

Royal Gold, Inc.

Royal Gold's Fiscal 2015 Fourth Quarter
Earnings Conference Call

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CORPORATE PARTICIPANTS

Tony Jensen - *President and CEO*

Karli Anderson - *Vice President of Investor Relations*

Stefan Wenger - *Chief Financial Officer and Treasurer*

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Bruce Kirchhoff - *Vice President, General Counsel and Secretary.*

PRESENTATION

Operator

Good afternoon and welcome to Royal Gold Fiscal 2015 Fourth Quarter Earnings Conference Call. All participants will be in a listen-only mode. Should you need assistance please signal a conference specialist by pressing the star (*) key followed by zero (0). After today's presentation there will be an opportunity to ask questions. To ask a question you may press star (*) and then one (1) on a touchtone phone. To withdraw your question please press star (*) and then two (2). Please note this event is being recorded. I would now like to turn the conference over to Karli Anderson, Vice President of Investor Relations. Please go ahead.

Karli Anderson

Thank you, operator. Good morning and welcome to our discussion of Royal Gold's fiscal 2015 fourth quarter 2015 results. This event is being webcast live and you'll be able to access a replay of this call on our website. Participating on the call today are Tony Jensen, President and CEO; Stefan Wenger, CFO and Treasurer; Bill Heissenbuttel, Vice President, Corporate Development and Operations; and Bruce Kirchhoff, Vice President, General Counsel and Secretary. Tony will open with an overview of the quarter followed by Bill Heissenbuttel with the corporate development and an operational update and then Stefan Wenger will provide a financial update. After management completes their openings remarks, we'll open the line for a Q&A session. This discussion falls under the Safe Harbor provision of the Private Securities Litigation Reform Act. A discussion of the company's current risks and uncertainties is included in the Safe Harbor statement in today's press release and is presented in greater detail in our filings with the SEC. Now, I will turn the call over to Tony.

Tony Jensen

Good morning and thank you for taking the time to join us. We're pleased to update you this morning our activities over the last few months which have been very busy at Royal Gold. And just last night we issued three press releases associated with our financial and operations results, a significant new piece of business at the Pueblo Viejo mine and the addition of James Sokalsky as the new Director of Royal Gold. I will begin to discuss all of those issues on Slide 4.

We had another solid quarter and a record fiscal year of operational and financial results. Our record operating cash flow \$192 million in fiscal 2015 caps five years of strong performance. As you can see this was accomplished during the deteriorating gold price due to the volume expansion we experienced on the back of strong performance from Mount Milligan and Peñasquito. On slide five we're showing you our growth and volume to date. Fiscal 2015 net gold equivalent ounces, or GEOs, were approximately 200,000 ounces and this is a new record for Royal Gold. It represents an 8% compounded annual growth rate since fiscal 2010. Bill Heissenbuttel will discuss operating performance in more detail in a moment.

Turning to new business on slide six, in the last few months we've added four new streams to our portfolio which were expected to have a meaningful impact on our future production profile. These include streams at the Pueblo Viejo, Rainy River and Andacollo as well as the stream over all the Golden Star Resources properties in the Ashanti belt in Ghana. You have likely heard me say on several occasions that we have never been busier and now we can see why. The strategy surrounding these acquisitions was put in place years ago. In 2012 we positioned the company financially to take advantage of opportunities. When the downturn in the gold price occurred in late 2012 and early 2013 we entered into that new price environment with financial strength. Weaker opportunities came to us

early in the lower gold price environment which required us to be patient. As this price environment persisted higher quality and cash flow in our newer cash flowing opportunities started to appear. This coupled with what we believe to be the right entry point in the commodity cycle has resulted in our decision to reinvest our business.

On slide seven, I'd like to highlight the strategic rationale for the new investments we've made over the last few weeks. The first is Pueblo Viejo. With more than 1 million ounces of gold produced, production annually first quartile cost, and 18 years of initial mine life, Pueblo Viejo is truly a world class gold mine and a rare opportunity to Royal Gold. I just mentioned initial mine life because the project has substantial and high quality resource consisting of 6.3 million ounces that we believe will likely find their way into production at some point in the future. The Rainy River project fits well into our high quality portfolio and meets of our criteria for new investments with nearly 4 million ounces of gold reserves, continued exploration upside and projected cash cost below \$600 per ounce. We are particularly pleased to add another piece of business in Canada and to partner with New Gold, a company that is well known for its development track record and operational expertise. At Andacollo, we are eager to expand our business in Chile and in the mine where Royal Gold and Tech have enjoyed an excellent relationship for several years. Our new stream gives us a larger interest in gold from Andacollo for a longer period of time and increases are optionality to new discoveries through an expanded area of interest.

Finally, we close our stream transaction with Golden Star in late July to fund development of the Wassa and Prestea underground projects which are expected to transform Golden Star into a lower cost producer. While development is underway, our stream cover is existing in production from surface operations. Not only does this investment provide immediate cash flow to Royal Gold, the Golden Star has one of the largest land packages in the perspective Ashanti belt offering what we believe is significant exploration optionality.

Turning to slide eight, we thought it would be interesting to consider the points of which Royal Gold has made investments over the last five years. In any business there is a time to be active and reinvesting and a time to be patient. As the chart shows, we have clearly considered these investment seasons for our major acquisitions.

Turning to slide nine, you have also heard us say that one of our top priorities is to further diversify our revenue stream now that Mount Milligan is contributing meaningfully. Three of the four new pieces of business will result in immediate cash flow and will further diversify Royal Gold's portfolio we've reported in recent assets. The chart here illustrates how we expect these new investments will impact our production profile. Remembering from our few slides back our total net GEO production in fiscal 2015 was about 200,000 ounces, which is the bar on the left. The additions of these new streams have the potential to deliver new volume of over 125,000 ounces when they have reached their full annual run rates. I'd also like to point out that within the existing portfolio Mount Milligan still has 15% to 20% of additional capacity to add before reaching design throughput. Rubicon minerals has just begun production at Phoenix and we're just now starting to see some of those ounces. And Peñasquito Metallurgical Enhancement Project offers additional sources of growth as well. Now I'll turn the call over to Bill.

Bill Heissenbuttel

Thank you Tony. On slide 10, I'd like to start with Pueblo Viejo. The Pueblo Viejo mine is expected to be another cornerstone asset for Royal Gold and represents the attractive combination of size and cost

competitiveness. On a 100% basis Pueblo Viejo's gold and silver reserves of 15.5 million ounces and 97.2 million ounces respectively place the mine amongst the largest operating gold assets in the industry and by the measurement of production and cost of production it is the only gold mine with projected near-term production of over 1 million ounces at an all in sustaining cost of less than \$700 per ounce.

The resources at the mine are of very high quality and their conversion is limited more by infrastructure constraints than drill spacing. Our due diligence team, which consisted of experts in a variety of fields, spent considerable time with the processing facilities and we're impressed by the progress made by the site team in terms of optimizing a complex operation during the mines relatively short operating history. Attributable production for 2015 is estimated to be between 625,000 to 675,000 ounces at an all in sustaining cost of 540 to 590 dollars per ounce and our stream will apply to gold ounce production from July 1.

On slide 11, just in terms of the stream, the investment of \$610 million which is split roughly by value two thirds one third between gold and silver when Royal Gold purchased 7.5% of attributable gold production and 75% of attributable silver production and then ongoing price for delivered ounce of 30% to 60% of the spot price at the time of delivery. Upon delivery of just less than 1 million ounces of gold and 50 million ounces of silver the stream percentages will decrease by 50%. The transition from 30% to 60% in the cash price is intended to occur at a time when the order rates at the mine are lower and cash flow might be less available for deliveries. The structure also front ends more of the return of our investment and as Barrick noted this morning, we're also paying a higher cash price at the time when the exploration upside becomes more important to the operator. So this structure has a mutually beneficial aspect to it.

Turning to Rainy River, this is a project we have followed closely for a number of years and we have consistently ranked it as one of the more attractive investment opportunities. This project meets our investment criteria for development projects in terms of the quality of the owner, upside, cross competitiveness and jurisdiction. With 3.8 million ounces of gold in reserves this 21,000 ton per day operation is expected to produce 325,000 ounces of gold per year for the first nine years with stockpiled material providing a 14 year life in total based on current project parameters.

Cumulative capital expending on the project through the end of June was \$119 million and New Gold had \$760 million remaining to be spent to complete the project. A mid-2017 startup is anticipated. There are an additional 2.9 million ounces of gold in resources that we have not considered in our evaluation approach. The all in sustaining costs for the project are currently estimated to be \$658 an ounce, so while Rainy River might not have Pueblo Viejo's production scale, it could be a similarly cost-competitive project. The stream applies to 6.5% of gold production and 60% of silver production although the silver is the relatively small value driver in the transaction. In addition to the \$175 million Royal Gold has agreed to invest, of which \$100 million has been paid and \$75 million will be paid upon completion of 60% of the project spend; we will also pay 25% of the spot price for gold and silver at the time of delivery of the refined metal. And as is typical for our transactions the stream percentages will reduce by 50% after the current reserves have been processed.

Turning to slide 13, at Andacollo this is an operation that we have known for over five years and an operator with which we maintain an excellent relationship. The 1.6 million ounce reserve will support production for over 20 years. In the transaction we were able to extend the area to which the stream applies to 1.5 kilometer area around the pit area and the 900,000 ounce threshold the stream step

down now covers all of the current reserve. In analyzing the transaction we focused on the cost competitiveness of the operation. Gold represents a potential byproduct credit for the copper mine between \$0.30 per pound and \$0.35 per pound, but the new stream transaction only gets \$0.03 to \$0.04 per pound in incremental cash costs when compared to the mine burdened by the previous royalty.

On slide 14, we are very pleased to be involved in the financing of Golden Star's Wassa and Prestea underground projects which are expected to facilitate the transformation of Golden Star from a larger higher cost mining company to a smaller producer of higher quality ounces. Reserves of 1.9 million ounces have concurrently defined but that excludes the resource of 600,000 ounces of Prestea underground from a project that is expected to see a completed feasibility study during this quarter.

Total M&I resources at both projects were over 6 million ounces and we like the upside resource potential at both projects. With the benefit of existing infrastructure the cost to complete these projects is relatively modest. The returns to the company are high and the initial production from these new underground sources is expected to occur at various points in 2016.

The first class for coloring the portal recently occurred at Wassa asset and permits for the Prestea south open pit oxide project were also recently received. We have invested \$40 million of the \$130 million stream and funded the US the \$20 million term loan as well. The remainder of this stream will be invested quarterly over a little more than a year. Initial stream deliveries of 8.5% of gold are effective and in addition to the production from this quarter we expect some catch up deliveries of gold related to the second quarter based on our agreed stream effective date. In addition to our advanced payment we will initially pay 20% of spot for each delivered ounce.

Turning to slide 15, with respect to the operations, we have provided a quarterly waterfall comparison of our key producing properties to the immediately prior quarter and the same quarterly period last year. The key items to note on the prior quarter comparison is the slight reduction of Mount Milligan which is really due more to the record sales of the prior quarter that resulted from the settlement of higher gold grade concentrate shipments in that period. And also Cortez, where we expect to see quarter-over-quarter reductions in royalty ounces during calendar 2015. On the same basis, we saw Andacollo's ounces increase for the first time in the number of quarters and Peñasquito benefited from higher than expected ore grades which contributed too much higher production in the most recent quarter.

On a comparable quarterly period relative to fiscal 2014, the Voisey's Bay reduction is attributable in part to adoption of our cash-based approach to revenue while the increase at Mount Milligan reflects that operation's continued ramp up.

On slide 16, in terms of comparing 6 months result to the current yearend forecast provided to us by certain operators, we point you to the Cortez figure where we have already seen over the 80% of the royalty production forecast for this year as of the end of June and we should see lower production to our interest in the latter half of this year. In addition, although Peñasquito had a very strong performance in the last quarter, it has now prompted the company to alter its 2015 guidance range.

Turning to slide 17, with respect to a few key operating assets Mount Milligan made progress in its mill throughput and gold recoveries during the quarter. After a slow April the mine achieved May and June throughput of about 50,000 tons per day or 83% of capacity. In gold recoveries we're almost 73% for the quarter.

Peñasquito produced record gold production due to a 68% increase in ore grades compared to the same period last year and this included an 18.5% positive model reconciliation in one of the mining phases. Goldcorp's also announced it completed the pilot plant construction and commenced pilot plant testing for a tentative (ph.) project.

At Phoenix, Rubicon has made its first gold pore and its first delivery to Royal Gold. Mill commissioning is continuing with the processing of low-grade mineralized material and the company is focused on mining its first two trial stones. Now I'll turn the call over to Stefan.

Stefan Wenger

Thanks Bill. I'll start on slide 18.

Today's I'll briefly summarize the financial results we reported this morning and then I'll spend a bit of time discussing our financial liquidity.

For the fourth quarter we reported revenue of \$74 million an increase of 5% despite a 7% decline in the gold price compared to the fourth quarter of 2014. The revenue increase was driven by a 13% increase in GEOs to 61,700 from 54,500 in the prior year.

Our operating cash flow increased 37% to \$44 million. Our net income per share for the fourth quarter was \$0.23 compared to \$0.26 in the fourth quarter of last year. This quarter we recorded a \$4.1 million or \$0.06 per share in additional deferred income tax expense. Due to a tax rate change from 10% to 12% in Alberta Canada, we're certain our Canadian subsidiaries are domicile. This resulted in an effective tax rate of 30% for the quarter. Without this change in Alberta, our effective tax rate for the fourth quarter would have been about 11% and our EPS would have been \$0.29 per share.

For the full fiscal year we reported revenue of \$278 million which was driven by an increase in GEOs to 227,000 compared with the 183,000 in fiscal 2014. The resulting 17% increase in revenue was notable in an environment where the price of the gold decreased by 6% year-over-year. We reported strong operating cash flow of \$192 million, an increase of 31% over fiscal 2014.

Our net income for the year was \$52 million or \$0.80 per share. Net income for the year was impacted by the Wolverine impairment charges that we took in the second quarter which impacted our earnings by \$31 million or about \$0.37 per share. We paid out \$56 million in dividends during the fiscal 2015 which represented a payout ratio of 29% of operating cash flow. This dividend represents the 14th year of increasing dividends paid to our shareholders.

You'll see on slide 19 that our liquidity position was nearly \$1.4 billion on June 30. While we've been very active over the last several weeks. We are still favorably positioned. Netting out our commitments for the next 12 months leaves us with about \$350 million in remaining liquidity. That does not include the operating cash flow that we expect to generate over the next 12 months. I'll point out that we generated just under \$200 million in operating cash flow in fiscal 2015 and that is before the benefit of any of the new streams we've added recently along with the continued ramp up of Mount Milligan that we expect during fiscal 2015. And with that I'll turn the call back over to Tony.

Tony Jensen

Thank you Stefan. Now to wrap up on slide 20. Just as we positioned the company in 2012 with financial strength ahead of the decline in gold price, we are now positioning the company for more favorable times in the gold business with these recent transactions. When considering new opportunities we will always preserve price and reserve optionality just as we have done in each of our recent transactions. Price optionality comes when making investments at the right entry point and we think that time is now.

With regard to reserve optionality it has been our experience that good mines get better. And having a foothold in the world-class asset like Pueblo Viejo early in its mine life as exactly where we want to be. We are certainly proud of the quality of our portfolio, but on a personal note I am equally pleased to be surrounded by high caliber and talented board and staff. As you can imagine there haven't been any days off in the last several months. I would like to publicly thank them for their dedication to the company.

In closing and speaking of quality, I'm delighted to announce that James Sokalsky will be joining our board at our next regularly scheduled meeting. Jamie needs little introduction in the gold sector having served and as the prior CEO at Barrick, topping off a very successful career in the business. We are looking forward to his contributions and as we continue to pursue growth, quality, and opportunities. With that operator we will be happy to take any questions.

QUESTIONS AND ANSWERS

Operator

We will now begin the question and answer session. To ask a question, you may press star (*) then one (1) on your telephone keypad. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star (*) then two (2). At this time, we will pause momentarily to assemble our roster.

Our first question comes from Andrew Quail of Goldman Sachs. Please go ahead.

Andrew Quail

Yeah. Afternoon, Tony and team or morning wherever you are, just I suppose as a high level question but it has a few parts to it and I think it's Stefan you can jump in. I suppose about capital allocation you guys have done an excellent job I think from my perspective over the last few months in this quarter and this is the time you want to be I suppose allocating capital, especially given some of the company's financial positions. You outlined in slide 19 you've got 350 million or around that the total liquidity with that free cash flow. You actually go into net debt going forward. Is your level that you guys are comfortable with net debt? If there was another nail that came would you issue equity at this price and what is your cost to debt one and sorry to finish as I know it's a lot of questions, but what is the minimum amount of cash you want to hold on your balance sheet?

Tony Jensen

So, Andrew. Good day. Thanks for the question, the multiple questions there. Let me just start this is Tony. We are not interested in issuing equity at this kind of market environment so we're quite pleased to have available reasonable lines of credit and I believe we're just a shade below 2% on our credit facility so, we're quite happy with that. With regard to how much leverage we might put on the balance sheet, I think we certainly want to stay below 3x as far as the coverage ratio and I think this puts us Stefan where? Just a little under two or right at two?

Stefan Wenger

Yeah. On a pro forma basis we'd be about net two times levered assuming we draw about \$300 million on the credit facility to fund the Barrick acquisition.

Tony Jensen

Andrew there was another piece to your question that you have that I was reserving for Stefan and I've forgotten the last bit of it.

Andrew Quail

How much cash do you have?

Stefan Wenger

We've typically said that we'd like to keep a minimum amount of cash in the company of about \$100 million, Andrew, and that's not a hard and fast number as you can imagine. We don't have a lot of cost in this company. We have our staff and we have an office here. So, we're a lot different than an operating company and that we can operate with a pretty lean cash balance, but we are still in the business of looking at new deals as well so we'd keep the reasonable amount of cash on the books.

Andrew Quail

Okay. I mean I think all these deals that you guys have done to me look very lucrative and I suppose the one I sort of want to talk about is Mount Milligan and it looks like it's going well. Not so much there, but for you guys does it worry you, not just the gold process but more like a commodity sell off broadly and your partner there has a lot of debt. Can you just comment have you been asked to put in more money there and also if not do you sort of - are you comfortable that if there was sort of any adverse financial conditions put towards these guys legally that you guys would actually get your stake back in Mount Milligan. Is there any precedent to it, in streaming?

Tony Jensen

Andrew, again, lots of questions and let me pull them apart just a bit. First of all we are very pleased with our position at Mount Milligan and it is performing wonderfully. You've given me the opportunity to say that we almost have \$100 million back over \$781 million investment and we've just been there a few years, a couple years. So it's providing us with a fantastic amount of return at the present time. And that's really indicative of the asset itself. We very much appreciate partnering with Thomson Creek. They've been a fabulous partner to be with. We do recognize that they have issues of debt that they're addressing and I think that's probably, if you talk to Thomson Creek they'd say it's their top priority or one of them, and you have to speak directly to them to understand exactly how they plan to meet their obligations there. But for us, we look to the asset. And when we look at the asset it's very low, certainly the lowest half of the worldwide production in copper, maybe just a little over a buck a pound on an equivalent basis and that's after our gold is taken out of, so it is a very, very strong producer and any kind of liquidation events or anything like that, we'd expect the asset to continue to produce. It only makes sense because it's making money. So, we feel quite good from that standpoint. And finally, we do have different structures for different pieces of business and there we have a secured position should we need it, but really our interest is maintaining the stream through any kind of an issue and that's where we would focus.

Andrew Quail

Would you put in more money there, Tony, if they had to – with the secondary crash.

Tony Jensen

I'm happy to say we haven't been asked and the project still has capacity. We like the project. You guys say it has capacity because it's still a very low cash-cost producer, but you know as I've said many times with this very same question is we will be opportunistic and we can't speculate on some kind of situation that might come up in the future but we'll be very much willing to listen to any ideas that might come our way.

Andrew Quail

Okay. Thanks very much and congratulations on a good quarter.

Tony Jensen

Thank you Andrew.

Operator

Once again, if you would like to ask a question please press star (*) and then one (1) at this time. Our next question comes from John Tumazos of John Tumazos Independent Research.

John Tumazos

I think Andrew asked most of them but I'll try.

Tony Jensen

Morning, John.

John Tumazos

Good morning. Congratulations on the New Gold and Barrick deals. If you had an opportunity that was a large-sized transaction, let's say \$500 million or a billion that offered you a 15% or 20% return. Companies who are having a hard time get money together. How would you do it in terms of debt and equity or would you syndicate a little bit of it and just take a piece of it?

28.54

Tony Jensen

So, I think what the nature of your question is, if we had something in front of us we could not turn down, what would we do? Is that the nature of the question?

John Tumazos

That's a more articulate way. Thank you, Tony. You could be an analyst.

Tony Jensen

So, John, I think what we would do is first of all we would make sure that we were within our capacity of those debt limitations that Stefan and I just spoke of a moment ago. We are not interested in putting our company into a position where some of the other folks with broader commodities cycle are experiencing right now, so we want to protect ourselves in that fashion. And yes, there is some more debt capacity that we could put in, where we're equity shy, but we do have a number of different individuals, entities, I don't know how to phrase that, that have expressed interest in working with Royal Gold so indeed the kind of returns that you posed your question with there would be a number of companies or entities that would love to have a piece of that business. So, again, I can't speculate but we are still interested in being active in the business, so your question is a fair question.

John Tumazos

If I could follow up, in ancient times when I learned accounting, coverage meant pretax income plus interest expense divided by interest expense, is your coverage total debt-to-EBITDA that you're referring to?

Stefan Wenger

Hey, John, this is Stefan. We look at that on a net debt-to-EBITDA coverage ratio basis that ties into how our credit facility looks at it as well.

John Tumazos

Okay. Thank you.

Operator

The next question comes from Cosmos Chiu of CIBC.

Cosmos Chiu

Good afternoon Tony, Stefan, Bill, Bruce, and Karli. Thanks for hosting the call. A few questions here. Maybe first off again on the balance sheet. I think I can sort of work this out myself. I'm just trying to see if you can provide me with, as of today, how much cash and how much have you drawn on your line of credit? I believe based on my calculation you might have already needed to have drawn on your line of credit. Am I correct?

Stefan Wenger

Hey, Cosmos, this is Stefan. I can walk through that. Today we have about \$400 million of cash on the balance sheet.

Cosmos Chiu

\$450 million?

Stefan Wenger

\$400 million today.

Cosmos Chiu

Okay.

Stefan Wenger

And that's after the Andacollo stream acquisition after we received proceeds on the sale of our formal royalty at Andacollo and then also with after funding Golden Star and the first piece of Rainy River. So, today \$400 million on the balance sheet so we have not drawn on our credit facility. The Barrick deal on Pueblo Viejo is expected to close in the next 90 days and depending on what our cash levels are at that time based on our continuing strong cash flow we would look to draw on our credit facility in an amount around \$300 million to complete that. At the same time Cosmos, as you know and I've told you a number of times, we constantly evaluate our capital structure in light of the needs of the business and I won't stop that work as we go forward as well. But today we feel like we're in a pretty good situation with respect to our funding needs.

Cosmos Chiu

Okay. And as you mentioned, Stefan, there was funding for Golden Star. Can you remind me? That's \$40 million for Golden Star right? And then for new gold what was the first one?

Stefan Wenger

Yeah. Let me just back up and I'll walk through each piece of it. We invested \$525 million in the new Andacollo stream. And then we received proceeds of \$345 million or \$300 million net of taxes on the sale of Andacollo's royalty or former royalty.

Cosmos Chiu

Okay.

Stefan Wenger

We then invested \$100 million in the Rainy River stream. And we invested a total of \$60 million into the Golden Star structure, \$20 million was a loan and \$40 million went to the stream. So that's what we funded to date since June 30th.

Cosmos Chiu

Okay. Maybe switching gears a little bit on the Pueblo Viejo stream, congrats again on getting that done. Looking at some of these trigger points here, one trigger point is 990,000 ounces and that's when your percentage comes down in terms of contribution. Based on current reserves today, and working through the calculation, it doesn't seem like based on the current reserves you can actually get to 990,000 ounces. So from based on that perspective, am I safe to assume that you've sort of factored in some upside to it in your calculations? And more specifically, I know Barrick had talked about potential expansion at Pueblo Viejo. Have you factored that in although I know that that's actually quite preliminary?

Tony Jensen

Yeah and Cosmos Tony here. Yes we have. We rarely do factor in a large component of resources. In this case I just point you to the fact that there are very high quality resources as both Bill and I said in our prepared remarks, and in fact a lot of those resources were in the reserve book just a few years ago. And Barrick had talked this morning in their conference call that they're looking to extend the mine life by expand the tailings facility and has a potential to convert a lot of those resources into reserves. And we believe it's the same, so for us we look beyond just the reserves there to get our return because of the quality of the resource in this particular case.

Cosmos Chiu

Of course. And maybe I don't know how much you can comment on this Tony, but was a competitive process whereby you acquired the stream. And maybe a follow up on that as well. Was there an opportunity to go beyond the 7.5% that you ultimately negotiated on?

Tony Jensen

Well, the former question first. In any kind of transaction like this I would only assume that it was competitive because these are rare unique and highly coveted assets and I would think that anybody that's in this business would have wanted to take a look at that. But I'm not in a position to be able to tell you exactly who was involved or anything like that because I don't know. So, that's the nature of the competition. With regard to size, this negotiation was very extensive and all kinds of different things were batted back and forth, but let me just say that where we ended up we're ecstatic about. We think

this is the perfect size piece of business for us on this kind of property. So it's exactly where we wanted it to be.

Cosmos Chiu

Okay. And maybe Tony taking a step back here, certainly the company has been quite active not just yourself, but your whole team has been quite active in the past quarter. We've seen streams whereby much like the stream with the Golden Star higher return potentially based on my calculation almost 10% IRR but certainly higher risk in my opinion. On the other hand you have something like Pueblo Viejo where based on my calculation lower IRR, low single digits but at least based on reserves, but currently in production much less risk. Is that the type of return that we should be expecting? Is this kind of like the double barrel approach that we should also be expecting from Royal Gold as well in terms of how you look at future acquisitions?

Tony Jensen Yeah, I think there is a lot of truth in what you just said there and the fact that each investment that we consider is going to be unique. There aren't any two transactions that are the same. And we have to look at the totality of the piece of the business. Who the counterparty is, where the asset is located, what the quality of the asset is, what is the service ability of our particular revenue source that is to be coming out of that. And we'll be very creative and put something different in front of each operator. So, I think it's suffice to say that there are times where we need certain bells and whistles in our stream that you have seen in the past and we need a higher rate of return because we think it demands because of the risk. And then there are other times where we might just as in Pueblo Viejo. I think this is a fantastic opportunity to be associated with for decades and decades.

Cosmos Chiu

Okay sure. And maybe some last housekeeping questions here. In terms of the structure of the stream at Pueblo Viejo, is it going through your Zuke subsidiary and in that case is it subject to the same kind a tax rate and things like that when I goes through your Zuke subsidiary?

Tony Jensen

Correct. We structured it the same way we did Mount Milligan, Cosmos, so you should be very familiar with all of that structure.

Cosmos Chiu

Yeah. And then overall tax rate maybe for Stefan, you talked about 11% for the quarter if you adjust for the tax adjustment, the Alberta tax adjustment. I feel like I ask you this every single time, but what tax ratio will you be using on a go forward basis because I think in the past you've mentioned like maybe 25%, 26% we've seen you know low 10s, 11- I just want to ask that question and throw that question out there. I am just going to plug that into my model.

Stefan Wenger

Cosmos, it's an excellent question because – I struggle as you do with the tax areas when it's complex. Specifically for us because we do have a corporate structure that includes Canadian entities and our Swiss entity as well. And this year notably had a lot of moving parts. We had a good strong benefit this year from the strong US dollar that I talked about last quarter. We also had some tax reform in Canada and Chile that gave us some interesting components as well, but if you strip through all of that and with the new streams in our business, you should see our normal tax rate decline to somewhere in the low 20% range. And I'll give guidance or at least a directional indication of tax rate after our first quarter call

as well, but today I am not ready to give a specific rate. But one thing you are seeing is that we are investing more and more in streaming side of our business. And as you know that brings with it a more efficient tax rate for us, so you're going to see our overall tax rate decline on a normal run rate.

Cosmos Chiu

Okay great. Congrats on the quarter and that's all I have. Thank you.

Tony Jensen

Thank you, Cosmos.

Operator

The next question comes from Tanya Jakuconek of Scotia Bank.

Tanya Jakuconek

Good afternoon, everybody. I have a technical question on Pueblo Viejo and then just some financial questions for Stefan. So maybe if I just do Stefan first. Stefan, just to make sure, on moving all of your streams through to Zuke, we won't be dividending back that income back to the US. Is that correct? We're just going to be collecting in Zuke?

Stefan Wenger

That's correct. Our business plan is to reinvest the revenue that we receive in our Swiss structure into new opportunities. We still have a good strong cash flow from our royalty portfolio and it's available to fund dividends and debts service here in the US.

Tanya Jakuconek

Okay. So that will be kept over there. And then just from an accounting perspective, I mean we've got the tax now in the low 20s, but just for Pueblo Viejo will you be depreciating that \$610 million over proven and probable reserves because you report under US GAP?

Stefan Wenger

That's correct. Our depreciation or depletion on that would be over proven and probable reserves. Just like we're doing for Mount Milligan and the others.

Tanya Jakuconek

Even though you are looking at the conversion longer term in your overall valuation but your depreciation will have to be over proven and probable?

Stefan Wenger

Yeah. Tanya that's a great point we are required to depreciate over proven and probable and not consider any future resource.

Tony Jensen

But to the extent that those resources get converted then we redo it.

Tanya Jakuconek

You redo it. Yes, absolutely. Which then comes to Stefan, how about a guidance for depreciation and depletion for the company going forward?

Stefan Wenger

Tanya, this year our DD&A rate per ounce was \$412 dollars an ounce and that was right of the middle guidance that I gave last year. I'm not prepared to put a range out yet for next year. I would guide though that we'll see our DD&A rate go up a bit because of the new streams that are going to go into production or I think have slightly higher DD&A rates than that \$412 dollar an ounce average, but I'll firm that up at our first quarter guidance as well but you should expect a slight increase there.

Tanya Jakucone

Okay. Yes. That's what we see. And then, Tony, just for your thoughts coming back to the technical question on Pueblo Viejo. I just wanted to talk to you about the silver circuit silver recoveries. I mean we've struggled with Pueblo Viejo on that front and I don't know how many times we've been down, back up, and down. Barrick did mention on their call that they are getting recoveries in excess of 80% they had it for over a month. What sort of due diligence did you do on that circuit and what did you see?

Tony Jensen

Extensive due diligence. First of all let me say that we feel the chemistry works fine and it's not an issue of getting the chemistry to the get the recoveries. It's a matter of just getting sustainability in the circuit.

Tanya Jakucone

Absolutely yes.

Tony Jensen

And getting those new tanks in place that I think Barrick had spoken to about this morning. And so it's a matter of getting steady state production from the circuit. Having said all of that, we recognize that as a risk from a standpoint it's not proven itself yet and we don't want to necessarily take that risk. And Barrick was quite confident in its ability. And so we said well let's just agree that we'll fix it at a 70% recovery and the extent that you do better than that, that's to your account and to the extent you do less than that, we can reach into some of the Barrick ounces and be made whole for our transaction. So I think we structured something that is indicative of that particular risk element that you identify.

Tanya Jakucone

And is that why that one is starting as of January 1, 2016, or why did that one start later?

Tony Jensen

Yeah, I think that's largely the reason as Barrick had some items that they wanted to get implemented into the circuit and that gives them some time to do that and get a little more steady state before our stream is impacting that silver.

Tanya Jakucone

Okay. I just wanted to check. Okay, thank you.

Tony Jensen

Thank you for the questions.

Operator

The next question comes from John Doody of Gold Stock Analyst.

Tony Jensen

Good afternoon, John.

John Doody

Hello, guys and gals. Congratulations on the three recent deals. You've really been active and I hope you get at least a weekend off coming.

Tony Jensen

Yeah, we hope so too.

John Doody

Okay. Cosmo kind of swept the field on my questions about the competitive climate now. But I thought it was unique in that your close friends might have thought they have a more of an entry into the new gold and the Pueblo Viejo transaction. But I guess that didn't prevail.

Tony Jensen

Well, I can't comment on anything specific there, John. I can just tell you that we run as hard as we can from our standpoint and we let the cards fall where they may. So I don't know any details.

John Doody

Yeah, that's fine. Refresh my memory on the secured position that the company has at Mount Milligan.

Tony Jensen

Bill do you want to take that?

William Heissenbuttel

Sure. There are some existing bonds that are in the amount of \$350 million, I think that's the right number. That have a first secured position with respect to the asset. We have a second position with respect to the asset but a first position when it comes to Alcoa Gold that's been chipped or severed from the ground, which at any point in time would be a relatively small value. So we sit behind those particular bonds. We would come next. There are some unsecured guarantees for the corporate debt that reached out into the company that holds the Mount Milligan operations, but they would be subordinated to us. So we just worry about that one bond being in front of us.

John Doody

Okay. So the worst case is, and I certainly hope this wouldn't happen, but worst case is you would end up holding the mine subject to \$350 million in bonds ahead of you.

William Heissenbuttel

Technically that's true. I think if we ever got to that position, I think ultimately what you would see is some transfer of ownership of the mine before we ever really got to that period of time or got to that situation, and I would think that would be the first port of call.

John Doody

Alright, great. Well, thanks and congratulations on the deals in the great quarter. Looking forward to more.

Tony Jensen

Thanks for the support, John.

Operator

This concludes our question-and-answer session. I would like to turn the call back over to Tony Jensen for any closing remarks.

Tony Jensen

Well, thank you again for taking time to join us today. We certainly appreciate your questions, your interest, and your continued support of Royal Gold and we look forward to updating you on our next conference call. Thanks very much.

Operator

The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.