

ROYAL GOLD INC
Form 10-K
August 09, 2012

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

Form 10-K

(Mark One)

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

For the Fiscal Year Ended June 30, 2012

or

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

For the Transition Period From _____ to _____
Commission File Number 001-13357

Royal Gold, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

84-0835164
(I.R.S. Employer
Identification No.)

1660 Wynkoop Street, Suite 1000
Denver, Colorado
(Address of Principal Executive Offices)

80202
(Zip Code)

Registrant's telephone number, including area code: **(303) 573-1660**

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

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

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

None

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

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

Aggregate market value of the voting common stock held by non-affiliates of the registrant, based upon the closing sale price of Royal Gold common stock on December 30, 2011, as reported on the NASDAQ Global Select Market was \$3,501,458,581. There were 58,885,405 shares of the Company's common stock, par value \$0.01 per share, outstanding as of July 31, 2012. In addition, as of such date, there were 763,826 exchangeable shares of RG Exchangeco Inc., a subsidiary of registrant, outstanding which are exchangeable at any time into shares of the Company's common stock on a one-for-one basis and entitle their holders to dividend and other rights economically equivalent to those of the Company's common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2012 Annual Meeting of Stockholders scheduled to be held on November 14, 2012, and to be filed within 120 days after June 30, 2012, are incorporated by reference into Part III, Items 10, 11, 12, 13 and 14 of this Annual Report on Form 10-K.

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This document (including information incorporated herein by reference) contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, which involve a degree of risk and uncertainty due to various factors affecting Royal Gold, Inc. and its subsidiaries. For a discussion of some of these factors, see the discussion in Item 1A, Risk Factors, of this report. In addition, please see our note about forward-looking statements included in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A"), of this report.

PART I

ITEM 1. BUSINESS

Overview

Royal Gold, Inc. ("Royal Gold", the "Company", "we", "us", or "our"), together with its subsidiaries, is engaged in the business of acquiring and managing precious metals royalties and similar interests. Royalties are non-operating interests in mining projects that provide the right to revenue or metal produced from the project after deducting specified costs, if any, and we use the term "royalties" in this Annual Report on Form 10-K to refer to royalties, gold or silver stream interests, and other similar interests. We seek to acquire existing royalties or to finance projects that are in production or in development stage in exchange for royalties.

We are engaged in a continual review of opportunities to acquire existing royalties, to create new royalties through the financing of mine development or exploration, or to acquire companies that hold royalties. We currently, and generally at any time, have acquisition opportunities in various stages of active review, including, for example, our engagement of consultants and advisors to analyze particular opportunities, analysis of technical, financial and other confidential information, submission of indications of interest, participation in preliminary discussions and involvement as a bidder in competitive divestitures.

As of June 30, 2012, the Company owned royalties on 39 producing properties, 26 development stage properties and 128 exploration stage properties, of which the Company considers 40 to be evaluation stage projects. The Company uses "evaluation stage" to describe exploration stage properties that contain mineralized material and on which operators are engaged in the search for reserves. We do not conduct mining operations nor are we required to contribute to capital costs, exploration costs, environmental costs or other mining, processing or other operating costs on the properties in which we hold royalty interests. During the fiscal year ended June 30, 2012, we focused on the management of our existing royalty interests and the acquisition of royalty interests.

As discussed in further detail throughout this report, some significant developments to our business during fiscal year 2012 were as follows:

- (1) Our royalty revenues increased 22% to \$263.1 million, compared with \$216.5 million during fiscal year 2011;
- (2) We acquired the right to purchase an additional 15% of the payable gold produced from the Mt. Milligan copper-gold project located in British Columbia, Canada. In August 2012, the Company also agreed to purchase an additional 12.25% of the payable sold produced from Mt. Milligan;
- (3) We acquired the right to purchase specified percentages of the payable gold and silver produced from the Tulsequah Chief project located in British Columbia, Canada;
- (4) We acquired a 3.0% net smelter return royalty interest on all ores or minerals mined from the Ruby Hill mine located eastern Nevada;

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- (5) We sold 4,000,000 shares of our common stock, at a price of \$67.10 per share, resulting in proceeds of approximately \$268.4 million;
- (6) We completed an offering of \$370 million aggregate principal amount of 2.875% convertible senior notes due 2019 (the "2019 Notes"), which resulted in net proceeds of approximately \$359.0 million; and
- (7) We increased our calendar year dividend to \$0.60 per basic share, which is paid in quarterly installments throughout calendar year 2012. This represents a 36% increase compared with the dividend paid during calendar year 2011.

Certain Definitions

Additional Mineralized Material: Additional mineralized material is that part of a mineral system that has potential economic significance but cannot be included in the proven and probable ore reserve estimates until further drilling and metallurgical work is completed, and until other economic and technical feasibility factors based upon such work have been resolved. The Securities and Exchange Commission (the "SEC") does not recognize this term. Investors are cautioned not to assume that any part or all of the mineral deposits in these categories will ever be converted into reserves.

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

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

g/t: A unit representing grams per tonne.

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

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

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

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

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

Probable (Indicated) Reserves: Reserves for which the quantity and grade are computed from information similar to that used for proven (measured) reserves, but the sites for inspection, sampling and measurement are farther apart or are otherwise less adequately spaced. The degree of assurance of

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probable (indicated) reserves, although lower than that for proven (measured) reserves, is high enough to assume geological continuity between points of observation.

Payable Metal: Ounces or pounds of metal in concentrate payable to the operator after deduction of a percentage of metal in concentrate that is paid to a third-party smelter pursuant to smelting contracts.

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

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

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

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

Recent Business Developments

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

Ruby Hill Royalty Acquisition

On May 23, 2012, the Company entered into and closed a Purchase and Sale Agreement (the "Agreement") with International Minerals Corporation ("IMC") and Metallic Ventures (U.S.), Inc., a wholly-owned indirect subsidiary of IMC, pursuant to which the Company acquired a 3.0% NSR royalty interest on all ores and minerals mined or otherwise recovered from the Ruby Hill mine owned and operated by an affiliate of Barrick Gold Corporation ("Barrick") in Eureka County, Nevada, for a purchase price of \$38 million.

Barrick reported that, as of December 31, 2011, proven and probable reserves at the Ruby Hill mine include 16.8 million tons of ore, at an average grade of 0.058 ounces per ton, containing approximately 978,000 ounces of gold. In addition, Barrick estimates additional mineralization of 107.6 million tons, at a grade of 0.021 ounces per ton. Barrick is a Canadian issuer and reports resources under National Instrument 43-101, Standards of Disclosure for Mineral Projects, of the Canadian Securities Administrators. The additional mineralization is reported by Barrick as measured and indicated resources and is in addition to mineral reserves. Calendar year 2011 production was 127,000 ounces of gold. The Company began accruing royalty revenue for the Ruby Hill royalty interest during the fourth quarter of fiscal year 2012 and received its first royalty payment in July 2012.

Tulsequah Chief Gold and Silver Stream Acquisition

On December 22, 2011, Royal Gold, through one of its wholly-owned subsidiaries, entered into a Purchase and Sale Agreement (the "Tulsequah Agreement") with Chieftain Metals, Inc. ("Chieftain") whereby Royal Gold, among other things, agreed to purchase specified percentages of the payable gold and the payable silver produced from the Tulsequah Chief project in British Columbia from Chieftain. Consideration for the transaction is comprised of payment advances totaling \$60 million, of which \$10 million was paid on December 28, 2011, and, when production is reached, cash payments for each gold and silver ounce delivered to Royal Gold, as discussed further below.

Following the initial \$10 million payment advance, upon satisfaction of certain conditions set forth in the Tulsequah Agreement, Royal Gold will make additional payments (each, an "Additional Payment") to Chieftain in an amount not to exceed \$50 million in the aggregate. Chieftain will use these payment advances to fund a portion of the development costs of the Tulsequah Chief project.

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Upon commencement of production at the Tulsequah Chief project, Royal Gold will purchase (i) 12.50% of the payable gold with a cash payment equal to the lesser of \$450 or the prevailing market price for each payable ounce of gold until 48,000 ounces have been delivered to Royal Gold and 7.50% of the payable gold with a cash payment equal to the lesser of \$500 or the prevailing market price for each additional ounce of payable gold thereafter, and (ii) 22.50% of the payable silver with a cash payment equal to the lesser of \$5.00 or the prevailing market price for each payable ounce of silver until 2,775,000 ounces have been delivered to Royal Gold and 9.75% of the payable silver with a cash payment equal to the lesser of \$7.50 or the prevailing market price for each additional ounce of payable silver thereafter. As of June 30, 2012, Royal Gold has \$50 million remaining in Additional Payments to Chieftain.

Under the circumstances described in the Tulsequah Agreement, Royal Gold has the right to suspend its obligations to make all Additional Payments. Upon such a suspension, the streaming percentages for payable gold and payable silver described above will each be reduced to 6.50% for all payable gold and payable silver from the Tulsequah Chief project, although the per ounce cash payment prices will remain the same.

The Tulsequah Chief project is a high grade polymetallic deposit located in northwestern British Columbia, Canada, approximately 40 miles northeast of Juneau, Alaska. Chieftain is completing a feasibility study, following a June 2011 Preliminary Economic Assessment ("PEA") filed on the System for Electronic Document Analysis and Retrieval ("SEDAR") under Chieftain's profile on July 29, 2011, and anticipates that the project will be operational in calendar 2015. In the PEA, Chieftain has reported indicated mineralization totaling 6.0 million tonnes at an average grade of 2.63 grams of gold per tonne 96 grams of silver per tonne, 1.42% copper, 6.44% zinc and 1.23% lead. The reported mineralization will support a 9-year mine life.

Mt. Milligan II and III Gold Stream Acquisitions

On December 14, 2011, Royal Gold and one of its wholly-owned subsidiaries entered into an Amended and Restated Purchase and Sale Agreement (the "Milligan II Agreement") with Thompson Creek Metals Company Inc. ("Thompson Creek") and one of its wholly-owned subsidiaries. Among other things, Royal Gold agreed to purchase an additional 15% of the payable ounces of gold from the Mt. Milligan copper-gold project in exchange for payment advances totaling \$270 million, of which \$112 million was paid on December 19, 2011, and, when production is reached, cash payments for each payable ounce of gold delivered to Royal Gold, as discussed further below (the "Milligan II Acquisition").

On August 8, 2012, Royal Gold and one of its wholly-owned subsidiaries entered into a First Amendment to Amended and Restated Purchase and Sale Agreement (the "Milligan III Agreement") with Thompson Creek and one of its wholly-owned subsidiaries. Among other things and subject to certain conditions, Royal Gold agreed to purchase an additional 12.25% of the payable ounces of gold from the Mt. Milligan project in exchange for payment advances totaling \$200 million, of which \$75 million will be paid shortly after the effectiveness of the Milligan III Agreement (the "Milligan III Acquisition"). Thompson Creek intends to use the proceeds from the Milligan II Acquisition and the Milligan III Acquisition to finance a portion of the construction of the Mt. Milligan project and related costs.

The Milligan III Agreement will not become effective until the satisfaction of various conditions set forth therein, including, among other things, Thompson Creek amending certain provisions of its senior secured revolving credit agreement and approval of the lenders thereunder to the Milligan III Agreement. Royal Gold may terminate the Milligan III Agreement if the conditions are not satisfied within 30 days of the date of the Milligan III Agreement. If Royal Gold terminates the Milligan III

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Agreement, or if the Milligan III Agreement otherwise fails to become effective, the Milligan II Agreement will continue as currently in effect.

In the original Mt. Milligan gold stream transaction (the "Milligan I Acquisition"), which Royal Gold completed in October 2010, Royal Gold agreed to purchase 25% of the payable ounces of gold produced from the Mt. Milligan project in exchange for a total of \$311.5 million, \$226.5 million of which was paid at closing. In addition and also part of the Milligan I Acquisition, Royal Gold was to pay Thompson Creek a cash payment equal to the lesser of \$400 or the prevailing market price for each payable ounce of gold until 550,000 ounces have been delivered to Royal Gold and the lesser of \$450 or the prevailing market price for each additional ounce thereafter. Under the Milligan II Agreement, Royal Gold increased its aggregate investment (including amounts previously funded pursuant to the Milligan I Acquisition and commitments for future funding) from \$311.5 million to \$581.5 million, and agreed to purchase a total of 40% of the payable ounces of gold produced from the Mt. Milligan project at a cash purchase price equal to the lesser of \$435, with no inflation adjustment, or the prevailing market price for each payable ounce of gold (regardless of the number of payable ounces delivered to Royal Gold). Upon effectiveness of the Milligan III Agreement, Royal Gold will increase its aggregate investment from \$581.5 million to \$781.5 million and will be entitled to purchase a total of 52.25% of the payable ounces of gold produced from the Mt. Milligan project at the same purchase price set forth in the Milligan II Agreement.

In addition to the \$112 million payment made on December 19, 2011 and the payments totaling \$252.6 million made by Royal Gold pursuant to the Milligan I Acquisition, the Milligan II Agreement requires Royal Gold to make future scheduled payments to Thompson Creek in the aggregate amount of \$216.9 million, which are to be paid on a quarterly basis and commenced on March 6, 2012, with a payment of \$45 million. The amount of each quarterly payment to be made in calendar year 2012 is \$45 million (representing an aggregate of \$180 million in calendar year 2012), and the amount of each quarterly payment to be made in calendar year 2013 is \$12 million for each of the first two quarters of calendar year 2013 and \$12.9 million in the third quarter of calendar year 2013 (representing an aggregate of \$36.9 million in calendar year 2013). Upon the effectiveness of the Milligan III Agreement, the amount of future scheduled payments to Thompson Creek will increase to \$326.9 million, with \$75 million due three business days after effectiveness and the future scheduled quarterly payments being revised to total \$251.9 million, with \$45 million due September 1, 2012, \$95 million due December 1, 2012, \$62 million due March 1, 2013, \$37 million due June 1, 2013 and \$12.9 million due September 1, 2013.

Royal Gold's obligation to make these quarterly payments is subject to the satisfaction of certain conditions included in the Milligan II Agreement and the Milligan III Agreement (including that the aggregate amount of historical payments made by Royal Gold plus the applicable quarterly payment is less than the aggregate costs of developing the Mt. Milligan project incurred or accrued by Thompson Creek as of the date of the applicable quarterly payment). In the event that a quarterly payment is postponed as a result of the failure by Thompson Creek to satisfy a condition precedent, all subsequent quarterly payments will be adjusted forward one full calendar quarter until such time as all conditions precedent have been satisfied for the next scheduled quarterly payment. As of June 30, 2012, Royal Gold had a remaining commitment of \$126.9 million to Thompson Creek, which amount would have been \$326.9 million had the Milligan III Agreement been effective as of such date.

According to a National Instrument 43-101 technical report regarding the Mt. Milligan project filed on SEDAR under Thompson Creek's profile on October 13, 2011, proven and probable reserves total 482 million tonnes (0.20% copper; 0.39 g/t gold), containing 2.1 billion pounds of copper and 6.0 million ounces of gold, which reserves are estimated to support a mine life of approximately 22 years, with the project estimated to produce approximately 194,000 ounces of gold per year over the life of the mine, including estimated average production of 262,500 ounces of gold annually during the first six years of operation.

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We manage our business under a single operating segment, consisting of the acquisition and management of royalties. Royal Gold's royalty revenue and long-lived assets (royalty interests in mineral properties, net) are geographically distributed as shown in the following table.

	Royalty Revenue			Royalty Interests in Mineral Property, net		
	Fiscal Year Ended			Fiscal Year Ended		
	June 30,			June 30,		
	2012	2011	2010	2012	2011	2010
Chile	25%	21%	4%	35%	40%	42%
Canada	24%	19%	4%	43%	36%	27%
Mexico	20%	18%	15%	9%	11%	13%
United States	18%	24%	40%	5%	3%	5%
Africa	4%	9%	29%	1%	2%	2%
Australia	5%	5%	5%	3%	5%	6%
Other	4%	4%	3%	4%	3%	5%

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

Our financial results are primarily tied to the price of gold and, to a lesser extent, the price of silver, copper, and nickel, together with the amounts of production from our producing stage royalty interests as discussed further herein. During the fiscal year ended June 30, 2012, we derived approximately 75% of our royalty revenue from precious metals (including 68% from gold and 7% from silver), 11% from copper and 11% from nickel.

Competition

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

Regulation

Like all mining operations, the operators of the mines that are subject to our royalties must comply with environmental laws and regulations promulgated by federal, state and local governments including, but not limited to, the National Environmental Policy Act; the Comprehensive Environmental Response, Compensation and Liability Act; the Clean Air Act; the Clean Water Act; the Hazardous Materials Transportation Act; and the Toxic Substances Control Act. Mines located on public lands in the United States are subject to the General Mining Law of 1872 and are subject to comprehensive regulation by either the United States Bureau of Land Management (an agency of the United States Department of the Interior) or the United States Forest Service (an agency of the United States Department of Agriculture). The mines also are subject to regulations of the United States Environmental Protection Agency ("EPA"), the United States Mine Safety and Health

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Administration and similar state and local agencies. Operators of mines that are subject to our royalties in other countries are obligated to comply with similar laws and regulations in those jurisdictions. Although we are not responsible as a royalty owner for ensuring compliance with these laws and regulations, failure by the operators of the mines on which we have royalties to comply with applicable laws, regulations and permits can result in injunctive action, damages and civil and criminal penalties on the operators which could reduce or eliminate production from the mines and thereby reduce or eliminate the royalties we receive and negatively affect our financial condition.

Corporate Information

We were incorporated under the laws of the State of Delaware on January 5, 1981. Our executive offices are located at 1660 Wynkoop Street, Suite 1000, Denver, Colorado 80202; our telephone number is (303) 573-1660.

Available Information

Royal Gold maintains an internet website at www.royalgold.com. Royal Gold makes available, free of charge, through the Investor Relations section of its website, its Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and all amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC. Our SEC filings are available from the SEC's internet website at www.sec.gov which contains reports, proxy and information statements and other information regarding issuers that file electronically. These reports, proxy statements and other information may also be inspected and copied at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the Public Reference Room. The charters of Royal Gold's key committees of the Board of Directors and Royal Gold's Code of Business Conduct and Ethics are also available on the Company's website. Any of the foregoing information is available in print to any stockholder who requests it by contacting Royal Gold's Investor Relations Department at (303) 573-1660.

Company Personnel

We currently have 19 employees, all of whom are located in Denver, Colorado. Our employees are not subject to a labor contract or a collective bargaining agreement. We consider our employee relations to be good.

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

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ITEM 1A. RISK FACTORS

You should carefully consider the risks described below before making an investment decision. Our business, financial condition, results of operations, cash flows and financial condition could be materially adversely affected by any of these risks. The market or trading price of our securities could decline due to any of these risks. In addition, please see our note about forward-looking statements included in Part II, Item 7, MD&A of this Annual Report on Form 10-K. Please note that additional risks not presently known to us or that we currently deem immaterial may also impair our business and operations.

Risks Related to Our Business

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

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

Our strategy of having others operate properties on which we retain a royalty interest puts us generally at risk to the decisions of others regarding all operating matters, including permitting, feasibility analysis, mine design and operation, processing, plant and equipment matters and temporary or permanent suspension of operations, among others. These decisions are likely to be motivated by the best interests of the operator rather than to maximize royalty payments to us. Although we attempt to secure contractual rights, such as audit or access rights when we create new royalties, that will permit us to protect our interests to a degree, there can be no assurance that such rights will always be available or sufficient, or that our efforts will be successful in achieving timely or favorable results or in affecting the operation of the properties in which we have royalty interests in ways that would be beneficial to our stockholders.

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

The profitability of our royalty interests is directly related to the market price of gold, silver, copper, nickel and other metals. Market prices may fluctuate widely and are affected by numerous factors beyond the control of Royal Gold or any mining company, including metal supply, industrial and jewelry fabrication and investment demand, expectations with respect to the rate of inflation, the relative strength of the dollar and other currencies, interest rates, gold purchases, sales and loans by central banks, forward sales by metal producers, global or regional political, economic or banking conditions, and a number of other factors. If gold, silver, copper, nickel and certain other metal prices drop dramatically, we might not be able to recover our initial investment in royalty interests or properties. Moreover, the selection of a property for exploration or development, the determination to construct a mine and place it into production, and the dedication of funds necessary to achieve such purposes are decisions that must be made long before the first revenues from production will be received. Price fluctuations between the time that decisions about exploration, development and construction are made and the commencement of production can have a material adverse effect on the economics of a mine and can eliminate or have a material adverse impact on the value of royalty interests.

Furthermore, if the market price of gold, silver, copper, nickel or certain other metals declines, then our royalty revenues would also fall. Our sliding-scale royalties, such as Cortez, Holt, Mulatos, Wolverine and other properties, amplify this effect. When metal prices fall below certain thresholds in a

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

Volatility in gold, silver, copper and nickel prices is demonstrated by the annual high and low prices for those metals from selected years during the past decade.

High and low gold prices per ounce, based on the London Bullion Market Association P.M. fix, have ranged from \$293 to \$256 in 2001, from \$537 to \$411 in 2005, from \$1,212 to \$810 in 2009, from \$1,895 to \$1,319 in 2011, and from \$1,781 to \$1,540 year to date.

High and low silver prices per ounce, based on the London Bullion Market Association fix, have ranged from \$4.82 to \$4.07 in 2001, from \$9.23 to \$6.39 in 2005, from \$19.18 to \$10.51 in 2009, from \$48.70 to \$26.68 in 2011, and from \$37.23 to \$26.67 year to date.

High and low copper prices per pound, based on the London Metal Exchange cash settlement price for Grade A copper, have ranged from \$0.81 to \$0.62 in 2001, from \$2.08 to \$1.44 in 2005, from \$3.33 to \$1.38 in 2009, from \$4.60 to \$3.08 in 2011, and from \$3.93 to \$3.29 year to date.

High and low nickel prices per pound, based on the London Metal Exchange cash settlement price for nickel, have ranged from \$3.40 to \$1.97 in 2001, from \$8.12 to \$5.22 in 2005, from \$9.31 to \$4.25 in 2009, from \$13.17 to \$7.68 in 2011, and from \$9.90 to \$7.08 year to date.

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

Although we are not required to pay capital costs (except for transactions where we finance mine development) or operating costs, our financial results are indirectly subject to hazards and risks normally associated with developing and operating mining properties where we hold royalty interests. Some of these risks include:

insufficient ore reserves;

increases in production costs incurred by operators or third parties that may impact the amount of reserves available to be mined, cause an operator to delay or curtail mining operations or render mining of ore uneconomical and cause an operator to close operations;

declines in the price of gold, silver, copper, nickel and other metals;

mine operating and ore processing facility problems;

economic downturns and operators' insufficient financing;

insolvency or bankruptcy of the operator;

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significant environmental and other regulatory permitting requirements and restrictions and any changes in those regulations;

challenges by non-mining interests to existing permits and mining rights, and to applications for permits and mining rights;

community or civil unrest;

labor shortages, increased labor costs, and labor disputes, strikes or work stoppages at mines;

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geological problems, unanticipated metallurgical characteristics and unanticipated ground or water conditions;

pit wall or tailings dam failures or any underground stability issues;

fires, explosions and other industrial accidents;

environmental hazards and natural catastrophes such as floods, earthquakes or inclement or hazardous weather conditions;

injury to persons, property or the environment;

the ability of the operators to maintain or increase production or to replace reserves as properties are mined; and

uncertain domestic and foreign political and economic environments.

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

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

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

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

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

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the ability of operators to obtain debt or equity financing for the exploration, development and operation of their properties.

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

The royalty interests we acquire may not produce anticipated royalty revenues. The success of our royalty acquisitions is based on our ability to make accurate assumptions regarding the valuation, timing and amount of royalty payments, particularly with respect to acquisitions of royalties on development stage properties. If an operator does not bring a property into production and operate in accordance with feasibility studies, technical or reserve reports or other plans due to lack of capital, inexperience, unexpected problems, or otherwise, then the acquired royalty interest may not yield sufficient royalty revenues to be profitable. Furthermore, operators of development stage properties must obtain all necessary environmental permits and access to water, power and other raw materials needed to begin production, and there can be no assurance operators will be able to do so. The Pascua-Lama mining project in Chile and Argentina and the Mt. Milligan mining project in Canada are among our cornerstone development stage royalty acquisitions. The failure of any of our cornerstone or principal royalty properties to produce anticipated royalty revenues could have a material adverse effect on our business, results of operations, cash flows, financial condition and the other benefits we expect to achieve from the acquisition of royalty interests. Further, as mines on which we have royalties or other interests mature, we can expect overall declines in production over the years unless operators are able to replace reserves that are mined through mine expansion or successful new exploration. There can be no assurance that the operators of our royalty properties will be able to maintain or increase production or replace reserves as they are mined.

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

Some of our principal royalty interests are subject to limitations, such that the royalty will extinguish after threshold production is achieved or royalty payments at stated thresholds are made. For example, a portion of our royalty at Pascua-Lama and our royalty at Mulatos are subject to production caps. Furthermore, certain of our other royalty agreements contain rights that favor the operator or third parties. For example, Osisko, the operator of Canadian Malartic, one of our principal producing properties, exercised its buy-down right that reduced our royalty interest from a 3% NSR royalty to a 1.5% NSR royalty in fiscal year 2011. Also, certain individuals from whom we purchased portions of our royalty interest at Pascua-Lama, another of our cornerstone development properties, are entitled to one-time payments if the price of gold exceeds certain thresholds. If any of these thresholds are met or similar rights are exercised or we fail to make the required payment, our future royalty revenue could be reduced.

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

We are engaged in a continual review of opportunities to acquire existing royalties, to create new royalty interests through the financing of mining projects or to acquire companies that hold royalties. We currently, and generally at any time, have acquisition opportunities in various stages of active review, including, for example, our engagement of consultants and advisors to analyze particular opportunities, technical, financial and other confidential information, submission of indications of interest and participation in discussions or negotiations for acquisitions. We also often consider obtaining or providing debt commitments for acquisition financing. Any such acquisition could be material to us. We could issue common stock or incur additional indebtedness to fund our acquisitions. Issuances of common stock may dilute existing stockholders and reduce some or all of our financial measures on a per share basis. In addition, any such acquisition or other royalty transaction may have

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other transaction specific risks associated with it, including risks related to the completion of the transaction, the project, its operators, or the jurisdictions in which the project is located.

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

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

Our future success largely depends upon our ability to acquire royalty interests at appropriate valuations, including through royalties and corporate acquisitions, gold and silver streaming and other financing transactions. Most of our revenues are derived from royalty interests that we acquire or finance, rather than through exploration of properties. There can be no assurance that we will be able to identify and complete the acquisition of such royalty interests or businesses that own desired interests, at reasonable prices or on favorable terms, or, if necessary, that we will have, or be able to obtain, sufficient financing on reasonable terms to complete such acquisitions. A continued economic downturn or credit crisis could adversely affect our ability to obtain debt or equity financing for additional royalty acquisitions. In addition, we face competition in the acquisition of royalty interests. We have competitors that are engaged in the acquisition of royalty interests, including companies with greater financial resources, and we may not be able to compete successfully against these companies in acquiring new royalty interests. If we are unable to successfully acquire additional royalties, the reserves subject to our royalties will decline as the producing properties on which we have such interests are mined or payment or production caps on certain of our royalties are met. We also may experience negative reactions from the financial markets or operators of properties on which we seek royalties if we are unable to successfully complete acquisitions of royalty interests or businesses that own desired royalty interests. Each of these factors could have a material adverse effect on our business, results of operations, cash flows and financial condition.

Estimates of reserves and mineralization by the operators of mines in which we have royalty interests are subject to significant revision.

There are numerous uncertainties inherent in estimating proven and probable reserves and mineralization, including many factors beyond our control and the control of the operators of properties on which we have royalty interests. Reserve estimates for our royalty interests are prepared by the operators of the mining properties. We do not participate in the preparation or verification of such reports and have not independently assessed or verified the accuracy of such information. The estimation of reserves and of other mineralized material is a subjective process, and the accuracy of any such estimates is a function of the quality of available data and of engineering and geological interpretation and judgment. Results of drilling, metallurgical testing and production, and the evaluation of mine plans subsequent to the date of any estimate, may cause a revision of such estimates. The volume and grade of reserves recovered and rates of production may be less than anticipated. Assumptions about gold and other precious metal prices are subject to great uncertainty, and such prices have fluctuated widely in the past. Declines in the market price of gold, silver, copper, nickel or other metals also may render reserves or mineralized material containing relatively lower ore grades uneconomical to exploit. Changes in operating costs and other factors including short-term operating factors, the processing of new or different ore grades, geotechnical characteristics and metallurgical recovery, may materially and adversely affect reserves. Finally, it is important to note that our royalties generally give us interests in only a small portion of the production from the operators' aggregate reserves, and the size of those interests varies widely based on the individual royalty documents.

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

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

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

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

Royalty interests are subject to title and other defects and contest by operators of mining projects and holders of mining rights, and these risks may be hard to identify in acquisition transactions.

While we seek to confirm the existence, validity, enforceability and geographic extent of the royalties we acquire, there can be no assurance that disputes over these and other matters will not arise. Confirming these matters, as well as the title to mining property on which we hold or seek to acquire a royalty, is a complex matter, and is subject to the application of the laws of each jurisdiction to the particular circumstances of each parcel of mining property. Similarly, our royalty interests generally are subject to uncertainties and complexities arising from the application of contract and property laws governing private parties and/or local or national governments in the jurisdiction where mining projects are located. Furthermore, royalties in many jurisdictions are contractual in nature, rather than interests in land, and therefore may be subject to change of control, bankruptcy or insolvency of operators, nonperformance and to challenges of various kinds brought by operators or third parties. We do not usually have the protection of security interests over property that we could liquidate to recover all or part of our royalty investment. Even if we retain our royalty interests in a mining project after any change of control, bankruptcy or insolvency of the operator, the project may end up under the control of a new operator, who may or may not operate the project in a similar manner to the current operator, which may positively or negatively impact us. In addition, operators and other parties to our royalty agreements may not abide by their contractual obligations and we could be forced to take legal action to enforce our contractual rights. Disputes also could arise

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challenging, among other things, the existence or geographic extent of the royalty, third party claims to the same royalty interest or to the property on which we have a royalty, various rights of the operator or third parties in or to the royalty, methods for calculating the royalty, production and other thresholds and caps applicable to royalty payments, the obligation of an operator to make royalty payments, and various defects or ambiguities in the royalty agreement itself. Unknown defects in, n