

ROYAL GOLD, INC.  
"Fiscal 2014 2nd Quarter Conference Call"

01/30/2014, 12:00 PM Eastern  
Tony Jensen, President and CEO  
Stefan Wenger, CFO and Treasurer  
Bill Heissenbuttel, Vice President Corporate Development  
Bill Zisch, Vice President Operations  
Bruce Kirchhoff, Vice President, General Counsel and Corporate Secretary  
Stanley Dempsey, Chairman  
Karli Anderson, Vice President Investor Relations

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Stanley Dempsey, Chairman  
Karli Anderson, Vice President of Investor Relations

OPERATOR: Good day and welcome to the Royal Gold Fiscal 2014 Second Quarter Conference Call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the "\*" key followed by "0."

After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press "\*" then "1" on your touchtone phone. To withdraw your question, please press "\*" then "2." Please note this event is being recorded.

I would now like to turn the conference over to Karli Anderson, Vice President of Investor Relations. Please go ahead.

KARLI ANDERSON: Thank you. Good morning and welcome to our discussion of Royal Gold's second quarter fiscal 2014 results. This event is being webcast live, and you will be able to access a replay of this call on our website.

Participating on the call today are Tony Jensen, President and CEO; Stefan Wenger, CFO and Treasurer; Bill Heissenbuttel, Vice President Corporate Development; Bill Zisch, Vice President Operations; Bruce Kirchhoff, Vice President, General Counsel and Corporate Secretary; and Stanley Dempsey, Chairman.

Tony will open with an overview of the quarter, followed by Stefan with the financial review, and then Bill Zisch will discuss the performance of our portfolio. After management completes their opening remarks, we'll open the line for a Q&A session. This discussion falls under the Safe Harbor provision of the Private Securities Litigation Reform Act. A discussion of the company's current risks and uncertainties is included in the Safe Harbor statement in today's press release and is presented in greater detail in our filings with the SEC. Now I will turn the call over to Tony.

TONY JENSEN: Good morning and thank you for taking time to join us. We have slides to go along with today's discussion, and I will begin on Slide 4. Our second quarter results were largely in line with expectations. On our last earnings call I said that we expected lower production at Andacollo as Teck transitioned into Phase 3 of the pit. And that we estimated this lower production would be offset by initial revenue from Mt. Milligan, higher production at Penasquito, stronger sales at Voisey's Bay, and additional production in our royalty area at Cortez. And the quarter played out largely as anticipated.

We received our first delivery of gold from Mt. Milligan. Production at Penasquito was up significantly over the September quarter, and Barrick's production increased within our royalty area at Cortez. The only notable difference from our expectations was reported sales at Voisey's Bay, where higher cobalt and flat

nickel sales contrasted with lower copper sales. Overall, volume was down about 3% from the September quarter, while the price of gold was off about 4%. Compared to the year ago quarter, volume was down about 10% and the gold price was down 26%

Our most important development during the quarter was our first delivery of gold from Mt. Milligan, which resulted in a \$2.6 million revenue contribution. Having made our first investment at Mt. Milligan about three and a half years ago, we're now beginning to see a return on that investment.

We have been busy over the last month. We have acquired a new royalty at Barrick's Goldrush Deposit and expanded our royalty interests at Cortez. In addition, we have increased our capacity of our credit facility at more favorable rates. And Stefan will talk about our expanded facility here in just a few minutes.

Slide 5 details our latest portfolio addition. This map shows the boundaries of our new 1% royalty interest on the southern end of Barrick's Goldrush deposit in Nevada. We acquired this royalty just a couple of weeks ago from a private party for a purchase price of \$8 million, payable over seven years. Goldrush is one of the most exciting discoveries in the last decade. Measured in indicated resources total 8 million ounces of gold, grading 0.13 ounces per ton and the deposit is within four miles of the Cortez mine and infrastructure. We believe this new royalty interest is an excellent foothold in the deposit and is well positioned as further exploration is conducted to the south.

Turning to Slide 6, you will see an outline of our recently expanded royalty interests at Cortez. NVR1 covers much of the south end of the Pipeline Mining Complex and hosts the Crossroads Deposit. We have increased our NVR1 royalty interest from 0.39% to just over 1% outside of the Crossroads Claims, and from 0% to 0.62% within the Crossroads Claims. Our acquisition price for the increased interest was \$11.5 million. Barrick reported 4.9 million ounces of reserves for NVR1 as of December 31, 2012. Cortez was Royal Gold's first royalty, and we are pleased to have completed two transactions in an area we know very well.

Turning to Slide 7, it may be helpful to quickly recap our interests at the Pipeline Mining Complex, where we hold four royalties in total. This is a consolidated map of our royalties. Let's separate them for better clarity and for your future reference.

Slide 8 shows GSR1, a sliding-scale, 5% gross smelter return royalty at gold prices greater than \$470 per ounce. As of December 2012, Barrick reported 1.6 million ounces reserves for GSR1.

Slide 9 shows GSR2, which just like GSR1, is a 5% sliding scale gross smelter return royalty at gold prices greater than \$470 per ounce. As of December 2012, Barrick reported 4 million ounces of reserves for GSR2.

On Slide 10 you will see our GSR3 interest, which is a fixed 0.71% royalty covering substantially the same area as GSR1 and GSR2 combined. Barrick reported reserves of 2.3 million ounces at the end of 2012 for GSR3. Barrick's production guidance for calendar 2013 included 64,000 ounces within the area covered by GSR1 and GSR2. The same 64,000 ounces are also subject to GSR3. Barrick's guidance for NVR1 was 53,000 ounces.

For calendar 2013, Royal Gold recorded revenue of about \$5.6 million from Cortez. As mining equipment continues to return to the Pipeline Complex from Cortez Hills, we expect stronger contributions from Cortez in calendar 2014.

Now I will turn the call over to Stefan for a financial review of the quarter, followed by Bill Zisch, who will discuss our portfolio highlights. Stefan?

STEFAN WENGER: Thank you, Tony, and good morning everyone. Moving on to Slide 11, I will briefly go over our second quarter financial highlights. In Q2 we generated revenue of \$52.8 million, compared with \$79.9 million in the prior year quarter, which, by the way, was our strongest quarter ever in terms of average price and volume.

The impact of lower gold prices and reduced production at Andacollo was partially offset by the first gold delivery from Mt. Milligan, and by higher royalty volume at Penasquito. Net income totaled \$10.7 million or \$0.16 per share, compared with \$27.2 million or \$0.42 per share a year ago. Our adjusted EBITDA was \$45.6 million or 86% of revenue as our Mt. Milligan shipments commenced. Long term we expect that adjusted EBITDA will range from 80% to 85% of revenue, as our payments of \$435 per ounce to Thompson Creek will be reflected as cash costs.

We paid cash dividends in the second quarter of \$13.0 million, which is a payout ratio of 38% of our operating cash flow of \$34.7 million. For the second quarter, income tax expense was \$6.3 million or 37%, compared with \$16.3 million or 37% for the prior year period. Our effective tax rate for the six months ended December 31 was 30%. For the full fiscal year, based upon Royal Gold's current forecasts, we continue to expect our effective tax rate to be between 30% and 34%. The tax rate will fluctuate within that range, depending on the volume of production received from Mt. Milligan, which is taxed at a lower rate than the rest of our portfolio.

DD&A for the quarter was \$22.7 million, or \$548 per GEO. The rate per GEO was above our forecast for the full year of between \$425 and \$500 per GEO due to lower contribution from Andacollo and higher contribution by some of our higher carrying-value non-principal properties. We now expect our full year DD&A rate to be at the higher end of the range. We will update our DD&A forecast with our Q3 earnings, as we also update for year-end reserve estimates at that time.

I would also like to take a chance to provide more color on our first revenue from Mt. Milligan. There were 5,655 contained ounces shipped, resulting in delivery of 2,149 ounces to Royal Gold by Thompson Creek. The ounces are a function of our 52.25% interest, a 75% provisional factor, and a 97% payable factor. We will be paid the remaining 25% upon final settlement. We paid \$435 per ounce at Thompson Creek, as specified in our agreement with them, and we sold the 2,149 ounces that were delivered to us at an average price of \$1228 during the December period.

I will now turn to Slide 12. Yesterday we amended our revolving credit facility to increase our available capacity to \$450 million from \$350 million, and to lower our cost of capital by reducing the undrawn fee on the revolver to 25 basis points from 37.5 basis points, and the drawn interest rate to LIBOR plus 1.25% from LIBOR plus 1.75%. The maturity was extended from May 2017 to January 2019.

I would like to thank our banking partners at HSBC, Scotia Bank, Goldman Sachs, Bank of America Merrill Lynch, and CIBC for their commitment to Royal Gold as part of our credit facility. We feel fortunate that we have great partners standing behind us. The amendment to our credit facility provides Royal Gold excellent access to capital at a very low cost.

Slide 13 shows our growing balance sheet. With working capital of \$705 million, our expanded available credit line of \$450 million, and over \$170 million in operating cash flow over the past 12 months, we are pleased to be in this strong financial position at a time when the market conditions are favorable for new opportunities.

Now I will turn the call over to Bill Zisch to provide a property update.

BILL ZISCH:

Thank you, Stefan, and good morning everyone. On Slide 14, we've provided a production and revenue waterfall, comparing the December quarter to the September quarter. I will focus my comments on operational performance from our ten principal properties.

On a GEO basis, gold volumes were down 11% year-over-year, and down 3% from the preceding quarter. The principal properties that realized lower production versus the September quarter included Andacollo, Holt, Voisey's Bay, Mulatos, and Las Cruces.

During the first three quarters of calendar 2013, Andacollo completed the initial phase of its hypogene project and realized record gold production for the full year. However, the fourth quarter of calendar 2013 marked a shift to a lower grade phase of mining, which resulted in 29% lower gold production than the September quarter. 2014 production guidance is forthcoming, but with the shift to lower grade ore underway, it is expected that the average grade of ore mined in calendar 2014 will be similar to the fourth calendar quarter of 2013. Within that lower 2014 grade profile, gold production for the year at Andacollo is expected to be weighted toward the second half of the calendar year. After calendar 2014, we anticipate Andacollo will move into better grade ore.

At Holt, production was delayed as scheduled hoist motor and hoist drive upgrades were completed during the quarter. Total revenue during the quarter was down about 30%, which includes 6% associated with the lower gold price and 24% due to our production volume. The Holt royalty is levered to the price of gold due to its sliding scale structure. For all of 2013, Holt met the upper end of St. Andrew Goldfields full-year guidance, with production totaling over 58,000 ounces.

At Voisey's Bay, nickel production in the December quarter was virtually the same as the September quarter. For copper, unusually high shipments in the September quarter resulted in lower than normal shipments during this period. For the full year nickel shipments were about 5% below the prior year, and copper shipments were 3% lower, as the mine plan sequenced into slightly lower grades.

Production at Mulatos was about 5% below the September quarter, as the grade of material stacked on the heap was down 3%, and the grade of the Escondida high-grade material processed was down by about 50%.

After a record production in the September quarter, Las Cruces maintained stable operations that were 6% below these record levels, but at design capacity.

For all of 2013, Las Cruces production was about 2% above the prior year. Along with the addition of Mt. Milligan, several other principal properties ended this quarter with production that was above the September quarter, including Robinson, Peñasquito, Canadian Malartic, and Cortez.

At Robinson, production exceeded the September quarter by more than 25%. Mining continued in the Liberty pit, but grades were higher than realized in the September quarter, and copper recoveries were well above model levels for this area of the pit. In February, mining is expected to be completed in the Liberty pit, and production will move to the Kimberley pit. For the year, Robinson milled over 16 million tons as throughput, along with recoveries, benefited from earlier improvements.

As expected, Penasquito had strong production in the second half of calendar year, and their gold production exceeded the top end of the revised guidance by 4%. Goldcorp expects 2014 gold production at Penasquito to exceed 2013 levels, driven by plant throughput of 110,000 tons per day and higher grade material.

Production at Canadian Malartic was up by 8%, as access to the North pit wall provided higher grade feed to the mill. In December, in spite of a six-day scheduled mill shutdown, the mine had a near record month, producing almost 45,000 ounces of gold. Cortez continued to shift mining equipment to the Pipeline Mining Complex and production reporting to our account more than doubled from the September to the December quarter. Although we await guidance from Barrick, we do anticipate stronger calendar 2014 production from Pipeline, as compared to the calendar 2013.

As I mentioned at the outset of my comments, our portfolio's production was down about 3% from the September quarter. With the five increases from our principal properties just about matching the five decreases, our collection of assets continues to perform well, and we welcome the addition of Mt. Milligan as a producing property.

With that, I will turn the call back to Tony.

TONY JENSEN:

Thank you, Bill. Before closing, I would like to talk a bit more about Mt. Milligan on Slide 15. Thompson Creek reported that concentrate production through the end of December contained about 21,000 ounces of gold. Roughly 25% of that production, or about 5,500 payable ounces, shipped before the end of 2013. And just yesterday they announced another shipment of about 10,500 ounces. Thus, we expect deliveries on the balance of 2013 production here in the current quarter, along with new production during the March quarter. We may even see a final settlement associated with the first shipment back in November.

I had the opportunity to visit Mt. Milligan last week and was impressed with the new operating team in place. They are methodically working through issues that are common to startup activities. Overall, the ramp up appears to be progressing well and within our expectations for their first few months of production. We have guided that in our experience the ramp-up stage could take between 12 and 18 months for a project of this size, but we expect substantial Mt. Milligan contributions to begin during this March quarter, and continue to grow along with the startup program.

Moving to our final slide, we have begun 2014 with good momentum. We added two new royalty interests to our portfolio in the first few weeks of the year, we

started to receive deliveries from Mt. Milligan, and we expanded our access to capital on improved terms. We have over \$1 billion in liquidity to invest and only \$57 million in future commitments. And in the current market environment, royalty and streaming transactions continue to be attractive sources of capital for the industry.

And with that, operator, we will turn the call over to questions if there are any. Thank you.

OPERATOR: Thank you. At this time, we will begin the question-and-answer session. To ask a question, you may press "\*" then "1" on your telephone keypad. If you're using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press "\*" then "2." At this time, we will pause momentarily to assemble our roster.

And our first question will come from Andrew Quail of Goldman Sachs.

ANDREW QUAIL: Good morning, Tony, Stefan, Bill, and Karli. Thank you very much for the update this morning. I've got a few questions. The first one is on depreciation. I know you did highlight what is going to happen with regards to the third quarter. I just want to sort of highlight what do you see, what trends would you see in Mt. Milligan, like, obviously is it going to start off slow and then sort of increase as you move through the ore body, and would that offset any sort of, I suppose, higher charge from other properties?

TONY JENSEN: Go ahead, Stefan.

STEFAN WENGER: Sure, Andrew. I will take the question. Mt. Milligan: What goes through our depreciation there is our upfront deposit. And we'll amortize that over the life of mine ounces. And if you take the payable ounces to Royal Gold on Mt. Milligan, our rate there is about \$350 an ounce. So to the extent that Mt. Milligan production comes in stronger in the second half of our year, we'll actually see our overall per GEO DD&A rate come down as well, as that higher contribution from Mt. Milligan ensues. The same story for Andacollo - Andacollo has a very low DD&A rate. The stronger Andacollo is the lower our overall corporate rate as well, I mean this quarter that lower rate there at Andacollo did impact the overall rate as I noted.

ANDREW QUAIL: What's Andacollo per ounce? Do you know?

STEFAN WENGER: It's about \$320 per ounce.

ANDREW QUAIL: Thank you. The second question is on Mt. Milligan. It looks like it's going along well. And maybe this is a little bit early, but sort of do you guys -- I mean obviously with Thompson Creek, are you guys looking at any sort of feasibility to sort of expand production, especially sort of after maybe the first few years when sort of production starts to sort of come off a little bit?

TONY JENSEN: Andrew, I think right now Mt. Milligan, or Thompson Creek, I should say, is completely focused just on getting the design capacity that was built into the plant. So that's their complete focus. I think your point is well taken. After a bit of time, I'm sure any good operator will go in and continue to optimize that, look for bottlenecks, take them away, and look for inexpensive capital to increase throughput on a leveraged basis. So that's just the normal part of operations, and so I would expect that to happen. And then, of course, we look forward to them conducting more exploration on the property once they get a few years down the

road. We have always liked the exploration targets in the area. And all of that, I think, will come in due course as the mine normally matures.

ANDREW QUAIL: Thanks, Tony. And last one, another one for you, Tony. I think just on opportunities going forward, obviously you are cashed up now, and cash generation for the next few years looks very solid. Americas versus sort of other regions in the world is one question. And then obviously -- two is, can you comment on what is streaming versus royalties?

TONY JENSEN: Sure. So we continue to see a level of deal flow that is consistent over the last two or three quarters. There are many folks that need capital. There is no surprise to anybody on this call, and we're continuing to look through and find areas we think are quality in nature so that we can invest with confidence, not only in this gold price environment but maybe even in lower gold price environments. And then if gold price goes up, then we certainly have a good play on that leverage. So overall, I would just continue to send the message that we're seeing a lot of things, but we are continuing to be patient, looking for quality.

With regard to royalties versus streams, in general, I think you will see us move more and more toward streams. They seem to be a preferred product for our partners, and they can be a little more efficient for us and our partners. So we are very fluent in royalties or streams. We're happy to talk about the benefits, pros and cons of each. And as we look at the specific needs of our counterparties, we'll figure out which one makes sense for both parties so we're fluent in both, but I expect that we will do more streams than royalties in the future.

ANDREW QUAIL: Thanks very much, guys.

TONY JENSEN: Thanks, Andrew.

OPERATOR: And the next question comes from Kevin Chiew of CIBC.

COSMOS CHIU: Hi, guys. It's actually Cosmos here.

TONY JENSEN: Cosmos? Hello, Cosmos.

COSMOS CHIU: Congratulations on getting your first payment from Mt. Milligan. I got a question around Mt. Milligan as well. You know, as you have mentioned the payment here is based on 75% today and 25% based on final settlement. Could you maybe walk me through in terms of how that works? When would you be expecting final settlement? And when the final settlement comes, is that based on the spot price at that date, and would it be retroactive to the entire 100%?

TONY JENSEN: Wow, lots of questions in there. And let me try to peel them apart, and I'll look to Bill and Stefan to support me if I go wrong. But we generally will expect final settlement to happen somewhere between three and four months after delivery.

COSMOS CHIU: Okay.

TONY JENSEN: ...After it goes across the rail. So that's why I said in my prepared remarks, we might even be able to get a final settlement from that November shipment. If you add three or four months onto that that would come close to our March quarter end and so that could well happen. And so the provisional payment is 75% on the first four lots, and then it drops down over time. And eventually we move just to final settlement on the -- or we eventually move to payment just on the final settlement. So we have always guided that, just about on average over the first



year, we'll receive about 75% of the production, but it's the final settlement is delayed by that three to four months. So your other piece of the question in there, if I remember all the bits and components, is it based -- is the final settlement based on the price at that time. And, you know, we get paid ounces here.

COSMOS CHIU: Oh, yes, that's true.

TONY JENSEN: So it's based on whatever production is finally determined with the smelter. And so we'll get paid on the ultimate ounces that were returned, less the provisional payment that was made. That's what the final settlement will be made up of.

COSMOS CHIU: Okay, yeah. It's actually getting -- you're right, it is a complicated question.

TONY JENSEN: Very, very hard to explain over the telephone, so I hope I didn't confuse more than help.

COSMOS CHIU: Yeah. No, I think I got most of it. Maybe moving on to Cortez. Tony, from the beginning, this has been a very important royalty for Royal Gold, and I see that you have made further kinds of investments into the property as of this past quarter. How should we look at it, because I know for a while it was Cortez, it was a key royalty, and it generated pretty much the substantial part of the royalty for Royal Gold. And then, you know, they moved on to Cortez Hill, and Royal Gold doesn't really have the royalty on Cortez Hill, but how should we look at it in terms of timing, in terms of we have seen the royalty kind of come back on, increased a little bit in the last quarter. How should we look at it from now onwards? And it certainly seems like you are preparing for something -- a substantial leverage to Cortez itself?

TONY JENSEN: Yes, Cosmos, I don't anticipate that we'll return to our large production years that we had. I am looking at Stan Dempsey here who is certainly instrumental in creating that royalty. When I was operating there in the late 1990s, early 2000s, the mine was producing 1.3 million ounces of gold from the Pipeline Mining Complex, and we had grades of about 0.3 ounces per ton. It was just a fabulous deposit. We don't expect those kinds of grades as they move back from Cortez Hills into the Pipeline Mining Complex, probably grades that are half of that or less I would anticipate, and you can look at what that is just based on the reserve grades that we have made available to you in our disclosures.

But the open pit at Cortez Hills is becoming very, very mature. I think there is one more stage that they are working on at Cortez Hills, and a significant amount of the fleet has already moved back into the Pipeline Mining Complex. So within a couple of years, I would imagine that most of the service fleet will be on the Pipeline side. Now there are a few different deposits there; Pipeline South, Pipeline Gap, and Crossroads. And we have a nice royalty position on all of that except Gap, and where we have a partial royalty position. So I suffer from the standpoint that having been the mine manager there for four years, I probably gave you more detail than you want, but we're very passionate about the area. We just think this is the greatest place in the world to own royalties, and we pick up anything that we could find in the area.

COSMOS CHIU: Yeah. Any updates on Crossroads? I understand that for long time it was encumbered with a pretty high royalty, in the end paying back the Royal Gold, be that's been restructured and so I think the timing was about to get pushed up at that point in time. But any updates on Crossroads, because I know, as you said, you have a pretty substantial royalty on that as well?

TONY JENSEN: We do. And there is not an update. It's more just a reiteration of kind of a generic statement that we made in the past. Crossroads does have about 600 feet of stripping on top of it. So in 2008, when we bought the entire royalty package from Barrick, part of our compensation was to reduce that GSR2 royalty that I introduced to you today from 9% down to 5%, just to make that deposit more and more attractive to the operator, and so that certainly has helped. But it is the lower grade deposit in the area, and so naturally it will find its way at the end of the mine life as you consider all of the different deposits that are available to them today. So that one probably would come in after Pipeline, South Pipeline, are pretty well complete.

COSMOS CHIU: Yeah.

TONY JENSEN: But we'll get plenty of advance notice on that, Cosmos, because it will take a year or two to strip the Cortez -- sorry, the Crossroads deposit, and that we'll be able to signal that really, really clearly to the market when they start moving equipment back in there for the stripping.

COSMOS CHIU: Yeah, great. Thank you. I just wanted to ask all my questions. I guess I won't be calling you over the weekend. I am pretty sure you're going to be pretty busy on Sunday afternoon. So I'm pretty sure I know what team you guys are cheering for, so...

TONY JENSEN: Thank you, Cosmos. I don't know if you saw that John Elway rang the bell this morning.

COSMOS CHIU: Oh, did he? Okay.

TONY JENSEN: Yeah, we're really excited about what's coming this weekend. Hopefully we'll have the good result.

COSMOS CHIU: Cool, thank you.

TONY JENSEN: Thanks, Cosmos.

OPERATOR: And the next question will come from Alex Terentiew of Raymond James.

ALEX TERENCEW: Hey, good morning, guys. Just a couple of follow-up questions on Mt. Milligan. You note in your MD&A that you are getting -- you guys talked about a lot here -- getting paid 75% of the gold, and Thompson Creek is getting 90% right now. Is their lower payment just to help them in their working capital needs during startup? Is that the rationale for that?

TONY JENSEN: Alex, that's a good question. And, no, it really wasn't structured that way three-and-a-half years ago when we did the transaction. It was just a function of what made sense for the operator, and what was the easiest thing to document. We realized when this production started that we'd be very hungry for revenue, and we wanted to see revenue immediately, and, of course, there is always a negotiation as to when the payment occurs, whether it's on provisional final settlement so that was just a negotiated term. We'd obviously like to get our money as early as possible. And the operator in all types of transactions would like to push that out as long as possible. So we just took a look at that and made that payment rationale in our valuation that we put forward, and again it's just a negotiated item.

- ALEX TERENCEW: Okay, great. I'll say 75% for 12 shipments. The first shipment was 5,500 tons, second shipment was 10,000 tons. Is that 12 shipments based on a standard amount of tons going out, or basically I'm trying to ask when do you expect that 13<sup>th</sup> shipment to happen, so to start getting paid at 90%, or did you actually say after the 75% you would go to 100% immediately? Is that how it works?
- TONY JENSEN: Oh, Alex, I'm going to be at risk of losing you, but I am going to try. So our first four shipments, we get 75%, based on our provisional, and obviously the 25% then would be on the final.
- ALEX TERENCEW: Yeah.
- TONY JENSEN: The next four shipments we get 50% of the payment on a provisional basis and 50% on final.
- ALEX TERENCEW: Okay.
- TONY JENSEN: The following four shipments we get 25% on provisional, 75% on final. And so if you were to -- and then we go 100% on final for the last -- well from that point forward. So if you were to plot those out on a chart, and then going back to Andrew's question earlier, I think it was Andrew that was asking when do we expect to get payment from the final settlement and add three to four months on to each one of those provisional payments, you see that once we start getting into the 50% range, we start expecting to get the 25% final from the first four lots. And then as you get into the 25% range, we would expect to start getting the 50% final from the second four lots. So it is complex. Happy to have Karli walk you through that if I really confused you.
- ALEX TERENCEW: No, I think I --
- TONY JENSEN: But it's pretty simplistic once you understand. So that's why we say, just on average for the first year, we'd expect about 75% payment, and then go the final settlement at that time, and we'll be 100%, and, of course, we will have some catch up from the prior payments as well.
- STEFAN WENGER: And, Alex, I might just add, the first shipment was about 5,000 tons; thereafter they are expecting about 10,000 ton shipments. So, on a go-forward basis, that's about the sizing.
- ALEX TERENCEW: Okay, that makes sense. Okay. So next question, just on Wolverine actually, I know you guys used to disclose numbers there a little bit more, and obviously that one now is a little bit smaller part of your portfolio, but the mine kind of cut back on production a little bit mid or late last year. Can you give us an update there? Have they ramped things back up? I know zinc prices have recovered a little bit, so I'm just curious as to the status of that operation?
- TONY JENSEN: Bill was just onsite two weeks ago, so perhaps you can just give us an estimate or update where they are.
- BILL ZISCH: Yes. Alex, they are about where they had been. You're right, they had gone -- originally they had cut back to 60% of capacity. Now they are running about 75% of capacity. They're running the plant on a three-week-on, one-week-off basis, and running the mine on a four-week basis. So that's about what they are doing right now. I haven't seen anything on the forecast from them. And I would expect that that's about where they're going to operate. I don't think the metal prices have changed enough to have them changing that as of right now.

- ALEX TERENCEW: Okay, all right. Great. Thank you.
- TONY JENSEN: Thanks, Alex.
- OPERATOR: And the next question will come from of Botir Sharipov of HSBC.
- BOTIR SHARIPOV: Hi, guys, just a couple of questions, one being Mt. Milligan. I believe the plan to concentrate grades were 54 grams per ton for the first six years, and 45 grams per ton over the life of the mine, and we're seeing 33 grams per ton right now. Is this something we should get used to or are the concentrated grades expected to come up a little bit?
- TONY JENSEN: So, Botir, it's probably way too early to tell. I wouldn't worry so much about that 33 grams per ton at this point. At this time in the startup, you've got a lot of unbalancing in the circuit, starts and stops, and upset flotation tanks and things like that when the starts and stops happen. So once you get into steady state, I think we'll get a much better feel for the overall recovery. And, of course, the overall recovery translates into your point about the grade of the gold and the cons. But we really don't see any issues that we are concerned about right now. At the present time, it's a matter of focusing on the throughput and then continuing to balance the recovery in the flotation circuit accordingly, but flotation circuit seems to be quite robust.
- BOTIR SHARIPOV: Okay, thank you. My other question is obviously on royalty acquisitions. You're increasing your royalty at Barrick and acquiring a new one. Does this sort of imply a bit of a shift in your strategy of increasing your royalties at existing deposits, existing assets and partners, so to speak, versus going out and acquiring a brand new royalty that could make an impact down the road?
- TONY JENSEN: No, it doesn't account for a shift, Botir. And I don't think I've ever seen a royalty in the State of Nevada that I didn't like. And so we will continue to pick those up when they're available. And we just look for those opportunities whenever they present themselves. But we can't grow the company on smaller deals like that. We're going to have to continue to look for ways to provide financing, which really are material to our business going forward. And so we're very active in that side of the business as well.
- BOTIR SHARIPOV: Okay, thank you. That's it for me.
- TONY JENSEN: Thanks, Botir.
- OPERATOR: And our next question comes from Garrett Nelson of BB&T Capital Markets.
- GARRETT NELSON: Hi. Thanks for taking my question. Has the Board given any thought to a more sizable dividend increase, a special dividend, or share repurchases, or does the company want to keep their strong liquidity position for opportunities that might present themselves?
- TONY JENSEN: Well, Garrett, we look at that at the Board level at least once a year, and we think about that quite seriously. And to-date what we have been able to do is provide more growth and more return to our shareholders via growth. And we still think this is a great opportunity for us to layer on additional pieces of business. And that's the very reason why we did build the balance sheet the way we built it, so that we would be strong in this particular position.

I would say this though, if we don't find quality assets over a period of time, then there is all kinds of options open to us, because it's a very, very efficient business model, and it's going to be a very powerful return, a yield return if we decided to turn it into that position. But I think that would signal that we just can't find good quality assets out there to invest our money in. And we do think that there is a great opportunity in front of us now to continue to build the portfolio. So, in general, not at this time, but we always are looking at the best ways to provide return to our shareholders.

GARRETT NELSON: Okay. And then I also wanted to confirm a number. Did you say your future commitments total \$59 million?

TONY JENSEN: \$57 million. Let me break that apart for you. \$50 million is for on scheduled commitments that Tulsequah Chief in British Columbia. That's British Columbia, isn't, it? Yeah. Okay. And the other is the \$7 million that we owe over the next seven years on our new acquisition in Nevada. We paid \$1 million of the \$8 million.

GARRETT NELSON: Okay. The \$50 million, will that hit in the final two quarters of your fiscal 2014, or is that beyond?

TONY JENSEN: So our business deal there is that we aren't required to put in the other \$50 million until Chieftain Metals has all their permits in place, which I think they do. They have to have all the rest of the financing in place to build the project, which they don't at this point, and then they have to have a construction decision, I think from their board of directors, and that hasn't, to my knowledge, occurred either. So at this point, they are looking for additional financing to put the project forward, as well as optimizing the project. So they haven't met all the conditions for us to have to begin funding. So we can't give you specific guidance when that might occur, but the point that we were making on that prepared discussion item is that we have a powerful amount of liquidity available in front of us and very little requirements on our money at this point.

GARRETT NELSON: Sure. Well, thanks very much.

TONY JENSEN: Thank you, Garrett.

OPERATOR: And next we have a question from John Tumazos of John Tumazos Very Independent Research.

JOHN TUMAZOS: I want to compliment the company on being debt free, having surplus cash, and doing deals. And I wanted to encourage you, if necessary, to omit the dividend in order to buy more royalties. There have been M&A transactions where gold companies have been taken under rather than taken over, and it's a spectacular market to go out and acquire new streams, new royalties, et cetera. And I don't think at all you should be too worried about raising dividends and buying back stock. And I'm thinking of Wits Gold being bought out for under \$50 million with \$150 million or \$170 million ounce resource in South Africa; High Desert Gold getting bought out for \$7 million in Nevada, and a copper company, a gold company in production that were just bought out for the debt or less than a hundred cents on the dollar of the debt. So go out and go hunting.

TONY JENSEN: John, thank you as always for your perspective, and that's very consistent with where we are at today as a management team. Thanks for the comments.

JOHN TUMAZOS: Thank you.

- OPERATOR: And the next question will be from Adam Graf of Cowen.
- ADAM GRAF: Hi, guys. This is a question maybe for Tony or Stefan. Senior management at Barrick have recently talked about using \$1,100 gold for their end of year 2013 reserve calculations and suggested that their mine plans might also change based on lower gold price assumptions and higher cutoff grades. And based on that, how do you guys look at your book values and do your impairment tests?
- TONY JENSEN: So let me just speak generally, Stefan, for a moment to Adam's question, and then you can actually get into the details. But, Adam, the first thing that I'd like to make a point of is that the quality of our book is very, very good. We have a slide in our presentation materials, our most recent presentation materials, that talks about cash margins. And so we think we are very, very well positioned. Second, I think there will be more companies looking at the most economical way to bring these projects forward, not only forward, but also, the ones that are in production, to maximize the margin. That's a clear sense of urgency that all of the operators have. And so the kind of movement that we saw at Peñasquito, where Goldcorp took a look at the economics at a lower gold price environment and reduced the mine life, reduced the reserves, but bumped the near-term grade in the margin, that does the same thing for us. It really does bump our near-term production as well. So we can have a real benefit in the near-term from that kind of item. And then, of course, I am not particularly worried about those resources that have fallen off, because they're still there, and they are good option value if the gold price moves back a couple hundred dollars.
- So those are just some general comments that we would expect more of that as the producers start to take a good close look at this, and then, of course, we'll look at our DD&A when the new reserves come out. We have very little, if any, of those in yet at the present time. But Stefan, maybe you could add just how we do our DD&A.
- STEFAN WENGER: Yes, Adam, there are two components. To the extent that reserves are updated or changed, as I noted, we'll update our DD&A rates. And our DD&A rates are based just on what's an improvement in probable reserves at each of the properties, our carrying value divided by those proven and probable reserves that would be payable to us. So we could expect changes in our DD&A rates as we go forward, and we'll update that in the third quarter. To the extent -- we do look at our portfolio for impairment. We do it every quarter and we'll certainly do it to the extent there are mine plan or reserve charges in third quarter.
- As Tony mentioned, we have a very high quality portfolio, and carrying costs are relatively low. And when we look at an impairment calculation, we also get to consider future cash flows from many resources, as well as the reserves. And we do that on an undiscounted basis. So from that perspective, I have a high confidence in our portfolio from an impairment perspective. But it is something that we watch closely and we'll continue to monitor as we go forward.
- ADAM GRAF: And so I guess the greatest impact would be perhaps a significant shortening of the mine life that offsets any benefit to near-term production? Is that sort of what I am hearing?
- TONY JENSEN: I would think so, but I don't know if we would get one without the other. I would expect that as they increase the quality of the resource or the reserve, that you'd also see a higher grade — of course it might take a little bit of time to mine through that new mine — but, generally, I think you're right on the mark.

- ADAM GRAF: And then, generally, because most of your assets were acquired many years ago, the carrying -- the book values are so low versus sort of current NAV that you are not so worried?
- STEFAN WENGER: Adam, for our core portfolio, our cornerstone properties, we have very low carrying costs relative to the current market price. Certainly we had other assets that were acquired at somewhat higher prices, but none that are significant, really, to our portfolio as a whole. We continue to monitor that each quarter.
- TONY JENSEN: And we just can't give much more guidance on that at this time, Adam. We just have to see how those reserves play out. It's a prudent thing to be monitoring over the next three months.
- ADAM GRAF: All right, thank you very much, guys.
- TONY JENSEN: Thank you, Adam.
- OPERATOR: This concludes our question-and-answer session. I would like to turn the conference back over to Tony Jensen for any closing remarks.
- TONY JENSEN: Laura, thank you very much, and everybody for joining us today. We very much appreciate your interest and continued support of Royal Gold, and we will look forward to updating you on any progress on our next conference call. Thanks very much.
- OPERATOR: The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.