerals or other products extracted therefrom.

In the event smelting or refining are carried out in facilities owned or controlled, in whole or in part, by RMGC, charges, costs and penalties with respect to such operations, including transportation, shall mean reasonable charges, costs and penalties for such operations but not in excess of the amounts that RMGC would have incurred if such operations were carried out at facilities not owned or controlled by RMGC then offering comparable custom services.

(c) RMGC may deduct from production royalties otherwise due Nevada Star all advance royalty payments hereunder, whenever made or accrued, provided and except as provided below, in no event shall the amount paid to Nevada Star pursuant to the provisions of this Lease in any lease year be less than the amount set forth in Section 3 hereof.

(d) Royalties shall be paid (i) for Refined Precious Metals on or before the 30th day after the last day of the calendar quarter in which the final settlement date for such Refined Precious Metals falls and (ii) for Mineral Products that are not Refined Precious Metals on or before the 30th day after the last day of the calendar quarter in which RMGC or its Affiliates actually receives payment for such Mineral Products. Each such payment shall be provisional and subject to adjustment as of the end of the RMGC fiscal year.

(e) Within ninety days after the end of each RMGC fiscal year, RMGC shall deliver to Nevada Star an unaudited statement of royalties paid Nevada Star during the year and the calculation thereof. All year-end statements shall be deemed true and correct six months after presentation, unless within that period Nevada Star delivers notice to RMGC specifying with particularity the grounds for each exception. Nevada Star shall be entitled at Nevada Star's expense to an annual independent audit of the statement by a certified public accountant of recognized standing acceptable to RMGC, but only if Nevada Star delivers a demand for audit to RMGC within three months after presentation of the related year-end statement.

(f) For all purposes of this Agreement, "Affiliate" shall mean any person, partnership, joint venture, corporation or other form of enterprise which directly or indirectly controls, or is controlled by, or is under common control with, a signatory. For purposes of the preceding sentence, the word "control" shall mean possession, directly or indirectly, of the power to direct or cause direction of management and policies through ownership of voting securities, contract, voting trust or otherwise.

5. EXCLUSIVE POSSESSION RMGC shall have exclusive possession and quiet enjoyment of the Mining Property while this Agreement is in effect.

6. TITLE (a) Nevada Star represents that (i) it is the sole Lessee of an undivided 100% interest in and to the Manley Lease covering those certain unpatented mining claims and that certain personal property described in Exhibit A attached hereto under the Manley Lease; (ii) the Manley Lease is valid and enforceable according to its terms and all obligations to be performed by Nevada Star thereunder have been reasonably performed; and (iii) Nevada Star has no notice or knowledge of any act or omission which could result in breach, termination, abandonment, forfeiture, relinquishment of the rights of Nevada Star in the Manley Lease before the end of the term thereof.

(b) Nevada Star represents that: (i) it is in exclusive possession of the Manley Lease and the Nevada Star Claims; and (ii) it owns the Mining Property, subject to the paramount title of the United States. Nevada Star warrants and shall defend title to all of the Mining Property, except any unpatented claims and sites, for which Nevada Star's sole warranties are those contained in subsections (c) and (d) hereof.

(c) Nevada Star represents that, to the best of its knowledge, the unpatented claims and sites included in the Mining Property have been properly located and monumented; location and any required validation work have been properly performed; location notices and certificates have been properly recorded or filed; all filings required to maintain the claims in good standing through December 30, 1999, including evidence of location and assessment work, or the equivalent thereof, under the Federal Land Policy and Management Act of 1976, 43 U.S.C. § 1744, and other applicable state, federal and local law have been properly made; all assessment work required to hold the claims has been properly performed (or deferred or excused) through the assessment year ending September 1, 1999; and affidavits of assessment work have been properly and timely filed.

(d) Nevada Star warrants that the Mining Property is free and clear of all liens and encumbrances created through or under Nevada Star, including any lease, right or license, except taxes not yet due and payable. Nevada Star at Nevada Star's expense shall at RMGC's request take all action necessary to cure any defect in or remove any cloud on title to the Mining Property, including participation in judicial proceedings and recordation of any unrecorded documents. If after notice or demand Nevada Star fails to do so, RMGC may take curative action in Nevada Star's name and deduct its reasonable costs and expenses, including attorney's fees, from amounts otherwise due Nevada Star.

(e) Nevada Star shall not create, suffer or allow any such liens or encumbrances on the Mining Property unless expressly subordinated to RMGC's rights hereunder. RMGC, at its option, may discharge any such lien or encumbrance on the Mining Property or any interest therein, acquire all the rights of the holder thereof, and deduct any amounts so paid from any amounts otherwise due Nevada Star.

(f) Nevada Star shall provide RMGC with all data and information related to title to the Mining Property and copies of all unrecorded documents related thereto in Nevada Star's possession or control.

(g) Neither RMGC's execution of this Agreement, nor RMGC's failure to disapprove Nevada Star's title, shall constitute an admission of or estoppel as to the validity of Nevada Star's title.

(h) When Nevada Star makes any representation "to the best of its knowledge" it means only that no officer of Nevada Star knows of any factual information inconsistent with such representation.

7. LESSER INTEREST; ADVERSE CLAIMS (a) If Nevada Star should own less than the entire ownership interest in the Mining Property (even if a lesser interest is referred to herein), all rentals, royalties and other amounts payable to Nevada Star shall be paid only in proportion to Nevada Star's actual ownership. If the Mining Property or any part thereof should be subject to any royalty or interest in production other than those expressly reserved to Nevada Star herein or created by RMGC, RMGC may deduct all costs and expenses it incurs by reason of such royalty or interest from amounts otherwise due Nevada Star.

(b) RMGC shall have no obligation to Nevada Star to protect or defend the title to the Mining Property if any third person asserts any claim to the Mining Property for any reason except RMGC's failure to perform obligations expressly required by this Agreement.

(c) If any third person asserts any claim to the Mining Property or any part thereof, to any royalty or interest in production or to any amounts payable by RMGC, RMGC may deposit any amounts otherwise due Nevada Star in escrow until the dispute is finally resolved. RMGC may deduct all costs and expenses, including attorney's fees and court costs, it incurs by reason of such claim from such amounts otherwise due Nevada Star.

8. OPERATING RIGHTS (a) Nevada Star grants RMGC unrestricted access to the Mining Property and the exclusive rights:

(i) to explore, develop and mine, and to extract, remove, store and dispose of any and all ores, minerals, air, water, and other materials from the Mining Property by means of underground or surface mining operations or workings in or on the Mining Property or other property and to deposit on the Mining Property all such materials whether from the Mining Property or other property;

(ii) to carry on crushing, screening, milling, treatment, processing, beneficiating, smelting and refining operations on or in the Mining Property or other property with respect to ores, minerals and other materials from the Mining Property or other property, including existing tailings, wastes and dumps;

(iii) to use any part of the Mining Property for stock piles, tailings, waste dumps and leach pads and for any other purpose incident to mining, milling, processing and other operations on the Mining Property or other property;

(iv) to erect or construct, use and maintain on the Mining Property such roads, impoundments, pipelines, power lines, facilities, buildings, structures, machinery and equipment as RMGC may require for the conduct of its operations on the Mining Property or other property;

(v) to continue to keep this Agreement in effect : and use the Mining Property for mining, milling, treatment, processing, beneficiation, smelting, refining or storage of ores, minerals and other materials from other property with such use constituting the conduct of development and mining operations for purposes of Section I(c)(ii); and

(vi) to stockpile, inventory or sell or otherwise dispose of ores, minerals and other materials in such forms, at such times and on such terms as RMGC alone may determine.

(b) RMGC shall conduct its operations in a good and workmanlike manner in substantial compliance with the generally accepted understanding of applicable laws and regulations as from time to time existing in the mining industry.

9. EXPLORATION EXPENDITURES (a) On or before the first anniversary date of this Agreement, RMGC shall be obligated to expend a minimum of \$100,000 for an exploration program with respect to the Mining Property (“Committed Expenditures”). If RMGC does not make such Committed Expenditures in a timely manner, then within thirty (30) days following the first anniversary date of this Agreement, RMGC shall pay Nevada Star the difference, between such \$100,000 and the amount actually expended.

(b) In subsequent lease years while this Agreement remains in effect, RMGC only as a condition to maintaining this Agreement in effect, will make exploration expenditures (“Expenditures”) in the following amounts:

<u>Exploration Expenditure</u>	<u>Due Date</u>
\$100,000	on or before the 2 nd anniversary date;
\$125,000	on or before the 3 rd anniversary date;
\$150,000	on or before the 4 th anniversary date;
\$200,000	on or before the 5 th anniversary date and annually thereafter until RMGC has expended \$1,000,000 for Exploration Expenditures on the Mining Property.

(c) For purposes of this Agreement Expenditures (and Committed Expenditures) shall include all amounts paid or incurred by RMGC in good faith, whether on or off the Mining Property, in connection with evaluation, exploration and development of the Property. The term shall further include, but shall not be limited to, all amounts paid, incurred or accrued in good faith by or on behalf of RMGC in connection with: (i) acquisition of public and private permits and authorizations required for operations in connection with the Property, including all costs to acquire or make bonds and deposits to secure or maintain such permits or authorizations and any bond or deposit amount forfeited under circumstances beyond the control of RMGC; and (ii) all annual maintenance fees or other payments to the Bureau of Land Management required to maintain the Mining Property in good standing.

(d) If RMGC does not in any one or more calendar years while this Agreement remains in effect make the relevant minimum Expenditure specified for such year, then in order to continue this Agreement in effect, RMGC shall within thirty (30) days following the end of the relevant year pay to Nevada Star the difference between such minimum Expenditure and the amount actually expended. If RMGC does not make such payment in a timely manner this Agreement shall terminate.

(e) Any Expenditures in excess of the minimum required for a particular calendar year shall be carried forward and credited to Expenditures for one or more subsequent years,

(f) Within 90 days following the each anniversary of the Effective Date of this Agreement RMGC shall provide an annual report to Nevada Star summarizing the Expenditures for the preceding lease year and the work completed thereunder.

10. COMMINGLING RMGC may commingle ores and minerals from the Mining Property with other ores and minerals. Before commingling, RMGC shall weigh (or calculate by volume), sample and assay such ores and minerals in accordance with sound mining and metallurgical practices for moisture and payable content. RMGC shall keep records of such determination for one year after the end of the RMGC fiscal year in which such determinations are made.

11. INDEMNITY; LIMITATIONS OF LIABILITY (a) RMGC shall keep the Mining Property free of liens for labor performed and materials furnished for RMGC. RMGC shall hold Nevada Star harmless from all liability to third persons caused by RMGC's operations on the Mining Property which result in injury to or death of persons or livestock or damage to personal property or liability for violation of applicable laws or regulations.

(b) Within a reasonable time after termination of this Agreement, RMGC shall begin and diligently pursue to completion any reclamation then required by applicable laws, regulations and permits by reason of RMGC's operations on Nevada Star's real property. RMGC's liability with respect to disturbance of Nevada Star's property shall be limited to compliance with such laws, regulations and permits. RMGC shall have no obligation or responsibility for any wastes, dumps, tailings, residues or other conditions on Nevada Star's property on the Effective Date or after completion of such required reclamation.

(c) The payments and the performance of the obligations in Section 9. Exploration Expenditures as expressly required by this Agreement are in lieu of any obligation of RMGC, express or implied, to explore, develop or mine the Mining Property or to make any other efforts or expenditures in connection therewith.

(d) The obligations and limitations of liability in this Section shall survive termination of this Agreement.

12. TAXES Nevada Star shall pay all taxes on the Mining Property. RMGC shall reimburse Nevada Star upon presentation of paid tax bills or other proof or payment for all real property taxes on the Mining Property accruing while this Agreement is in effect but taxes for periods in which this Agreement begins and ends shall be apportioned. RMGC shall pay all taxes on RMGC's operations and on all personal property and fixtures placed on the Mining Property by RMGC. All taxes shall be paid before delinquent, but neither party shall be under any obligation to pay any tax while contesting it in good faith. RMGC shall have the right, but not the obligation, to pay any taxes, delinquency charges, late fees or penalties which could become a lien or encumbrance on the Mining Property if Nevada Star fails to do so and except for taxes which Nevada Star is entitled for reimbursement from RMGC, to recover amounts so paid from Nevada Star.

13. INSPECTION At reasonable times and with reasonable advance notice to RMGC, Nevada Star may at Nevada Star's risk and expense (i) enter the Mining Property to make reasonable inspections of RMGC's operations and (ii) inspect records necessary to substantiate RMGC's performance of its obligations under this Agreement. RMGC shall have no obligation to disclose to Nevada Star any interpretive data or exploration concepts prepared or developed by RMGC.

14. AMENDMENTS, RELOCATIONS, PATENTS AND OTHER FORMS OF TENURE (a) RMGC subject to the terms of the Manley Lease, shall have the right, but not the obligation, to (i) locate, amend or relocate unpatented mining claims or mill sites within the boundaries of the area then constituting the Mining Property, (ii) locate any fractions resulting from such amendments or relocations, (iii) abandon any unpatented mining claims for the purpose of locating mill sites and (iv) abandon any unpatented mill sites for the purpose of locating mining claims. All rights so acquired by RMGC shall be part, of the Mining Property for all purposes of this Agreement.

(b) Upon at least thirty days advance notice to Nevada Star and subject to the terms of the Manley Lease, RMGC shall have the right to (i) exchange with or transfer to the United States all or any part of any unpatented mining or mill site claim constituting part of the Mining Property for the purpose of acquiring rights to the ground covered thereby, and (ii) convert all or any part of the Mining Property into one or more leases or other forms of mineral tenure pursuant to any federal law hereafter enacted. Any such ground, lease or other form of tenure shall be part of the Mining Property for all purposes of this Agreement. For the purpose of calculating production royalties, RMGC shall be entitled to deduct from amounts received from sale of Ores and Minerals any rentals, royalties or other consideration payable to the United States with respect to forms of tenure contemplated by this subsection.

(c) At RMGC's request, Nevada Star at RMGC's expense shall apply for mining or millsite patents or mining leases or other forms of mineral tenure for any or all of the Mining Property.

(d) Upon termination of this Agreement (other than by RMGC's exercise of the Option to Purchase), RMGC shall deliver to Nevada Star a deed in recordable form quitclaiming to Nevada Star all of RMGC's interest in any part of the Mining Property located, amended, relocated, acquired or converted pursuant to this Section. Except as provided in subsection (b), all expenses RMGC incurs in connection with this Section shall be for RMGC's account.

15. ANNUAL MAINTENANCE PAYMENTS AND ASSESSMENT WORK (a) For the assessment years ending on noon of September 1, 2000, RMGC shall pay to the United States of America (and provide promptly evidence thereof to Nevada Star) such rentals and other fees and perform such additional acts and obligations as are or may be required to maintain the Mining Property in good standing in compliance with all applicable federal and state law including but not limited to the United States Interior and Related Agencies Appropriations Act of 1993. For each assessment year thereafter in which this Agreement is still in effect on June 1 of such year, RMGC shall make such payments and perform such assessment work or other acts and obligations as are then required to maintain such Mining Property in good standing in accordance with then applicable law. RMGC agrees to make such payments and perform such assessment work or other acts and obligations (and provide promptly evidence thereof to Nevada Star) not later than 15 days prior to the last day permitted by law for the making of such payment or the completion of such act or obligations. For each year RMGC performs assessment work or such other acts or

obligations or makes such payments, RMGC shall prepare and file such affidavits, other documents or evidence thereof as are required by state and federal law to maintain the Mining Property in good standing. RMGC shall provide copies of such documents to Nevada Star within 60 days following the filing with the Bureau of Land Management and with the Nye County Recorder.

(b) Subject to RMGC's rights under Section 14, if the Mining Law of 1872 should be amended or repealed, RMGC at its expense shall use its reasonable efforts to protect the rights or interests of RMGC and Nevada Star in any unpatented mining claim then constituting part of the Mining Property and to acquire pursuant to any federal law hereafter enacted or otherwise obtain from the United States of America rights to explore, develop and mine and otherwise use the ground covered by each such claim. Any such rights or interests with respect to the ground covered by any such claim shall be part of the Mining Property for all purposes of this Agreement. RMGC shall pay all costs and expenses and perform all obligations required to acquire and maintain such rights and interests.

16. AVOIDANCE OF FORFEITURE (a) Default by RMGC in performance of any obligation arising hereunder shall not work a forfeiture or termination of this Agreement, nor cause a forfeiture, termination or reversion of the estate created hereby.

(b) If RMGC commits a default, Nevada Star shall give RMGC notice specifying the default with particularity. Nevada Star's sole remedy shall be recovery of actual compensatory damages plus interest at the judgment rate from the date RMGC receives notice of default. If RMGC by notice to Nevada Star disputes the existence of the default, no interest shall accrue if RMGC, within thirty days after the default is finally determined, initiates and diligently pursues to completion efforts to cure the default.

17. TERMINATION; SURRENDER (a) RMGC may terminate this Agreement at any time effective on giving Nevada Star 30 days prior written notice of termination and by thereafter delivering to Nevada Star a written instrument of termination in recordable form.

(b) RMGC may surrender any claim or any other part of the Mining Property at any time by giving Nevada Star notice of surrender in recordable form. Claims or acreage so surrendered shall thereafter be excluded from the Mining Property for all purposes of this Agreement.

(c) Upon termination or surrender, all rights and obligations of the parties with respect to the affected claims or acreage shall terminate, except for (i) RMGC's obligation to pay royalties for Mineral Products previously mined or otherwise removed and sold, (ii) any rights or obligations which expressly survive termination, including reclamation, and, (iii) any other obligation due and owing.

18. ADDITIONAL AND AFTER-ACQUIRED RIGHTS If Nevada Star acquires any right or interest in the Mining Property or within the boundaries of the Mining Property while this Agreement is in effect, (i) Nevada Star shall promptly notify RMGC, (ii) such right or interest shall automatically become part of the Mining Property for all purposes of this Agreement and (iii) Nevada Star shall sign, acknowledge and deliver to RMGC an amendment to this Agreement and to any short form of this Agreement so as to include such right or interest as part of the Mining Property.

19. REMOVAL OF PROPERTY RMGC shall have the right, but not the obligation, to remove, at any time or times within one year after termination of this Agreement, from Nevada Star's real property all fixtures and personal property, including ores, minerals, tailings, dumps and wastes, and improvements which RMGC has erected or placed thereon, except mine supports in place. Nevada Star shall not be responsible for any such property of RMGC. RMGC may post watchmen on the Mining Property during such period.

20. DATA (a) Upon execution of this Agreement, Nevada Star shall make available to RMGC for copying and general use all hydrological, geological, geophysical and engineering data and maps, logs of drill holes, cuttings and cores, gamma and other logging results, assay, sampling and similar data concerning the Mining Property in Nevada Star's possession or control. Nevada Star shall have no liability for any use of or reliance thereon by RMGC.

(b) Upon request by Nevada Star made within sixty days after termination of this Agreement other than by RMGC's exercise of the option to purchase, RMGC shall deliver to Nevada Star a copy or summary of all assay results and drill hole logs and a copy of all drill hole location maps (but excluding interpretations or evaluations thereof) which RMGC has obtained or prepared as a result of work on the Mining Property under this Agreement. RMGC shall have no liability for any use of or reliance thereon by Nevada Star.

21. METHOD OF PAYMENT All payments due Nevada Star shall be deemed received by Nevada Star if paid to **10735 STONE AVE. NORTH SEATTLE, WA, 98133** RMGC shall not be liable for the ultimate distribution to Nevada Star or Nevada Star's successors or assigns of payments so made by RMGC.

22. RIGHTS-OF-WAY While this Agreement is in effect, RMGC shall have non-exclusive rights-of-way upon, over, into and through the Mining Property and other property now or hereafter owned, leased or otherwise controlled by Nevada Star (or any of them) in the vicinity of the Mining Property to construct, improve and maintain such pipe lines, communication lines, electrical power or transmission lines, roads, railroads, tramways, flumes, tunnels, drifts and other facilities as may be necessary or convenient for RMGC's operations under this Agreement.

23. FORCE MAJEURE (a) If RMGC shall be prevented by Force Majeure from timely performance of any obligations arising under this Agreement other than payment of money, the failure shall be excused and the period for performance shall be extended for a period equal to the duration of Force Majeure. RMGC shall promptly give Nevada Star notice of commencement and termination of Force Majeure. RMGC shall use reasonable diligence to remove Force Majeure but shall not be required against its will to institute legal proceedings, adjust any labor dispute or challenge the validity of any law, regulation, action or inaction of government.

(b) "Force Majeure" includes any cause beyond RMGC's reasonable control, whether or not foreseeable, including but not limited to law, regulation, action or inaction of government; inability to obtain on terms acceptable to RMGC any public or private license, permit or authorization which may be required for operations in connection with the Mining Property or other property, including removal and disposal of waters, wastes and tailings and reclamation; market and other conditions rendering the prospects for exploitation of the Mining Property unprofitable or uneconomic; mining casualty; damage to or destruction of mine or mill plant or facility; fire; explosion; inclement weather; flood; civil commotion; labor dispute; inability to obtain workmen or material; delay in transportation; and acts of God.

24. ARBITRATION Any disagreement or dispute arising out of this Lease or the Deed, their existence, interpretation, performance or enforcement not resolved by the disputing parties within sixty days from the date on which any party notifies one or more of the others of any such disagreement or dispute shall be decided finally by arbitration before three arbitrators in Reno, Nevada under the Commercial Arbitration Rules of the American Arbitration Association then in effect. Such notice shall appoint one arbitrator. Within ten days of the receipt of such notice, the other party shall appoint a second arbitrator and the two arbitrators so named shall within ten days of the appointment of the second, appoint the third. If the two arbitrators appointed cannot agree upon the third arbitrator within such ten days, either party may with notice to the other request the Chief Judge of the United States District Court of the District including Reno, Nevada, acting in his individual capacity, to designate the third arbitrator. Each arbitrator shall be an individual qualified by training or experience in the subject matter under dispute. No discovery shall be available. Each party shall bear its own costs in the arbitration. Each arbitrating party shall bear the costs of the arbitrator appointed by such party and the costs of the third arbitrator shall be borne equally by each of the arbitrating parties. The arbitrators shall enter their award within 45 days following the appointment of the third arbitrator. The award shall be binding on each of the arbitrating parties and its Affiliates and may be enforced in any court having jurisdiction over the person or property of any person against whom enforcement of the award is sought.

25. NOTICES All notices and other communications to either party shall be in writing and delivered personally or sent by prepaid mail, Telex, telecopier or other means providing for receipt of the communication in written form. All notices of default or arbitration and demands for performance or assurance, if delivered personally to RMGC, shall be delivered to RMGC's

Land Administrator and, if mailed to either party, shall be sent by certified or registered mail, return receipt requested. Any notice of termination shall be effective if given orally to Lessor and promptly confirmed by RMGC in writing. Notices sent by ordinary mail shall be effective five days after the date of mailing. Notices sent by certified or registered mail shall be effective on the next business day after the date of actual delivery. Until a change of address is so given, notices shall be addressed to RMGC and Nevada Star, respectively:

Round Mountain Gold Corporation
P.O. Box 480
Round Mountain, Nevada 89045
Attn: _____

Nevada Star Resource Corp.
10735 Stone Avenue North
Seattle, Washington 98133
Attn: Monte Moore, President

26. COUNTERPARTS This Agreement may be executed in more than one counterpart.

27. SHORT FORM RMGC and Nevada Star shall sign and acknowledge a short form of this Agreement to give notice hereof to third persons. RMGC may record the short form or this Agreement, or both.

28. TRANSFER Except as otherwise expressly provided in this Agreement, any party may from time to time transfer interests in this Agreement or in the Mining Property. The transferor shall give, as soon as reasonably practical, notice thereof to the other party, including the names and addresses of the transferees, a copy of the document of transfer and the recording data for any document relating to the transfer.

29. INSURANCE RMGC shall comply with all state and federal social security and unemployment insurance laws. Before commencing work on the Mining Property, RMGC shall be qualified under the Workmen's Compensation Law of the state where the Mining Property is located.

(b) RMGC shall provide and keep in force at least the following minimum insurance coverage, naming Nevada Star as an additional insured:

(i) Statutory Workmen's Compensation Insurance for all RMGC's employees covering all claims filed under the Workmen's Compensation Law of the state in which the Mining Property is located;

(ii) Employer's Liability Insurance with a limit of liability of not less than \$1,000,000;

(iii) Comprehensive General Liability Insurance with a limit of liability of not less than \$1,000,000, combined single limit, per occurrence and annual aggregate, for bodily injury and property damage. Such insurance shall also include Completed Operations and Broad Form Blanket Contractual Liability coverage insuring Nevada Star and RMGC against liability for all claims, loss or damage arising from any cause whatsoever out of Work performed under this Agreement by RMGC.

(iv) Comprehensive Automobile Liability Insurance covering all vehicles, hired, owned and non-owned, with a limit of liability of not less than \$1,000,000 combined single limit per occurrence for bodily injury and property damage;

(c) Certificates evidencing such insurance shall be delivered to Nevada Star prior to commencement of work. Each such certificate shall include a provision that Nevada Star shall be given not less than 60 days' prior written notice by registered mail of any cancellation or reduction of coverage.

30. OPTION TO PURCHASE (a) Promptly after RMGC's execution of this Agreement, RMGC shall pay Nevada Star \$100 as the entire and separate consideration for the Option.

(b) Nevada Star hereby grants to RMGC the exclusive and irrevocable option to purchase the Mining Property ("Option") while this Agreement is in effect for a total purchase price of \$10,000,000 less (i) the total amount of rentals and royalties paid by RMGC hereunder and (ii) all sums which RMGC has deducted from amounts otherwise due Nevada Star hereunder as of the effective date of the purchase. Payment of the purchase price is subject to the provisions of Section 7.

(c) Within ten days after the Effective Date, Nevada Star and RMGC shall execute with a disinterested person selected by RMGC ("Depository") a holding agreement or escrow instructions in customary form and Nevada Star shall sign, acknowledge and deposit with the Depository a deed to the Mining Property in the form attached as Exhibit C to be held by the Depository.

(d) RMGC may exercise the Option at any time while this Agreement is in effect by giving Nevada Star notice of its election to do so specifying the effective date of the purchase and by paying to the Depository the purchase price. On the effective date of the purchase, this Agreement shall terminate, except with respect to payment of the purchase price and the representations and warranties of Nevada Star contained herein, and all the other rights and obligations of the parties shall be governed by the deed.

(e) On the effective date of the purchase, any rights-of-way then used by RMGC on other property of Nevada Star pursuant to Section 22 shall become irrevocable easements and Nevada Star shall at RMGC's request deliver to RMGC an instrument in recordable form quit-claiming to RMGC such easements.

(f) Title to the Mining Property acquired by exercise of the Option must vest in RMGC, if at all, within twenty years following the death of the last surviving descendant of Elizabeth II, Queen of the United Kingdom, who is alive on the Effective Date.

31. ENTIRE AGREEMENT; INTERPRETATION This Agreement contains the entire agreement of the parties. There are no other conditions, agreements, representations, warranties or understandings, express or implied. The division of this Agreement into sections and the use of captions are solely for convenience and shall not be used in its interpretation.

32. EFFECT (a) All covenants, conditions and terms of this Agreement shall be of benefit to, and shall run with, the Mining Property and shall bind and inure to the benefit of the parties and their respective successors and assigns.

(b) This Agreement has been negotiated between the parties at arm's length. The sole relationships between the parties are those of lessor/lessee and optionor/optionee Nothing in this Agreement shall be construed to create between the parties, expressly or by implication, any partnership, joint enterprise, relationship of trust and confidence or other special relationship, or any relationship of master and servant or principal and agent, or the like.

(c) The implied obligations of good faith and fair dealing shall not be applied or construed so as to prevent any party from claiming or enforcing any right, benefit, remedy, excuse or limitation of liability provided by this Agreement.

Round Mountain Gold Corporation

By: /s/ Steve C. Mueller
Title: General Manager
Print Name: Steve C. Mueller

Nevada Star Resource Corp.

By: /s/ Monty D. Moore
Title: President
Print Name: Monty D. Moore

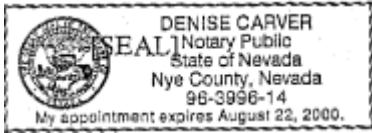
MSM Resource, L.L.C.

By: /s/ Jim Sanders
Title: AGENT/Principal
Print Name: Jim Sanders

STATE OF Nevada)
) ss.
COUNTY OF Nye)

On 5-2, 2000, before me, Denise Carver, a duly commissioned Notary Public for said State, personally appeared, Steve C. Mueller, personally known to me to be the General Manager of Round Mountain Gold Corporation, a Delaware corporation, and personally known to me to be the person who executed the within instrument and on said oath stated that he was authorized to do so on behalf of said corporation.

IN WITNESS WHEREOF, I have signed my name and affixed my official seal.



Notary Public in and for said State

Residing at: Round Mountain

/s/ Denise Carver

My Commission Expires: Aug. 22, 2000

STATE OF Washington)
) ss.
COUNTY OF King)

On 4/20, 2000, before me, J. Scott Nicholson a duly commissioned Notary Public for said State, personally appeared, Monty D. Moore, personally known to me to be the President of Nevada Star Resource Corp., a Nevada corporation, and personally known to me to be the person who executed the within instrument and on said oath stated that he was authorized to do so on behalf of said corporation.

IN WITNESS WHEREOF, I have signed my name and affixed my official seal.



Notary Public in and for said State

Residing at: Seattle

/s/ J. Scott Nicholson

My Commission Expires: 11/13/01

STATE OF Washington)
) ss.
COUNTY OF King)

On 4/20, 2000, before me, J. Scott Nicholson, a duly commissioned Notary Public for said State, personally appeared, Jim Sanders, personally known to me to be the Agent / Principal of MSM Resource, L.L.C., a Nevada limited liability company, and personally known to me to be the person who executed the within instrument and on said oath stated that he was authorized to do so on behalf of said corporation.

IN WITNESS WHEREOF, I have signed my name and affixed my official seal.



Notary Public in and for said State

Residing at: Seattle

/s/ J. Scott Nicholson

My Commission Expires: 11/13/01

Exhibit A

Manley Lease

The Manley Lease is comprised of the following described documents:

- Mining Lease and Option to Purchase between Everett L. Manley and Patricia J. Manley and Nevada Star Resource Corp. dated effective as of March 23, 1995
- Memorandum of Mining Lease and Option to Purchase between Everett L. Manley and Patricia J. Manley and Nevada Star Resource Corp. dated effective as of March 23, 1995 and recorded as Document No. 375219 in the Official Records of Nye County, Nevada;
- Letter Amendment dated September 26, 1997;
- Letter Amendment dated July 20, 1999; and
- Mining Lease and Option to Purchase Revision dated February 14, 2000.