

# ROYAL GOLD INC

## FORM 10-Q (Quarterly Report)

Filed 05/04/07 for the Period Ending 03/31/07

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

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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 March 31, 2007

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: 28,609,981 shares of the Company's Common Stock, par value \$0.01 per share, were outstanding as of May 3, 2007.

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**ROYAL GOLD, INC.**  
Consolidated Balance Sheets

	March 31, 2007 (Unaudited)	June 30, 2006
<b>Current assets</b>		
Cash and equivalents	\$ 19,167,669	\$ 78,449,383
Royalty receivables	8,223,143	5,962,053
Income taxes receivable	762,804	—
Deferred tax assets	79,944	131,621
Prepaid expenses and other	221,750	155,908
<b>Total current assets</b>	<b>28,455,310</b>	<b>84,698,965</b>
Royalty interests in mineral properties, net (Note 2 and 3)	217,251,641	84,589,569
Inventory – restricted (Note 11 and 12)	10,490,330	—
Restricted cash – compensating balance (Note 6)	15,750,000	—
Available for sale securities (Note 4)	1,756,137	1,988,443
Deferred tax assets	1,035,907	495,018
Note receivable – Battle Mountain Gold Exploration (Note 13)	13,927,239	—
Other assets	1,681,126	487,826
<b>Total assets</b>	<b>\$290,347,690</b>	<b>\$172,259,821</b>
<b>Current liabilities</b>		
Accounts payable	\$ 3,707,360	\$ 1,075,644
Income taxes payable	—	334,767
Dividend payable	1,579,455	1,300,623
Accrued compensation	187,500	375,000
Other	226,501	237,482
<b>Total current liabilities</b>	<b>5,700,816</b>	<b>3,323,516</b>
Deferred tax liabilities	6,382,102	7,178,907
Revolving credit facility payable (Note 5)	60,000,000	—
Note payable (Note 6)	15,750,000	—
Other long-term liabilities	77,949	97,749
<b>Total Liabilities</b>	<b>87,910,867</b>	<b>10,600,172</b>
Commitments and contingencies (Note 10)		
Minority interest in subsidiary (Note 11 and 12)	10,571,436	—
<b>Stockholders' equity</b>		
Common stock, \$.01 par value, authorized 40,000,000 shares; and issued 24,429,141 and 23,816,640 shares, respectively	244,291	238,165
Additional paid-in capital	187,239,971	166,459,671
Accumulated other comprehensive income	303,950	498,462
Accumulated earnings (deficit)	5,174,047	(4,439,777)
Treasury stock, at cost (229,224 shares)	(1,096,872)	(1,096,872)
<b>Total stockholders' equity</b>	<b>191,865,387</b>	<b>161,659,649</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$290,347,690</b>	<b>\$172,259,821</b>

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	
	March 31, 2007	March 31, 2006
Royalty revenues	\$11,208,556	\$ 5,760,750
Costs and expenses		
Costs of operations	711,765	475,682
General and administrative	1,565,296	1,325,572
Exploration and business development	679,229	1,210,452
Depreciation, depletion and amortization	2,561,551	1,006,467
Total costs and expenses	<u>5,517,841</u>	<u>4,018,173</u>
Operating income	5,690,715	1,742,577
Interest and other income	457,370	815,692
Interest and other expense	(670,186)	(61,537)
Income before income taxes	<u>5,477,899</u>	<u>2,496,732</u>
Current tax expense	(1,891,040)	(976,681)
Deferred tax benefit	205,275	299,088
Minority interest in income of consolidated subsidiary (Note 12)	(353,519)	—
Net income	<u>\$ 3,438,615</u>	<u>\$ 1,819,139</u>
Adjustments to comprehensive income		
Unrealized change in market value of available for sale securities, net of tax	(83,075)	576,114
Comprehensive income	<u>\$ 3,355,540</u>	<u>\$ 2,395,253</u>
Basic earnings per share	<u>\$ 0.14</u>	<u>\$ 0.08</u>
Basic weighted average shares outstanding	24,042,235	23,522,539
Diluted earnings per share	<u>\$ 0.14</u>	<u>\$ 0.08</u>
Diluted weighted average shares outstanding	24,264,254	23,810,698

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 Nine Months Ended	
	March 31, 2007	March 31, 2006
Royalty revenues	\$33,992,487	\$20,163,677
Costs and expenses		
Costs of operations	2,279,891	1,582,889
General and administrative	4,231,217	3,933,077
Exploration and business development	1,570,400	2,671,702
Depreciation, depletion, and amortization	5,750,412	2,934,936
Total costs and expenses	<u>13,831,920</u>	<u>11,122,604</u>
Operating income	20,160,567	9,041,073
Interest and other income	2,382,926	2,269,347
Interest and other expense	(801,881)	(116,315)
Income before income taxes	21,741,612	11,194,105
Current tax expense	(7,811,113)	(4,331,408)
Deferred tax benefit	1,167,177	921,168
Minority interest in income of consolidated subsidiary (Note 12)	(1,063,272)	—
Net income	<u>\$14,034,404</u>	<u>\$ 7,783,865</u>
Adjustments to comprehensive income		
Unrealized change in market value of available for sale securities, net of tax	(194,512)	801,268
Comprehensive income	<u>\$13,839,892</u>	<u>\$ 8,585,133</u>
Basic earnings per share	<u>\$ 0.59</u>	<u>\$ 0.34</u>
Basic weighted average shares outstanding	23,653,946	22,635,447
Diluted earnings per share	<u>\$ 0.59</u>	<u>\$ 0.34</u>
Diluted weighted average shares outstanding	23,889,933	22,909,476

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



**ROYAL GOLD, INC.**

Consolidated Statement of Stockholders' Equity for the Nine Months Ended March 31, 2007  
(Unaudited)

	Common Shares		Additional Paid-In Capital	Accumulated Other Comprehensive Income	Accumulated (Deficit) Earnings	Treasury Stock		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
Issuance of common stock for:								
Peñasquito royalty acquisition (Note 2)	577,434	5,774	18,495,211					18,500,985
Exercise of stock options	27,567	277	463,497					463,774
Vesting of restricted stock	7,500	75	(75)					—
Tax benefit of stock-based compensation exercises			96,914					96,914
Recognition of non-cash compensation expense for stock-based compensation (Note 7)			1,724,753					1,724,753
Net income and comprehensive income for the nine months ended				(194,512)	14,034,404			13,839,892
Dividends declared					(4,420,580)			(4,420,580)
Balance at March 31, 2007	<u>24,429,141</u>	<u>\$244,291</u>	<u>\$187,239,971</u>	<u>\$ 303,950</u>	<u>\$ 5,174,047</u>	<u>229,224</u>	<u>\$(1,096,872)</u>	<u>\$191,865,387</u>

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

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

	For The Nine Months Ended	
	March 31, 2007	March 31, 2006
<b>Cash flows from operating activities:</b>		
Net income	\$ 14,034,404	\$ 7,783,865
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation, depletion and amortization	5,750,412	2,934,936
Deferred tax benefit	(1,167,177)	(921,168)
Non-cash employee stock option compensation expense	1,724,753	2,008,584
Tax benefit of stock-based compensation exercises	(96,914)	(890,695)
<b>Changes in assets and liabilities:</b>		
Royalty receivables	(2,261,090)	1,871,633
Prepaid expenses and other assets	(645,061)	(239,871)
Accounts payable	2,646,331	1,277,706
Income taxes (receivable) payable	(1,000,657)	704,597
Accrued liabilities and other current liabilities	(198,481)	(15,822)
Other long-term liabilities	(19,800)	(19,800)
<b>Net cash provided by operating activities</b>	<b>18,766,720</b>	<b>14,493,966</b>
<b>Cash flows from investing activities:</b>		
Capital expenditures for property and equipment	(268,278)	(9,618)
Acquisition of royalty interests in mineral properties	(119,735,721)	(39,039,035)
Note receivable – Battle Mountain Gold Exploration	(13,927,239)	—
Restricted cash – compensating balance	(15,750,000)	—
Purchase of available for sale securities	(81,045)	(204,715)
<b>Net cash used in investing activities</b>	<b>(149,762,283)</b>	<b>(39,253,368)</b>
<b>Cash flows from financing activities:</b>		
Tax benefit of stock-based compensation exercises	96,914	890,695
Debt issuance costs	(460,865)	(81,857)
Revolving credit facility payable	60,000,000	—
Note payable	15,750,000	—
Dividends paid	(4,141,748)	(3,509,885)
Net proceeds from issuance of common stock	469,548	58,530,349
<b>Net cash provided by financing activities</b>	<b>71,713,849</b>	<b>55,829,302</b>
<b>Net (decrease) increase in cash and equivalents</b>	<b>(59,281,714)</b>	<b>31,069,899</b>
Cash and equivalents at beginning of period	78,449,383	48,840,371
<b>Cash and equivalents at end of period</b>	<b>\$ 19,167,669</b>	<b>\$ 79,910,270</b>
<b>Supplemental cash flow information:</b>		
<b>Cash paid during the period for:</b>		
Income taxes	\$ 8,811,770	\$ 3,642,212
Interest	\$ 510,684	\$ —
<b>Non-cash financing activities:</b>		
Acquisition of royalty interest in mineral property	\$ 18,495,211	\$ —

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

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 nine months ended March 31, 2007, are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2007. Certain prior period amounts have been reclassified to conform to the current period presentation. 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 positions 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.

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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 was issued in order to eliminate the diversity in practices surrounding how public companies quantify and evaluate the materiality of financial statement misstatements. SAB 108 provides that once a current year misstatement has been quantified, the guidance in Staff Accounting Bulletin 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. SAB 108 is effective for the first fiscal year ending after November 15, 2006. The Company elected early application of SAB 108 during its third quarter ending March 31, 2007. Please see Note 12 for the effect of the Company’s early application of SAB 108.

In February 2007, the FASB issued Statement No. 159, “*The Fair Value Option for Financial Assets and Financial Liabilities*”, which allows entities to choose to measure many financial instruments and certain other items at fair value. Statement No. 159 is effective as of the beginning of an entity’s first fiscal year that begins after November 15, 2007. The Company is evaluating the impact, if any, the adoption of Statement No. 159 could have on our financial statements.

### 2. ROYALTY ACQUISITIONS

#### Peñasquito

On January 23, 2007, we acquired a 2.0% net smelter return (“NSR”) royalty interest on the Peñasquito project located in the State of Zacatecas, Mexico, from Kennecott Exploration Company, a Delaware corporation, and Minera Kennecott S.A. de C.V., a company incorporated under the laws of Mexico for \$80 million in cash and 577,434 shares of our common stock. We also obtained the right to acquire any or all of a group of NSR royalties ranging from 1.0% to 2.0% on various other concessions in the same region. On April 27, 2007, we notified Kennecott Exploration Company of our intention to acquire the royalties on certain of these concessions. No additional consideration was paid upon notification. Our right to acquire the remaining royalties expired on May 1, 2007.

The Peñasquito project is composed of two main deposits called Peñasco and Chile Colorado and is under development by a subsidiary of Goldcorp Inc. (“Goldcorp”). The Peñasquito project hosts one of the world’s largest silver, gold and zinc reserves while also containing large lead reserves. The Peñasquito project is not currently in production and the feasibility study conducted for it anticipates initial mine start-up in late calendar 2008 with full production being reached in calendar 2012.

The Peñasquito royalty acquisition was accounted for as a purchase of assets. As such, the total purchase price of \$99.1 million, which consisted of \$80 million in cash, 577,434 shares of our common stock (valued at \$18,500,985) and approximately \$640,000 of transaction costs, is recorded as a component of *Royalty interests in mineral properties* in the consolidated balance sheets. As of March 31, 2007, we have allocated \$95.4 million as a development stage royalty interest and \$3.7 million as an exploration stage royalty interest. The purchase price allocation is preliminary and will be re-calculated by Royal Gold upon further evaluation of the other royalties acquired and pending the release of updated reserve data by the operator.

#### Pascua-Lama

On March 9, 2007, Royal Gold’s wholly-owned subsidiary, Royal Gold Chile Limitada, a Chilean limited liability company (“RGCL”), acquired an NSR sliding-scale royalty on gold which is derived from certain mineral concessions at the Pascua-Lama project located in Chile for \$20.5 million. Barrick Gold

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

Corporation (“Barrick”) owns the Pascua-Lama project, and is targeting production to commence in calendar year 2010. The acquisition also includes an NSR royalty on copper from reserves located in Chile sold after January 1, 2017.

The NSR sliding-scale royalty ranges from 0.16%, when the average quarterly gold price is \$325 per ounce or less, to 1.08%, when the average quarterly gold price is \$800 per ounce or more. The acquisition also includes a 0.216% fixed-rate copper royalty that applies to 100% of the Pascua-Lama copper reserves in Chile but does not take effect until after January 1, 2017. The Pascua-Lama royalty acquisition was accounted for as an asset purchase. As such, the \$20.5 million acquisition cost, plus approximately \$354,000 of acquisition costs, is recorded as a component of *Royalty interests in mineral properties* in the consolidated balance sheets. As of March 31, 2007, we have allocated \$20.4 million as a development stage royalty interest and approximately \$411,000 as an exploration stage royalty interest.

As mentioned above, RGCL was formed to complete the Pascua-Lama royalty acquisition. RGCL was formed on February 9, 2007, under the laws of Chile. RGCL is a 100% wholly-owned subsidiary of Royal Gold.

**Gold Hill**

On December 8, 2006, Royal Gold paid \$3.3 million to Nevada Star Resource Corp. in exchange for an NSR sliding-scale royalty and certain unpatented mining claims on the Gold Hill deposit. The NSR sliding-scale 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. The Gold Hill deposit, located just north of the Round Mountain gold mine in Nye County, Nevada, is controlled by Round Mountain Gold Corporation, a joint venture between subsidiaries of Kinross Gold Corporation (“Kinross”), the operator, and Barrick. Production on the Gold Hill deposit is expected to commence once permitting is completed and equipment from the Round Mountain pit becomes available.

The Gold Hill transaction was accounted for as a purchase of assets. As such, the \$3.3 million acquisition cost, plus approximately \$15,000 of acquisition costs, is recorded as a component of *Royalty interests in mineral properties*, as a development stage royalty, on the consolidated balance sheets of Royal Gold.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

## 3. ROYALTY INTERESTS IN MINERAL PROPERTIES

The following table summarizes the net book value of each of our royalty interests in mineral properties as of March 31, 2007 and June 30, 2006.

As of March 31, 2007:

	Gross	Accumulated Depletion & Amortization	Net
<b>Production stage royalty interests:</b>			
Pipeline Mining Complex			
GSR1	\$ —	\$ —	\$ —
GSR2	—	—	—
GSR3	8,105,020	(6,280,660)	1,824,360
NVR1	2,525,107	(1,930,047)	595,060
Bald Mountain	1,978,547	(1,831,422)	147,125
SJ Claims	20,788,444	(6,636,218)	14,152,226
Robinson mine	17,824,776	(1,570,904)	16,253,872
Mulatos mine	7,441,779	(502,552)	6,939,227
Troy mine GSR royalty	7,250,000	(2,194,305)	5,055,695
Troy mine Perpetual royalty	250,000	—	250,000
Leeville South	1,775,809	(1,775,809)	—
Leeville North	15,085,824	(1,206,941)	13,878,883
Martha	172,810	(172,810)	—
	<u>83,198,116</u>	<u>(24,101,668)</u>	<u>59,096,448</u>
<b>Development stage royalty interests:</b>			
Peñasquito	95,434,048	—	95,434,048
Taparko Project			
TB-GSR1	24,909,181	—	24,909,181
TB-GSR2	7,280,226	—	7,280,226
TB-GSR3	1,026,933	—	1,026,933
Pascua-Lama	20,443,759	—	20,443,759
Gold Hill	3,340,384	—	3,340,384
	<u>152,434,531</u>	<u>—</u>	<u>152,434,531</u>
<b>Exploration stage royalty interests:</b>			
Peñasquito	3,707,099	—	3,707,099
Taparko Project			
TB-GSR3	207,938	—	207,938
TB-MR1	135,613	—	135,613
Pascua-Lama	410,643	—	410,643
Leeville North	1,460,439	(271,187)	1,189,252
Buckhorn South	70,117	—	70,117
	<u>5,991,849</u>	<u>(271,187)</u>	<u>5,720,662</u>
<b>Total royalty interests in mineral properties</b>	<u><u>\$241,624,496</u></u>	<u><u>\$(24,372,855)</u></u>	<u><u>\$217,251,641</u></u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

As of June 30, 2006:

	Gross	Accumulated Depletion & Amortization	Net
<b>Production stage royalty interests:</b>			
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>
<b>Development stage royalty interests:</b>			
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>
<b>Exploration stage royalty interests:</b>			
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>

## 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 gross smelter return (“GSR”) sliding-scale 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 Cortez Inc., a subsidiary of 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 NSR royalty that covers a portion of the Bald Mountain mine, in White Pine County, Nevada. Bald Mountain is an open pit, heap leach mine operated by a subsidiary of Barrick. The sliding-scale royalty increases or decreases with the gold price, adjusted by the 1986 Producer Price Index.

### **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 a subsidiary of Barrick at its Goldstrike property.

### **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 a subsidiary of Quadra Mining Ltd.

### **Mulatos Mine**

We own a sliding-scale NSR royalty on the Mulatos mine, located in Sonora, Mexico. The Mulatos mine, owned and operated by a subsidiary of Alamos Gold, Inc., 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 per ounce.

### **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 northwestern Montana and operated by a subsidiary of Revett Minerals Inc. (“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 March 31, 2007, we have received payments associated with the GSR royalty totaling \$4.3 million, which is attributable to cumulative



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

production of approximately 2.1 million ounces of silver and approximately 17.7 million pounds of copper.

We also own 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 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.

**Leeville Mining Complex**

We own a 1.8% carried working interest, equal to a 1.8% NSR royalty, which covers the Leeville South and the majority of the Leeville North underground mines (“Leeville Mining Complex”), in Eureka County, Nevada. The Leeville Mining Complex is operated by a subsidiary of 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. During our third fiscal quarter of 2007, Newmont communicated to us that additional proven and probable reserves were developed at Leeville North. As such, we reclassified approximately \$845,000 of our Leeville North exploration stage royalty interest cost basis to Leeville North production stage royalty interest. 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.

**Martha Mine**

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

**Peñasquito**

We hold a 2.0% NSR royalty interest on the Peñasquito project located in the State of Zacatecas, Mexico. The Peñasquito project is under development by a subsidiary of Goldcorp Inc. and hosts one of the world’s largest silver, gold and zinc reserves while also containing large lead reserves. We carry our interest in the proven and probable reserves at the Peñasquito project as a development stage royalty interest, which is not currently subject to periodic amortization.

We carry our interest in the non-reserve portion of Peñasquito project 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 the Peñasquito project 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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

production stage royalty interest in future periods, as appropriate. In the event that future circumstances indicate that the non-reserve portion of the Peñasquito project will not be converted into proven and probable reserves, we will evaluate our carrying value in the exploration stage interest for impairment.

### 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 Societe des Mines de Taparko (“Somita”), a subsidiary of High River Gold Mines Ltd. (“High River”). 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 the 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 \$34.6 million as of April 30, 2007) to Somita. Upon completion of our funding commitment, the royalty documents will be released and recorded and be legally effective. See Note 10 below for more information about the Amended and Restated Funding Agreement.

### Pascua-Lama

We hold a NSR sliding-scale royalty on gold which is derived from certain mineral concessions at the Pascua-Lama project, operated by a subsidiary of Barrick, in Chile. The NSR sliding-scale royalty ranges from 0.16%, when the average quarterly gold price is \$325 per ounce or less, to 1.08%, when the average quarterly gold price is \$800 per ounce or more. We also hold a 0.22% fixed-rate copper royalty that applies to 100% of the Pascua-Lama copper reserves in Chile but does not take effect until after January 1, 2017. We carry our interest in the proven and probable reserves at the Pascua-Lama project as a development stage royalty interest, which is not currently subject to periodic amortization.

We carry our interest in the non-reserve portion of Pascua-Lama project 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 the Peñasquito project 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 the Pascua-Lama project will not be converted into proven and probable reserves, we will evaluate our carrying value in the exploration stage interest for impairment.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

### Gold Hill

We hold a sliding-scale NSR royalty on the Gold Hill deposit, located just north of the Round Mountain gold mine in Nye County, Nevada. 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 Gold Hill deposit is controlled by Round Mountain Gold Corporation, a joint venture between subsidiaries of Kinross, the operator, and Barrick. We carry our interest in the Gold Hill deposit as a development stage royalty interest, which is not currently subject to periodic amortization.

### Buckhorn South

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

## 4. 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 loss (net of tax) of \$83,075 for the three months ended March 31, 2007, and an unrealized gain (net of tax) of \$576,114 for the three months ended March 31, 2006. We recorded an unrealized loss (net of tax) of \$194,512 for the nine months ended March 31, 2007, and an unrealized gain (net of tax) of \$801,268 for the nine months ended March 31, 2006. When investments are sold, the realized gains and losses on the sale of these investments, as determined using the specific identification method, are included in determining net income. We had no sales of available for sale investments during the three and nine months ended March 31, 2007 and 2006.

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 \$1,304,945 as of March 31, 2007. 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 Resources Inc. ("Taranis"). The market value for our investment in Taranis' common stock, warrants and stock options was \$451,192 as of March 31, 2007. Our cost basis in the Taranis common stock, warrants and stock options is \$285,761.

## 5. REVOLVING CREDIT FACILITY PAYABLE

On January 5, 2007, the Company and a wholly-owned subsidiary entered into the Second Amended and Restated Loan Agreement ("Amendment") with HSBC Bank USA, National Association ("HSBC Bank"). The Amendment increased our current revolving credit facility from \$30 million to \$80 million and extended the maturity date of the credit facility to December 31, 2010. The Company's borrowing base will be calculated based on our royalties and will be initially based on its GSR1, GSR3, and NVR1 royalties at the Pipeline Mining Complex and its SJ Claims, Leeville, Bald Mountain and Robinson royalties.

The initial availability under the borrowing base was the full \$80 million under the credit facility. As of April 15, 2007, the total availability under the borrowing base was \$71.4 million. The Company and the wholly-owned subsidiary granted HSBC Bank security interests in the following: the Company's GSR1,

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

GSR3, and NVR1 royalties at the Pipeline Mining Complex; the Company's SJ Claims, Leeville Mining Complex, Bald Mountain and Robinson royalties; and the Company's debt reserve account at HSBC Bank.

As of March 31, 2007, we had outstanding \$60 million under the revolving credit facility primarily to complete the closing of the Peñasquito and Pascua-Lama royalty acquisitions, as discussed in Note 2. As of March 31, 2007, the Company paid approximately \$511,000 in interest associated with the outstanding credit facility. As of April 30, 2007, with a portion of the proceeds received from our April 2007 equity offering as discussed in Note 13, we have completely paid down the \$60 million outstanding and \$71.4 million remains available under the revolving credit facility.

### 6. NOTE PAYABLE

On March 1, 2007, RGCL, a wholly-owned subsidiary of Royal Gold, entered into a \$15.75 million term loan facility bearing interest at LIBOR plus 0.25% pursuant to a Term Loan Agreement between RGCL and HSBC Bank. Pursuant to the terms of Term Loan Agreement, Royal Gold must maintain a restricted interest-bearing securities account (the "Collateral Account") on deposit at HSBC Securities (USA) Inc. with a balance equal to or in excess of the outstanding amounts on the \$15.75 million term loan. In connection with the Term Loan Agreement, Royal Gold entered into a Guarantee (the "Guarantee") for the life of the Term Loan, for the benefit of HSBC Bank to guaranty RGCL's obligations under the Term Loan Agreement and a security agreement granting HSBC Bank a security interest in the Collateral Account to secure RGCL's obligations under the Term Loan Agreement and its obligations under the Guarantee. The loan will mature on March 1, 2012.

The \$15.75 million balance in the Collateral Account as of March 31, 2007, is recorded as *Restricted cash – compensating balance* on the Company's consolidated balance sheets. RGCL's \$15.75 million principal obligation under the Term Loan Agreement is recorded as *Note payable* on the Company's consolidated balance sheets. Interest received on the Collateral Account is recorded in *Cash and equivalents* on the Company's consolidated balance sheets.

### 7. 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.

For the three and nine months ended March 31, 2007, we recorded total non-cash stock compensation expense related to our equity compensation plans of \$402,232 and \$1,724,753, respectively, compared to

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

\$695,758 and \$2,008,584 for the three and nine months ended March 31, 2006, respectively. Non-cash stock compensation is allocated among cost of operations, general and administrative, and exploration and business development in our consolidated statements of operations and comprehensive income. The allocation among cost of operations, general and administrative and business development for the three and nine months ended March 31, 2007, and 2006 is shown below:

	For The Three Months Ended		For The Nine Months Ended	
	March 31, 2007	March 31, 2006	March 31, 2007	March 31, 2006
Non-cash compensation allocation:				
Cost of operations	\$ 47,916	\$103,097	\$ 221,785	\$ 259,761
General and administrative	240,623	337,237	1,082,055	1,078,265
Business development	113,693	255,424	420,913	670,558
<b>Total non-cash compensation expense</b>	<b><u>\$402,232</u></b>	<b><u>\$695,758</u></b>	<b><u>\$1,724,753</u></b>	<b><u>\$2,008,584</u></b>

The total income tax benefit associated with non-cash stock compensation expense was approximately \$145,000 and \$621,000 for the three and nine months ended March 31, 2007, respectively, compared to approximately \$253,000 and \$731,000 for the three and nine months ended March 31, 2006, respectively.

As of March 31, 2007, there are 314,692 shares of common stock reserved for future issuance under our 2004 Plan.

Stock Options

Stock option awards are granted with an exercise price equal to the closing market price of the Company's 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.

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-Merton ("Black-Scholes") option pricing model for all periods presented. The Black-Scholes model requires key assumptions in order to determine fair value. Those key assumptions as of our fiscal year 2007 grants and our fiscal year 2006 grants are noted in the following table:

	Fiscal 2007	Fiscal 2006
Weighted average expected volatility	52.88%	61.20%
Weighted average expected option term in years	5.1	5.4
Weighted average dividend yield	0.93%	1.00%
Weighted average risk free interest rate	4.63%	4.5%

On February 15, 2007, 1,600 stock options under the 2004 Plan were granted to a certain officer. These options have an exercise price of \$32.40, which was the closing market price for our common stock on the date of grant. On November 7, 2006, 91,500 stock options under the 2004 Plan were granted to officers and certain employees under the 2004 Plan. These options have an exercise price of \$28.78, which was the closing market price for our common stock on the date of grant. On November 8, 2006,

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

15,000 stock options under the 2004 Plan were granted to the Board of Directors (“Directors”) at an exercise price of \$29.20, which was the closing market price of our common stock on the date of grant.

A summary of stock option activity under our equity compensation plans for the nine months ended March 31, 2007, 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	108,100	28.89		
Exercised	(27,567)	15.60		
Forfeited and Expired	(10,833)	20.36		
Outstanding at March 31, 2007	<u>598,114</u>	<u>\$ 17.27</u>	<u>6.5</u>	<u>\$7,674,689</u>
Exercisable at March 31, 2007	<u>459,680</u>	<u>\$ 14.49</u>	<u>4.4</u>	<u>\$7,176,532</u>

The weighted-average grant date fair value of options granted during the period ended March 31, 2007 and 2006 was \$13.79 and \$12.04, respectively. The total intrinsic value of options exercised during the three and nine month periods ended March 31, 2007, was \$97,964 and \$390,664, respectively. The total intrinsic value of options exercised during the three and nine month periods ended March 31, 2006, were \$1,992,609 and \$5,516,335, respectively.

A summary of the status of the Company’s non-vested stock options for the nine months ended March 31, 2007, is presented below:

	Shares	Weighted-Average Grant Date Fair Value
Non-vested at July 1, 2006	132,334	\$11.24
Granted	108,100	\$13.79
Vested	(91,167)	\$11.62
Forfeited	(10,833)	\$10.93
Non-vested at March 31, 2007	<u>138,434</u>	<u>\$13.00</u>

For the three months ended March 31, 2007 and 2006, we recorded non-cash compensation expense associated with stock options of \$178,883 and \$253,657, respectively. For the nine months ended March 31, 2007 and 2006, we recorded non-cash compensation expense associated with stock options of \$827,395 and \$862,705. As of March 31, 2007, there was \$1,287,440 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 1.9 years. The total fair value of shares vested during the three months ended March 31, 2007, and 2006, was \$0. The total fair value of shares vested during the nine months ended March 31, 2007, and 2006 was \$1,059,748 and \$503,472, respectively.

Other Stock-Based Compensation

On November 7, 2006, officers and certain employees were granted 36,000 shares of restricted common stock that can be earned only if either one of two defined multi-year performance goals is 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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

to certain performance measures being met and can be based on an interim earn out of 25%, 50%, 75% or 100%. The defined performance goals are tied to two different performance measures: (1) growth of free cash flow per share on a trailing twelve month basis; and (2) growth of royalty ounces in reserve on an annual basis.

A summary of the status of the Company’s non-vested Performance Shares for the nine months ended March 31, 2007, 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	36,000	\$28.78
Vested	—	\$ —
Forfeited	<u>(5,625)</u>	\$19.53
Non-vested at March 31, 2007	<u>71,875</u>	\$23.97

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 vest based on the market price of our common stock on the date of grant. Interim recognition of compensation expense will be made at such time as management can reasonably estimate the number of shares that will vest. As of March 31, 2007, our estimates indicated that it is probable that approximately 87% of our non-vested Performance Shares will vest. For the three and nine months ended March 31, 2007, we recorded non-cash stock compensation expense associated with our Performance Shares of \$219,037 and \$601,133, respectively. For the three and nine months ended March 31, 2006, we recorded non-cash stock compensation expense associated with our Performance Shares of \$343,578 and \$817,207, respectively. As of March 31, 2007, total unrecognized non-cash stock compensation expense related to our Performance Shares is \$589,938, which is expected to be recognized over the next 1.25 years, the period over which it is probable that the performance goals will be attained.

On November 7, 2006, officers and certain employees were granted 56,000 shares of restricted common stock, which vest by continued service alone (“Restricted Stock”). Restricted Stock awards granted to officers and certain employees vest over three years beginning 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. On November 8, 2006, our non-executive directors were granted 7,500 shares of Restricted Stock. The non-executive directors’ shares of Restricted Stock vest as to 50% immediately and 50% one year after the date of grant. Shares of Restricted Stock represent issued and outstanding shares of common stock, with dividend and voting rights. We measure the fair value of the Restricted Stock based upon the market price of our common stock as of the date of grant. Restricted Stock is amortized over the applicable vesting period using the straight-line method. Unvested shares of Restricted Stock are subject to forfeiture upon termination of employment with the Company.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

A summary of the status of the Company's non-vested Restricted Stock for the nine months ended March 31, 2007, is presented below:

	Shares	Weighted-Average Grant Date Fair Value
Non-vested at July 1, 2006	77,250	\$20.60
Granted	63,500	\$28.83
Vested	(7,500)	\$26.41
Forfeited	(16,250)	\$20.36
Non-vested at March 31, 2007	<u>117,000</u>	\$24.73

For the three months ended March 31, 2007, and 2006, we recorded non-cash stock compensation expense associated with the Restricted Stock of \$4,312 and \$98,523, respectively. For the nine months ended March 31, 2007, and 2006, we recorded non-cash stock compensation associated with the Restricted Stock of \$296,225 and \$328,672. As of March 31, 2007, total unrecognized non-cash stock compensation expense related to Restricted Stock was \$2,402,783, which is expected to be recognized over the remaining weighted average vesting period of 2.6 years.

Stock Issuances

During the three months March 31, 2007, options to purchase 7,567 shares were exercised, resulting in proceeds of \$181,272. During the nine months ended March 31, 2007, options to purchase 27,567 shares were exercised, resulting in proceeds of \$463,774. During the three months ended March 31, 2006, options to purchase 79,236 shares were exercised, resulting in proceeds of \$854,505. During the nine months ended March 31, 2006, options to purchase 271,797 shares were exercised, resulting in proceeds of \$3,809,158.

As discussed in Note 2, on January 24, 2007, we issued 577,434 shares of our common stock as part of the Peñasquito royalty acquisition.

In September 2005, we sold 2,227,912 shares of our common stock in an underwritten public offering, at a price of \$26.00 per share, resulting in proceeds of approximately \$54.7 million, which is net of the underwriters' discount of \$2.9 million and estimated transaction costs of approximately \$327,000. The net proceeds in this equity offering have been used to fund the acquisition and financing of additional royalty interests and for general corporate purposes. Please refer to Note 13 for information on the Company's equity offering completed in April 2007.

8. EARNINGS PER SHARE ("EPS") COMPUTATION

	For The Three Months Ended March 31, 2007		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Basic EPS			
Income available to common stockholders	\$3,438,615	24,042,235	\$ 0.14
Effect of dilutive securities		222,019	
Diluted EPS	<u>\$3,438,615</u>	<u>24,264,254</u>	<u>\$ 0.14</u>

Options to purchase 1,600 shares of common stock, at a purchase price of \$32.40 per share, were outstanding at March 31, 2007, but were not included in the computation of diluted EPS because the



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

exercise price of these options was greater than the average market price of the common shares for the period.

	For The Three Months Ended March 31, 2006		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Basic EPS			
Income available to common stockholders	\$1,819,139	23,522,539	\$ 0.08
Effect of dilutive securities		288,159	
Diluted EPS	<u>\$1,819,139</u>	<u>23,810,698</u>	<u>\$ 0.08</u>

As of March 31, 2006, all outstanding stock-based compensation awards were included in the computation of diluted EPS because the exercise price of all the options was less than the average market price of the common shares for the period.

	For The Nine Months Ended March 31, 2007		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Basic EPS			
Income available to common stockholders	\$14,034,404	23,653,946	\$ 0.59
Effect of dilutive securities		235,987	
Diluted EPS	<u>\$14,034,404</u>	<u>23,889,933</u>	<u>\$ 0.59</u>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

Options to purchase 1,600 shares of common stock, at a purchase price of \$32.40 per share, were outstanding at March 31, 2007, 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.

	For The Nine Months Ended March 31, 2006		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount
<b>Basic EPS</b>			
Income available to common stockholders	\$7,783,865	22,635,447	\$ 0.34
Effect of dilutive securities		274,029	
Diluted EPS	<u>\$7,783,865</u>	<u>22,909,476</u>	<u>\$ 0.34</u>

As of March 31, 2006, all outstanding stock-based compensation awards were included in the computation of diluted EPS because the exercise price of all the options was less than the average market price of the common stock for the period.

**9. INCOME TAXES**

For the three months ended March 31, 2007, we recorded current and deferred tax expense of \$1,685,765 compared with \$677,593 during the three months ended March 31, 2006. Our effective tax rate for the three months ended March 31, 2007, was 32.9%, compared with 27.1% for the three months ended March 31, 2006. The increase in our effective tax between periods was the result of a decrease in percentage depletion attributable to maturing royalty interests in mineral properties.

For the nine months ended March 31, 2007, we recognized current and deferred tax expense totaling \$6,643,936 compared with \$3,410,240 during the nine months ended March 31, 2006. This resulted in an effective tax rate of 32.1% in the current period compared with 30.5% in the prior period. The increase in our effective tax rate is the result of 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.

**10. 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 had funded approximately \$33.6 million as of March 31, 2007. During April 2007, we funded an additional \$1.0 million to the Taparko Project, resulting in total funding by us of approximately \$34.6 million as of April 30, 2007. Our final funding of the Taparko Project, in the amount of \$400,000, will be made upon the first gold pour, which is estimated to occur during the third quarter of calendar 2007. 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) in the third quarter of calendar 2007. Our royalties are subject to completion of our funding commitment.

Under a separate Contribution Agreement, High River is responsible for contributing additional equity contributions for any cost overruns incurred during the construction and construction warranty periods. If

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

High River is unable to make the required equity contributions, we have 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 a proportional amount to any additional funding compared with our original \$35 million funding commitment. As of April 30, 2007, 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 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 elected to exercise this option in April 2006. 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 March 31, 2007, we had funded \$256,404 of the additional \$600,000 option. As of April 30, 2007, we have funded \$506,404 of the \$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 March 31, 2007, 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 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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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.

### 11. RELATED PARTY

Crescent Valley Partners, L.P. ("CVP") was formed as a limited partnership in April 1992. It owns a 1.25% net value royalty on production of minerals from a portion of the Pipeline Mining Complex. Denver Mining Finance Company, our wholly-owned subsidiary, is the general partner and holds a 2% interest in CVP. In addition, Royal Gold holds a 29.6% limited partner interest in the partnership, while our Executive Chairman, the Chairman of our Audit Committee and two other members of our board of directors hold an aggregate 41.69% limited partner interest. The general partner performs administrative services for CVP in receiving and processing the royalty payments received from the operator, including the disbursement of royalty payments and record keeping for in-kind distributions to the limited partners, including our directors and Executive Chairman.

CVP receives its royalty from the Cortez Joint Venture in-kind. The Company, as well as certain other limited partners, sell their pro-rata shares of such gold immediately and receive distributions in cash, while CVP holds gold for certain other limited partners. Such gold inventories, which totaled 27,030 and 25,262 ounces of gold as of March 31, 2007, and June 30, 2006, respectively, are held by a third party refinery in Utah for the account of the limited partners of CVP. The inventories are carried at historical cost and are classified as *Inventory — restricted* on the consolidated balance sheets. The carrying value of the gold in inventory was \$10,490,330 as of March 31, 2007, while the fair value of such ounces was \$17,887,103 as of March 31, 2007. None of the gold currently held in inventory is attributed to Royal Gold, as the gold allocated to Royal Gold is typically sold within five days of receipt.

### 12. STAFF ACCOUNTING BULLETIN NO. 108

In September 2006, the SEC issued SAB 108. The Company elected early application of SAB 108 during its third quarter ended March 31, 2007, with effect from July 1, 2006. Prior to SAB 108, there have been two widely-recognized methods for quantifying the effects of financial statement misstatements: the "roll-over" method and the "iron curtain" method. The roll-over method focuses primarily on the impact of a misstatement on the income statement – including the reversing effect of prior year misstatements – but its use can lead to the accumulation of misstatements in the balance sheet. The iron-curtain method, on the other hand, focuses primarily on the effect of correcting the period-end balance sheet with less emphasis on the reversing effects of prior year misstatements on the income statement. Prior to our application of the guidance in SAB 108, we used the roll-over method for quantifying financial statement misstatements.

SAB 108 permits existing public companies to initially apply its provisions by either (i) restating prior financial statements as if the "dual approach" had always been applied or (ii) recording the cumulative effect of initially applying the "dual approach" as adjustments to the carrying value of assets and liabilities with an offsetting adjustment to the opening balance of retained earnings. The Company has elected to record the effects of applying SAB 108 as an adjustment to the carrying value of assets and liabilities, however, due to the nature of such adjustments (described below), no offsetting adjustment was necessary to the Company's beginning of the year retained earnings.

In accordance with SAB 108, the Company has adjusted its opening carrying value of certain of its assets and liabilities as of July 1, 2006, and its financial results for the first two quarters of fiscal 2007 for

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

the error described below. Using its pre-SAB 108 methodology for assessing misstatements, the Company has determined that the effect of such error on any previously issued financial statement was not material.

**Consolidation of CVP**

CVP was formed as a limited partnership in April of 1992. It owns a 1.25% net value royalty on production of minerals from a portion of the Pipeline Mining Complex. Denver Mining Finance Company, our wholly-owned subsidiary, is the general partner and holds a 2% interest in the partnership. In addition, we hold a 29.6% limited partner interest in the partnership, while our Executive Chairman, the Chairman of our Audit Committee and two other members of our board of directors hold an aggregate 41.69% limited partner interest.

Historically, the Company recorded its proportional interest (31.6%) in CVP's assets, liabilities, revenues and expenses pursuant to Emerging Issues Task Force 00-1: *Investor Balance Sheet and Income Statement under the Equity Method for Investments in Certain Partnerships and Other Ventures*.

In connection with the preparation of its financial statements for the quarter ended March 31, 2007, the Company determined that due to the legal structure of CVP and certain related factors, CVP should have been fully consolidated, effective December 31, 2003, pursuant to the guidance of FASB Interpretation No. 46 *Consolidation of Variable Interest Entities* (as revised, "FIN 46R"), rather than consolidated based on the Company's proportional interest in CVP. On a fully consolidated basis, all of the assets, liabilities, revenues and expenses of CVP would have been reflected in the Company's consolidated financial statements, including a minority interest equivalent to the net assets of CVP representing the ownership share of royalty interests in mineral properties and inventory held for others. Fully consolidating CVP would not have changed the Company's proportionate share of earnings from CVP, nor would it have changed the Company's consolidated earnings or shareholders' equity for any previous periods.

As indicated above, the Company determined that the effect of proportionately, rather than fully, consolidating CVP was not material to any previously issued financial statements based on the Company's pre-SAB 108 methodology. However, the cumulative effect of correcting the error in the quarter ended March 31, 2007, would be material to that quarter as well as to the estimated results of operations for fiscal 2007. As such, the Company has elected to apply the transition provisions of SAB 108 by adjusting the opening carrying value of the following assets and liabilities for fiscal 2007:

	June 30, 2006 Reported Balance	SAB 108 Adjustment	Adjusted July 1, 2006 Balance
Royalty interests in mineral properties, net	\$ 84,589,569	\$ 97,599	\$ 84,687,168
Inventory - restricted (Note 11)	\$ —	\$ 9,373,881	\$ 9,373,881
Total assets	\$172,259,821	\$9,471,480	\$181,731,301
Total liabilities	\$ 10,600,172	\$ —	\$ 10,600,172
Minority interest in subsidiary	\$ —	\$9,471,480	\$ 9,471,480
Total stockholders' equity	\$161,659,649	\$ —	\$161,659,649
Total liabilities and stockholders' equity	\$172,259,821	\$9,471,480	\$181,731,301

As indicated above, the adoption of SAB 108 had no impact on the Company's retained earnings. Accordingly, no adjustment was necessary to record the cumulative effect on the opening balance of retained earnings at July 1, 2006.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

The aggregate impact of the retroactive adoption of SAB 108 effective July 1, 2006 on each of the first two quarters, as well as the first six months of fiscal 2007 is presented below:

As of and for the Three Months Ended September 30, 2006	Previously Reported	SAB 108 Adjustment	As Adjusted
Royalty interests in mineral properties, net	\$ 95,178,745	\$ 94,902	\$ 95,273,674
Inventory – restricted (Note 11)	\$ —	\$ 9,556,730	\$ 9,556,730
Total assets	\$179,128,821	\$9,651,632	\$188,780,453
Total liabilities	\$ 13,318,146	\$ —	\$ 13,318,146
Minority interest in subsidiary	\$ —	\$ 9,651,632	\$ 9,651,632
Total stockholders' equity	\$165,810,675	\$ —	\$165,810,675
Total liabilities and stockholders' equity	\$179,128,821	\$9,651,632	\$188,780,453
Royalty revenue	\$ 9,745,793	\$ 182,849	\$ 9,928,642
Cost of operations	\$ 658,517	\$ 9,142	\$ 667,659
Depreciation, depletion and amortization	\$ 1,072,215	\$ 2,697	\$ 1,074,912
Income before income taxes and minority interest	\$ 7,367,735	\$ 171,009	\$ 7,538,744
Minority interest in income of consolidated subsidiaries	\$ —	\$ (171,009)	\$ (171,009)
Net income	\$ 4,960,137	\$ —	\$ 4,960,137

As of and for the Three Months Ended December 31, 2006	Previously Reported	SAB 108 Adjustment	As Adjusted
Royalty interests in mineral properties, net	\$ 99,701,698	\$ 86,429	\$ 99,788,127
Inventory – restricted (Note 11)	\$ —	\$10,112,602	\$ 10,112,602
Total assets	\$183,391,683	\$10,199,032	\$193,590,715
Total liabilities	\$ 12,414,688	\$ —	\$ 12,414,688
Minority interest in subsidiary	\$ —	\$10,199,032	\$ 10,199,032
Total stockholders' equity	\$170,976,995	\$ —	\$170,976,995
Total liabilities and stockholders' equity	\$183,391,683	\$10,199,032	\$193,590,715
Royalty revenue	\$ 12,279,677	\$ 575,612	\$ 12,855,289
Cost of operations	\$ 872,070	\$ 28,395	\$ 900,465
Depreciation, depletion and amortization	\$ 2,105,475	\$ 8,473	\$ 2,113,948
Income before income taxes and minority interest	\$ 8,186,225	\$ 538,745	\$ 8,724,970
Minority interest in income of consolidated subsidiaries	\$ —	\$ (538,745)	\$ (538,745)
Net income	\$ 5,635,652	\$ —	\$ 5,635,652

As of and for the Six Months Ended December 31, 2006	Previously Reported	SAB 108 Adjustment	As Adjusted
Royalty interests in mineral properties, net	\$ 99,701,698	\$ 86,429	\$ 99,788,127
Inventory – restricted (Note 11)	\$ —	\$10,112,602	\$ 10,112,602
Total assets	\$183,391,683	\$10,199,032	\$193,590,715
Total liabilities	\$ 12,414,688	\$ —	\$ 12,414,688
Minority interest in subsidiary	\$ —	\$10,199,032	\$ 10,199,032
Total stockholders' equity	\$170,976,995	\$ —	\$170,976,995
Total liabilities and stockholders' equity	\$183,391,683	\$10,199,032	\$193,590,715
Royalty revenue	\$ 22,025,470	\$ 758,461	\$ 22,783,931
Cost of operations	\$ 1,530,587	\$ 37,537	\$ 1,568,124
Depreciation, depletion and amortization	\$ 3,177,691	\$ 11,170	\$ 3,188,861
Income before income taxes and minority interest	\$ 15,553,960	\$ 709,754	\$ 16,263,714
Minority interest in income of consolidated subsidiaries	\$ —	\$ (709,754)	\$ (709,754)
Net income	\$ 10,595,789	\$ —	\$ 10,595,789

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

The Company does not believe, based on its pre-SAB 108 methodology, that the effect of proportionately, rather than fully, consolidating CVP was material in any of the periods since December 31, 2003, the effective date of FIN 46R to the Company. In reaching that determination, the Company considered the following incremental adjustments to our reported annual financial statements, for fiscal years 2004, 2005 and 2006 and the quarterly financial statements for first three quarters of fiscal 2006, which would result from the full consolidation of CVP:

	Fiscal Year Ended June 30, 2004	Fiscal Year Ended June 30, 2005	Fiscal Year Ended June 30, 2006
Royalty interests in mineral properties, net	\$ 172,144	\$ 118,206	\$ 97,599
Inventory – restricted (Note 11)	\$ 6,798,669	\$ 8,943,156	\$ 9,373,881
Total assets	\$ 6,970,813	\$ 9,061,361	\$ 9,471,480
Total liabilities	\$ —	\$ —	\$ —
Minority interest in subsidiary	\$ 6,970,813	\$ 9,061,361	\$ 9,471,480
Total stockholders' equity	\$ —	\$ —	\$ —
Total liabilities and stockholders' equity	\$ 6,970,813	\$ 9,061,361	\$ 9,471,480
Royalty revenue	\$ 1,643,556	\$ 2,550,249	\$ 1,507,098
Cost of operations	\$ 77,984	\$ 124,315	\$ 59,274
Depreciation, depletion and amortization	\$ 35,674	\$ 53,939	\$ 20,606
Income before income taxes and minority interest	\$ 1,529,898	\$ 2,371,995	\$ 1,427,218
Minority interest in income of consolidated subsidiaries	\$(1,529,898)	\$(2,371,995)	\$(1,427,218)
Net income	\$ —	\$ —	\$ —

  

	Fiscal Quarter Ended September 30, 2005	Fiscal Quarter Ended December 31, 2005	Fiscal Quarter Ended March 31, 2006
Royalty revenue	\$ 457,351	\$ 370,103	\$ 218,129
Cost of operations	\$ 22,395	\$ 17,895	\$ 10,857
Depreciation, depletion and amortization	\$ 9,346	\$ 6,746	\$ 3,590
Income before income taxes and minority interest	\$ 425,609	\$ 345,462	\$ 203,681
Minority interest in income of consolidated subsidiaries	\$(425,609)	\$(345,462)	\$(203,681)
Net income	\$ —	\$ —	\$ —



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

13. SUBSEQUENT EVENTS

Proposed Acquisition of Battle Mountain Gold Exploration Corp.

On April 17, 2007, Royal Gold entered into an Agreement and Plan of Merger (the “Merger Agreement”) with Battle Mountain Gold Exploration Corp. (“Battle Mountain”) and Royal Battle Mountain, Inc. (“Merger Sub”), a newly-formed and wholly-owned subsidiary of Royal Gold, pursuant to which Merger Sub will be merged into Battle Mountain with Battle Mountain surviving as a wholly-owned subsidiary of Royal Gold.

Under the terms of the Merger Agreement, the consideration payable to Battle Mountain shareholders will depend on the average trading price of Royal Gold’s common stock for a period preceding the closing, and ranges from 1,634,410 Royal Gold shares, if Royal Gold’s stock price is \$29.00 or below, to 1,570,507 Royal Gold shares, if Royal Gold’s stock price is \$30.18 or above. A proportional adjustment will be made between these two trading prices. On a per share basis, Royal Gold will pay Battle Mountain shareholders between 0.0172 and 0.0179 shares of Royal Gold’s common stock. This consideration is also subject to a potential holdback of approximately 50,000 Royal Gold shares, or approximately 0.0006 Royal Gold shares on a per share basis, for contingent liabilities.

The closing of the Merger Agreement is subject to various closing conditions, including approval by the Battle Mountain shareholders, satisfactory completion of Royal Gold’s due diligence on Battle Mountain, receipt of regulatory approvals, settlement of the litigation giving rise to the contingent liabilities described above, and satisfaction of other customary conditions.

The Merger Agreement contains certain termination rights for both Royal Gold and Battle Mountain. If the Merger Agreement is terminated under certain specified circumstances, Battle Mountain will be required to pay Royal Gold up to \$3.5 million plus Royal Gold’s expenses incurred in the transaction. If the Merger Agreement is terminated under alternate specified circumstances, Royal Gold will be required to pay Battle Mountain up to \$1.0 million plus Battle Mountain’s expenses incurred in the transaction.

In connection with the proposed merger, on March 28, 2007, Royal Gold entered into a Bridge Finance Facility Agreement with Battle Mountain and its wholly-owned subsidiary BMGX (Barbados) Corporation, as borrowers, whereby Royal Gold has agreed to make available to the borrowers a bridge facility of up to \$20 million. Outstanding principal, interest and expenses under the bridge facility may be converted at Royal Gold’s option into Battle Mountain common stock, par value \$0.001, at a conversion price per share of \$0.60 any time during the term of the bridge facility. The maximum amount of availability under the bridge facility will be reduced to \$15 million in the event Battle Mountain does not acquire an identified royalty interest on or prior to April 14, 2007. As of April 14, 2007, Battle Mountain did not acquire the identified royalty interest; therefore, the amount available under the bridge facility was reduced to \$15 million. The bridge facility will mature March 28, 2008.

As of March 31, 2007, approximately \$13.91 million aggregate principal amount has been advanced to Battle Mountain under the bridge facility and is recorded as *Note receivable – Battle Mountain Gold Exploration* on the consolidated balance sheets of Royal Gold. Interest on advances under the bridge facility will accrue at the LIBOR Rate plus 3% per annum. Accrued interest on the \$13.91 million aggregate advanced under the bridge facility is recorded within *Note receivable—Battle Mountain Gold Exploration* on the consolidated balance sheets of Royal Gold as of March 31, 2007.

Equity Offering

In April 2007, we sold 4,000,000 shares of our common stock, at a price of \$29.25 per share, resulting in proceeds of approximately \$110.9 million, which is net of the underwriter’s discount of \$5.6 million and



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

estimated transaction costs of approximately \$500,000. A portion of the net proceeds in this equity offering were used to repay the outstanding balance under our revolving credit facility with HSBC Bank USA, National Association (“HSBC Bank”), as discussed in Note 5, while the remaining net proceeds are intended to be used to fund the acquisition and financing of additional royalty interests and for general corporate purposes.

The underwriters of this equity offering were granted an option to purchase up to 600,000 additional shares of our common stock to cover over-allotments. On May 3, 2007, the underwriters purchased an additional 400,064 shares of our common stock pursuant to their over-allotment option. The additional purchase to cover over-allotments will result in additional proceeds of approximately \$11.0 million, which is net of the underwriter’s discount of approximately \$656,000.

Revolving credit facility payable

As of April 30, 2007, the Company re-paid the outstanding \$60 million revolving credit facility principal balance, as discussed in Note 5, plus the related accrued interest as of March 31, 2007, to HSBC Bank. A portion of the April 2007 equity offering proceeds, as explained above, was used to re-pay the principal balance and accrued interest.

## 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 revenue or production from the project after deducting specified costs, if any.

We seek to acquire existing royalties or to finance projects that are in production or near production in exchange for royalty interests. We also fund exploration on properties thought to contain precious metals and seek to obtain royalties and other carried ownership interests in such properties through the subsequent transfer of operating interests to other mining companies. Substantially all of our revenues are and will be expected to be derived from royalty interests. We do not conduct mining operations at this time. During the quarter ended March 31, 2007, 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 March 31, 2007, the price of gold averaged \$650 per ounce compared with an average price of \$554 per ounce for the quarter ended March 31, 2006. Payments received from the recently acquired Robinson and Mulatos royalties, along with an increase in production at the Pipeline Mining Complex and Troy mine contributed to royalty revenue of \$11,208,556 during the quarter ended March 31, 2007, compared to royalty revenue of \$5,760,750 during the quarter ended March 31, 2006.

### Our Producing Royalty Interests

Our principal royalty interests are:

- *Pipeline Mining Complex* : 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 Cortez Inc., a subsidiary of Barrick Gold Corporation ("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 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 and South Pipeline deposits 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 (net of minority interest) on all production on the South Pipeline, Crossroads and some of the GAP deposit, but not covering the Pipeline deposit.
  - *Robinson* : A 3% NSR royalty on the Robinson mine, located in eastern Nevada and operated by a subsidiary of Quadra Mining Ltd. (“Quadra”);
  - *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 a subsidiary of Barrick;
  - *Leeville Mining Complex* : We hold a 1.8% carried working interest, equal to a 1.8% NSR royalty, on the majority of the Leeville Mining Complex, which includes both the Leeville South and Leeville North underground mines, located in Nevada and operated by a subsidiary of Newmont Mining Corporation (“Newmont”);
  - *Troy* : Two royalty interests in the Troy underground silver and copper mine, operated by a subsidiary of Revett Minerals Inc. (“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;
  - *Bald Mountain* : A 1.75%-3.5% sliding-scale NSR royalty interest that covers a portion of the Bald Mountain mine in Nevada, operated by a subsidiary of Barrick;
  - *Mulatos* : A sliding-scale NSR royalty on the Mulatos mine, located in Sonora, Mexico, and operated by a subsidiary of Alamos Gold Inc. (“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; and
  - *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 a subsidiary of Coeur d’Alene Mines Corporation (“Coeur d’Alene”).
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### **Our Development Stage Royalty Interests**

We also own the following royalty interests that are currently in development stage and are not yet in production:

- *Taparko* : Subject to completion of our funding commitment, we hold four royalty interests on the Taparko Project, located in Burkina Faso and operated by Societe des Mines de Taparko (“Somita”), a subsidiary of High River Gold Mines Ltd. (“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;
  - 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.

Receipt of royalty revenue on the Taparko Project is anticipated to commence in the third quarter of calendar 2007.

- *Peñasquito and Pascua-Lama* : In January 2007, we acquired the Peñasquito royalty and on March 9, 2007, we acquired the Pascua-Lama royalty. For a discussion of the Peñasquito and Pascua-Lama acquisitions, see “Recent Developments – Royalty Acquisitions – *Peñasquito* ” and “— *Pascua-Lama* ” below for further information.
- *Gold Hill* : Unpatented mining claims and a sliding-scale NSR royalty on the Gold Hill deposit, located in Nye County, Nevada. The sliding-scale ranges from 1.0%, when the gold price is \$350 per ounce or less, to 2.0% when the gold price is above \$350 per ounce. Production on the Gold Hill deposit is expected to commence once permitting is completed and equipment from the Round Mountain pit becomes available. Please see “Recent Developments – Royalty Acquisitions – “ *Gold Hill* ” below for further information regarding the Gold Hill acquisition.

### **Operators’ Production Estimates by Royalty for Calendar 2007**

The following table shows estimates received from the operators of our producing mines during the first quarter of calendar 2007 indicating the production attributable to our royalty interests for calendar year 2007. The estimates are prepared by the operators of the mining properties. We do not participate in the preparation or verification of the operators’ estimates and have not independently assessed or verified the accuracy of such information. See Part II, Item IA, “Risk Factors – *Estimates of production by the operators of mines in which we have royalty interests are subject to change* ” of this Quarterly Report on Form 10-Q for further detail.

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Royalty	Operator	Metal	Calendar 2007 Production Estimate	Reported Production Through March 31, 2007 <sup>(2)</sup>
Pipeline GSR1	Barrick	Gold	478,543 oz.	106,925 oz.
Pipeline GSR2	Barrick	Gold	12,762 oz.	4,471 oz.
Pipeline GSR3	Barrick	Gold	491,305 oz.	106,925 oz.
Pipeline NVR1	Barrick	Gold	264,843 oz.	68,000 oz.
Robinson <sup>(1)</sup>	Quadra	Gold	68,058 oz.	31,238 oz.
SJ Claims	Barrick	Gold	799,160 oz.	279,300 oz.
Leeville	Newmont	Gold	337,000 oz.	49,464 oz.
Bald Mountain	Barrick	Gold	90,811 oz.	13,459 oz.
Mulatos	Alamos	Gold	150,397 oz.	26,759 oz.
Troy <sup>(1)</sup>	Revett	Silver	2.0 million oz.	302,173 oz.
Martha	Coeur d'Alene	Silver	2.7 million oz.	700,060 oz.
Troy <sup>(1)</sup>	Revett	Copper	15.9 million lbs.	2.9 million lbs.
Robinson <sup>(1)</sup>	Quadra	Copper	136.3 million lbs.	40.5 million lbs.

<sup>(1)</sup> Recovered metal contained in concentrate.

<sup>(2)</sup> Reported production relates to the amount of metal sales, subject to our royalty interests, through March 31, 2007, as reported to us by the operators of the mines.

In addition, receipt of royalty revenue at the Taparko project is scheduled to commence in the third calendar quarter of 2007. High River estimates that calendar year 2007 gold production will be approximately 62,000 ounces.

## Recent Developments

### Royalty Acquisitions

#### *Pascua-Lama*

On March 9, 2007, we, through a newly-formed, wholly-owned Chilean subsidiary, Royal Gold Chile Limitada ("RGCL"), acquired an NSR sliding-scale royalty on gold which is derived from certain mineral concessions at the Pascua-Lama project located in Chile for \$20.5 million. Barrick, through its subsidiaries, owns the Pascua-Lama project, and is targeting production to commence in calendar year 2010. The acquisition also includes an NSR royalty on copper from reserves located in Chile sold after January 1, 2017.

The NSR sliding-scale royalty ranges from 0.16%, when the average quarterly gold price is \$325 per ounce or less, to 1.08%, when the average quarterly gold price is \$800 per ounce or more. The acquisition also includes a 0.22% fixed-rate copper royalty that applies to 100% of the Pascua-Lama copper reserves in Chile but does not take effect until after January 1, 2017.

#### *Peñasquito*

On January 23, 2007, we acquired a 2.0% NSR royalty interest on the Peñasquito project located in the State of Zacatecas, Mexico, from Kennecott Exploration Company, a Delaware corporation, and Minera Kennecott S.A. de C.V., a company incorporated under the laws of Mexico for \$80 million in cash and 577,434 shares of our common stock. We also obtained the right to acquire any or all of a group of NSR royalties ranging from 1.0% to 2.0% on various other concessions in the same region. On April 27, 2007, we notified Kennecott Exploration Company of our intention to acquire the royalties on certain of these concessions. No additional consideration was paid upon notification. Our right to acquire the remaining royalties expired on May 1, 2007.

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The Peñasquito project is composed of two main deposits called Peñasco and Chile Colorado and is under development by a subsidiary of Goldcorp Inc. (“Goldcorp”). The Peñasquito project hosts one of the world’s largest silver, gold and zinc reserves while also containing large lead reserves. The Peñasquito project is not currently in production and according to the feasibility study completed on July 31, 2006 (filed with the Canadian Securities Administrators by Glamis Gold Ltd. and available at [www.sedar.com](http://www.sedar.com)), the mine life is anticipated to last approximately 17 years. The feasibility study also anticipates initial mine start-up in late calendar 2008 with full production being reached in calendar 2012.

### *Gold Hill*

On December 8, 2006, Royal Gold paid \$3.3 million to Nevada Star Resource Corp. in exchange for a sliding-scale NSR royalty and certain unpatented mining claims on the Gold Hill deposit. The NSR sliding-scale 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. The Gold Hill deposit, located just north of the Round Mountain gold mine in Nye County, Nevada, is controlled by Round Mountain Gold Corporation, a joint venture between subsidiaries of Kinross Gold Corporation, the operator, and Barrick. Production on the Gold Hill deposit is expected to commence once permitting is completed and equipment from the Round Mountain pit becomes available.

### Other developments

#### *Proposed Acquisition of Battle Mountain Gold Exploration Corp.*

On April 17, 2007, Royal Gold entered into an Agreement and Plan of Merger (the “Merger Agreement”) with Battle Mountain Gold Exploration Corp. (“Battle Mountain”) and Royal Battle Mountain, Inc. (“Merger Sub”), a newly-formed and wholly-owned subsidiary of Royal Gold, pursuant to which Merger Sub will be merged into Battle Mountain with Battle Mountain surviving as a wholly-owned subsidiary of Royal Gold.

Under the terms of the Merger Agreement, the consideration payable to Battle Mountain shareholders will depend on the average trading price of Royal Gold’s common stock for a period preceding the closing, and ranges from 1,634,410 Royal Gold shares, if Royal Gold’s stock price is \$29.00 or below, to 1,570,507 Royal Gold shares, if Royal Gold’s stock price is \$30.18 or above. A proportional adjustment will be made between these two trading prices. On a per share basis, Royal Gold will pay Battle Mountain shareholders between 0.0172 and 0.0179 shares of Royal Gold’s common stock. This consideration is also subject to a potential holdback of approximately 50,000 Royal Gold shares, or approximately 0.0006 Royal Gold shares on a per share basis, for contingent liabilities.

The closing of the Merger Agreement is subject to various closing conditions, including approval by the Battle Mountain shareholders, satisfactory completion of Royal Gold’s due diligence on Battle Mountain, receipt of regulatory approvals, settlement of the litigation giving rise to the contingent liabilities described above, and satisfaction of other customary conditions.

The Merger Agreement contains certain termination rights for both Royal Gold and Battle Mountain. If the Merger Agreement is terminated under certain specified circumstances, Battle Mountain will be required to pay Royal Gold up to \$3.5 million plus Royal Gold’s expenses incurred in the transaction. If the Merger Agreement is terminated under alternate specified circumstances, Royal Gold will be required to pay Battle Mountain up to \$1.0 million plus Battle Mountain’s expenses incurred in the transaction.

In connection with the proposed merger, on March 6, 2007, Royal Gold obtained a support agreement and option to purchase from Mark Kucher, Chairman of Battle Mountain, and IAMGOLD Corporation their respective shares of common stock of Battle Mountain. These support agreements also provide that Mr. Kucher and IAMGOLD Corporation will vote for and support the merger. The shares subject to these support agreements and options represent approximately 39.9% of the outstanding shares of Battle Mountain. On March 30, 2007, Royal Gold and Battle Mountain entered into a Voting Limitation Agreement pursuant to which Royal Gold has agreed that, during a specified time period, but generally, if a superior bona fide acquisition proposal is made for Battle Mountain, Royal Gold will not vote more than 39.9% of the total number of shares of Battle Mountain common stock entitled to vote in favor of the proposed Merger or in opposition to such competing transaction.

In connection with the proposed merger, on March 28, 2007, Royal Gold entered into a Bridge Finance Facility Agreement with Battle Mountain and its wholly-owned subsidiary BMGX (Barbados) Corporation, as borrowers, whereby Royal Gold has agreed to make available to the borrowers a bridge facility of up to \$20 million. Outstanding principal, interest and expenses under the bridge facility may

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be converted at Royal Gold's option into Battle Mountain common stock, par value \$0.001, at a conversion price per share of \$0.60 any time during the term of the bridge facility. The maximum amount of availability under the bridge facility will be reduced to \$15 million in the event Battle Mountain does not acquire an identified royalty interest on or prior to April 14, 2007. As of April 14, 2007, Battle Mountain did not acquire the identified royalty interest; therefore, the amount available under the bridge facility was reduced to \$15 million. The bridge facility will mature March 28, 2008.

As of March 31, 2007, approximately \$13.91 million aggregate principal amount has been advanced to Battle Mountain under the bridge facility and is recorded as *Note receivable – Battle Mountain Gold Exploration* on the consolidated balance sheets of Royal Gold. Interest on advances under the bridge facility will accrue at the LIBOR Rate plus 3% per annum. Accrued interest on the \$13.91 million aggregate advanced under the bridge facility is recorded within *Note receivable – Battle Mountain Gold Exploration* on the consolidated balance sheets of Royal Gold as of March 31, 2007.

### *Internal Review of Stock Option Matters*

On December 12, 2006, a Wall Street Journal article raised the topic that certain officers of public companies, including the chairman of the Company, may have backdated the exercise of certain of their options based on the frequency of exercises occurring on dates with low trading prices during the month of exercise. Promptly after learning of the story, the chairman of the Company advised the board of directors' audit committee regarding the matter. The audit committee then initiated a voluntary review and retained independent counsel to assist in its review of stock option practices. On February 7, 2007, the independent counsel made its final report to the audit committee of its findings.

The principal findings of that report were as follows:

- The review of stock option exercise information covered the period from 1990 to 2002. The review found no evidence that the Company had a policy or sanctioned practice of permitting backdating of stock option exercise dates.
- Counsel was unable to conclude that intentional backdating of stock option exercise dates occurred, or to rule out the possibility that such intentional backdating did occur. Counsel found several instances in which two current officers and several former officers of the Company (and two instances in which a former outside director) exercised stock options on the day or days when the trading price for the Company's common stock during the month of exercise was lowest.
- Counsel found that the conduct of the current president and chief executive officer, chief financial officer, general counsel, and controller is not implicated in any way in the issues that were subject of the review.
- The review found no evidence that any current or former officer's conduct involved any effort to mislead investors, to inaccurately improve the financial results of the Company, or to obtain any personal benefit at the expense of the Company.
- Counsel also reviewed the Company's stock option grant procedures since 1990. The review found no evidence that the Company's stock option grant dates had been backdated.
- Counsel also found historical weaknesses in internal controls with respect to exercise of stock options and the stock option practices generally, but found that such historical weaknesses in internal controls have been remediated. Since 2002, internal controls regarding the Company's stock option practices have been substantially upgraded.

The Company has concluded that there is no tax or financial statement impact resulting from the review of its stock option exercise and grant practices.

**Results of Operations**

**Quarter Ended March 31, 2007, Compared to Quarter Ended March 31, 2006**

For the quarter ended March 31, 2007, we recorded net income of \$3,438,615, or \$0.14 per basic and diluted share, as compared to net earnings of \$1,819,139, or \$0.08 per basic and diluted share, for the quarter ended March 31, 2006.

For the quarter ended March 31, 2007, we received total royalty revenue of \$11,208,556, at an average gold price of \$650 per ounce, compared to royalty revenue of \$5,760,750, at an average gold price of \$554 per ounce for the quarter ended March 31, 2006. Royalty revenue and the corresponding production attributable to our royalty interests, for the quarter ended March 31, 2007, compared to the quarter ended March 31, 2006, is as follows:

**Royalty Revenue and Production Subject to Our Royalty Interests  
Quarter Ended March 31, 2007 and 2006**

Royalty	Metal(s)	Quarter Ended March 31, 2007		Quarter Ended March 31, 2006	
		Royalty Revenue	Reported Production <sup>(2)</sup>	Royalty Revenue	Reported Production <sup>(2)</sup>
Pipeline	Gold	\$ 4,863,019	111,396 oz.	\$ 3,197,056	98,802 oz.
SJ Claims	Gold	\$ 1,633,572	279,300 oz.	\$ 1,306,259	261,602 oz.
Leeville	Gold	\$ 620,871	49,464 oz.	\$ 251,997	25,582 oz.
Bald Mountain	Gold	\$ 110,084	13,459 oz.	\$ 427,889	35,297 oz.
Robinson <sup>(1)</sup>		\$ 2,714,966		\$ N/A	
	Gold		31,238 oz.		N/A
	Copper		40.5 million lbs.		N/A
Multos <sup>(1)</sup>	Gold	\$ 266,111	26,759 oz.		N/A
Troy		\$ 820,158		\$ 432,362	
	Silver		302,173 oz.		225,580 oz.
	Copper		2.9 million lbs.		1.8 million lbs.
Martha	Silver	\$ 179,775	700,060 oz.	\$ 145,187	749,158 oz.
	<b>Total Revenue</b>	<b>\$ 11,208,556</b>		<b>\$ 5,760,750</b>	

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

<sup>(2)</sup> Reported production relates to the amount of metal sales, subject to our royalty interests, for the three months ended March 31, 2007, as reported to us by the operators of the mines.

The increase in royalty revenue for the quarter ended March 31, 2007, compared with the quarter ended March 31, 2006, primarily resulted from an increase in metal prices, increased production at the Pipeline Mining Complex and Troy mine, and payments from the recently acquired Robinson and Multos royalties. The consolidation of CVP contributed \$377,728 to royalty revenue during the three months ended March 31, 2007, \$353,519 of which is eliminated from income as minority interest in income of consolidated subsidiary. See Note 12 to the consolidated financial statements for further information.

Cost of operations increased to \$711,765 for the quarter ended March 31, 2007, compared to \$475,682 for the quarter ended March 31, 2006. 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 the Pipeline Mining Complex, Leeville Mining Complex and the recently acquired Robinson royalty.

General and administrative expenses increased to \$1,565,296 for the quarter ended March 31, 2007, compared to \$1,325,572 for the quarter ended March 31, 2006. The increase was due to an increase in



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legal and accounting fees of approximately \$226,000, primarily due to the internal review of stock option matters conducted during the quarter by the Company.

Exploration and business development expenses decreased to \$679,229 for the quarter ended March 31, 2007, compared to \$1,210,452 for the quarter ended March 31, 2006. The decrease was primarily due to a decrease in exploration costs of approximately \$263,000 and a decrease in consulting services associated with business development of approximately \$191,000.

Depreciation, depletion and amortization increased to \$2,561,551 for the quarter ended March 31, 2007, compared to \$1,006,467 for the quarter ended March 31, 2006. The increase was primarily due to additional depletion incurred of approximately \$740,000, as a result of the recent Robinson and Mulatos royalty acquisitions. Increased production and an increase in depletion rates for our Leeville Mining Complex and Troy mine royalties resulted in additional depletion of approximately \$721,000 over the prior period.

As discussed in Note 7 in the accompanying Notes to Consolidated Financial Statements, the Financial Accounting Standards Board (“FASB”) issued FASB Statement No. 123 (revised 2004), *Share-Based Payment* (“SFAS 123(R)”). SFAS 123(R) requires all share-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), the Company recorded total non-cash stock compensation expense related to our equity compensation plans of \$402,232 for the quarter ended March 31, 2007, compared to \$695,758 for the quarter ended March 31, 2006. Our non-cash stock compensation 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 expenses, and exploration and business development expenses for the quarter ended March 31, 2007, was \$47,916, \$240,623 and \$113,693, respectively, compared with \$103,097, \$337,237 and \$255,424, respectively, for the quarter ended March 31, 2006.

Interest and other income decreased to \$457,370 for the quarter ended March 31, 2007, compared to \$815,692 for the quarter ended March 31, 2006. The decrease is primarily due to a decrease in funds available for investing over the prior period.

Interest and other expense increased to \$670,186 for the quarter ended March 31, 2007, compared to \$61,537 for the quarter ended March 31, 2006. The increase is due to interest paid during the period for the outstanding revolving credit facility balance and the note payable to RGCL, as discussed below in “Capital and Liquidity Resources.”

For the three months ended March 31, 2007, we recorded current and deferred tax expense of \$1,685,765 compared with \$677,593 during the three months ended March 31, 2006. Our effective tax rate for the three months ended March 31, 2007, was 32.9%, compared with 27.1% for the three months ended March 31, 2006. The increase in our effective tax between periods was the result of a decrease in percentage depletion attributable to maturing royalty interests in mineral properties.

### Nine Months Ended March 31, 2007, Compared to Nine Months Ended March 31, 2006

For the nine months ended March 31, 2007, we recorded net income of \$14,034,404, or \$0.59 per basic and diluted share, as compared to net earnings of \$7,783,865, or \$0.34 per basic and diluted share, for the nine months ended March 31, 2006.

For the nine months ended March 31, 2007, we received total royalty revenue of \$33,992,487, at an average gold price of \$629 per ounce, compared to royalty revenue of \$20,163,677, at an average gold price of \$493 per ounce for the nine months ended March 31, 2006. Royalty revenue and the

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corresponding production attributable to our royalty interests, for the nine months ended March 31, 2007, compared to the nine months ended March 31, 2006, is as follows:

### Royalty Revenue and Production Subject to Our Royalty Interests Nine Months Ended March 31, 2007 and 2006

Royalty	Metal(s)	Nine Months Ended March 31, 2007		Nine Months Ended March 31, 2006	
		Royalty Revenue	Reported Production <sup>(2)</sup>	Royalty Revenue	Reported Production <sup>(2)</sup>
Pipeline	Gold	\$ 15,100,992	375,094 oz.	\$ 14,094,020	523,400 oz.
SJ Claims	Gold	\$ 3,990,397	704,568 oz.	\$ 3,415,633	763,199 oz.
Leeville	Gold	\$ 2,085,065	182,561 oz.	\$ 623,511	70,576 oz.
Bald Mountain	Gold	\$ 1,047,746	76,870 oz.	\$ 639,680	61,879 oz.
Robinson <sup>(1)</sup>		\$ 8,648,734		\$ N/A	
	Gold		56,996 oz.		N/A
	Copper		84.6 million lbs.		N/A
Mulatos <sup>(1)</sup>	Gold	\$ 695,522	73,062 oz.		N/A
Troy		\$ 1,840,434		\$ 1,081,666	
	Silver		673,680 oz.		661,033 oz.
	Copper		6.0 million lbs.		5.3 million lbs.
Martha	Silver	\$ 583,597	2.4 million oz.	\$ 309,167	1.8 million oz.
	Total Revenue	<u>\$ 33,992,487</u>		<u>\$ 20,163,677</u>	

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

(2) Reported production relates to the amount of metal sales, subject to our royalty interests, for the nine months ended March 31, 2007, as reported to us by the operators of the mines.

The increase in royalty revenue for the nine months ended March 31, 2007, compared with the nine months ended March 31, 2006, primarily resulted from an increase in metal prices, increased production at the Leeville Mining Complex, the Bald Mountain mine, and payments from the recently acquired Mulatos and Robinson royalties. The consolidation of Crescent Valley Partners, L.P. ("CVP") contributed \$1,136,189 to royalty revenue during the nine months ended March 31, 2007, \$1,063,272 of which is eliminated from income as minority interest in income of consolidated subsidiary. See Note 12 to the consolidated financial statements for further information.

Cost of operations increased to \$2,279,891 for the nine months ended March 31, 2007, compared to \$1,582,889 for the nine months ended March 31, 2006. 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 the Leeville Mining Complex, the Bald Mountain mine and the recently acquired Robinson royalty.

General and administrative expenses increased to \$4,231,217 for the nine months ended March 31, 2007, compared to \$3,933,077 for the nine months ended March 31, 2006. The increase was primarily due to an increase in legal and accounting fees as a result of the internal review of stock option matters during the period of approximately \$267,000.

Exploration and business development expenses decreased to \$1,570,400 for the nine months ended March 31, 2007, compared to \$2,671,702 for the nine months ended March 31, 2006. The decrease was primarily due to a decrease in exploration costs of approximately \$394,000, a decrease in non-cash compensation expense allocated to exploration and business development expense of approximately \$251,000 and a decrease in consulting services for business development of approximately \$325,000.

Depreciation, depletion and amortization increased to \$5,750,412 for the nine months ended March 31, 2007, compared to \$2,934,936 for the nine months ended March 31, 2006. The increase was

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primarily due to additional depletion incurred of approximately of \$1.6 million, as a result of the recent Robinson and Mulatos royalty acquisitions. Increased production and an increase in depletion rates for our Leeville Mining Complex and Troy mine royalties resulted in additional depletion of approximately \$1.4 million over the prior period.

In accordance with SFAS 123(R), the Company recorded total non-cash stock compensation expense related to our equity compensation plans of \$1,724,753 for the nine months ended March 31, 2007, compared to \$2,008,584 for the nine months ended March 31, 2006. Our non-cash stock compensation 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 expenses, and exploration and business development expenses for the nine months ended March 31, 2007, was \$221,785, \$1,082,055 and \$420,913, respectively, compared with \$259,761, \$1,078,265 and \$670,558, respectively, for the nine months ended March 31, 2006.

As of March 31, 2007, there was \$1,287,440, \$2,402,783, and \$589,938 of total unrecognized non-cash stock compensation expense related to our non-vested stock options, Restricted Stock and Performance Shares, respectively, granted under our equity compensation plan. We expect to recognize the non-cash compensation expense related to our non-vested stock options, Restricted Stock and Performance Shares over a period of 1.94 years, 2.6 years, and 1.25 years, respectively.

Interest and other income increased to \$2,382,926 for the nine months ended March 31, 2007, compared to \$2,269,347 for the nine months ended March 31, 2006. The increase is due to higher interest rates on our invested cash over the prior period.

Interest and other expense increased to \$801,881 for the nine months ended March 31, 2007, compared to \$116,315 for the nine months ended March 31, 2006. The increase is due to additional interest paid during the period for the outstanding revolving credit facility balance, as discussed below in "Capital and Liquidity Resources."

For the nine months ending March 31, 2007, we recognized current and deferred tax expense totaling \$6,643,936 compared with \$3,410,240 during the nine months ended March 31, 2006. This resulted in an effective tax rate of 32.1% in the current period compared with 30.5% in the prior period. The increase in our effective tax rate is the result of 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.

## Liquidity and Capital Resources

### Overview

At March 31, 2007, we had current assets of \$28.5 million compared to current liabilities of \$5.7 million for a current ratio of 5 to 1. This compares to current assets of \$84.7 million and current liabilities of \$3.3 million at June 30, 2006, resulting in a current ratio of approximately 26 to 1. The decrease in the current ratio is due primarily to a decrease in available cash of approximately \$59.3 million and an increase in our accounts payable of approximately \$2.6 million. Our available cash decreased during the period as a result of our acquisition of the Peñasquito royalty (cash consideration portion) for approximately \$80.6 million, including transaction costs; our acquisition of the Pascua-Lama royalty for approximately \$20.8 million, including transaction costs; our additional funding of the High River royalties of \$14.9 million; and our acquisition of the Gold Hill royalty for \$3.3 million. These payments were partially offset by cash received from royalty income of approximately \$25.2 million along with \$60 million received from our revolving credit facility takedowns during the period. Our accounts payable increased as a result of additional Nevada Net Proceeds Tax payable, which is due to an increase in royalty revenue from our Nevada properties during the period.

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During the nine months ended March 31, 2007, liquidity needs were met from \$32.5 million in royalty revenues (net of minority interest), \$60 million credit facility takedown, our available cash resources and interest and other income of \$2.4 million.

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.

### Recent Liquidity and Capital Resource Developments

#### *Equity Offering*

In April 2007, we sold 4,000,000 shares of our common stock, at a price of \$29.25 per share, resulting in proceeds of approximately \$110.9 million, which is net of the underwriter's discount of \$5.6 million and estimated transaction costs of approximately \$500,000. A portion of the net proceeds in this equity offering was used to repay the outstanding balance under our revolving credit facility with HSBC Bank USA, National Association ("HSBC Bank"), as discussed below in "— Recent Liquidity and Capital Resource Developments, *Amendment to HSBC Loan Agreement*," while the remaining net proceeds are intended to be used to fund the acquisition and financing of additional royalty interests and for general corporate purposes.

The underwriters of this equity offering were granted an option to purchase up to 600,000 additional shares of our common stock to cover over-allotments. On May 3, 2007, the underwriters purchased an additional 400,064 shares of our common stock pursuant to their over-allotment option. The additional purchase to cover over-allotments will result in additional proceeds of approximately \$11.0 million, which is net of the underwriter's discount of approximately \$656,000.

#### *Chilean Term Loan Agreement*

On March 1, 2007, RGCL, a wholly-owned subsidiary of Royal Gold, entered into a \$15.75 million term loan facility bearing interest at LIBOR plus 0.25% pursuant to a Term Loan Agreement between RGCL and HSBC Bank. Pursuant to the terms of the Term Loan Agreement, Royal Gold must maintain a restricted interest-bearing securities account (the "Collateral Account") at HSBC Securities (USA) Inc. with a balance equal to or in excess of the outstanding amounts on the \$15.75 million term loan. In connection with the Term Loan Agreement, Royal Gold entered into a Guarantee (the "Guarantee") for the benefit of HSBC Bank to guaranty RGCL's obligations under the Term Loan Agreement and a security agreement granting HSBC Bank a security interest in the Collateral Account to secure RGCL's obligations under the Term Loan Agreement and its obligations under the Guarantee. The loan will mature on March 1, 2012. The \$15.75 million balance in the Collateral Account as of March 31, 2007, is recorded as *Restricted cash-compensating balance* on the Company's consolidated balance sheets.

#### *Amendment to HSBC Loan Agreement*

On January 5, 2007, the Company and a wholly-owned subsidiary entered into the Second Amended and Restated Loan Agreement ("Amendment") with HSBC Bank USA, National Association ("HSBC Bank"). The Amendment increased our current revolving credit facility from \$30 million to \$80 million and extends the maturity date of the credit facility to December 31, 2010. The Company's borrowing base will be calculated based on our royalties and will be initially based on its GSR1, GSR3, and NVR1 royalties at the Pipeline Mining Complex and its SJ Claims, Leeville Mining Complex, Bald Mountain and Robinson royalties.

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The initial availability under the borrowing base was the full \$80 million under the credit facility. As of April 15, 2007, the total availability under the borrowing base was decreased to \$71.4 million. The Company and the wholly-owned subsidiary granted HSBC Bank security interests in the following: the Company's GSR1, GSR3, and NVR1 royalties at the Pipeline Mining Complex; the Company's SJ Claims, Leeville Mining Complex, Bald Mountain and Robinson royalties; and the Company's debt reserve account at HSBC Bank.

As of March 31, 2007, we had drawn \$60 million under the revolving credit facility primarily to complete the closing of the Peñasquito and Pascua-Lama royalty acquisitions, as discussed in Note 2 to the consolidated financial statements. As of March 31, 2007, the Company paid approximately \$511,000 in interest associated with outstanding credit facility. As of April 30, 2007, we have paid down the \$60 million outstanding under the credit facility and \$71.4 million remains available under the revolving credit facility.

### *Inventory-restricted*

None of the gold current held in inventory is attributed to Royal Gold, as the gold allocated to Royal Gold is typically sold with five days of receipt. Please see Note 11 to the consolidated financial statements for further discussion.

### *Note Receivable — Battle Mountain Gold Exploration*

On March 28, 2007, Royal Gold entered into a Bridge Finance Facility Agreement with Battle Mountain and its wholly-owned subsidiary BMGX (Barbados) Corporation, as borrowers, whereby Royal Gold has agreed to make available to the borrowers a bridge facility of up to \$20 million. As of March 31, 2007, approximately \$13.91 million aggregate principal amount has been advanced to Battle Mountain under the bridge facility and is recorded as *Note receivable — Battle Mountain Gold Exploration* on the consolidated balance sheets of Royal Gold. Please see "Recent Developments — Other developments — *Proposed Acquisition of Battle Mountain Gold Exploration Corp.*" within this MD&A for further information.

### *Dividend Increase*

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, quarterly dividends of \$0.065 per share were paid on January 19, 2007 and April 20, 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 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.

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 was issued in order to eliminate the diversity in practices surrounding how public companies quantify and evaluate the materiality of financial statement misstatements. SAB 108 provides that once a current year misstatement has been quantified, the guidance in Staff Accounting Bulletin 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. SAB 108 is effective for the first fiscal year ending after November 15, 2006. The Company elected early application of SAB 108 during its third quarter ending

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March 31, 2007. Please see Note 12 to the consolidated financial statements for further discussion of the effect of the Company's early application of SAB 108.

In February 2007, the FASB issued Statement No. 159, "*The Fair Value Option for Financial Assets and Financial Liabilities*", which allows entities to choose to measure many financial instruments and certain other items at fair value. Statement No. 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The Company is evaluating the impact, if any, the adoption of Statement No. 159 could have on our financial statements.

### 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. The words "believe," "estimate," "expect," "anticipate," and "project" and similar expressions are included to identify forward-looking statements. Such forward-looking statements include statements regarding projected production and reserve 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 and other metals prices;
- the performance of our other producing royalty properties;
- decisions and activities of the operators of our royalty properties;
- the ability of operators to bring projects into production and operate in accordance with feasibility studies;
- 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;
- economic and market conditions;
- future financial needs;
- foreign, federal or state legislation governing us or the operators;
- the availability of royalties for acquisition or other acquisition opportunities;
- our ability to make accurate assumptions regarding the valuation and timing and amount of royalty payments when making acquisitions;
- risks associated with conducting business in foreign countries, including application of foreign laws to contract and other disputes, environmental laws and enforcement and uncertain political and economic environments;

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- the ultimate additional liability, if any, to the State of California in connection with Casmalia matter; and
- future interpretations and complexity under FIN 46R and SAB 108 and related accounting rules and interpretations of such rules in relation to CVP.

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”). Future events and actual results could differ materially from those set forth in, contemplated by, or underlying the forward-looking statements. Most of these factors are beyond our ability to predict or control. Future events and actual results could differ materially from those set forth in, contemplated by, or underlying the forward-looking statements. 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 nine months ended March 31, 2007, we reported royalty revenues of \$34.0 million, with an average gold price for the period of \$629 per ounce. The Company’s GSR1 royalty, on the Pipeline Mining Complex, which produced approximately 44% 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 nine months ended March 31, 2007, 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 \$729,000. 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 March 31, 2007, concluded that our disclosure controls and procedures were effective for this purpose.

In coming to the conclusion that our disclosure controls and procedures were effective as of March 31, 2007, our management considered the control deficiency related to the periodic review of the application of generally accepted accounting principles, which resulted in an error related to the effect of proportionately, rather than fully, consolidating Crescent Valley Partners, L.P. (“CVP”) within our previously issued financial statements as disclosed in Note 12 to the consolidated financial statements included in this Quarterly Report on Form 10-Q. We reviewed and analyzed the Securities and Exchange Commission’s Staff Accounting Bulletin (“SAB”) No. 99, “Materiality,” Accounting Principles Board Opinion No. 28, “Interim Financial Reporting,” paragraph 29, SAB Topic 5 F, “Accounting Changes Not Retroactively Applied Due to Immateriality,” and SAB 108 “Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements” and took into consideration (i) that the adjustments to adopt SAB 108 did not have a material impact on the interim financial statements for the first and second quarters of fiscal 2007 taken as a whole; (ii) that the adjustments that would have been made to fully consolidate CVP had we restated prior annual periods or the interim periods for fiscal 2006 (had SAB 108 not been adopted) would not have had a material impact on the financial statements for any such periods taken as a whole, (iii) that there was no cumulative



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impact on retained earnings or shareholders' equity upon adoption of SAB 108, nor would there have been a cumulative impact on retained earnings, shareholders equity or net income for any interim or annual periods prior to the adoption of SAB 108; and (iv) that we decided to correct the error to our previously issued financial statements solely because the cumulative impact of fully consolidating CVP, if recorded in the current period, would have been material to the current quarter and estimated year's results. Based on the foregoing review and analysis, our management concluded that the control deficiency that resulted in the error, both individually and when aggregated with other deficiencies, did not constitute a material weakness.

### **Changes in Internal Controls**

During the fiscal quarter ended March 31, 2007, 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. In addition to the risk factors previously disclosed, we identify the following risks related to our business:

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

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

***Acquired royalty interests may not produce anticipated royalty revenues***

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

**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**

- 2.1 Agreement and Plan of Merger, dated April 17, 2007, among Battle Mountain Gold Exploration Corp., Royal Gold, Inc. and Royal Battle Mountain, Inc. (filed as Exhibit 2.1 to Royal Gold's Current Report on Form 8-K (File No. 001-13357) on April 18, 2007 and incorporated herein by reference)
- 10.1 Term Loan Agreement between Royal Gold Chile Limitada and HSBC Bank USA, National Association, dated as of March 1, 2007
- 10.2 Guaranty between Royal Gold, Inc. and HSBC Bank USA, National Association, dated as of March 1, 2007
- 10.3 Letter Agreement by Royal Gold, Inc. and accepted by Battle Mountain Gold Exploration Corp. dated as of February 28, 2007 (filed as Exhibit 99.3 to Royal Gold's Schedule 13D on March 15, 2007 and incorporated herein by reference)
- 10.4 Option and Support Agreement by and between Royal Gold, Inc. and Mark D. Kucher dated as of March 5, 2007 (filed as Exhibit 99.1 to Royal Gold's Schedule 13D on March 15, 2007 and incorporated herein by reference)
- 10.5 Option and Support Agreement by and between Royal Gold, Inc. and IAMGOLD Corporation dated as of March 5, 2007 (filed as Exhibit 99.2 to Royal Gold's Schedule 13D on March 15, 2007 and incorporated herein by reference)
- 10.6 Term Sheet by Royal Gold Inc. and accepted by Battle Mountain Gold Exploration Corp. dated as of February 28, 2007
- 10.7 Bridge Finance Facility Agreement among Battle Mountain Gold Exploration Corp. and BMGX (Barbados) Corporation as Royal Gold, Inc. dated March 28, 2007 (filed as Exhibit 99.1 to Royal Gold's Schedule 13D/A (Amendment No. 2) on April 2, 2007 and incorporated herein by reference)
- 10.8 Secured Promissory Note by Battle Mountain Gold Exploration Corp. and BMGX (Barbados) Corporation to Royal Gold, Inc. dated March 28, 2007 (filed as Exhibit 99.2 to Royal Gold's Schedule 13D/A (Amendment No. 2) on April 2, 2007 and incorporated herein by reference)
- 10.9 Voting Limitation Agreement by and between Royal Gold, Inc. and Battle Mountain Gold Exploration Corp. dated as of March 28, 2007 (filed as Exhibit 10.1 to Royal Gold's Current Report on Form 8-K (File No. 001-13357) on March 30, 2007 and incorporated herein by reference)
- 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 Form of Amended Code of Ethics (filed as Exhibit 99.1 to the Company's current Report on Form 8-K. (File No. 001-13357) on November 13, 2006, and incorporated herein by reference.)

**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: May 3, 2007

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

Date: May 3, 2007

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

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Exhibit No.	Description
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\$15,750,000

TERM LOAN AGREEMENT

dated as of

March 1, 2007

Between

ROYAL GOLD CHILE LIMITADA

and

HSBC BANK USA, NATIONAL ASSOCIATION

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TERM LOAN AGREEMENT (this “**Agreement**”) dated as of March 1, 2007 among ROYAL GOLD CHILE LIMITADA, a Chilean limited liability company, and HSBC Bank USA, National Association.

The parties hereto agree as follows:

## **ARTICLE 1 DEFINITION**

SECTION 1.01 *Definitions* . The following terms, as used herein, have the following meanings:

“**Adjusted London Interbank Offered Rate**” has the meaning set forth in Section 2.05(b).

“**Affiliate**” means (i) any Person that directly, or indirectly, through one or more intermediaries, controls the Borrower (a “**Controlling Person**”) or (ii) any Person which is controlled by or is under common control with a Controlling Person. As used herein, the term “control” means possession, directly or indirectly, of the power to vote 25% or more of any class of voting securities of a Person or to direct or cause the direction of the management or policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

“**Applicable Lending Office**” means, (i) in the case of its Base Rate Loans, the Bank’s Domestic Lending Office and (ii) in the case of its EuroDollar Loans, its EuroDollar Lending Office.

“**Asset Sale**” means any sale or other disposition (excluding any lease or license and any such transaction effected by way of merger or consolidation) by the Borrower of any asset, but excluding dispositions of inventory, cash, cash equivalents and other cash management investments and obsolete, unused or unnecessary equipment, in each case in the ordinary course of business.

“**Availability Period**” means the period from and including the Closing Date through April 30, 2007.

“**Bank**” means HSBC Bank USA, National Association, its successors and assigns.

“**Base Rate**” means, for any day, a rate per annum equal to the Reference Rate for such day.

“**Base Rate Loan**” means a Loan which bears interest at the Base Rate pursuant to the applicable Notice of Borrowing or Notice of Interest Rate Election or the provisions of Article 7.

“**Borrower**” means Royal Gold Chile Limitada, a Chilean limited liability company.

“**Borrowing**” means a borrowing hereunder consisting of Loans made to the Borrower on the same day pursuant to Article 2, all of which Loans are of the same type (subject to Article 7).

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A Borrowing is a “ **Base Rate Borrowing** ” if such Loans are Base Rate Loans or a “ **EuroDollar Borrowing** ” if such Loans are EuroDollar Loans.

“ **Business Day** ” means any day except a Saturday, Sunday or other day on which commercial banks in New York City are authorized by law to close.

“ **Closing Date** ” means March 1, 2007.

“ **Collateral Account** ” means that certain securities account pledged to the Bank by Guarantor under the Security Agreement to secure Guarantor’s obligations under the Royal Guarantee.

“ **Commitment** ” shall mean \$15,750,000, subject to reduction pursuant to Section 2.06(b).

“ **Control Agreement** ” means that certain Account Control Agreement, among Bank, Borrower and HSBC Securities, Inc., with respect to Collateral Account.

“ **Debt** ” means as to any Person: (i) indebtedness, present or future, actual or contingent, of such Person for borrowed money or other assets or for the deferred purchase price of property or services (other than obligations under agreements for the purchase of goods and services in the normal course of business which are not more than 60 days past due); (ii) obligations of such Person under capital leases, conditional sale agreements or any other financing transaction; and (iii) obligations of such Person under any direct or indirect Guarantee in respect of, and obligations (contingent or otherwise) to purchase or otherwise acquire, or otherwise to assure a creditor against loss in respect of, indebtedness or obligations of any other Person of the kinds referred to in clause (i) or (ii) above.

“ **Default** ” means any condition or event which constitutes an Event of Default or which with the giving of notice or lapse of time or both would, unless cured or waived, become an Event of Default.

“ **Dollars** ” means the lawful currency of the United States.

“ **Dollar Constraint** ” shall have the meaning set forth in Section 8.08.

“ **Domestic Lending Office** ” means, as to the Bank, its office located at its address set forth below its name on the signature page hereof as its Domestic Lending Office or such other office as the Bank may hereafter designate as its Domestic Lending Office by notice to the Borrower.

“ **EuroDollar Business Day** ” means any Business Day on which commercial banks are open for international business (including dealings in dollar deposits) in London.

“ **EuroDollar Lending Office** ” means, as to the Bank, its office, branch or affiliate located at its address set forth below its name on the signature page thereof as its EuroDollar Lending Office or such other office, branch or affiliate of the Bank as it may hereafter designate as its EuroDollar Lending Office by notice to the Borrower.

“ **EuroDollar Loan** ” means (i) a Loan which bears interest at a EuroDollar Rate pursuant to the applicable Notice of Borrowing or Notice of Interest Rate Election or (ii) an overdue amount which was a EuroDollar Loan immediately before it became overdue.

“ **EuroDollar Margin** ” means 0.25%.

“ **EuroDollar Rate** ” means a rate of interest determined pursuant to Section 2.05(b) on the basis of an Adjusted London Interbank Offered Rate.

“ **EuroDollar Reserve Percentage** ” has the meaning set forth in Section 2.05(b).

“ **Event of Default** ” has the meaning set forth in Section 6.01.

“ **Financing Documents** ” means this Agreement, the Note, the Security Agreement, the Control Agreement and the Royal Guarantee.

“ **Group of Loans** ” means at any time a group of Loans consisting of (i) all Loans which are Base Rate Loans at such time or (ii) all EuroDollar Loans having the same Interest Period at such time, *provided* that, if a Loan is converted to or made as a Base Rate Loan pursuant to Article 7, such Loan shall be included in the same Group or Groups of Loans from time to time as it would have been in if it had not been so converted or made.

“ **Guarantee** ” by any Person means any obligation, contingent or otherwise, of such Person directly or indirectly guaranteeing any Debt or other obligation for the payment of money of any other Person and, without limiting the generality of the foregoing, any obligation, direct or indirect, contingent or otherwise, of such Person (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Debt or other obligation for the payment of money (whether arising by virtue of partnership arrangements, by agreement to purchase assets, goods, securities or services, or to maintain financial statement conditions or otherwise) or (ii) entered into for the purpose of assuring in any other manner the holder of such Debt or other obligation of the payment thereof or to protect such holder against loss in respect thereof (in whole or in part), *provided* that the term Guarantee shall not include endorsements for collection or deposit in the ordinary course of business. The term “Guarantee” used as a verb has a corresponding meaning.

“ **Guarantor** ” shall mean Royal Gold, Inc., a Delaware corporation.

“ **Indemnitee** ” has the meaning set forth in Section 8.03(b).

“ **Interest Period** ” means with respect to each EuroDollar Loan, the period commencing on the date of borrowing specified in the applicable Notice of Borrowing or on the date specified in the applicable Notice of Interest Rate Election and ending one, two or three months thereafter, or such longer period, to the extent available from the Bank; *provided* that:

(i) any Interest Period which would otherwise end on a day which is not a EuroDollar Business Day shall be extended to the next succeeding EuroDollar Business Day unless such EuroDollar Business Day falls in another

calendar month, in which case such Interest Period shall end on the next preceding EuroDollar Business Day;

(ii) any Interest Period which begins on the last EuroDollar Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall, subject to clause (iii) below, end on the last EuroDollar Business Day of a calendar month;

(iii) no more than an aggregate of twelve (12) Interest Periods shall be in effect at any one time; and

(iv) any Interest Period which would otherwise end after the Termination Date (as then in effect) shall end on the Termination Date.

“**Lien**” means, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance of any kind, or any other type of preferential arrangement that has the practical effect of creating a security interest, in respect of such asset.

“**Loan**” means a Base Rate Loan or a EuroDollar Loan and “**Loans**” means Base Rate Loans or EuroDollar Loans or any combination of the foregoing.

“**London Interbank Offered Rate**” has the meaning set forth in Section 2.05(b).

“**Note**” means the note of the Borrower, substantially in the form of Exhibit A to this Agreement, evidencing the obligation of the Borrower to repay the Loans pursuant to the terms and conditions of this Agreement and the Note.

“**Notice of Borrowing**” has the meaning set forth in Section 2.02.

“**Notice of Interest Rate Election**” has the meaning set forth in Section 2.07.

“**Parent**” means, with respect to the Bank, any Person controlling the Bank.

“**Person**” means an individual, a corporation, a limited liability company, a partnership, an association, a trust or any other entity or organization, including a government or political subdivision or an agency or instrumentality thereof.

“**Reference Rate**” means the rate of interest established by the Bank from time to time at its principal domestic office as its reference lending rate for domestic commercial loans.

“**Regulation U**” means Regulation U of the Board of Governors of the Federal Reserve System, as in effect from time to time.

“**Request for Extension**” means a notice given by the Borrower under Section 2.06(c) irrevocably requesting to extend the Termination Date for an additional and consecutive 366-day period, commencing on the last day of the then current Termination Date.

“ **Royal Guarantee** ” shall mean the Guarantee in the form of Exhibit B, made by Guarantor in favor of the Bank.

“ **Royalty Interests** ” means any interest in or share of mineral production (including precious metals), including, without limitation, overriding royalties, non-participating royalties, production payments, net profit interests and other types of mineral royalties.

“ **Security Agreement** ” shall mean the Security Agreement in the form of Exhibit C, made by Guarantor in favor of the Bank.

“ **Subsidiary** ” means, as to any Person, any corporation or other entity of which securities or other ownership interests having ordinary voting power to elect a majority of the board of directors or other persons performing similar functions are at the time directly or indirectly owned by such Person.

“ **Termination Date** ” means March 1, 2012, which date may be extended pursuant to and in accordance with Section 2.06(c) below.

“ **United States** ” means the United States of America.

SECTION 1.02 *Accounting Terms and Determinations* . Unless otherwise specified herein, all accounting terms used herein shall be interpreted, all accounting determinations hereunder shall be made, and all financial statements required to be delivered hereunder shall be prepared in accordance with United States generally accepted accounting principles, applied on a basis consistent (except for changes concurred in by the Borrower’s independent public accountants) with the most recent financial statements of the Borrower delivered to the Bank.

**ARTICLE 2**  
**TERM LOANS**

SECTION 2.01 *Term Loans* . (a) During the Availability Period, the Bank agrees, on the terms and conditions set forth in this Agreement, to make Loans to the Borrower from time to time such that the aggregate principal amount of Loans by the Bank at any one time outstanding shall not exceed the lesser of (i) the Commitment, and (ii) the balance of the Collateral Account. Each Borrowing under this Section shall be in an aggregate principal amount of \$1,000,000 or any larger multiple of \$250,000.

(b) The Borrower will immediately prepay the Loans at any time if the aggregate principal amount of all Loans exceeds the Commitment, to the full extent of such excess. Any such prepayments shall be applied first to Base Rate Loans and then to EuroDollar Loans.

SECTION 2.02 *Method of Borrowing* . (a) The Borrower shall give the Bank notice (a “**Notice of Borrowing**”) not later than 11:00 A.M. (New York City time) on (x) the date of each Base Rate Borrowing and (y) the third EuroDollar Business Day before each EuroDollar Borrowing, specifying:

(i) the date of such Borrowing, which shall be a Business Day in the case of a Base Rate Borrowing or a EuroDollar Business Day in the case of a EuroDollar Borrowing;

(ii) the aggregate amount of such Borrowing;

(iii) the proposed use of such Borrowing;

(iv) whether the Loans comprising such Borrowing are to bear interest initially at the Base Rate or the EuroDollar Rate; and

(v) in the case of a EuroDollar Borrowing, the duration of the initial Interest Period applicable thereto, subject to the provisions of the definition of Interest Period.

(b) Upon receipt of a Notice of Borrowing, such Notice of Borrowing shall not thereafter be revocable by the Borrower.

(c) In no event shall more than twelve (12) Interest Periods be in effect at any one time.

SECTION 2.03 *Note* . (a) The Borrower shall deliver to the Bank a Note in the form attached hereto as Exhibit A (the “Note”), duly executed by Borrower.

(b) The Bank shall record on its books and records the date, amount and type of each Loan made by it and the date and amount of each payment of principal made by the

Borrower with respect thereto, and may, if the Bank so elects in connection with any transfer or enforcement of the Note, endorse on the schedule forming a part thereof appropriate notations to evidence the foregoing information with respect to each such Loan then outstanding; *provided* that the failure of the Bank to make any such recordation or endorsement shall not affect the obligations of the Borrower hereunder or under the Note. The Bank is hereby irrevocably authorized by the Borrower so to endorse the Note and to attach to and make a part of the Note a continuation of any such schedule as and when required.

SECTION 2.04 *Maturity of Loans; Termination of Commitment* . Subject to the provisions of Section 6.01, all Loans shall mature, and the principal amounts thereof shall be due and payable, on the Termination Date. Subject to the provisions of Sections 2.06 and 6.01, the Commitment shall terminate on the last day of the Availability Period.

SECTION 2.05 *Interest Rates* . (a) Each Base Rate Loan shall bear interest on the outstanding principal amount thereof for each day from the date such Loan is made until it becomes due, at a rate per annum equal to the Base Rate for such day. Such interest shall be payable quarterly in arrears on the last day of March, June, September and December of each year, on the Termination Date, and with respect to the principal amount of any Base Rate Loan converted to a EuroDollar Loan, on the date such Base Rate Loan is so converted. Upon the occurrence and during the continuance of an Event of Default, the principal of, and all accrued and unpaid interest on, all Base Rate Loans, fees or other obligations of the Borrower and Guarantor under the Financing Documents, other than EuroDollar Loans, shall bear interest, from the date such Event of Default occurred until the date such Event of Default is cured, at a rate per annum equal to the sum of 2% plus the rate otherwise applicable to Base Rate Loans.

(b) Each EuroDollar Loan shall bear interest on the outstanding principal amount thereof for each day during each Interest Period applicable thereto, at a rate per annum equal to the sum of the EuroDollar Margin for such day plus the Adjusted London Interbank Offered Rate applicable to such Interest Period. Such interest shall be payable for each Interest Period on the last day thereof.

The “ **Adjusted London Interbank Offered Rate** ” applicable to any Interest Period means a rate per annum equal to the quotient obtained (rounded upward, if necessary, to the next higher 1/100 of 1%) by dividing (i) the applicable London Interbank Offered Rate by (ii) 1.00 minus the EuroDollar Reserve Percentage.

The “ **London Interbank Offered Rate** ” applicable to any Interest Period means the rate per annum equal to the London Interbank Offered Rate shown on the display designated as “LIBO” to subscribers of the Reuters Monitor Money Rates Service, or any successor page thereto, as at 11:00 AM (London time) rounded upward to the nearest 1/16 of 1%, two EuroDollar Business Days prior to the first day of such Interest Period for a term comparable to such Interest Period, for deposits of Dollars in an amount equal to the amount of the relevant EuroDollar Loan. If for any reason such rate is not available, the term “ *Eurodollar Rate* ” shall mean, for any Eurodollar Rate Borrowing for any Interest Period therefor, the rate per annum (rounded upwards, if necessary, to the nearest 1/100 of 1%) appearing on Reuters Screen LIBO Page as the London interbank offered rate for deposits in Dollars at approximately 11:00 a.m. (London time) two Business Days prior to the first day of such Interest Period for a term



comparable to such Interest Period; *provided, however*, if more than one rate is specified on Reuters Screen LIBO Page, the applicable rate shall be the arithmetic mean of all such rates (rounded upwards, if necessary, to the nearest 1/100 of 1%), and *provided further*, that if no rate is specified on Reuters Screen LIBO Page for a term comparable to a proposed applicable Interest Period, the term “ *Eurodollar Rate* ” shall mean a rate per annum determined by the Bank and agreed to by the Borrower.

“ **EuroDollar Reserve Percentage** ” means for any day, that percentage (expressed as a decimal) which is in effect on such day, as prescribed by the Board of Governors of the Federal Reserve System (or any successor) for determining the maximum reserve requirement for a member bank of the Federal Reserve System in New York City with deposits exceeding five billion dollars in respect of “ **Eurocurrency liabilities** ” (or in respect of any other category of liabilities which includes deposits by reference to which the interest rate on EuroDollar Loans is determined or any category of extensions of credit or other assets which includes loans by a non-United States office of the Bank to United States residents). The adjusted London Interbank Offered Rate shall be adjusted automatically on and as of the effective date of any change in the EuroDollar Reserve Percentage.

(c) Upon the occurrence and during the continuance of an Event of Default, the principal of, and all accrued and unpaid interest on, all EuroDollar Loans, shall bear interest from the date such Event of Default occurred until the date such Event of Default is cured, at a rate per annum equal to the sum of 2% plus the EuroDollar Margin, plus the Adjusted London Interbank Offered Rate applicable to such Loan at the date such payment was due.

(d) The Bank shall determine each interest rate applicable to the Loans hereunder and shall give prompt notice to the Borrower of each rate of interest so determined, and its determination thereof shall be conclusive in the absence of demonstrable error.

**SECTION 2.06 *Optional Prepayment; Termination of Commitment; Extension of Termination Date*** . (a) Subject in the case of any EuroDollar Borrowing to Section 2.09, the Borrower may, upon at least one Business Day’s notice to the Bank, prepay any Group of Base Rate Loans or upon at least three EuroDollar Business Day’s notice to the Bank, prepay any Group of EuroDollar Loans, in each case in whole at any time, or from time to time in part in amounts aggregating \$1,000,000 or any larger multiple of \$250,000, by paying the principal amount to be prepaid together with accrued interest thereon to the date of prepayment. Each such optional prepayment shall be applied to prepay the Loans included in such Group.

(b) Subject in the case of any EuroDollar Borrowing to Section 2.09, the Borrower may, without any penalty or premium, upon at least thirty days written notice to the Bank, terminate the Commitment in whole, or from time to time permanently reduce the Commitment in part, and prepay all outstanding Loans in excess of the Commitment after giving effect to such termination or reduction. Such notice shall specify the date of such termination or reduction and shall be irrevocable and binding upon the Borrower. Any such reduction to the Commitment shall be in the minimum principal amount of \$1,000,000 or any larger multiple of \$250,000, and shall reduce permanently the amount of the Commitment then in effect.

(c) On or before the date that is at least 60 days prior to the then current Termination Date, the Borrower may, by sending a Request for Extension to the Bank, which shall certify that no Default or Event of Default has occurred, irrevocably request that the then current Termination Date be extended for an additional 366 days. Such Request for Extension may be given no more than twenty times. Upon receipt by the Bank of a Request for Extension, and provided that no Default or Event of Default has occurred, the Bank may in its sole discretion upon written notice provided by the Bank to the Borrower within 30 days of its actual receipt of the Request for Extension, consent to or refuse such Request for Extension. The Bank shall not unreasonably withhold its consent to a Request for Extension.

(d) If (i) the Borrower fails to give a timely Request for Extension as provided in Section 2.06(c) above, (ii) the Bank fails to respond to such Request for Extension as provided in Section 2.06(c) above, or (iii) the Bank notifies the Borrower of its rejection of the Request for Extension, then all Loans shall be due and payable on the then current Termination Date.

**SECTION 2.07 Method of Electing Interest Rates .** (a) The Loans included in each Borrowing shall bear interest initially at the type of rate specified by the Borrower in the applicable Notice of Borrowing. Thereafter, the Borrower may from time to time elect to change or continue the type of interest rate borne by each Group of Loans (subject in each case to the provisions of Article 7), as follows:

(i) if such Loans are Base Rate Loans, the Borrower may elect to convert such Loans to EuroDollar Loans as of any EuroDollar Business Day; and

(ii) if such Loans are EuroDollar Loans, the Borrower may elect to convert such Loans to Base Rate Loans or elect to continue such Loans as EuroDollar Loans for an additional Interest Period, subject to Section 2.09 in the case of any such conversion or continuation effective on any day other than the last day of the then current Interest Period applicable to such Loans.

Each such election shall be made by delivering a notice (a “ **Notice of Interest Rate Election** ”) to the Bank not later than 11:00 A.M. (New York City time) on the third EuroDollar Business Day before the conversion or continuation selected in such notice is to be effective. A Notice of Interest Rate Election may, if it so specifies, apply to only a portion of the aggregate principal amount of the relevant Group of Loans; provided that (i) such portion is allocated ratably among the Loans comprising such Group and (ii) the portion to which such Notice applies, and the remaining portion to which it does not apply, are each \$1,000,000 or any larger multiple of \$250,000.

(b) Each Notice of Interest Rate Election shall specify:

(i) the Group of Loans (or portion thereof) to which such notice applies; and

(ii) the date on which the conversion or continuation selected in such notice is to be effective, which shall comply with the applicable clause of subsection (a) above;

(iii) if the Loans comprising such Group are to be converted, the new type of Loans and, if the Loans being converted are to be EuroDollar Loans, the duration of the next succeeding Interest Period applicable thereto; and

(iv) if such Loans are to be continued as EuroDollar Loans for an additional Interest Period, the duration of such additional Interest Period.

(c) Upon receipt of a Notice of Interest Rate Election from the Borrower pursuant to subsection (a) above, such notice shall not thereafter be revocable by the Borrower.

(d) If Borrower fails to timely provide a Notice of Interest Rate Election with respect to a EuroDollar Loan with an Interest Period ending prior to the Termination Date, Borrower shall be deemed to have timely delivered to the Bank a Notice of Interest Rate Election (a “**Deemed Notice**”) with respect to such Loan, specifying that such Loan shall be continued as a EuroDollar Loan for an additional Interest Period of the same duration as the current Interest Period applicable to such Loan, *provided, however*, that if the Interest Period of such Loan, following its continuation, would end after the Termination Date, such Deemed Notice shall instead be deemed to have specified that such Loan shall be converted to a Base Rate Loan on the day following the last day of the Interest Period (prior to such conversion).

**SECTION 2.08 *General Provisions as to Payments*** . The Borrower shall make each payment of principal of and interest on, the Loans and interest thereon and of fees hereunder, in Dollars not later than 12:00 Noon (New York City time) on the date when due, in Federal or other funds immediately available in New York City, to the Bank at its address set forth below its name on the signature page hereof. Whenever any payment of principal of or interest on, the Base Rate Loans or interest thereon or of fees shall be due on a day which is not a Business Day, the date for payment thereof shall be extended to the next succeeding Business Day. Whenever any payment of principal of or interest on, the EuroDollar Loans shall be due on a day which is not a EuroDollar Business Day, the date for payment thereof shall be extended to the next succeeding EuroDollar Business Day unless such EuroDollar Business Day falls in another calendar month, in which case the date for payment thereof shall be the next preceding EuroDollar Business Day. If the date for any payment of principal is extended by operation of law or otherwise, interest thereon shall be payable for such extended time.

**SECTION 2.09 *Funding Losses*** . If the Borrower makes any payment of principal with respect to any EuroDollar Loan or any EuroDollar Loan is converted (pursuant to Article 2, 6 or 7 or otherwise) on any day other than the last day of an Interest Period applicable thereto, or if the Borrower fails to borrow, prepay, convert or continue any EuroDollar Loans after notice has been given to the Bank in accordance with Sections 2.02, 2.06 or 2.07 the Borrower shall reimburse the Bank within 15 days after demand for any resulting loss or expense incurred by it (or by an existing or prospective participant in the related Loan), including (without limitation) any loss incurred in obtaining, liquidating or employing deposits from third parties, but excluding loss of margin for the period after any such payment or conversion or failure to borrow, prepay, convert or continue, provided that the Bank shall have delivered to the Borrower a certificate as to the amount of such loss or expense, which certificate shall be conclusive in the absence of demonstrable error.

SECTION 2.10 *Unused Line Fee* . The Borrower agrees to pay to the Bank an unused line fee on the average daily unused portion of the Commitment from the date of this Agreement until the end of the Availability Period at a rate per annum equal to 0.10% of such average daily unused portion of the Commitment.

SECTION 2.11 *Computation of Interest and Fees* . All interest and fees hereunder shall be computed on the basis of a year of 360 days and paid for the actual number of days elapsed (including the first day but excluding, in the case of interest, the last day).

### **ARTICLE 3 CONDITIONS**

SECTION 3.01 *Closing* . The closing and making of the initial Loan is subject to Section 2.01 and the satisfaction of the following conditions precedent:

(a) The Bank shall have received evidence satisfactory to it of the authority of (i) the Borrower to enter into the Agreement and the transactions contemplated thereby, and to execute, deliver and perform the Agreement, the Note and the other Financing Documents to which it is a party, and (ii) the Guarantor to enter into the Financing Documents to which it is a party, and to execute, deliver and perform the Financing Documents to which it is a party;

(b) The Note shall have been duly executed by the Borrower and delivered to the Bank;

(c) The Guarantor shall have delivered to the Bank a duly executed copy of the Royal Guarantee, the Security Agreement, the Control Agreement, and any other instruments and documents as the Bank may have reasonably required to perfect its lien on the Collateral Account, and the Bank shall have a valid and enforceable first priority lien and security interest in the Collateral Account;

(d) The Borrower shall have paid to the Bank a closing fee in the amount of \$25,000, which shall be non-refundable and deemed fully earned upon the making of the initial Loans hereunder;

(e) The Bank shall have received from Borrower's Chilean counsel, Urenda, Rencoret, Orrego y Dörr, and from Guarantor's United States counsel, Hogan & Hartson LLP, their respective favorable opinions addressed to the Bank and dated the Closing Date, with respect to the Borrower and the Guarantor, as the case may be, and covering such other matters incident to the transactions therein contemplated as the Bank may have reasonably requested;

(f) The Bank shall have received from the Borrower: (A) a certificate of its managing partner, dated the Closing Date, certifying as to (1) Borrower's organizational documents; (2) resolutions of its managing partner authorizing the execution, delivery and performance of the Agreement and the other Financing Documents to which it is a party; (3) the full force and effect of such resolutions on the Closing Date; and (4) the incumbency and signatures of the persons executing the Financing Documents on behalf of the Borrower; and (B) such additional supporting documents as the Bank may reasonably request;

(g) The Bank shall have received the following from the Guarantor: (A) a certificate of its Secretary, dated the Closing Date, certifying as to (1) copies of Certificate of Incorporation and bylaws, as amended through the Closing Date; (2) resolutions of its Board of Directors authorizing the execution, delivery and performance of the Financing Documents to which it is a party; (3) the full force and effect of such resolutions on the Closing Date; and (4) the incumbency and signature of each of the officers of Guarantor executing the Financing Documents; (B) a good standing certificate from the jurisdiction of its formation; and (C) such additional supporting documents as the Bank may reasonably request;

(h) All representations and warranties in the Agreement and each other Financing Document or made in any certificate or financial statement furnished to the Bank pursuant thereto by or on behalf of the Borrower or Guarantor shall have been true and correct in all material respects;

(i) Immediately after giving effect to the initial Loan, the balance of the Collateral Account shall have been at least equal to the principal amount of such Loan; and

(j) The Bank shall have received a certificate from the Chief Financial Officer of Borrower's managing partner and the Chief Financial Officer of the Guarantor (who may be the same person) certifying as to the matters set forth in clause (h) of this Section 3.01 as of the Closing Date after giving effect to the making of the initial Loans.

SECTION 3.02 *Loans* . The making of Loans following the Closing Date shall be subject to Section 2.01 and the satisfaction of the following additional conditions:

(a) receipt by the Bank of a Notice of Borrowing as required by Section 2.02;

(b) the fact that, immediately after giving effect to such Loan, the sum of the aggregate outstanding principal amount of the Loans will not exceed the lesser of (i) the Commitment, and (ii) the balance of the Collateral Account;

(c) the fact that, immediately after giving effect to such Loan, no Default shall have occurred and be continuing;

(d) the fact that the representations and warranties of the Borrower contained in this Agreement and of the Borrower and Guarantor in any other Financing Document shall be true in all material respects on and as of the date of and after giving effect to such Loan; and

(e) There shall exist no Default or Event of Default under this Agreement or any other Financing Document.

Each Notice of Borrowing given under Section 2.02 hereunder shall be deemed to be a representation and warranty by the Borrower on the date thereof that the facts specified in clauses (b), (c), (d) and (e) of this Section 3.02 are true and correct as of the date of the proposed Borrowing after giving effect to such proposed Borrowing.

**ARTICLE 4**  
**REPRESENTATIONS AND WARRANTIES**

The Borrower represents and warrants that:

SECTION 4.01 *Existence and Power* . The Borrower is a Chilean limited liability company duly organized, validly existing and in good standing under the laws of Chile, and has all powers and all governmental licenses, authorizations, consents and approvals required to carry on its business as presently conducted. The Guarantor is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware, and has all powers and all material governmental licenses, authorizations, consents and approvals required to carry on its business as now conducted and is qualified to do business and is in good standing under the laws of each other jurisdiction where the nature of its business or the ownership of property so requires, except where the failure to so qualify does not have a material adverse effect on the business, financial condition or results of operations of the Guarantor.

SECTION 4.02 *Authorization; No Contravention* . The execution, delivery and performance by the Borrower and Guarantor of the Financing Documents to which each is a party are within the powers of the Borrower and the Guarantor, respectively, have been duly authorized by all necessary action, and other than as set forth on Schedule 4.02, require no action by or in respect of or filing with, any governmental body, agency or official and do not contravene, or constitute a default under, any provision of applicable law or regulation or of the certificate formation or limited liability company of the Borrower or Guarantor, as applicable, or of any agreement, judgment, injunction, order, decree or other instrument binding upon the Borrower or Guarantor, or result in the creation or imposition of any Lien on any asset of the Borrower or Guarantor, other than in favor of the Bank.

SECTION 4.03 *Binding Effect* . This Agreement constitutes a valid and binding agreement of the Borrower, and each Financing Document constitutes a valid and binding agreement of each Person or party thereto, and the Note, when executed and delivered in accordance with this Agreement, will constitute a valid and binding obligation of the Borrower, in each case enforceable in accordance with its terms, except as the same may be limited by bankruptcy, insolvency or similar laws affecting creditors' rights generally and by general principles of equity.

SECTION 4.04 *Financial Information* . The Guarantor has heretofore furnished to the Bank (i) an audited consolidated balance sheet as of June 30, 2006 and the related audited consolidated statements of income and cash flows for the fiscal year then ended of the Guarantor, and (ii) an unaudited consolidated balance sheet as of December 31, 2006 and the related consolidated statements of income and cash flows for the nine month period then ended. Such financial statements are complete and correct and present fairly, in all material respects, the financial condition, stated in Dollars, of the Guarantor as of the respective dates thereof and the results of operations and cash flows for the periods ended on said dates, all in accordance with United States generally accepted accounting principles and practices applied on a consistent basis. There has been no material adverse change in the business, financial position or results of operations of the Guarantor from that set forth in said financial statements as at said dates.

SECTION 4.05 *Litigation* . Except as set forth on Schedule 4.05, there is no action, suit or proceeding pending against, or to the knowledge of the Borrower threatened against or affecting, the Borrower or the Guarantor before any court or arbitrator or any governmental body, agency or official in which there is a reasonable possibility of an adverse decision which could (taking into account available insurance coverage) materially adversely affect the business, financial position or results of operations of the Borrower or the Guarantor, or which in any manner draws into question the validity or enforceability of this Agreement or any of the Financing Documents.

SECTION 4.06 *Compliance with Law* . The Borrower is in compliance, in all material respects, with all applicable requirements of the applicable laws, rules and regulations of Chile and each, state, provincial, municipal or other governmental department, agency or authority, domestic or foreign which are material to its business, and will be in such compliance after giving effect to the transactions contemplated hereby.

SECTION 4.07 *Taxes* . Each of the Borrower and the Guarantor has filed all income tax returns and all other material tax returns which are required to be filed by it and has paid all taxes due pursuant to such returns or pursuant to any assessment received by the Borrower or the Guarantor, respectively, except where the same is being contested in good faith and by appropriate proceeding and appropriate reserves have been maintained in accordance with generally accepted accounting principles. The charges, accruals and reserves on the books of the Borrower and the Guarantor, respectively, in respect of taxes or other governmental charges are, in the opinion of the Borrower, adequate.

SECTION 4.08 *Solvency* . Each of the Borrower and the Guarantor is Solvent prior to and after giving effect to the consummation of the transactions contemplated by this Agreement. (For the purposes hereof, a Person is “Solvent” if (i) the fair market value of all of its property is in excess of the total amount of its debts (including contingent liabilities); (ii) it is able to pay its debts as they mature; (iii) it does not have unreasonably small capital for the business in which it is engaged or for any business or transaction in which it is about to engage; and (iv) it is not “insolvent” as such term is defined in Section 101 (32) of the Federal Bankruptcy Code.)

SECTION 4.09 *Credit Arrangements* . Schedule 4.09 sets forth a complete and correct list of all credit agreements, indentures, guaranties, capital leases and other investments, agreements and arrangements in effect on the Closing Date providing for or relating to extensions of credit to the Borrower and (including agreements and arrangements for the issuance of letters of credit or for acceptance financing) in respect of which the Borrower is in any manner directly or contingently obligated to make aggregate payments of \$100,000 or more; and the maximum principal or face amounts of the credit in question, outstanding and which can be outstanding, are correctly stated, and all Liens of any nature given or agreed to be given as security therefor are correctly described or indicated in such Schedule.

SECTION 4.10 *Subsidiaries and Affiliates* . The Borrower has no Subsidiaries. The entire capital of Borrower is owned ninety-nine percent (99%) by Guarantor, and one percent (1%) by High Desert Mineral Resources, Inc. Schedule 4.10 sets forth a correct and complete list of each of the Borrower’s Affiliates as of the Closing Date, showing as to each

Affiliate (other than Guarantor) its name, the jurisdiction of its organization (if an entity) and its relationship with the Borrower.

SECTION 4.11 *Regulatory Restrictions on Borrowing/Guarantee* . The Borrower is not subject to any regulatory scheme which restricts its ability to incur debt, and the Guarantor is not subject to any regulatory scheme which restricts its ability to guarantee the debt of the Borrower.

SECTION 4.12 *Full Disclosure* . All material factual information heretofore furnished by the Borrower or Guarantor to the Bank for purposes of or in connection with this Agreement or any transaction contemplated hereby is, and all such information hereafter furnished by the Borrower and the Guarantor to the Bank will be, true, complete and accurate in all material respects (it being understood and agreed that with respect to projections, such projections are not a representation or warranty of future performance). All such information heretofore furnished, does not, as of the date hereof contain any untrue statement of material fact or omit to state any material fact necessary to make the statements herein or therein, in light of the circumstances under which they were made, not misleading.

## **ARTICLE 5 COVENANTS**

The Borrower agrees that, so long as the Availability Period has not expired or any amount is outstanding under the Note:

SECTION 5.01 *Information* . The Borrower will deliver to the Bank:

(a) with respect to the Borrower, as soon as available and in any event within 90 days after the end of each fiscal year beginning with its fiscal year ending December 31, 2007, an audited balance sheet of the Borrower as of the end of such fiscal year and the related statements of income and cash flow for such fiscal year, accompanied by the figures for the previous years in each case;

(b) with respect to the Borrower, as soon as available and in any event within 60 days after the end of each of the first three quarters of each fiscal year, beginning with its fiscal quarter ending March 31, 2007, an unaudited balance sheet of the Borrower as of the end of such quarter and the related statements of income and cash flow for such quarter and for the portion of the fiscal year ended at the end of such quarter, accompanied by the figures for the corresponding quarter and corresponding portion of the previous year;

(c) simultaneously with the delivery of each set of financial statements referred to in clauses (a) and (b) above, a certificate as to fairness of presentation, generally accepted accounting principles and consistency (subject to normal year end adjustments) on behalf of the Borrower executed by the chief financial officer of Borrower's managing partner;

(d) within five days after any of the chairman, the president, the executive vice president or the chief financial officer of the Borrower or its managing partner obtains knowledge of any Default, if such Default is then continuing, a certificate of the chief financial officer or the chief accounting officer of the Borrower or its managing partner setting forth the



details thereof and the action which the Borrower is taking or proposes to take with respect thereto;

(e) at the request of the Bank, as soon as available and in any event not less than 90 days after the first day of each fiscal year of the Borrower, forecasts prepared by management of the Borrower, including statements of income and cash flow of the Borrower, on a quarterly and annual basis for such fiscal year and on an annual basis for the next fiscal year of the Borrower;

(f) promptly upon receipt thereof, copies of any reports submitted to the Borrower by its accountants in connection with any examination of the financial statements of the Borrower made by such accountants; and

(g) from time to time such additional information regarding the financial position or business of the Borrower as the Bank may reasonably request.

**SECTION 5.02 *Payment of Obligations*** . The Borrower will pay and discharge at or before maturity, all of its material obligations and liabilities (including, without limitation, tax liabilities and claims of materialmen, warehousemen and the like which if unpaid would by law give rise to a Lien on the Borrower's assets), except where the same may be contested in good faith by appropriate proceedings, and will maintain in accordance with generally accepted accounting principles, appropriate reserves for the accrual of any of the same.

**SECTION 5.03 *Maintenance of Existence*** . The Borrower will preserve, renew and keep in full force and effect its existence and rights, privileges and franchises necessary or desirable in the normal conduct of business.

**SECTION 5.04 *Compliance with Laws*** . The Borrower will comply, in all material respects with all applicable laws, ordinances, rules, regulations, and requirements of governmental authorities except where the necessity of compliance therewith is contested in good faith by appropriate proceedings or where the failure to so comply, individually or in the aggregate, would not have a material adverse effect on the business, financial position or results of operations of the Borrower, and Borrower shall timely make all filings and deliver all notices referred to in Schedule 4.02 in accordance with applicable law.

**SECTION 5.05 *Inspection of Property, Books and Records*** . The Borrower will keep proper books of record and account in which full, true and correct entries shall be made of all dealings and transactions in relation to its business and activities; and will permit representatives of the Bank to examine and make abstracts from any of its books and records and to discuss its affairs, finances and accounts with its officers, employees and independent public accountants, all at such reasonable times and as often as may reasonably be desired.

**SECTION 5.06 *Merger and Sales of Assets*** . The Borrower will not consolidate or merge with or into any other Person, *provided* that the Borrower may merge with another Person if the Borrower is the Person surviving such merger and immediately after giving effect to such merger, no Default shall have occurred and be continuing. The Borrower will continue to be a wholly-owned Subsidiary of Guarantor, and, without the Bank's prior written consent, which consent shall not be unreasonably withheld, the Borrower will not make any Asset Sale.

SECTION 5.07 *Use of Proceeds* . The proceeds of the Loans made under this Agreement will be used by the Borrower solely for the acquisition of Royalty Interests and for general corporate purposes in the ordinary course of business. None of such proceeds will be used, directly or indirectly, for the purpose, whether immediate, incidental or ultimate, of buying or carrying any “margin stock” within the meaning of Regulation U.

SECTION 5.08 *Negative Pledge* . The Borrower will not create, assume or suffer to exist any Lien on any asset now owned or hereafter acquired by it, except:

- (a) Liens for taxes not yet payable or being contested in good faith and by appropriate proceedings and adequate reserves have been maintained in accordance with generally accepted accounting principles;
- (b) Statutory liens incurred in the ordinary course of business;
- (c) attachments, appeal bonds, judgments and other similar Liens arising in connection with court proceedings, for sums not exceeding \$1,000,000 in the aggregate;
- (d) easements, rights of way, restrictions, minor defects in title and other similar Liens that do not interfere in any material respect with the ordinary conduct of the business of the Borrower; and
- (e) any Lien to which the Bank has consented in writing.

SECTION 5.09 *Limitation on Debt* . The Borrower will not incur or at any time become liable with respect to any Debt except:

- (a) Debt under this Agreement;
- (b) Debt secured by Liens permitted by Section 5.08;
- (c) Debt not to exceed \$10,000,000 in the aggregate incurred in connection with Borrower’s future acquisition of Royalty Interests,
- (d) Debt in excess of that permitted by 5.09(c) incurred in connection with Borrower’s future acquisition of Royalty Interests, but only with Bank’s prior written consent, such consent not to unreasonably be withheld or delayed; and
- (e) Other Debt to which the Bank has consented in writing.

SECTION 5.10 *Lines of Business* . The Borrower will not engage in any line or lines of business activity other than the holding of Royalty Interests.

SECTION 5.11 *Fiscal Year* . The Borrower will not change the ending of its fiscal year from December 31.

SECTION 5.12 *Amendment of Charter Documents* . The Borrower will not amend, modify or otherwise change its bylaws or other organizational documents, except for such

amendments, modifications or changes that either individually or in the aggregate, could not reasonably be expected to have a material adverse effect on the business, financial condition or results of operation of the Borrower.

## **ARTICLE 6 DEFAULTS**

SECTION 6.01 *Events of Default* . If one or more of the following events (“ **Events of Default** ”) shall have occurred and be continuing:

- (a) the Borrower shall fail to pay when due any principal of any Loan or any interest or fees payable hereunder or under any Financing Document;
- (b) the Borrower or Guarantor shall fail to observe or perform any covenant or agreement contained in this Agreement or any Financing Document;
- (c) any material representation, warranty, certification or statement made by the Borrower or Guarantor in any Financing Document shall prove to have been incorrect in any material respect when made (or deemed made);
- (d) any event or condition shall occur which results in the acceleration of the maturity of any Debt in excess of \$500,000 or enables (or with the giving of notice or lapse of time or both, would enable) the holder of such Debt or any Person acting on such holder’s behalf to accelerate the maturity thereof;
- (e) the Borrower or Guarantor shall commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, or shall consent to any such relief or to the appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against it, or shall make a general assignment for the benefit of creditors, or shall take any action to authorize any of the foregoing;
- (f) an involuntary case or other proceeding shall be commenced against the Borrower or Guarantor seeking liquidation, reorganization or other relief with respect to it or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, and such involuntary case or other proceeding shall remain undismissed and unstayed for a period of 30 days; or an order for relief shall be entered against the Borrower or Guarantor under the federal bankruptcy laws as now or hereafter in effect;
- (g) any judgment or order for the payment of money in excess of \$500,000 shall be rendered against the Borrower or Guarantor and such judgment or order shall continue unsatisfied or unstayed for a period of 30 days if such judgment or order is for an amount in excess of \$500,000;

(h) the Borrower shall cease to be a wholly-owned Subsidiary of the Guarantor;

(i) the sum of the aggregate outstanding principal amount of the Loans shall exceed the outstanding principal balance of the Collateral Account;

(j) the Bank shall at any time cease to have a first priority, validly perfected Lien in the Collateral Account; or

(k) there shall have been a material adverse effect on the business, operations or financial condition of the Borrower or the Guarantor;

then, and in any such event, the Bank may, by notice to the Borrower, terminate the Commitment and declare the Loans (together with accrued interest thereon) to be, and the Loan shall thereupon become, immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower; *provided* that in the case of any of the Events of Default specified in clause 6.01(e) or 6.01(f) above with respect to the Borrower, without any notice to the Borrower or any other act by the Bank, the Commitment shall thereupon terminate and the Loans (together with accrued interest thereon) shall become immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower.

## **ARTICLE 7 CHANGES IN CIRCUMSTANCE**

**SECTION 7.01 *Basis for Determining Interest Rate Inadequate or Unfair*** . If on or prior to the first day of any Interest Period for any EuroDollar Loan:

(a) the Bank determines (which determination shall be conclusive) that by reason of circumstances affecting the relevant market, adequate and reasonable means do not exist for ascertaining the EuroDollar Rate for such Interest Period, or

(b) the Bank determines (which determination shall be conclusive) that the Adjusted London Interbank Offered Rate will not adequately and fairly reflect the cost to the Bank of funding its EuroDollar Loans for such Interest Period,

the Bank shall forthwith give notice thereof to the Borrower, whereupon until the Bank notifies the Borrower that the circumstances giving rise to such suspension no longer exist (which notice shall be given forthwith upon receipt by the Bank of notice of such determination), (i) the ability of the Borrower to request EuroDollar Loans, or to continue or convert outstanding Loans as or into EuroDollar Loans, shall be suspended, and (ii) each outstanding EuroDollar Loan shall be converted into a Base Rate Loan on the last day of the then current Interest Period applicable thereto. Unless the Borrower notifies the Bank at least two Business Days before the date of any EuroDollar Borrowing for which a Notice of Borrowing has previously been given (which has not been followed by a notification from the Bank as aforesaid) that it elects not to borrow on such date, such Borrowing shall instead be made as a Base Rate Borrowing.

SECTION 7.02 *Illegality* . If after the date of this Agreement, the adoption of any applicable law, rule or regulation, or any change in any applicable law, rule or regulation, or any change in the interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof or compliance by the Bank (or its EuroDollar Lending Office) with any request or directive (whether or not having the force of law) of any such authority, central bank or comparable agency shall make it unlawful or impossible for the Bank (or its EuroDollar Lending Office) to make, maintain or fund its EuroDollar Loans, the Bank shall forthwith give notice thereof to the Borrower, whereupon until the Bank notifies the Borrower that the circumstances giving rise to such suspension no longer exist, the ability of the Borrower to request EuroDollar Loans or to convert outstanding Loans into EuroDollar Loans shall be suspended. If such notice is given, each EuroDollar Loan then outstanding shall be converted to a Base Rate Loan either (a) on the last day of the then current Interest Period applicable to such EuroDollar Loan if the Bank may lawfully continue to maintain and fund such Loan to such day or (b) immediately if the Bank shall determine that it may not lawfully continue to maintain and fund such Loan to such day.

SECTION 7.03 *Increased Cost and Reduced Return* . (a) If after the date hereof the adoption of any applicable law, rule or regulation, or any change in any applicable law, rule or regulation, or any change in the interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof or compliance by the Bank (or its Applicable Lending Office) with any request or directive (whether or not having the force of law) of any such authority, central bank or comparable agency shall impose, modify or deem applicable any reserve (including, without limitation, any such requirement imposed by the Board of Governors of the Federal Reserve System, but excluding any such requirement included in an applicable EuroDollar Reserve Percentage in the case of a EuroDollar Loan), special deposit, insurance assessment or similar requirement against assets of deposits with or for the account of or credit extended by, the Bank (or its Applicable Lending Office) or shall impose on the Bank (or its Applicable Lending Office) or the London interbank market or other relevant market any other condition affecting its EuroDollar Loans, the Note or its ability to make EuroDollar Loans and the result of any of the foregoing is to increase the cost to the Bank (or its Applicable Lending Office) of making or maintaining any EuroDollar Loan, or to reduce the amount of any sum received or receivable by the Bank (or its Applicable Lending Office) under this Agreement or under the Note, by an amount reasonably deemed by the Bank to be material, then, provided that the Bank has provided the Borrower with written notice, which includes a brief description of the change giving rise to such increased cost or reduction and an explanation as to how such increased cost or reduction was determined, the Borrower shall pay to the Bank upon demand such additional amount or amounts as will compensate the Bank for such increased cost or reduction incurred by the Bank following the date of such notice.

(b) If the Bank shall have determined that, after the date hereof the adoption of any applicable law, rule or regulation regarding capital adequacy, or any change in any such law, rule or regulation, or any change in the interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof or any request or directive regarding capital adequacy (whether or not having the force of law) of any such authority, central bank or comparable agency, has or would have the effect of reducing the rate of return on capital of the Bank (or its Parent) as a

consequence of the Bank's obligations hereunder to a level below that which the Bank (or its Parent) could have achieved but for such adoption, change, request or directive (taking into consideration its policies with respect to capital adequacy) by an amount reasonably deemed by the Bank to be material, then from time to time, assuming the Bank was not compensated for such reduction pursuant to Section 7.03(a) above, provided that the Bank has provided the Borrower with written notice which includes a brief description of the change giving rise to such reduction and an explanation as to how such reduction was determined, the Borrower shall pay to the Bank such additional amount or amounts as will compensate the Bank (or its Parent) for such reduction incurred by the Bank following the date of such notice.

(c) The Bank will designate a different Lending Office if such designation will avoid the need for, or reduce the amount of such compensation pursuant to this Section and will not, in the reasonable judgment of the Bank, be otherwise disadvantageous to the Bank. A certificate of the Bank claiming compensation under this section and setting forth the additional amount or amounts to be paid to it hereunder shall be conclusive in the absence of demonstrable error. In determining such amount, the Bank may use any reasonable averaging and attribution methods.

SECTION 7.04 *Taxes* . (a) For the purposes of this Section 7.04, the following terms have the following meanings:

“ **Taxes** ” means any and all present or future taxes, duties, levies, imposts, deductions, charges or withholdings with respect to any payment by the Borrower pursuant to this Agreement or under the Note, and all liabilities with respect thereto, *excluding* (i) in the case of the Bank, taxes imposed on its income, and franchise or similar taxes imposed on it, by a jurisdiction under the laws of which the Bank is organized or in which its principal executive office is located or, in the case of the Bank, in which its Applicable Lending Office is located and (ii) in the case of the Bank, any United States withholding tax imposed on such payments.

“ **Other Taxes** ” means any present or future stamp or documentary taxes and any other excise or property taxes, or similar charges or levies, which arise from any payment made pursuant to this Agreement or under the Note or from the execution or delivery of or otherwise with respect to, this Agreement or the Note.

(b) Any and all payments by the Borrower to or for the account of the Bank hereunder or under the Note shall be made without deduction for any Taxes or Other Taxes; *provided that*, if the Borrower shall be required by law to deduct any Taxes or Other Taxes from any such payments, (i) the sum payable shall be increased as necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section) the Bank receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrower shall make such deductions, (iii) the Borrower shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law, and (iv) the Borrower shall furnish to the Bank, at its address referred to in Section 8.01, the original or a certified copy of a receipt evidencing payment thereof.

(c) The Borrower agrees to indemnify the Bank for the full amount of Taxes or Other Taxes (including, without limitation, any Taxes or Other Taxes imposed or asserted by

any jurisdiction on amounts payable under this Section) paid by the Bank and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto. This indemnification shall be paid within 15 days after the Bank makes demand therefor.

(d) If the Borrower is required to pay additional amounts to or for the account of the Bank pursuant to this Section, then the Bank will change the jurisdiction of its Applicable Lending Office if in the reasonable judgment of the Bank, such change (i) will eliminate or reduce any such additional payment which may thereafter accrue and (ii) is not otherwise disadvantageous (other than in any insignificant respect) to the Bank.

**SECTION 7.05 *Base Rate Loans Substituted for Affected EuroDollar Loans*** . If (i) the ability of the Borrower to request, or convert outstanding Loans to, EuroDollar Loans has been suspended pursuant to Section 7.02 or (ii) the Bank has demanded compensation under Section 7.03 or 7.04 with respect to its EuroDollar Loans and the Borrower shall, by at least five EuroDollar Business Days' prior notice to the Bank, have elected that the provisions of this section shall apply to the Bank, then, unless and until the Bank notifies the Borrower that the circumstances giving rise to such suspension or demand for compensation no longer exist:

(a) all Loans which would otherwise be made by the Bank as (or continued as or converted into) EuroDollar Loans, as the case may be, shall instead be Base Rate Loans; and

(b) after each of its EuroDollar Loans has been repaid (or converted to a Base Rate Loan), all payments of principal which would otherwise be applied to repay such EuroDollar Loans shall be applied to repay its Base Rate Loans instead. If the Bank notifies the Borrower that the circumstances giving rise to such notice no longer apply, the principal amount of each such Base Rate Loan shall be converted into a EuroDollar Loan on the first day of the next succeeding Interest Period specified by the Bank.

## **ARTICLE 8 MISCELLANEOUS**

**SECTION 8.01 *Notices*** . All notices, requests and other communications to any party hereunder shall be in writing (including bank wire, facsimile transmission or similar writing) and shall be given to such party: (a) in the case of the Borrower or the Bank, at its address or facsimile number set forth on the signature pages hereof, or (b) in the case of any party, such other address or facsimile number as such party may hereafter specify for the purpose by notice to the Bank and the Borrower. A copy of each such notice to the Borrower also shall be sent in the manner set forth herein to the Guarantor at: Royal Gold, Inc, 1660 Wynkoop Street, Denver, Colorado 80202, Attn: Chief Financial Officer, fax: (303) 595-9385. Each such notice, request or other communication shall be effective (i) if given by facsimile transmission, when transmitted to the facsimile number specified on the signature pages hereof and confirmation of receipt is received, (ii) if given by mail, six Business Days after such communication is deposited in the mails with first class postage prepaid, addressed as aforesaid, (iii) if sent by recognized overnight courier, on the third Business Day after delivery to such courier, or (iv) if given by any other means, when delivered at the address specified on the signature pages hereof; provided that notices to the Bank under Article 2 or Article 7 shall not be effective until received.

SECTION 8.02 *No Waivers* . No failure or delay by the Bank in exercising any right, power or privilege hereunder or under the Note shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies herein provided shall be cumulative and not exclusive of any rights or remedies provided by law.

SECTION 8.03 *Expenses; Indemnification* . (a) The Borrower shall pay (i) all out-of-pocket expenses of the Bank, including the fees and disbursements of its counsel, in connection with the preparation of this Agreement and the other Financing Documents, any waiver or consent hereunder or thereunder or any amendment hereof or thereof or any Default hereunder, and (ii) if any Default or Event of Default occurs and is continuing or demand has been made, all out-of-pocket expenses incurred by the Bank, including the reasonable fees and disbursements of counsel, in connection with such Default or Event of Default, or demand, and collection, bankruptcy, insolvency and other enforcement proceedings resulting therefrom.

(b) The Borrower agrees to indemnify the Bank, its affiliates and the respective directors, officers, agents and employees of the foregoing (each an “**Indemnitee**”) and hold each Indemnitee harmless from and against any and all liabilities, losses, damages, costs and expenses of any kind (including, without limitation, the reasonable counsel fees and disbursements incurred by an Indemnitee in any proceedings between such Indemnitee and the Borrower or between such Indemnitee and any third party or otherwise), which may be incurred by such Indemnitee in connection with any investigative, administrative or judicial proceeding (whether or not such Indemnitee shall be designated a party thereto) brought or threatened relating to or arising out of this Agreement or any actual or proposed use of proceeds of Loans hereunder; *provided* that no Indemnitee shall have the right to be indemnified hereunder for such Indemnitee’s own gross negligence or willful misconduct as determined by a court of competent jurisdiction.

SECTION 8.04 *Amendments and Waivers* . Any provision of this Agreement or the Note may be amended or waived if but only if such amendment or waiver is in writing and is signed by the Borrower and the Bank.

SECTION 8.05 *Successors and Assigns* . The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, except that the Borrower may not assign or otherwise transfer any of its rights under this Agreement without the prior written consent of the Bank. The Bank may assign, or sell participations in, its right, title and interest in the Loans and in the Financing Documents, at any time or from time to time hereafter, in whole or in parts, without notice to or consent of the Borrower. If any assignment is made in part, the Borrower may continue to send notices solely to the Bank as provided herein.

SECTION 8.06 *Continuing Obligation* . Notwithstanding the occurrence and continuance of an Event of Default or the occurrence of the Termination Date, the Borrower’s obligations and agreements hereunder shall continue until all obligations, direct or contingent, have been satisfied.

SECTION 8.07 *Governing Law; Submission to Jurisdiction; etc* .



(a) This Agreement and the Note shall be governed by and construed in accordance with the internal laws of the State of New York without giving effect to conflict of law principles. The Borrower hereby irrevocably and unconditionally submits, for itself and its property (i) to the exclusive jurisdiction of any New York State court or federal court of the United States sitting in New York City, and any appellate court from any thereof, in any action or proceeding arising out of or relating to this Agreement or any of the other Financing Documents to which it is a party, and (ii) to the nonexclusive jurisdiction of any New York State court or federal court of the United States sitting in New York City, and any appellate court from any thereof, and any court sitting in Chile, for the recognition or enforcement of any such judgment, and the Borrower hereby irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be (i) heard and determined in any such New York State court or, to the fullest extent permitted by law, in such federal court and (ii) enforced in any such court or any court sitting in Chile. The Borrower hereby irrevocably appoints Guarantor as its agent to receive on behalf of itself and its property services of copies of the summons and complaint and any other process which may be served in any such action or proceeding. Such service may be made by mailing or delivering a copy of such process to the Borrower in care of Guarantor at its address set forth in Section 8.01, and the Borrower hereby irrevocably authorizes and directs Guarantor to accept such service on its behalf. As an alternative method of service, the Borrower also irrevocably consents to the service of any and all process in any such action or proceeding by the air mailing of copies of such process to the Borrower, at its then effective notice address pursuant to Section 8.01.

(b) The Borrower irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection that it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Agreement or any of the other Financing Document to which it is a party in any New York State or federal court sitting in New York City. Each of the parties hereto hereby irrevocably waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

(c) To the extent that the Borrower has or hereafter may acquire any immunity from jurisdiction of any court or from any legal process (whether through service or notice, attachment prior to judgment, attachment in aid of execution, execution or otherwise) with respect to itself or its property, the Borrower hereby acknowledges and agrees that the activities contemplated by the provisions of this Agreement and the other Financing Documents to which it is a party are commercial in nature, rather than governmental or public, and, therefore, irrevocably and unconditionally waives, to the extent permitted under applicable law, such immunity in respect of its obligations under the Financing Documents to which it is a party and, without limiting the generality of the foregoing, agrees that the waivers set forth in this Section 8.07(c) shall have the fullest scope permitted under the Foreign Sovereign Immunities Act of 1976 of the United States and are intended to be irrevocable for purposes of such Act. Without prejudice to the foregoing, in any action, suit, proceeding, cross claim or counterclaim in respect of or arising out of this Agreement whether in contract or tort, to the extent that the Borrower has or hereafter acquires any immunity from jurisdiction of any court or from any legal process (whether from service of notice, attachment in aid of execution, attachment prior to judgment, execution or otherwise) with respect to itself or its property, the Borrower hereby irrevocably waives such immunity in respect of its obligations under this Agreement, including,

without limitation, a waiver of immunity from the jurisdiction of courts of the United States or of courts of the states of the United States pursuant to 28 U.S.C. § 1605(a)(1), a waiver of immunity from attachment in aid of execution or from execution pursuant to 28 U.S.C. §§ 1610 (a)(1) and (b)(1), a waiver of immunity from attachment prior to judgment pursuant to 28 U.S.C. § 1610(d), and a waiver of any and all immunities provided by the International Organizations Immunities Act.

SECTION 8.08 *Currency* . This Agreement is being executed as part of an international loan transaction in which the specification of Dollars and payment at the offices of the Bank as provided herein (the “specified place of payment”), is of the essence, and Dollars shall be the currency of account in all events. All amounts due under this Agreement and the other Financing Documents shall be payable to the Bank in Dollars in immediately available funds in the specified place of payment and no alternative method of payment shall be permitted, notwithstanding any Dollar Constraint or any other contingency or force majeure. For purposes hereof “**Dollar Constraint**” shall mean any law, regulation, directive or communication imposed or issued by the government of Chile, or any other competent authority in Chile imposing foreign exchange controls or other restrictions which has the effect of prohibiting, preventing or delaying the remittance of Dollars to the Bank. The payment obligations of the Borrower under this Agreement stated to be payable in Dollars shall not be discharged by an amount paid in another currency or in another place, whether pursuant to a judgment or otherwise, to the extent that the amount so paid on conversion to Dollars and transferred to the specified place of payment under normal banking procedures does not yield the amount of Dollars in the specified place of payment due hereunder. If for the purpose of obtaining judgment in any court it is necessary to convert a sum due hereunder in Dollars into another currency (the “second currency”), the rate of exchange which shall be applied shall be that at which in accordance with normal banking procedures the Bank could purchase Dollars with the second currency on the Business Day next preceding that on which judgment is rendered. The obligation of the Borrower in respect of any such sum due from it to the Bank hereunder shall, notwithstanding the rate of exchange actually applied in rendering such judgment, be discharged only to the extent that on the Business Day following receipt by the Bank of any sum adjudged to be due hereunder in the second currency the Bank may in accordance with normal banking procedures purchase and transfer to the specified place of payment Dollars with the amount of the second currency so adjudged to be due; and the Borrower, hereby, as a separate obligation and notwithstanding any such judgment, agrees to indemnify the Bank against, and to pay the Bank on demand, in Dollars, any difference between the sum originally due to the Bank in Dollars and the amount of Dollars so purchased and transferred.

SECTION 8.09 *Counterparts; Integration; Effectiveness* . This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument. This Agreement constitutes the entire agreement and understanding among the parties hereto and supersedes any and all prior agreements and understandings, oral or written, relating to the subject matter hereof. This Agreement shall become effective upon receipt by the Bank of counterparts hereof signed by each of the parties hereto.

SECTION 8.10 *WAIVER OF JURY TRIAL* . EACH OF THE BORROWER AND THE BANK HEREBY IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY

JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

IN WITNESS WHEREOF this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

BORROWER

ROYAL GOLD CHILE LIMITADA

By: /s/ Tony Jensen

Name: Tony Jensen

Title: Legal Representative

By: /s/ Stefan Wenger

Name: Stefan Wenger

Title: Legal Representative

Av. Américo Vespucio Sur 80, piso 11  
CP 758 1050 Las Condes  
Santiago, CHILE

LENDER

HSBC BANK USA, NATIONAL ASSOCIATION

By: /s/ P.E. Kavanagh

Name: P.E. Kavanagh

Title: Senior Vice President, CB Resources and Energy Group  
Domestic Lending Office

452 Fifth Avenue

New York, NY 10018

Attn.: Ted Kavanagh

Facsimile: (212) 525-6581

EuroDollar Lending Office:

452 Fifth Avenue

New York, New York

NOTE

\$15,750,000

New York, New York  
March 1, 2007

For value received, ROYAL GOLD CHILE LIMITADA, a Chilean limited liability company (the “**Borrower**”), promises to pay to the order of HSBC Bank USA, NATIONAL ASSOCIATION (the “**Bank**”), the principal sum of FIFTEEN MILLION SEVEN HUNDRED AND FIFTY THOUSAND DOLLARS (\$15,750,000), or so much thereof as shall be advanced by the Bank to the Borrower as Loans pursuant to the Agreement referred to below and not be repaid, on the maturity date provided for in the Agreement. The Borrower promises to pay interest on the unpaid principal amount of each such Loan on the dates and at the rate or rates provided for in the Credit Agreement. All such payments of principal and interest shall be made in lawful money of the United States in Federal or other immediately available funds at the office of the Bank at 452 Fifth Avenue, New York, New York 10018.

All Loans made by the Bank, the respective types thereof and all repayments of the principal thereof shall be recorded by the Bank and, if the Bank so elects in connection with any transfer or enforcement hereof appropriate notations to evidence the foregoing information with respect to each such Loan then outstanding may be endorsed by the Bank on the schedule attached hereto, or on a continuation of such schedule attached to and made a part hereof provided that the failure of the Bank to make any such recordation or endorsement shall not affect the obligations of the Borrower hereunder or under the Credit Agreement.

This note is the Note referred to in the Term Loan Agreement dated as of March 1, 2007 between the Borrower and the Bank (as the same may be amended from time to time, the “**Agreement**”). Terms defined in the Agreement are used herein with the same meanings. Reference is made to the Agreement for provisions for the payment and prepayment hereof, the acceleration of the maturity hereof and the rights and remedies of the Bank hereunder.

ROYAL GOLD CHILE LIMITADA

By: /s/ Tony Jensen  
Name: Tony Jensen  
Title: Legal Representative

By: /s/ Stefan Wenger  
Name: Stefan Wenger  
Title: Legal Representative



**GUARANTEE**

Dated: as of March 1, 2007

**SECTION 1. Definitions.** The following terms have the following meanings unless otherwise specified herein:

“**Bankruptcy Code**” shall mean the United States Bankruptcy Code, and any amendments thereto (Title 11, United States Code).

“**Borrower**” shall mean Royal Gold Chile Limitada, a Chilean limited liability company.

“**Business Day**” shall mean any day except a Saturday, Sunday or other day on which commercial banks in New York City are authorized by law to close.

“**Claims**” shall mean each “claim” as that term is defined under Section 101(5) of Bankruptcy Code.

“**Collateral**” shall mean any property which directly or indirectly secures payment or performance of any of the Liabilities or Obligations.

“**Dollars**” shall mean the lawful currency of the United States.

“**Guarantor**” shall mean Royal Gold, Inc., a Delaware corporation.

“**Guarantee**” shall mean this Guarantee.

“**Lender**” shall mean HSBC Bank USA, National Association, its successors and assigns, and any Person acting as agent or nominee for HSBC Bank USA, National Association and any corporation or other entity which is owned or controlled directly or indirectly by, or is under common control with HSBC Bank USA, National Association, and/or HSBC Holdings plc.

“**Liabilities**” shall mean any and all indebtedness, obligations (whether monetary or non-monetary) and liabilities of Guarantor to Lender under this Guarantee, and all Claims thereon.

“**Loan Agreement**” shall mean that certain Term Loan Agreement, of even date herewith, among Borrower and HSBC Bank USA, National Association.

“**Obligations**” shall mean any and all indebtedness, obligations and liabilities of the Borrower to Lender under the Loan Agreement and related promissory note, and all Claims of Lender against the Borrower, now existing or hereafter arising under the Loan Agreement and related promissory note, in each case, whether absolute or contingent, secured or unsecured, matured or not matured, monetary or non-monetary, arising out of contract or tort, liquidated or unliquidated, arising by operation of law or otherwise and all extensions, renewals, refundings, replacements and modifications of any of the foregoing.

“**Person**” shall mean any natural person, corporation, limited liability company, partnership, trust, government or other association or legal entity.

“**United States**” means the United States of America.

**SECTION 2. Scope of Guarantee.** In consideration of any extension of credit or other financial accommodation heretofore, now or hereafter made by Lender to or for the account of the Borrower, whether voluntary or obligatory, Guarantor hereby absolutely, irrevocably and unconditionally guarantees, as primary obligor and not merely as surety, to Lender the prompt and complete payment and performance when due (whether at stated maturity, upon demand, by required prepayment, acceleration, or otherwise) of

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all Obligations and the performance of each of the Borrower's covenants and obligations under all loan agreements, documents and instruments evidencing or relating to any Obligations or under which any Obligations may have been issued, created, assumed, suffered involuntarily, or guaranteed, and the prompt and complete payment of all fees and expenses incurred in collecting or enforcing the same, including fees and reasonable expenses of legal counsel, as more fully set forth below, all of which conclusively shall be deemed to have been incurred in reliance upon this Guarantee, as if each of the foregoing were the direct and primary legal responsibility of Guarantor and not the Borrower.

**SECTION 3. Reinstatement.** If after receipt of any payment of, or of Collateral applied (or intended to be applied) to the payment of, all or any part of the Obligations, Lender is for any reason compelled to surrender or voluntarily surrenders, such payment or Collateral to any person, (a) because such payment or application of Collateral is or may be avoided, invalidated, declared fraudulent, set aside, determined to be void or voidable as a preference, fraudulent conveyance, impermissible setoff or a diversion of trust funds; or (b) for any other reason, including without limitation (i) any judgment, decree or order of any Court or administrative body having jurisdiction over Lender or any of its property, or (ii) any settlement or compromise of any such claim effected by Lender with any such claimant (including the Borrower), then the Obligations or part thereof intended to be satisfied shall be reinstated and continue and this Guarantee shall continue in full force as if such payment or Collateral had not been received by Lender, notwithstanding any revocation thereof or the cancellation of any note or other instrument evidencing any Obligation or otherwise; and Guarantor shall be liable to pay to Lender, and hereby does indemnify Lender and hold Lender harmless for, the amount of such payment or Collateral so surrendered and all expenses (including all attorneys' fees, court costs and expenses attributable thereto) incurred by Lender in the defense of any claim made against Lender that any payment or Collateral received by Lender in respect of all or any part of the Obligations must be surrendered. The provisions of this Section 3 shall survive the termination of this Guarantee, and any satisfaction and discharge of the Borrower by virtue of any payment, court order or any federal or state law.

**SECTION 4. Waiver.** Guarantor hereby waives (a) notice of acceptance of this Guarantee and all notice of the creation, extension or accrual of any of the Obligations; (b) promptness, diligence, presentment, demand for payment, notice of dishonor, and protest; (c) notice of any other nature whatsoever, except for notices specifically provided for in this Guarantee or which may not be waived under applicable law; (d) any requirement that Lender take any action whatsoever against the Borrower or any other party or file any claim in the event of Bankruptcy of the Borrower; or (e) failure to protect, preserve or resort to any Collateral or to exercise or enforce Lender's rights under any other guaranties of or security for the Obligations; and Guarantor further agrees that this Guarantee will not be discharged (subject to the provisions contained in Section 10) except by complete performance of all Obligations of the Borrower and the Liabilities of Guarantor hereunder.

**SECTION 5. Consent.** Guarantor hereby consents that from time to time, and without further notice to or consent of Guarantor, Lender may take any or all of the following actions without diminishing, releasing or otherwise affecting the liability of Guarantor to pay and perform under this Guarantee: (a) extend, renew, modify, compromise, settle or release the Obligations (including without limitation any increase or decrease in the interest rate); (b) release or compromise any liability of any party or parties with respect to Obligations; (c) release its security interest in any or all of the Collateral or exchange, surrender, or otherwise deal with the Collateral as Lender may determine; or (d) exercise or refrain from exercising any right or remedy of Lender against any person or property.

**SECTION 6. Guarantee Absolute.** The Guarantor acknowledges that this Guarantee and the Guarantor's obligations under this Guarantee are and shall at all times continue to be absolute and unconditional in all respects, and shall at all times be valid and enforceable irrespective of any other agreements or circumstances of any nature whatsoever which might otherwise constitute a defense to this Guarantee and the obligations of the Guarantor under this Guarantee or the obligations of any other person or party (including, without limitation, the Borrower) relating to this Guarantee, the Liabilities or the Obligations irrespective of any lack of validity, regularity or enforceability of the Obligations or any note, instrument or agreement evidencing the same or relating thereto, the acceptance of additional guaranties or collateral or the termination, by operation of law or otherwise, of the liability of anyone with respect to the



Obligations, or any other circumstance which might otherwise constitute a defense available to, or a discharge of, the Borrower.

**SECTION 7. WAIVER OF SUBROGATION. NOTWITHSTANDING ANY PAYMENT OR PAYMENTS MADE BY GUARANTOR HEREUNDER, OR ANY SETOFF BY LENDER OR APPLICATION BY LENDER OF ANY COLLATERAL OR OF ANY CREDITS OR CLAIMS, GUARANTOR WILL NOT ASSERT OR EXERCISE ANY RIGHTS OF LENDER OR GUARANTOR AGAINST THE BORROWER TO RECOVER THE AMOUNT OF ANY PAYMENT MADE BY GUARANTOR TO LENDER, BY SETOFF, APPLICATION OF ANY COLLATERAL OR OTHERWISE, HEREUNDER OR UNDER ANY OTHER GUARANTEE OR OTHER AGREEMENT BY WAY OF SUBROGATION, REIMBURSEMENT, CONTRIBUTION, INDEMNITY, OR OTHERWISE ARISING BY CONTRACT OR OPERATION OF LAW, AND GUARANTOR SHALL HAVE NO RIGHT OF RECOURSE TO OR ANY CLAIM AGAINST ANY ASSETS OR PROPERTY OF THE BORROWER, ALL OF SUCH RIGHTS BEING HEREIN EXPRESSLY WAIVED BY GUARANTOR UNLESS AND UNTIL ALL OF THE OBLIGATIONS OF THE BORROWER HAVE BEEN SATISFIED IN FULL.** If there is more than one Guarantor, each Guarantor agrees not to seek contribution from any other Guarantor until all the Obligations shall have been paid in full. If any amount shall nevertheless be paid to a Guarantor by Borrower or another Guarantor such amount shall be held in trust for the benefit of Lender and shall forthwith be paid to Lender to be credited and applied to the Obligations, whether matured or unmatured. The provisions of this Section 7 shall survive the termination of this Guarantee, and any satisfaction and discharge of the Borrower by virtue of any payment, court order or any federal or state law.

**SECTION 8. Expenses.** Guarantor hereby agrees to pay any and all expenses incurred by Lender in enforcing any rights under this Guarantee or in defending any of its rights or any amounts received hereunder. Without limiting the foregoing, Guarantor agrees that whenever any attorney is used by Lender to obtain payment hereunder, to advise it as to its rights, to adjudicate the rights of the parties hereunder or for the defense of any of its rights or amounts received hereunder, Lender shall be entitled to recover all reasonable attorneys' fees, court costs, and expenses attributable thereto.

**SECTION 9. Binding Effect.** Except to the extent it may be terminated in accordance with Section 10, this Guarantee shall remain in full force and effect and shall be binding upon Guarantor, its successors and assigns, in accordance with its terms, notwithstanding any increase, decrease or change in the partners of Guarantor, if it should be a partnership, or the merger, consolidation, or reorganization of Guarantor, if it be a corporation or limited liability company, or any other change concerning the form, structure or substance of any such entity.

**SECTION 10. Continuing Guarantee; Termination.** This Guarantee is a continuing guarantee, which shall remain in effect until notice of termination in writing from Guarantor is actually received by Lender at Lender's address set forth below. Such termination will be effective only with respect to all Obligations incurred or contracted by the Borrower or acquired by Lender after the date on which such notice is so received, but this Guarantee shall remain in full force and effect as to all Obligations existing at the date of receipt of such notice, including all renewals, compromises, modifications, extensions and other amendments relating thereto, all interest thereon and collection expenses therefor, until full payment of such Obligations to Lender.

**SECTION 11. Obligations Deemed to Become Due.** If the Borrower or Guarantor makes an assignment for the benefit of creditors or a trustee or receiver is appointed for the Borrower or Guarantor or for any of its respective property; or any proceeding by or against the Borrower or Guarantor (or any other guarantor), under any bankruptcy, reorganization, arrangement of debt, insolvency, readjustment of debt, receivership, liquidation or dissolution law or statute is commenced; or Guarantor fails to furnish to Lender such financial information concerning Guarantor as Lender may from time to time reasonably request, as the case may be, then all Obligations, regardless of their terms, for the purposes of this Guarantee, together with all Liabilities, shall be immediately due and payable, notwithstanding the absence of any default by the Borrower under any of the Obligations.

SECTION 12. Assignment. Lender may, without notice, assign the Obligations, in whole or in part, and each successive assignee of the Obligations so assigned may enforce this Guarantee for its own benefit with respect to the Obligations so assigned.

SECTION 13. Notices. Each notice or other communication hereunder shall be in writing, shall be sent by messenger, by certified or registered first class mail, return receipt requested, by Federal Express, Express Mail or other recognized overnight delivery service or by facsimile transmitter or tested telex (if such facsimile or telex number is noted as provided herein), and shall be effective if by hand, upon delivery, if by such overnight delivery service, one (1) day after dispatch, and if mailed by first class mail as above-provided, five (5) days after mailing, and shall be sent as follows:

If to the Guarantor, to the address, facsimile, or tested telex number set forth below its signature or such other address, facsimile or tested telex number as it may designate, by written notice to Lender as herein provided or such other address, facsimile or tested telex number as may appear in the records of Lender.

If to Lender, to the following address:

HSBC Bank USA, National Association  
452 Fifth Avenue  
New York, New York 10018  
Attention: Ted Kavanagh  
Fax: (212) 525-6581

or such other address as it may designate, by written notice to the Guarantor as herein provided.

SECTION 14. Other Guarantees; Amendments. The execution and delivery hereafter to Lender by Guarantor of a new instrument of guarantee shall not terminate, supersede or cancel this instrument, unless expressly provided therein, and this instrument shall not terminate, supersede or cancel any instrument of guarantee previously delivered to Lender by Guarantor, and all rights and remedies of Lender hereunder or under any instrument of guarantee hereafter or heretofore executed and delivered to Lender by Guarantor shall be cumulative and may be exercised singly or concurrently. **This Guarantee may be amended only by a writing executed by Guarantor and a duly authorized officer of Lender; provided, that Lender is authorized to fill in any blank spaces and to otherwise complete this Guarantee and correct any patent errors herein.** Notwithstanding anything to the contrary set forth above, this Guarantee supersedes and replaces in its entirety all guarantees executed by Guarantor in favor of Lender prior to the date hereof.

SECTION 15. No Waiver; Cumulative Remedies. No delay on the part of Lender in exercising any of its options, powers or rights, or partial or single exercise thereof, shall constitute a waiver thereof. **NO WAIVER OF ANY PROVISION OF THIS GUARANTEE IS EFFECTIVE UNLESS MADE IN WRITING AND EXECUTED BY A DULY AUTHORIZED OFFICER OF LENDER.** All rights and remedies hereunder are cumulative and may be exercised singly or concurrently.

SECTION 16. Statute of Limitations. Any acknowledgment, new promise, payment of principal or interest or other act by the Borrower or others with respect to the Obligations shall be deemed to be made as agent of Guarantor, and shall, if the statute of limitations in favor of Guarantor against Lender shall have commenced to run, toll the running of such statute of limitations, and if such statute of limitations shall have expired, prevent the operation of such statute.

**SECTION 17. GOVERNING LAW; CONSENT TO JURISDICTION; SERVICE OF PROCESS. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAWS OF THE STATE OF NEW YORK WITHOUT GIVING EFFECT TO CONFLICT OF LAWS PRINCIPLES. GUARANTOR AGREES THAT ANY ACTION, SUIT OR PROCEEDING IN RESPECT OF OR ARISING OUT OF THIS AGREEMENT MAY BE INITIATED AND PROSECUTED IN ANY COURT IN THE STATE OR FEDERAL COURTS, AS THE CASE MAY BE, LOCATED IN NEW YORK COUNTY, NEW YORK. GUARANTOR**

**CONSENTS AND SUBMITS TO THE EXERCISE OF NON-EXCLUSIVE JURISDICTION OVER ITS PERSON BY ANY SUCH COURT HAVING JURISDICTION OVER THE SUBJECT MATTER, AND CONSENTS TO THE SERVICE OF PROCESS IN ANY SUCH ACTION OR PROCEEDING BROUGHT IN NEW YORK BY THE DELIVERY OF SUCH PROCESS TO GUARANTOR AT ITS ADDRESS REFERRED TO IN SECTION 13 HEREOF. GUARANTOR HEREBY AGREES THAT THE FAILURE OF GUARANTOR TO ACTUALLY RECEIVE SUCH COPY BY UNITED STATES REGISTERED MAIL SHALL NOT IMPAIR OR AFFECT THE VALIDITY OF SUCH SERVICE OR ANY JUDGMENT RENDERED IN ANY ACTION OR PROCEEDING BASED THEREON. NOTHING IN THIS SECTION 17 SHALL AFFECT THE RIGHT OF THE LENDER TO SERVE LEGAL PROCESS IN ANY OTHER MANNER PERMITTED BY LAW. GUARANTOR AGREES THAT A FINAL JUDGMENT IN ANY SUCH ACTION OR PROCEEDING SHALL BE CONCLUSIVE AND MAY BE ENFORCED IN OTHER JURISDICTIONS BY SUIT ON THE JUDGMENT OR IN ANY OTHER MANNER PROVIDED BY LAW.**

**SECTION 18. Payments Free and Clear of All Taxes.** Each payment to be made hereunder shall be free and clear of, and without deductions for or on account of any present or future taxes, imposts, charges, levies, compulsory loans or other withholdings or deductions whatsoever. If Guarantor shall be required by applicable law to make any such deduction from any payment hereunder, (i) the sum payable shall be increased as may be necessary so that after making all required deductions (including deductions applicable to additional sums payable under this paragraph) Lender receives an amount equal to the sum it would have received had no deductions been made, (ii) Guarantor shall make such deductions, and (iii) Guarantor shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law. In addition, Guarantor agrees to pay, if necessary, all stamp, documentary, or similar taxes or any other excise or property taxes, charges or similar levies which arise from any payment made hereunder or from the execution, delivery or registration of, or otherwise with respect to, this instrument.

**SECTION 19 Currency.** This Agreement is being executed as part of an international loan transaction in which the specification of Dollars and payment at the offices of Lender at the address specified in Section 13 above (the “specified place of payment”), is of the essence, and Dollars shall be the currency of account in all events. All amounts due under this Agreement shall be payable to Lender in the United States, as set forth above, in Dollars in immediately available funds in the specified place of payment and no alternative method of payment shall be permitted, notwithstanding any Dollar Constraint or any other contingency or force majeure. For purposes hereof, “Dollar Constraint” shall mean any law, regulation, directive or communication imposed or issued by the government of Chile or any other competent authority in Chile imposing foreign exchange controls or other restrictions which has the effect of prohibiting, preventing or delaying the remittance of Dollars to Lender. The payment obligations of Guarantor under this Agreement stated to be payable in Dollars shall not be discharged by an amount paid in another currency or in another place, whether pursuant to a judgment or otherwise, to the extent that the amount so paid on conversion to Dollars and transferred to the specified place of payment under normal banking procedures does not yield the amount of Dollars in the specified place of payment due hereunder. If for the purpose of obtaining judgment in any court it is necessary to convert a sum due hereunder in Dollars into another currency (the “second currency”), the rate of exchange which shall be applied shall be that at which in accordance with normal banking procedures Lender could purchase Dollars with the second currency on the Business Day next preceding that on which judgment is rendered. The obligation of Guarantor in respect of any such sum due from it to Lender hereunder shall, notwithstanding the rate of exchange actually applied in rendering such judgment, be discharged only to the extent that on the Business Day following receipt by Lender of any sum adjudged to be due hereunder in the second currency Lender may in accordance with normal banking procedures purchase and transfer to the specified place of payment Dollars with the amount of the second currency so adjudged to be due; and Guarantor, hereby, as a separate obligation and notwithstanding any such judgment, agrees to indemnify Lender against, and to pay Lender on demand, in Dollars, any difference between the sum originally due to Lender in Dollars and the amount of Dollars so purchased and transferred.

**SECTION 20. Severability.** If any one or more of the provisions contained in this Guarantee or any document executed in connection herewith shall be invalid, illegal or unenforceable in any respect under

any applicable law, the validity, legality and enforceability of the remaining provisions contained herein shall not (to the full extent permitted by law) in any way be affected or impaired.

**SECTION 21. Headings.** The descriptive headings used in this Guarantee are for convenience only and shall not be deemed to affect the meaning or construction of any provision hereof.

**SECTION 22. WAIVER OF CERTAIN OTHER RIGHTS. GUARANTOR HEREBY WAIVES THE RIGHT TO INTERPOSE ANY DEFENSE, SET-OFF, COUNTERCLAIM OR CROSS-CLAIM OF ANY NATURE OR DESCRIPTION, ANY OBJECTION BASED ON FORUM NON CONVENIENS OR VENUE, AND ANY CLAIM FOR CONSEQUENTIAL, PUNITIVE OR SPECIAL DAMAGES.**

**SECTION 23. REPRESENTATIONS AND WARRANTIES OF GUARANTOR.**

Guarantor represents and warrants to Lender that:

(i) Validity; Due Authorization. Guarantor (i) is a corporation duly organized, validly existing and in good standing under the General Corporation Law of the State of Delaware; (ii) is duly qualified and in good standing in every jurisdiction in which it presently engages in business and in which such qualification is required; (iii) has the power, authority and legal right to own, lease and enjoy undisturbed the assets of its business and engage in its business as now conducted; and (iv) has the power, authority and legal right to enter into and execute this Guarantee.

(ii) Financial Statements. The financial statements of Guarantor previously delivered to Lender are the most recently available financial statements and are complete and correct and present fairly the financial condition of Guarantor and there has been no material adverse change in the financial condition of Guarantor since the date of such financial statements.

(iii) Other Agreements. Neither the execution, delivery and performance of this Guarantee, nor the consummation of the transactions contemplated herein, nor compliance with the terms, conditions and provisions hereof will violate, conflict with or result in the breach of any of the terms, conditions or provisions of the charter documents of Guarantor, or of any indenture or other agreement to which Guarantor is now a party or otherwise bound or to which any of its properties or other assets is subject, or any law, statute, order, rule or regulation of any government instrumentality applicable to any of them or by which its property is bound nor will it result in the creation or imposition of any lien except for those being created in favor of Lender.

(iv) Litigation. There are no pending or threatened actions, suits or proceedings against or affecting Guarantor by or before any court, commission, bureau or other governmental agency or instrumentality, which, individually or in the aggregate, if determined adversely to Guarantor, would have a material adverse effect on the business, properties, operations, or condition, financial or otherwise, of Guarantor.

(v) Solvency. Guarantor is Solvent prior to and after giving effect to the consummation of the transactions contemplated by this Guarantee. (For the purposes hereof, Guarantor is "Solvent" if (i) the fair market value of all of its property is in excess of the total amount of its debts (including contingent liabilities); (ii) it is able to pay its debts as they mature; (iii) it does not have unreasonably small capital for the business in which it is engaged or for any business or transaction in which it is about to engage; and (iv) it is not "insolvent" as such term is defined in Section 101 (32) of the Bankruptcy Code.)

**SECTION 24. WAIVER OF TRIAL BY JURY. EACH OF LENDER AND GUARANTOR HEREBY WAIVES TRIAL BY JURY IN ANY ACTION, PROCEEDING, CROSS-CLAIM OR COUNTERCLAIM BROUGHT BY OR AGAINST IT ON ANY MATTERS WHATSOEVER, IN CONTRACT OR IN TORT, ARISING OUT OF OR IN ANY WAY CONNECTED WITH THIS GUARANTEE OR THE OBLIGATIONS.**

IN WITNESS WHEREOF, the Guarantor has executed this Guarantee.

[SEAL]

Chief Executive Office and Address for Notice:

ROYAL GOLD, INC.

1660 Wynkoop Street  
Suite 1600  
Denver, Colorado 80202-1132

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

Attn: Chief Financial Officer  
Fax: (303) 595 9385

City and County of Denver  
State of Colorado

On this 1st day of March, 2007, before me personally appeared Tony Jensen, to me known, and known to me to be the President and Chief Executive Officer of Royal Gold, Inc., the corporation which executed the foregoing instrument, and the said person duly acknowledged to me that it executed said instrument for and on behalf of and with the authority of the said corporation for the uses and purposes therein mentioned.

Karen Passavanti Gross  
Notary Public

My Commission Expires: 07-02-2007



1660 Wynkoop St., Suite 1000  
Denver, Colorado 80202-1132  
(303) 573-1660  
FAX (303) 595-9385  
www.royalgold.com  
Email: royalgold@royalgold.com



February 28, 2007

**Private & Confidential**

Mr. Mark Kucher  
Chairman  
Battle Mountain Gold Exploration Corp.  
One East Liberty Street  
Sixth Floor, Suite 9  
Reno, Nevada 89504

**Re: One Year Bridge Facility for Battle Mountain Gold Exploration Corp.  
And BMGX (Barbados) Corporation**

Dear Mr. Kucher:

Royal Gold, Inc. ("Royal") is willing to provide Battle Mountain Gold Exploration Corp. ("BMGX") and BMGX (Barbados) Corporation ("BBC") a secured one year bridge facility for the repayment of certain bridge funding already in place, for the partial prepayment of certain debt obligations, and for the acquisition of specified royalty interests on the terms and subject to the conditions set forth in this letter agreement and in the US \$20.0 Million Bridge Loan Term Sheet attached to and by this reference incorporated into this letter agreement ("Term Sheet"). BMGX and BBC may accept this offer of finance at any time prior to 5:00 PM PST on Wednesday, February 28, 2007, by executing duplicate original copies of this letter agreement and returning one fully executed original to Royal.

**General Characteristics of Bridge Facility**

The \$20.0 Million Bridge Term Loan (the "Facility") shall be a one-year term loan available (subject to certain conditions in the final documentation) in up to four advances totalling, in the aggregate, up to US \$20 million. Proceeds from the Facility may be used only for the purposes specified in the Term Sheet. The amount available under the Facility may be reduced from US \$20 million to US \$15 million upon the occurrence of the event specified under "Facility Amount" in the Term Sheet. Advances under the Facility shall bear interest at twelve (12) month LIBOR plus three percent (3%). Interest shall accrue and be paid, with the outstanding principal, in cash 365 days from the Closing Date, which shall be March 9, 2007 or such other date as the parties shall agree in writing.

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Royal shall have the right at any time to convert all principal, interest or other expenses due into common shares of BMGX at the conversion price specified under "Conversion Option" in the Term Sheet.

The Facility and all obligations of BMGX and BBC shall be secured by a second ranking security interest in the assets of BMGX and BBC, ranking only behind the existing Gold Facility Agreement between BMGX and Macquarie Bank Limited in terms of priority. However, upon completion of certain prepayments specified under "Security" in the Term Sheet, Royal shall be granted a first priority perfected security interest in certain royalty interests to be acquired in whole or in part with proceeds from the Facility, as set forth under "Security" in the Term Sheet.

The Facility shall include representations, warranties, affirmative and negative covenants, events of defaults, indemnifications and other provisions customary for transactions of this type, including but not limited to those set forth in the Term Sheet.

### **Definitive Documentation**

The "Definitive Documentation" for the Facility is anticipated to include:

- a Bridge Term Loan Agreement between BMGX, BBC and Royal;
- a Deposit Account Control Agreement between BMGX, BBC, Royal and BMGX's bank in respect of the proceeds account described under "Royalty Proceeds Account" in the Term Sheet;
- an intercreditor agreement between BMGX, BBC, Royal, IAMGOLD and Macquarie Bank Limited;
- a subordination agreement between BMGX, Royal and IAMGOLD; and
- such mortgages, other security documents or other documents as may be necessary to effect the transactions contemplated in this Letter Agreement and the Facility and to create and perfect security interests in the assets and royalty interests held by BMGX and its affiliates, as described under "Security" in the Term Sheet.

### **Schedule**

Immediately following acceptance of this offer of finance as provided herein, Royal, BBC and BMGX shall work expeditiously and in good faith to execute and deliver the Definitive Documentation on or before the Closing Date. Royal, BBC and BMGX anticipate funding the first advance on March 22, 2007.

### **Information**

Each of BBC and BMGX hereby represents and warrants that (i) all information concerning BMGX and BBC or any of their subsidiaries that has been or will be made available to Royal or any of Royal's representatives, subsidiaries or affiliates is, or will be when furnished, complete and correct in all material respects and does not, or will not when furnished, contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statement contained



therein not misleading in light of the circumstances under which such statements are made and (ii) all financial projections concerning BMGX or BBC that have been or will be made available to Royal have been prepared or will be prepared in good faith based upon reasonable assumptions at the time they were made. You agree to supplement, or cause to be supplemented, the information provided to Royal as described above from time to time until the Closing Date.

### **Complete Agreement**

This letter agreement constitutes the complete agreement between the parties with respect to Royal's provision of the Facility to BMGX and BBC. This letter agreement, together with the Term Sheet, is intended to constitute legally binding and enforceable obligations of the parties, subject to execution and delivery of Definitive Documentation, which when executed and delivered shall supersede and replace this letter agreement in all respects and for all purposes. In the event the Definitive Documentation is not executed and delivered prior to March 22, 2007, then Royal nonetheless shall fund in accordance with the Term Sheet and Royal, BBC, and BMGX shall continue to work diligently toward a closing on the Definitive Documentation at the earliest possible date.

### **Termination**

If not accepted by BMGX and BBC in the manner provided herein at or before 5:00 PM PST on February 28, 2007, this offer of finance shall expire and, in the absence of bad faith, neither party shall have any duty or obligation to the other. If BMGX and BBC desire to accept this offer of finance but are unable to do so because Macquarie Bank Limited has not consented to the transactions contemplated herein, then Royal, BMGX and BBC shall negotiate in good faith a reasonable extension to the foregoing deadline, and the same deadline set forth in paragraph 9 of the letter of intent between Royal and BMGX dated February 24, 2007 (the "Letter of Intent") shall be amended accordingly. If this offer of finance shall expire without timely acceptance:

- the provisions of the Nondisclosure Agreement between Royal and BMGX dated February 21, 2007, as amended from time to time (the "Nondisclosure Agreement"), shall continue in full force and effect in accordance with its terms; but
- the Letter of Intent shall terminate in accordance with paragraph 9 thereof in the absence of bad faith or breach of paragraph 5 thereof.

### **Indemnification**

BBC and BMGX agree to indemnify and hold harmless Royal and each of its respective affiliates, directors, officers, employees, partners, representatives and agents and each of their respective heirs, successors and assigns (each, an "Indemnified Party") for any loss, action, suit, damages, expenses, liability or claim of any kind or nature to which such Indemnified Party may become subject with respect to the execution, delivery, enforcement and performance of this letter agreement or the Definitive Documentation.

**Confidentiality**

Royal and BMGX ratify and confirm, and agree to continue to be bound by, the terms and conditions of the Nondisclosure Agreement.

**Applicable Law**

This letter agreement shall be governed by and construed in accordance with the laws of the State of Colorado without giving effect to the conflict of laws provisions thereof.

**Confirmation of Acceptance**

If the terms and conditions of finance set out in this letter agreement and the Term Sheet are acceptable to you, please indicate your acceptance by signing duplicate original copies of this letter and returning one fully-executed original to us.

Very truly yours,

ROYAL GOLD, INC.

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

**Accepted for and on behalf of Battle Mountain Gold Exploration Corp.**

By: /s/ Mark D. Kucher  
Mark D. Kucher  
Chairman

Date: February 28, 2007

**Accepted for and on behalf of BMGX (Barbados) Corporation**

By: /s/ Mark D. Kucher  
Mark D. Kucher  
President

Date: February 28, 2007



**BMGX (Barbados) Corporation**

*a subsidiary of*

**Battle Mountain Gold Exploration Corp.**

**US\$20.0 million Bridge Loan Term Sheet**

February 2007

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<b>Co – Borrowers :</b>	BMGX (Barbados) Corporation (“BBC”) and Battle Mountain Gold Exploration Corp. (“BMGX”) on a joint and several basis
<b>Lender :</b>	Royal Gold, Inc., a Delaware corporation
<b>Facility:</b>	A term loan available in up to four draws
<b>Purpose:</b>	To part finance (i) the acquisition of the 2% NSR royalty on gold and silver production from the Dolores project (the “Dolores Royalty II”) for cash consideration of not more than US\$9,450,000, (ii) the acquisition of a royalty interest in Interest A for cash consideration of not more than US\$5,000,000 (the “Interest A Royalty”), (iii) the acquisition of a royalty interest in Interest B for cash consideration of not more than US\$3,500,000 (the “Interest B Royalty”), (iv) the prepayment of the Gold Facility Agreement for which advances under the Facility shall not be more than US\$600,000 and (v) the repayment and cancellation of the US\$4,000,000 Bridge Finance Facility Agreement, between Battle Mountain Gold Exploration Corp. and 1212500 Alberta Ltd., as Borrowers, and Macquarie Bank Limited, as Bridge Lender, dated April 25, 2006 (the “Bridge Loan”), which payment may include accrued interest of up to US\$450,000, provided, however, that the Borrower may not use the Facility for the purpose outlined in (iv) or (v) above until after, or simultaneously with, the closing of the Dolores Royalty II acquisition.
<b>Facility Amount:</b>	Up to US\$20,000,000, provided, however, that to the extent the acquisition of Interest A Royalty has not been completed by March 31, 2007 (the “Transition Date”), the available Facility Amount will be reduced to US\$15,000,000.
<b>Interest Rate:</b>	Advances under the Facility shall bear interest at twelve (12) month LIBOR plus 3%. LIBOR shall be determined with reference to the quote contained in the Wall Street Journal on the date of the giving of a Notice of Borrowing.
<b>Default Rate:</b>	Upon the occurrence and continuation of a Default or Event of Default, advances under the Facility shall bear interest at an interest rate of the Interest Rate plus 2% per annum.
<b>Interest Payments:</b>	Interest payable under the Facility shall accrue and be paid in cash on the Maturity Date, unless paid prior to the Maturity Date as the result of a Mandatory Prepayment.
<b>Maturity Date:</b>	365 days from the Closing Date
<b>Amortization:</b>	All amounts outstanding under the Facility shall mature on the Maturity Date. Any amounts repaid under the Facility may not be re-borrowed.





- Security:** The Facility shall be secured by a second ranking security interest in the assets of the Borrowers, ranking only behind the Gold Facility Agreement in terms of priority. However, upon completion of the Initial Gold Facility Prepayment and the Secondary Gold Facility Prepayment, the Lender shall be granted a first priority perfected security interest in the Dolores Royalty II, the Interest A Royalty, the Interest B Royalty and the Royalty Proceeds Account.
- Royalty Proceeds Account:** Upon completion of the Initial Gold Facility Prepayment and the Secondary Gold Facility Prepayment, the Borrowers will establish a proceeds account into which royalty payments from the Dolores Royalty II, the Interest A Royalty and the Interest B Royalty must be deposited.
- Mandatory Prepayments:** To the extent the Facility Amount has been reduced due to a failure to complete the acquisition of the Interest A Royalty by the Transition Date, any advances in excess of US\$15,000,000 shall be repaid within five business days of the Transition Date.
- Advances under the Facility shall be subject to mandatory prepayments as follows:
- (a) 100% of the net proceeds received from any debt issuance by the Borrowers;
  - (b) 100% of the net proceeds received from any equity issuance by the BMGX;
  - (c) 100% of the net proceeds received from any permitted asset sale by the Borrowers. and
  - (d) 100% of any proceeds received in the Royalty Proceeds Account.
- Net proceeds shall be defined as gross proceeds received less (i) all costs and expenses associated with the issuance of capital securities or the sale of assets and any mandatory prepayment and (ii) all mandatory prepayments required under the Gold Facility Agreement. Mandatory Prepayments shall first be applied to accrued but unpaid interest and then to principal.
- To the extent the Definitive Merger Agreement has not been executed within the timeframe contemplated by the Letter of Intent, and the deadline for execution has not been extended, or the Lender and BMGX terminate discussions regarding the Definitive Merger Agreement, BMGX shall make a mandatory prepayment in an amount equal to the net proceeds available in the Escrow Account, net of estimated expenses of this transaction and customary costs and expenses associated with the equity issuance.



**Conversion Option:**

The Lender shall have the right at any time to convert all principal, interest or other expenses due into common shares of the Guarantor at a conversion price of US\$0.60 per share, provided, however, that if the Definitive Merger Agreement has not been executed within the timeframe contemplated by the Letter of Interest, and the deadline for execution has not been extended, or the Lender and BMGX terminate discussions regarding the Definitive Merger Agreement, the Lender shall have 45 days after such termination to exercise its conversion option. If not exercised within 45 days of the such termination date, the conversion option shall terminate.

**Representations and Warranties:**

The Borrowers and their subsidiaries will make customary Representations and Warranties, on the Closing Date and each date on which an advance is requested, including, but not limited to:

- (a) Organization and Ownership : The Borrowers are duly organized and validly existing under the laws of the jurisdictions in which they are incorporated and are qualified to do business in all jurisdictions where the nature of their business or the ownership of their assets so requires. The Borrowers have all requisite power and authority to own or lease their property and carry on their business.
- (b) Financial Condition : The financial statements delivered to the Lender as and when required under the Facility are complete and correct and fairly present, in all material respects, the consolidated financial condition of the Borrowers, all in accordance with GAAP. There are no material liabilities or obligations of any nature whatsoever except as fully disclosed in the financial statements.
- (c) Ownership : The capital of BBC is beneficially owned by BMGX and no other person has a beneficial interest in the shares of BBC, other than an interest created by the security documents under the Gold Facility Agreement.
- (d) Authority : The Borrowers have the authority to enter into the financing and security documents associated with the Facility.
- (e) Binding Agreement : Each financing and security document executed in connection with the Facility has been duly authorized and executed and constitutes a valid and binding obligation enforceable against the Borrowers.
- (f) No Conflicts : The execution and delivery of the documentation associated with the Facility do not conflict with or violate the terms of the Gold Facility Agreement or any other agreement of the Borrowers.
- (g) Consents and Approvals : All consents and approvals that are necessary for the execution and delivery of the financing and security documents and the performance of the Borrowers of their obligations under the Facility shall be in full force and effect, including, for the avoidance of doubt, all consents and approvals required under the Gold Facility Agreement and the IAMGOLD Debenture.



- (h) Litigation : Except as disclosed to the Lender, there are no material actions, suits or proceedings against, or to the knowledge of the Borrowers, threatened against the Borrowers or their properties.
- (i) Immunity : The Borrowers have no immunity from jurisdiction of any court or from any legal process.
- (j) Title to Royalties : The Borrowers have good title to their royalty interests and have duly registered the royalty agreement in the local jurisdiction as necessary or desirable under local law.
- (k) Taxes : The Borrowers have filed or caused to be filed all material tax returns required to be filed and have paid all taxes shown to be due and payable on such returns. There are no material disputes pending or threatened against the Borrowers.
- (l) No Default : No Default or Event of Default has occurred and is continuing.

**Affirmative Covenants:**

The Borrowers, and their subsidiaries, agree to enter into covenants customary for transactions of this type, until the obligations under the Facility have been paid in full and the commitments terminated, including but not limited to:

- (a) Information : The Borrowers will provide to the Lender all reserve, operating and projected technical and financial information provided to them by the operators of the properties in which either party owns a royalty interest. The Borrowers will, within five business days of receipt, provide to the Lender all supporting statements provided by the operators of the properties in which either party has a royalty interest that accompany any royalty payment.
- (b) Financial Statements : The Borrowers will provide quarterly income, balance sheet and cash flow statements for the first three fiscal quarters of each year within 45 days of each quarter end and will provide an annual income, balance sheet and cash flow statement to the Lender within 90 days of each fiscal year end. All annual financial statements issued by BMGX shall be audited in accordance with GAAP by a recognized international accounting firm.
- (c) Notices of Extraordinary Events : The Borrowers will provide notices of any material event, including (i) any Default or Event of Default, (ii) any litigation, arbitration or governmental proceeding affecting its operations or the properties on which a royalty interest is held, and (iii) any default or termination of any material contract, including, without limitation any royalty contract or the Gold Facility Agreement.
- (d) Existence : The Borrowers will take all steps necessary to maintain their existence and to continue their current business.
- (e) Maintain Royalty Interests : The Borrowers shall take all action required to maintain its royalty contracts as validly existing, fully registered with the mining or other public registries, and



legalized and notarized (where required) in their local jurisdiction.

- (f) Payment of Taxes : The Borrowers will ensure that all mining taxes, withholding taxes and other taxes applicable to all royalty interests are paid and discharged as and when they become due. The Borrowers shall gross up any interest or principal payment made to the Lender for any withholding tax associated with such payment.
- (g) Compliance with Law : The Borrowers shall comply with all laws, rules and regulations applicable in the jurisdictions in which they operate.
- (h) Gold Facility Prepayments : BMGX shall use reasonable commercial efforts to complete the Initial Gold Facility Prepayment and the Secondary Gold Facility Prepayment within three (3) months of the initial advance under the Facility and take all action necessary to facilitate the exercise of common share warrants.

#### **Negative Covenants:**

The Borrowers, and their subsidiaries, agree to enter into covenants customary for transactions of this type, until the obligations under the Facility have been paid in full and the commitments terminated, including but not limited to:

- (a) Asset Sales : The Borrowers may not sell or transfer any royalty contract or interest, including sales or transfers to affiliates, parent entities or subsidiaries.
- (b) Limitations on Indebtedness : The Borrowers may not incur additional indebtedness of any kind, unless the proceeds from such issuance are used to make a required Mandatory Prepayment under the Facility.
- (c) Limitations on Liens : The Borrowers may not incur or suffer to exist any lien on its assets, other than existing liens associated with the Gold Facility Agreement and the IAMGOLD Debenture and liens created under the Facility.
- (d) Limitation on Dividends : The Borrowers shall not make any cash dividend payment, subordinated interest or debt payment or any common share repurchase payment, provided, however, that the BBC may make dividend payments to BMGX.
- (e) Limitation on Issuance of Securities : Prior to execution of the Definitive Merger Documentation, the Borrowers shall not issue any additional securities, including without limitation, removing any securities from the escrow account established with Jones, Gable & Co. in connection with BMGX's sale of common stock (the "Escrow Account").
- (f) Amendment to Material Contracts : The Borrowers may not amend any material contract, including, without limitation, royalty contracts or the Gold Facility Agreement without the prior written approval of the Lender, provided, however, that the Gold Facility Agreement may be amended without Lender approval if the amendments do not increase the loan amount,





increase the applicable interest rates or accelerate the scheduled amortization of the loan. For the avoidance of doubt, Lender approval shall not be required for any acceleration of the scheduled amortization under the Gold Facility Agreement as a result of the existing terms and conditions of that facility, including the making of mandatory prepayments and any exercise by Macquarie of its right of offset.

- (g) Amendments to Organizational Documents : The Borrowers shall not amend their by-laws or other organizational documents.
- (h) Use of Proceeds : The Borrowers may not use proceeds advanced under the Facility other than as outlined under Purpose above.
- (i) Arms Length Transactions : The Borrowers shall not undertake any transaction with a related party unless such terms are no less favorable than those that could be obtained in a transaction with a third party.
- (j) Subsidiaries : The Borrowers shall not establish any new subsidiaries or affiliates.
- (k) Hedging : The Borrowers may not undertake any metal hedging transactions, including forward sales, options, gold loans or any other instrument that fixes, caps or otherwise limits the future metal prices to be received from the future royalty payments.

**Events of Default:**

The Facility shall include customary Events of Default, including the following:

- (a) Payment Default: Failure to pay principal or interest when due;
- (b) Representations and Warranties : Representations and warranties made by the Borrowers are false or misleading when made;
- (c) Covenants : The breach of any covenant or other obligation under the Facility;
- (d) Cross Default : A cross default to all indebtedness of the Borrowers or the Guarantor, except for the Gold Facility Agreement;
- (e) Judgments : Any judgment for the payment of money in excess of US\$250,000 that remains unstayed on appeal, undismissed or undischarged within 60 days.
- (f) Project Suspension : The projects associated with the Dolores Royalty II, the Interest A Royalty or the Interest B Royalty are abandoned or placed on care and maintenance for a period of in excess of 90 days.
- (g) Project Agreement Default : Any default occurs under any royalty contract in which the Borrowers have an interest.
- (h) Security Interest Invalid : Any security interest granted to Lender is determined to be not valid, perfected or having the priority agreed upon at the Closing Date.



- (i) Attachment of Collateral : A person other than the Lender attaches or institutes proceedings to attach all or any part of the collateral securing the Facility.
- (j) Change in Control : Any person, other than BMGX in the case of BBC, shall own more than 25% of the outstanding common shares of the Borrowers, other than the Lender.

**Conditions Precedent:**

The conditions to the Closing Date shall include:

- (a) The execution and delivery of the financing and security documentation associated with the Facility;
- (b) The receipt, by either Borrower, as appropriate, of the required consents and approvals required under the Bridge Loan, the Gold Facility Agreement and the IAMGOLD Debenture and Lender's satisfaction with the terms and conditions of such approval.

The conditions to the initial advance shall include, but not be limited to:

- (a) The receipt of satisfactory legal opinions,
- (b) The execution and delivery of the Definitive Merger Documentation,
- (c) The execution of satisfactory intercreditor agreements with Macquarie Bank Limited and IAMGOLD,
- (d) Validity of the Representations and Warranties,
- (e) No Default or Event of Default exists,
- (f) There has been no material adverse change in the condition (financial or otherwise), business, operations, performance or prospects of the Borrowers nor has there been any material adverse change to the ability of the Borrowers to repay its obligations under the Facility as and when due or in the security interests created under the Facility.
- (g) Receipt by the Lender of a Notice of Borrowing not less than three business days prior to the proposed funding date of the advance.

The conditions to each subsequent advance under the Facility shall include:

- (a) Validity of the Representations and Warranties,
- (b) No Default or Event of Default exists;
- (c) There has been no material adverse change in the condition (financial or otherwise), business, operations, performance or prospects of the Borrowers nor has there been any material adverse change to the ability of the Borrowers to repay its obligations under the Facility as and when due or in the security interests created under the Facility.
- (d) Receipt by the Lender of a Notice of Borrowing not less than three business days prior to the proposed funding date of the advance.





To the extent advances under the Facility are intended for the acquisition of the Dolores Royalty II, the Interest A Royalty or the Interest B Royalty, the Borrowers shall provide documentation evidencing the closing of the transaction.

To the extent advances under the Facility are intended to repay the Bridge Loan, the Borrowers shall provide evidence of the cancellation and termination of that agreement.

**Amendments and Waivers:**

The documentation associated with the Facility may not be amended, modified or waived without the prior written consent of the Lender and the Borrowers.

**Assignment :**

The Borrowers may not assign the obligations under the Facility. The Lender may assign its rights and obligations under the Facility with the consent of the Borrowers, such consent not to be unreasonably withheld.

**Indemnity :**

The Borrowers agree to indemnify and hold harmless the Lender for any loss, liability or claim with respect to the execution, delivery, enforcement and performance of the financing and security documentation.

**Costs and Expenses:**

Each party shall bear their own costs and expenses associated with the establishment of the Facility.

**Definitions :**

*Closing Date:*

March 9, 2007 or such other date as the parties shall agree in writing.

*Default*

means any event, which with the passage of time or the giving of notice, or both, would constitute an Event of Default.

*Definitive Merger Documentation:*

means the Definitive Agreement as that term is defined in the Letter of Intent dated February 24, 2007 between Royal Gold, Inc. and Battle Mountain Gold Exploration Corp. (the "Letter of Intent")

*Gold Facility Agreement:*

means the gold facility agreement between 1212500 Alberta Ltd, as Facility User, Battle Mountain Gold Exploration Corp., as Guarantor and Macquarie Bank Limited, as Facility Provider, dated April 25, 2006.

*IAMGOLD Debenture:*

means the debenture issued to IAMGOLD, dated April 25, 2006, in the amount of US\$2 million, which shall be subordinated to the obligations of the Borrower and the Guarantor under the Facility.





*Initial Gold Facility Prepayment:*

means the prepayment of the May 2007, August 2007 and November 2007 gold deliveries under the Gold Facility Agreement.

*Interest A:*

means the interests described in Section 1 of Schedule A to the February 21, 2007 Nondisclosure Agreement between the Guarantor and the Lender

*Interest B:*

means the interests described in Section 4 of Schedule A to the February 21, 2007 Nondisclosure Agreement between the Guarantor and the Lender.

*Macquarie Proceeds Account:*

means the Proceeds Account as that terms is defined in the Gold Facility Agreement.

*Secondary Gold Facility Prepayment:*

means the prepayment of the February 2008 and May 2008 gold deliveries under the Gold Facility Agreement from proceeds received from the exercise of common share warrants.





## 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 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 report;
- (3) Based on my knowledge, the financial statements and other financial information included in this report fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this 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-15(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 report based on such evaluation; and
  - (d) Disclosed in this 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.

May 3, 2007

/s/ Tony Jensen

Tony Jensen  
President and Chief Executive Office



## EXHIBIT 31.2

I, Stefan Wenger, certify that:

- (1) I have reviewed this 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 report;
- (3) Based on my knowledge, the financial statements and other financial information included in this report fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this 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 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 report based on such evaluation; and
  - (d) Disclosed in this 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.

May 3, 2007

/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 ended March 31, 2007, 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.

May 3, 2007

*/s/ Tony Jensen*

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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 ended March 31, 2007, 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.

May 3, 2007

*/s/ Stefan Wenger*

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Stefan Wenger  
Chief Financial Officer