Royal Gold, Inc

Smart Growth

[annual report]

2001

CORPORATE PROFILE

Royal Gold, Inc. is the largest U.S.-based precious metals royalty company. Royal Gold provides a unique way to invest in precious metals — by investing in a public company that holds and manages royalties on precious metals properties. Through its portfolio of royalty interests, the Company holds investments in a number of properties without incurring ongoing capital or operating costs, and thus provides low risk exposure to gold and precious metals income.

The Company is a Denver-based, publicly held corporation. Management and directors beneficially own about 30% of the shares of the Company. Royal Gold is traded on the Nasdaq Stock Market, under the symbol "RGLD," and on the Toronto Stock Exchange, under the symbol "RGL."

BUSINESS STRATEGY

Royal Gold seeks to create a collaborative relationship with royalty owners and mine operators, so that it becomes the royalty company of choice. Management's philosophy is to do deals only when they make sense — in other words, "smart growth." The Company's royalty portfolio now provides an excellent risk-to-reward profile. The key elements of our business strategy are:

1. acquiring and holding royalties on high quality deposits that are or will be exploited by competent operators;
2. holding royalties on properties that have upside potential;
3. holding a portfolio of producing royalties, involving various precious metals, to diversify commodity risk;
4. having a productive staff, motivated by significant equity ownership in the company;
5. possessing strong deal making and diligence skills;
6. having a publicly traded stock to use as a currency for acquisitions; and
7. being a core portfolio precious metals investment.

COVER

Royal Gold's philosophy is to grow by acquiring royalties on precious metals mines that have potential for growth and leverage to precious metals price increases.

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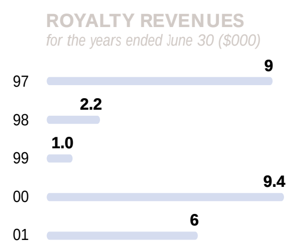
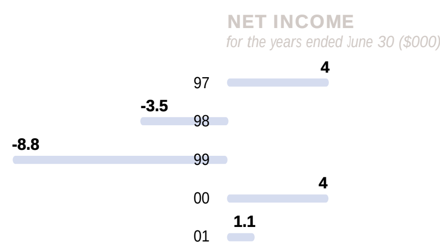
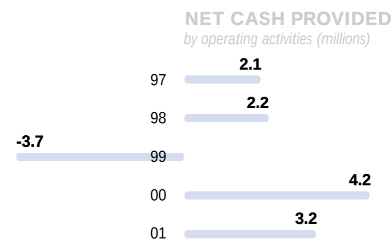
FINANCIAL HIGHLIGHTS







SELECTED FINANCIAL DATA

	For the Years Ended June 30,				
Selected Statement of Operations Data	**2001**	**2000**	**1999**	**1998**	**1997**
(Amounts in thousands, except per share data)					
Royalty revenues	**$ 5,963**	$ 9,407	$ 972	$ 2,176	$ 8,890
Exploration expense	**774**	1,627	2,831	2,001	1,738
General and administrative expense	**1,716**	1,768	1,704	1,679	1,693
Depreciation and depletion	**1,271**	1,193	464	155	51
Impairment of mining assets	**490**	—	4,616	—	—
Earnings (loss)	**1,138**	3,953	(8,808)	(3,543)	4,054
Basic earnings (loss) per share	**$ 0.06**	$ 0.23	$ (0.51)	$ (0.21)	$ 0.26
Diluted earnings (loss) per share	**$ 0.06**	$ 0.22	$ (0.51)	$ (0.21)	$ 0.24
Dividends declared per share	**$ 0.05**	$ 0.05	$ 0.00	$ 0.00	$ 0.00

	For the Years Ended June 30,				
Selected Balance Sheet Data	**2001**	**2000**	**1999**	**1998**	**1997**
(Amounts in thousands)					
Total assets	**$ 17,262**	$ 17,498	$11,815	$ 20,927	$ 18,981
Working capital	**5,448**	5,692	8,582	11,437	13,942
Long-term obligations	**127**	125	81	108	134

Cautionary "Safe Harbor" Statement Under the Private Securities Litigation Reform Act of 1995 *With the exception of historical matters, the matters discussed in this report are forward-looking statements that involve risks and uncertainties that could cause actual results to differ materially from projections or estimates contained herein. Such forward-looking statements include statements regarding planned royalties and levels of exploration, general and administrative expenses, and other expenditures. Factors that could cause actual results to differ materially from projections or estimates include, among others, changes in gold, silver or other commodity prices, decisions and activities of mine operators regarding the various properties where the Company has royalties, unanticipated grade, geological, metallurgical, processing or other problems, timing of production and schedules for development, changes in project parameters as plans continue to be refined, results of current exploration activities, accidents, environmental costs and risks, as well as other factors described elsewhere in this report. Most of these factors are beyond the Company's ability to predict or control. The Company disclaims any obligation to update any forward-looking statement made herein. Readers are cautioned not to put undue reliance on forward-looking statements.*

LETTER TO SHAREHOLDERS

Royal Gold had another good year in 2001. Producing royalties provided $6.0 million in revenues, and we were able to purchase an additional royalty at the Pipeline Mining Complex, in Lander County, Nevada. We were pleased to also pay our second annual dividend of $0.05 per share.

PRODUCTION ROYALTIES

Revenues from the Pipeline Mining Complex decreased from last year because the price of gold was lower for the same period. Our principal royalty (GSR1) has a sliding-scale feature. When the gold price goes down, we receive a smaller percentage of production. When the gold price goes up, we get more. The price referred to in our royalties is the London afternoon fix, averaged over a calendar quarter. In fiscal 2001, we had one quarter above $270 per ounce, which yielded a 2.25% rate on our GSR1 royalty. The other three quarters were at the 1.3% royalty rate, reflecting an average price slightly under $270 per ounce.

We have two other royalties generating revenue at the Pipeline Mining Complex. Both of these interests (GSR3 and NVR1) are fixed-rate royalties. Our revenue from them reflects the ups and the downs of the gold price, but these royalties provide more downside protection as compared to the GSR1 sliding-scale royalty.

Gold prices have increased recently in response to the tragic terrorist attacks on the United States. We believe it is likely that the gold price will exceed an average of $270 in fiscal 2002. Our revenues grow dramatically when the gold price increases.

Our revenues also depend upon the productivity of the mines where we have royalties. The Pipeline Mining Complex is on schedule to produce 1.2 million ounces of gold in calendar 2001, and is projected to produce another 1 million ounces in calendar year 2002. Placer Dome, the operator at the Pipeline Mining Complex, has done a good job of optimizing production, and we believe it will continue to produce at high rates.

Mining at the Pipeline Mining Complex has now moved into the South Pipeline deposit. The operation utilizes a fleet of 18 trucks, two 43 cubic yard shovels, and one 25 cubic yard shovel. This well-maintained fleet is guided by the latest global positioning satellite technology. Some of the trucks have recently been updated with lighter, larger capacity beds, further boosting productivity.

We were particularly pleased to be able to announce some remarkable exploration results for the Crossroads discovery, southeast of South Pipeline. Placer Dome continues to drill in this area, and it will be working on resource and reserve estimates for this additional mineralization. Much of the Crossroads material is subject to our GSR2 royalty — the so-called “super” royalty. It is called the “super” royalty because it pays out at 1.8 times the regular sliding-scale rate of GSR1, at all gold prices.

We also continue to receive royalty revenue from the Bald Mountain Mine. This mine is also run by Placer Dome, and is a model of safe, efficient, open pit mining.

Looking south to Argentina, Yamana Resources has been successful in putting its Martha mine into production. This underground mine is recovering high grade, direct shipping silver ore. The ore is of such high grade that it is put in one ton sealed sacks and sent by ocean freighter directly to a smelter in Canada. In July, we started receiving our share of this production.

EXPLORATION

One way Royal Gold creates new royalties is to explore for precious metals, and to sell our discoveries, keeping a royalty. This is how we got into the Pipeline Mining Complex.

This year, our exploration was limited to three ventures in central Europe. These ventures include a joint venture in Greece to explore gold deposits on the island of Milos, and gold exploration joint ventures in Romania and Bulgaria. We were successful in finding a sizeable deposit on Milos, but had to put the project on hold pending environmental clearances. We did some very basic exploration on licenses in Romania, and have developed some good looking drill targets in Bulgaria.

Our plan for the year ahead is to continue in Greece and Bulgaria at minimum levels, and to hold back on domestic exploration unless we get an exciting opportunity. We believe exploration is a good way to develop value for shareholders, but under current market conditions we are reluctant to make a major commitment to exploration. We are putting more effort into the search for acquisitions of currently cash-flowing royalties.

DIVIDEND

We were pleased to be able to pay our second annual dividend in July 2001. We believe that shareholders should see a direct return on their investment, and it is our hope that we can increase the dividend when revenues grow.

SMART GROWTH

We are anxious to grow the Company's revenues, but only if we can do so on a profitable basis. We can do that by buying existing royalties or by creating royalties in mining finance transactions. We are looking for opportunities in gold, silver, diamonds, and the platinum group metals. We want to end up with sizable royalties on major deposits, and prefer mines where there is a high quality operator. We see a lot of deals, but we are reluctant to try to grow by doing many small, marginal transactions, or by over-paying for deals. We are pursuing "smart growth." By smart growth, we mean that we will grow the Company by acquiring royalties on mines that have a good chance for growth in reserves. We also like leverage to precious metals price increases.

Royalty owners and mine developers know the value of their interests, and we do not expect to get a royalty on the cheap by out-trading someone. When we help finance a mine, we want our royalty to be tolerable for the operator. If the operator succeeds, we succeed with them. We are willing to pay full price for a good royalty, and it is our job to be sure we are exposed to upside. We have people on our staff who know how to assess upside, and we use the best consultants in the business to help us make sure we properly assess a mine.

There are many opportunities for royalty financings. There are all manner of mine developers that are presently frustrated because they cannot get money to finish their projects. We could complete all sorts of deals now in the name of growth. But, we think it is smarter to stick with our investment criteria of quality assets and quality operators. We would rather do one good deal a year than ten marginal transactions. So we ask you to be patient as we pursue a strategy of smart growth and we also ask that you judge our performance on the basis of the quality of our deals rather than the quantity.

We operate with a very small staff, and we work hard to keep general and administrative expenses in line. We are all stockholders, and we are anxious to see growth in the price of the stock. We have been very pleased with the performance of the share price since mid-year 2001. We continue to believe that gold is a core asset in every portfolio, and that Royal Gold's shares provide a great way to have portfolio protection. We are very enthusiastic for our prospects in the year ahead, and look forward to your continued support.

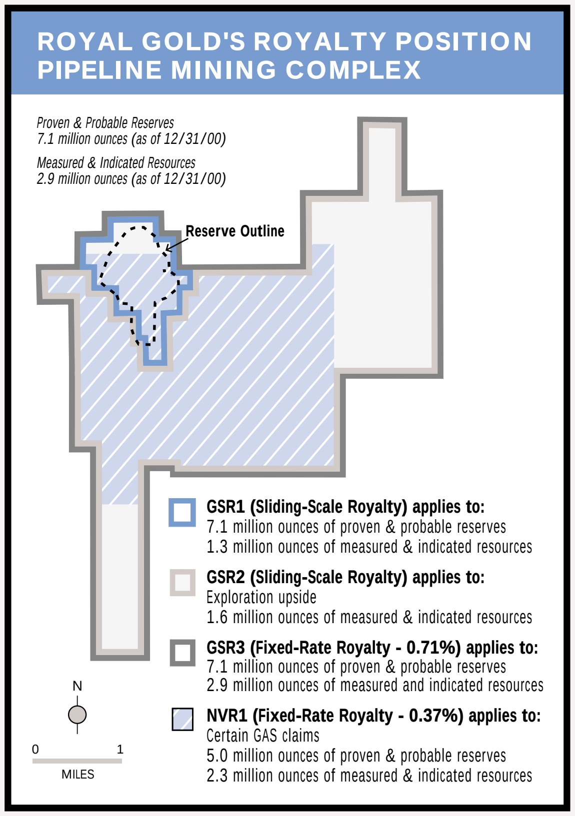
Sincerely,

Stanley Dempsey, *Chairman and CEO*

Peter Babin, *President*

PIPELINE MINING COMPLEX
LANDER COUNTY, NEVADA

The Pipeline Mining Complex is owned and operated by The Cortez Joint Venture ("Cortez"), a joint venture between Placer Cortez Inc., a subsidiary of Placer Dome Inc., (60%) and Kennecott Explorations (Australia) Ltd., a subsidiary of Rio Tinto (40%). Royal Gold currently holds four principal royalty interests on the property: two sliding-scale gross smelter returns royalties, (GSR1 and GSR2), a fixed-rate gross royalty (GSR3), and a net value royalty (NVR1). Cumulative royalty payments made to Royal Gold by Cortez during the year ended June 30, 2001, totaled approximately $5.8 million.



ROYAL GOLD'S ROYALTY POSITION
PIPELINE MINING COMPLEX

Pipeline Mining Complex Royalty Interests

- **GSR1:** This royalty covers all gold produced from the "Reserve Claims," a block of 52 claims encompassing the known reserves (the current mine footprint). GSR1 is a sliding-scale royalty tied to the price of gold (see table, pg. 7). Royalty payments received during fiscal year 2001 attributable to GSR1 totaled approximately $4.1 million.

- **GSR2:** This royalty covers all gold produced from the claim block lying outside the current mine footprint (the remaining 296 lode claims known as the "GAS Claims"). GSR2 is also a sliding-scale royalty tied to the price of gold, but it pays out at a rate that is 80% higher than that of GSR1, at all gold prices. There were no royalty payments received in fiscal 2001 attributable to production from lands subject to GSR2.

- **GSR3:** This royalty is a 0.71% fixed-rate royalty, for the life of the mine, encompassing all of the "GAS Claims" and "Reserve Claims." Royalty payments received during fiscal year 2001 attributable to GSR3 totaled approximately $1.6 million.

- **NVR1:** This 0.37% net value royalty applies to most of the GAS Claims, including the South Pipeline deposit and Crossroads area, but not including the Pipeline pit. This royalty was purchased in April 2001, for approximately $2.1 million. The NVR1 is calculated by deducting processing-related and associated capital costs, but not mining costs. Royalty payments received during fiscal year 2001 attributable to the NVR1 totaled approximately $49,000.

- A 10% GSR on all gold and silver produced from any of the GAS Claims from January 1, 1999, until the commencement of commercial production from the South Pipeline deposit. Royalty payments received during fiscal 2001 attributable to this royalty totaled approximately $57,000. With the recent initiation of commercial production from South Pipeline, Royal Gold no longer expects to receive any more payments from this royalty.

- A 7% GSR on all silver produced from any of the Reserve or Gas Claims.

Cortez Production

During fiscal year 2001, Cortez produced 1.1 million ounces of gold from the Pipeline Mining Complex, and production is expected to exceed 1.0 million ounces in fiscal 2002.

In July 2000, Cortez announced an agreement with AngloGold-Meridian's Jerritt Canyon Joint Venture whereby Jerritt Canyon agreed to purchase and process up to 500,000 tons (450,000 tonnes) of stockpiled, refractory ore grading greater than 0.3 ounces per ton ("opt") (10 grams per tonne ("gpt")), with the option to purchase an additional 500,000 tons (450,000 tonnes). In August 2001, Cortez announced that a Letter of Intent agreement had been reached, this time with Barrick Gold, for future processing of refractory ores at Barrick's Goldstrike facility.

South Pipeline Development

In June 2000, Cortez advised that it had received all required permits for the development of the South Pipeline deposit. A Notice of Appeal and Petition for Stay Pending Appeal were filed in late July 2000 contesting the South Pipeline permits. In January, the Petition for Stay was denied. Since receipt of the permits, Cortez has aggressively developed the South Pipeline deposit by removing overburden alluvium and initiating the mining of gold ore.

Ore Reserves and Mineralization

Placer Dome reported proven and probable reserves for the Pipeline Mining Complex, as of December 31, 2000, at a gold price of $300 per ounce, of 151,338,000 tons (137,291,563 tonnes), at an average grade of 0.047 opt (1.61 gpt), containing approximately 7.1 million ounces of gold. Placer Dome also reported that in addition to the proven and probable reserves, the property contains approximately 60.6 million tons (54.9 million tonnes) of additional mineralized material, at an average grade of 0.047 opt (1.61 gpt).

The royalty positions held by Royal Gold at the Pipeline Mining Complex relate to the following approximate attributable portions of the reserves and additional mineralized material as of December 31, 2000:

ROYALTY	CATEGORY*	TONS	(TONNES)	AVERAGE GOLD GRADE (OPT	/GPT)	CONTAINED OUNCES
GSR1	Reserve	151,337,747	(137,291,334)	0.047	(1.61)	7,058,482
	Mineralized Material	22,619,600	(20,520,162)	0.053	(1.82)	
GSR2	Mineralized Material	37,985,000	(34,459,422)	0.043	(1.47)	
GSR3	Reserve	151,337,747	(137,291,334)	0.047	(1.61)	7,058,482
	Mineralized Material	60,604,600	(54,979,584)	0.047	(1.61)	
NVR1	Reserve	122,361,600	(111,004,608)	0.041	(1.40)	5,060,840
	Mineralized Material	48,508,400	(44,006,093)	0.048	(1.64)	

** Proven and probable reserves are ore 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 measurements 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.*

** Mineralized material has not been included in the proven and probable reserve estimates because these deposits do not qualify as commercially mineable ore bodies until further drilling and metallurgical work are completed, and other economic and technical feasibility factors based upon such work are resolved.*

Exploration

Cortez continues to aggressively and systematically explore and evaluate the Pipeline Mining Complex lands, with various drilling programs.

In October 2000, Cortez advised that additional gold mineralization had been encountered immediately southeast of the South Pipeline deposit, in an area referred to as Crossroads. A small portion of the mineralization at Crossroads lies on ground covered by GSR1; a majority of the mineralization is covered by Royal Gold's GSR2 ("super") royalty; and all of the mineralization is covered by both the GSR3 and NVR1 royalties.

The geological controls to gold mineralization at Crossroads are similar to those in the South Pipeline deposit. Local long intercepts of low grade, oxide gold mineralization are encountered in this area beneath 400 to 750 feet of pediment gravels and valley-fill sediments. Gold mineralization increases in intensity (thickness and/or grade) to the southeast. In the south eastern corner of the drill pattern, thicker intercepts of higher grade gold mineralization have been encountered.

GOLD POUR AT THE PIPELINE MINING COMPLEX.

In October 2000, Cortez also announced it had outlined about 12.6 million tons (11.4 million tonnes) of oxide mineralization, at an average grade of 0.044 opt (1.5 gpt). This estimate did not consider mining dilution or processing losses.

CABLE SHOVEL LOADING ORE AT THE PIPELINE MINING COMPLEX.

As of August 10, 2001, Cortez had completed 69 drill holes at the Crossroads area of the Pipeline Mining Complex, during its 2001 drilling program. This recent drilling program expands the Crossroads area of mineralization to dimensions of approximately 2,200 feet east-west by 1,900 feet north-south. The 2001 drilling program has not fully defined the extent of mineralization, particularly to the east and south. Additional drilling will be required before a new resource estimate for the deposit can be defined.

Any decision by Cortez to reclassify any portion, or all, of the additional mineralized material or resources reported herein to proven and probable ore reserve status will depend upon consideration of additional drilling and metallurgical test results, and application of economic and technical feasibility factors such as mining, dewatering and processing costs.

PIPELINE COMPLEX GROSS SMELTER RETURN ROYALTY SCHEDULE

PRICE OF GOLD	GSR1	GSR2
Below $210	0.40%	0.72%
$210 - $229.99	0.50%	0.90%
$230 - $249.99	0.75%	1.35%
$250 - $269.99	1.30%	2.34%
$270 - $309.99	2.25%	4.05%
$310 - $329.99	2.60%	4.68%
$330 - $349.99	3.00%	5.40%
$350 - $369.99	3.40%	6.12%
$370 - $389.99	3.75%	6.75%
$390 - $409.99	4.00%	7.20%
$410 - $429.99	4.25%	7.65%
$430 - $449.99	4.50%	8.10%
$450 - $469.99	4.74%	8.55%
$470 and above	5.00%	9.00%

BALD MOUNTAIN
WHITE PINE COUNTY, NEVADA

Royal Gold holds a 1.75% net smelter returns royalty on a portion of the Bald Mountain Mine. Bald Mountain is operated by Placer Dome U.S. Inc., a subsidiary of Placer Dome Inc., as an open pit, heap leach mine. During fiscal 2001, Bald Mountain mine produced approximately 65,000 ounces of gold which were attributable to our interest and which generated approximately $300,000 in royalty revenues for Royal Gold. It is anticipated that the mine will produce approximately 70,000 ounces of gold in fiscal 2002 that will be attributable to Royal Gold's interest.

As of December 31, 2000, Placer Dome reported that, at a $300 gold price, proven and probable reserves related to Royal Gold's royalty include 11,529,000 tons (10,458,935 tonnes) of ore, at an average gold grade of 0.029 opt (0.987 gpt), containing approximately 332,000 ounces of gold. In addition to the proven and probable reserves, the operator reported that the property contains approximately 9.1 million tons (8.3 million tonnes) of additional mineralized material, at an average grade of 0.076 opt (2.60 gpt) of gold, related to Royal Gold's royalty interest. This is a marked decrease in ore reserves and a substantial increase in resources compared to calendar year-end 1999, due to the reserves being reclassified as resources as a result of Placer Dome's application of a lower gold price.

ORE HAULAGE AT BALD MOUNTAIN.

YAMANA RESOURCES, SANTA CRUZ PROVINCE, ARGENTINA

Royal Gold holds a 2% net smelter returns royalty on all mineral production from all the development and exploration properties of Yamana Resources Inc. (TSE: YRI) encompassing about 365,000 acres (148,000 hectares), in Santa Cruz Province, southern Argentina. Yamana's properties include the high-grade silver property known as the Martha mine at the Bacon prospect, and the high-grade gold property known as Coyote at the Martinetas prospect. Yamana thinks this large land package hosts excellent potential for the discovery of substantial gold-silver deposits, with continued exploration.

At the Bacon prospect, Yamana succeeded in putting the Martha mine into production during this fiscal year. The property features high grade, direct shipping ore ("DSO"). The high grade ore is mined and shipped directly to a smelter, without further mine site processing. Development of the mine, primarily including decline construction, commenced in October 2000. Yamana has advised Royal Gold that through July 2001, eleven shipments of DSO, or 2,935 tons (2,663 tonnes) of material containing approximately 1.5 million ounces of equivalent silver, have been shipped from the Martha mine to the smelter in Quebec, Canada.

Royal Gold has received royalty payment for all of these eleven shipments. Production from this initial Phase I operation, which Yamana projects to produce about 2.9 million ounces of equivalent silver, is expected to continue into early 2002.

Royal Gold also acquired, through a private placement in February 2000, three million Units of the equity securities of Yamana Resources Inc. for Cdn $1.8 million. Each Unit consists of one common share of Yamana, and one-half of a warrant to purchase more common shares. A full warrant entitles Royal Gold to purchase another common share of Yamana. The exercise price of the warrants was originally Cdn $0.50 per share, but was re-priced to Cdn $0.30. The Units expire February 2003. Royal Gold also purchased an additional 2 million shares and 2 million warrants for US$250,000, in early 2001. These warrants have an exercise price of US$0.15 and expire in February 2004. Royal Gold now holds about 10% of the issued and outstanding shares of Yamana.

PORTAL OF THE MARTHA MINE DECLINE.

MULE CANYON LANDER COUNTY, NEVADA

Royal Gold holds a 5% net smelter returns royalty on a portion of the Mule Canyon property, operated by Newmont Gold Company. Approximately 24,000 ounces of gold is expected to be produced from the portion of the Mule Canyon deposit that is subject to this royalty interest, pending a production commitment by Newmont.

BUCKHORN SOUTH
EUREKA COUNTY, NEVADA

Royal Gold holds a 14% net profits interest on any production from the Buckhorn South prospect which is currently being explored by AngloGold North America. The property hosts known mineralized material totaling approximately 2.4 million tons (2.2 million tonnes), with an average grade of 0.046 opt (1.6 gpt), or approximately 110,000 contained ounces. Whether some or all of this mineralization will be classified as proven or probable reserves depends upon consideration of further drilling and metallurgical test results, and application of economic and technical feasibility factors.

MILOS GOLD PROJECT
MILOS, GREECE

Royal Gold owns 25% of Geological Exploration and Development S.A. (G.E.D., formerly Midas S.A.), a Greek company that holds the gold exploration license on four islands in the Aegean Sea, including Milos. The license area, centered on Milos, is approximately 90 miles south of the city of Athens. The remaining interests in G.E.D. are held by Silver & Baryte Ores Mining Company S.A. (a Greek public company), with 50% ownership, and Aegean International Gold with 25% ownership.

Early in fiscal 2001, Royal Gold was informed by Silver & Baryte that the Greek Ministry of Environment, Regional Planning and Public Works had returned the environmental impact study that Midas S.A. had submitted for the purpose of performing further exploration work on Milos. The Ministry's letter explained that " . . approval of the study in this phase would create unfavorable consequences for the environment in the area." This action has effectively brought all on-site activities to a standstill. Silver & Baryte is now managing the project, and is working to resolve the current impasse, with the objective of securing a reversal of the Ministry's action.

GREEK AMERICAN EXPLORATION LTD.

Greek American Exploration Ltd. ("GRAMEX") is a Bulgarian company owned equally by Royal Gold and Silver & Baryte Ores Mining Co. of Athens, Greece. GRAMEX operates through Sofia Minerals Ltd. ("SOMIN"), which is a 50/50 venture of GRAMEX and Phelps Dodge Exploration Corporation. SOMIN currently holds four exploration licenses in Bulgaria, targeting potential for large gold and copper-gold systems.

CORPORATE RESPONSIBILITY

Management of Royal Gold is committed to preserve and protect the environment, promote the health and safety of its employees and be an exemplary corporate citizen. The Company's Environmental, Health and Safety Policy specifies that any mineral exploration program it may conduct be performed in compliance with all the health, safety and environmental laws and regulations in the communities in which the Company operates; that the Company will apply responsible standards and best practices; and that the Company will require its employees or contractors to meet or exceed such performance standards.

Likewise, we expect the operators of the properties over which we hold royalties to strive for responsible mining. Placer Dome's commitment to environmental stewardship provides that "any exploration, design, construction, operation and closure of mines is conducted" in such a manner "that respects and responds to the social, environmental and economic needs of present generations and anticipates those of future generations in the communities and countries" where it has operations. The staff at Cortez is well trained in all areas of environmental stewardship and community safety, and we congratulate them on their safety record and community involvement in Nevada. Royal Gold commends Placer Dome's vision of mining and sustainability.

Yamana Resources, our royalty partner in Argentina, adheres to the health, safety and environmental laws and regulations of Argentina.

Our partners in Europe, Silver & Baryte Ores Mining Co. and Phelps Dodge Mining Company, have similar policies reflecting their philosophy and practices as responsible, socially aware corporate citizens with emphasis on environmental stewardship and the health and safety of their employees and of the communities near their mining, processing and exploration sites. Silver & Baryte has begun implementation of an environmental management system and is preparing to apply for the ISO 14001 certificate.

THE GOLD MARKET

In the second quarter of 2001, gold funds posted an average 20.8 percent return. There seems to be a positive change in investor sentiment towards gold as investors turn to the gold sector as a safe haven from economic uncertainty. It appears that investors are looking to get back to basics and invest in companies with strong fundamental values — revenues, earnings and cash flow, and are recognizing the need to diversify into alternative assets, such as gold, especially in light of the most recent events that happened upon our nation. One thing investors should be looking for in gold stocks is leverage to a move in the gold price. We believe the shares of Royal Gold, which are highly leveraged to the price of gold, are an excellent vehicle for such an investment choice.

According to Miss Haruko Fukuda, Chief Executive Officer of the World Gold Council, "owning gold at the national level is an insurance against an unknown future. If there is one thing of which we can be certain, it is that today's status quo will not last. Gold also provides confidence to the ordinary citizen, who derives assurance from his county's ownership of an indestructible, universally accepted asset."

The economy in the United States continues to slow and the Federal Reserve has reduced the federal funds rate eight times during 2001, from 6% to 3%, a level not seen since 1994. Despite the economic slow down and the lower interest rates, the U.S. dollar remains strong. It is believed this is partly because foreign investors have continued to purchase U.S. Treasury obligations, offsetting the U.S.'s continued trade deficit, and because the U.S. Treasury has held up the dollar as it has paid off significant public debt out of the surplus. As the economy slows and the surplus disappears, the Treasury will have to roll over more of its debt. If this happens and the dollar weakens, it would appear that the stage is set for an increase in the gold price.

Sales by central banks are widely viewed as a significant factor in the decline of the gold price to the levels experienced over the last several years, and could continue to have an adverse effect on gold prices.

Central bank sales are being conducted under The Washington Agreement on Gold, an accord established in September 1999 by 15 European central banks that hold nearly half of all official gold. The accord states that gold will remain an important element of global monetary reserves; it limits gold sales to those "already decided sales" which will be completed through a concerted program until 2004; and it states that the associated banks have agreed not to expand their gold leasing and their use of gold futures and options over the same period. The accord is supported by the U.S. Treasury and other entities that control about 35 percent of the world gold reserves.

For the first half of 2001, jewellery demand remained stronger than investment, and investment demand was 8% below year-ago levels. It was expected that gold demand in 2001 would remain the same as last year, but that was before the recent wake of destruction in the United States.

The World Gold Council has initiated a long-term gold branding campaign aimed at promoting the emotional values of gold to help stimulate more consumer demand for gold. Besides jewellery, gold is also a vital part of today's most advanced electronics, communications and medical science.

Royal Gold is an active participant in organizations involved in promoting the use of gold. We are members of both the Gold Institute and the World Gold Council. For more information on gold, you can visit the World Gold Councils's website at www.gold.org or the Gold Institute's website at www.goldinstitute.org.

GLOSSARY

DECLINE: An inclined tunnel that provides access for development of deeper levels and haulage of ore back to the surface in an underground mine.

DIRECT SHIPPING ORE: Mineralized material that is so rich in valuable metals, and so lacking in otherwise deleterious substances, that it is amenable to smelting or refining without the need of any intermediate processing, separation of materials, or other beneficiation.

FEASIBILITY STUDY: An engineering study designed to define the technical, economic and legal viability of a mining project with a high degree of reliability.

FIXED-RATE GROSS ROYALTY: A royalty rate that stays constant for the life of the mine.

GOLD DEPOSIT/MINERALIZATION: That part of a mineral deposit that is not 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.

GRADE: The metal content of ore. With precious metals, grade is expressed as troy ounces per ton of ore or as grams per tonne of ore. A "troy" ounce is one-twelfth of a pound.

GROSS SMELTER RETURNS ROYALTY: A defined percentage of the gross revenue from a resource extraction operation, with no deduction for any costs paid by or charged to the operator.

HEAP LEACH: A method of recovering gold or other precious metals from a heap of ore placed on an impervious pad, whereby a dilute leaching solution is allowed to percolate through the heap, dissolving the precious metal, which is subsequently captured and recovered.

MINERALIZED MATERIAL: Rock formations containing minerals or metals of potential economic significance.

NET PROFITS INTEREST ROYALTY: A passive interest in a resource extraction operation that is determined on the basis of a defined portion of the operation's net profits.

NET SMELTER RETURNS ROYALTY INTEREST: A defined percentage of the gross revenue from a resource extraction operation, less a proportionate share of incidental transportation, insurance and processing costs.

NET VALUE ROYALTY: A passive interest in a resource extraction operation that is determined on the basis of deducting processing-related and associated capital costs, but not mining costs.

OVERBURDEN ALLUVIUM: Loose soil, sand and gravel that lies above the bedrock.

OXIDE MINERALIZATION: Mineralization subject to the weathering environment or comparable process, whereby the primary mineralogy is oxidized resulting in new mineral formation. In gold deposits, this process typically breaks down sulfide minerals to iron oxides, and liberates gold, enabling simple processing.

PEDIMENT GRAVELS: Coarse-grained alluvium deposited on sub-planar bedrock terrain sloping gently away from a mountain front.

PROBABLE RESERVE: Ore reserves for which quantity and grade and/or quality 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, although lower than that for proven (measured) reserves, is adequate to assume continuity between points of observation.

PROVEN RESERVE: Ore reserves for which: (a) quantity is computed from dimensions revealed in outcrops, trenches, workings or drill holes, and 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 size, shape, depth and mineral content of reserves are well established.

REFRACTORY: Gold mineralization requiring more sophisticated processing technology for extraction, such as roasting, or use of autoclaves.

RESOURCE: A concentration of metals in such amount that economic extraction is currently or potentially feasible. The term "resource" is recognized by the Society of Mining, Metallurgy and Exploration's "A Guide for Reporting Exploration Information, Resources and Reserves," but is not recognized by the U.S. Securities and Exchange Commission.

RESERVE: That part of a mineral deposit which could be economically and legally extracted or produced at the time of the reserve determination. Reserves are categorized as proven or probable reserves (see separate definitions).

SILVER EQUIVALENT: Gold or other precious metals expressed in equivalent ounces of silver using a conversion ratio dependent on the prevailing prices of the respective commodities.

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.

VALLEY-FILL SEDIMENT: Loose soil, sand and gravel that lies above the bedrock in a valley or basin environment between areas of higher elevation.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2001, the Company had current assets of $6,004,176 compared to current liabilities of $1,573,309 for a current ratio of 4 to 1. This compares to current assets of $7,564,689 and current liabilities of $1,872,246, at June 30, 2000, resulting in a current ratio of 4 to 1.

During fiscal 2001, liquidity needs were met from: (i) $5,963,153 in revenues from production at the Pipeline Mining Complex and at Bald Mountain, (ii) the Company's available cash resources, and interest and other income of $258,010, and (iii) cash receipts from the issuance of common stock and the exercise of options of $25,950.

During the fiscal year, the Company spent $2,135,107 on the purchase of a NVR1 royalty at the Pipeline Mining Complex, and $60,347 on other capital expenditures.

During the fiscal year, the Company made an additional investment in Yamana and acquired two million units of Yamana Resources, Inc. for $250,000. Each unit consists of one share and one-half warrant to purchase an additional share for U.S. $0.15 per share, until February 9, 2004.

The only material commitments that cannot be terminated at the sole discretion of the Company are (i) employment agreements with three officers, calling for minimum payments of approximately $540,000; and (ii) office lease payments of $373,332 through the lease period ending October 2005.

For fiscal 2002, the Company anticipates production of one million ounces of gold at the Pipeline Mining Complex, which includes the processing of carbonaceous ore, based on estimates from Cortez. Depletion and depreciation from this production is estimated to be $1.6 million. The Company has also budgeted general and administrative expenses of approximately $1.7 million, costs of operations of approximately $0.6 million and exploration and business development of approximately $0.5 million. The Company estimates interest income of $0.2 million and income taxes of $0.1 million. These amounts could increase or decrease significantly, at any time during the fiscal year, based on the gold price, exploration results and decisions about releasing or acquiring additional properties, among other factors. The Company will evaluate acquisition opportunities and may use cash or stock for these acquisitions. Acquisitions have become a more important part of the Company's growth strategy and could be substantial, while exploration is becoming less important.

The Company has obtained a $10 million line of credit from HSBC that may be used to acquire producing royalties. At this time no funds have been drawn under the line.

The Company will continue to explore its remaining properties, with a view to enhance the value of any such properties prior to possible farm out to major mining company partners.

The Company's current financial resources and sources of income should be adequate to cover the Company's anticipated expenditures for general and administrative costs, exploration and leasehold expenses, and capital expenditures for the foreseeable future.

RESULTS OF OPERATIONS

Fiscal Year Ended June 30, 2001, Compared with Fiscal Year Ended June 30, 2000

For the year ended June 30, 2001, the Company recorded net earnings of $1,138,297,or $0.06 per diluted share, as compared to net earnings of $3,952,979, or $0.22 per diluted share, for the year ended June 30, 2000. Net earnings for the current year reflect $6.0 million in royalty revenues.

The Company received royalty revenues of $5.7 million from its royalties at the Pipeline Mining Complex. The Company also received $0.3 million from its royalty at Bald Mountain. In the prior fiscal year, the Company received royalty revenues of $9.0 million from the Pipeline Mining Complex and $0.4 million from Bald Mountain. This decrease in royalty revenue was directly related to the lower gold price in the current year, which also reduced the royalty rate on GSR1.

Cost of operations decreased compared to the prior year, primarily related to Nevada Net Proceeds Tax expenditures associated with the increased royalties at the Pipeline Mining Complex, somewhat offset by settlement and accrual of estimated costs at Casmalia. See footnote 12.

General and administrative expenses of $1,715,512 for the year ended June 30, 2001, decreased slightly compared to $1,768,428 for the year ended June 30, 2000.

Exploration expenses decreased from $1,625,698 in fiscal 2000 to $743,627 in fiscal 2001, primarily due to decreased expenditures at the Milos Gold project. Lease maintenance and holding costs decreased from $242,127 in fiscal 2000 to $30,433 in fiscal 2001, primarily due to decreased holding costs related to the Milos Gold project.

Depreciation and depletion increased from $1,193,108 in fiscal 2000 to $1,270,621 in fiscal 2001, primarily due to the increased depletion associated with the Company's purchase of the GSR3 royalty at the Pipeline Mining Complex, because the royalty rate increased from 0.475% to 0.7125% during the year.

The Company recorded an impairment related to its royalty interest at Bald Mountain by $490,215, because of the operator's revised reserve estimates.

Interest and other income decreased from $271,347 in fiscal 2000 to $258,010 in fiscal 2001, primarily due to decreased funds available for investing.

Fiscal Year Ended June 30, 2000, Compared with Fiscal Year Ended June 30, 1999

For the year ended June 30, 2000, the Company recorded net earnings of $3,952,979, or $0.22 per diluted share, as compared to a net loss of $8,808,173, or $0.51 per diluted share, for the year ended June 30, 1999. Net earnings for fiscal year 2000 reflect $9.4 million in royalty revenues.

The Company received royalty revenues of $8,976,422 from its royalties at the Pipeline Mining Complex, of which $1,151,843 relates to the now completed Crescent Pit production. The Company also received $429,881 from its royalty at Bald Mountain. In the prior fiscal year, the Company received royalty revenues of $441,102 from the Crescent Pit and $530,848 from Bald Mountain.

Cost of operations increased compared to the prior year, primarily related to Nevada Net Proceeds Tax expenditures associated with the increased royalties at the Pipeline Mining Complex.

General and administrative expenses of $1,768,428 for the year ended June 30, 2000, increased slightly compared to $1,704,326 for the year ended June 30, 1999, primarily because of non-recurring severance costs and a non-recurring stock grant to non-employee directors offset by an overall decrease in expenses due to cost containment efforts.

Exploration expenses decreased from $2,831,095 in fiscal 1999 to $1,625,698 in fiscal 2000, primarily due to decreased expenditures at the Milos Gold project, the Manhattan project and the Alligator Ridge project. Lease maintenance and holding costs decreased from $410,249 in fiscal 1999 to $242,127 in fiscal 2000, primarily due to decreased holding costs at the Alligator Ridge property.

In fiscal 1999, the Company recorded a full impairment of its investment in the Inyo Gold project. There were no impairments in fiscal 2000.

Depreciation and depletion increased from $463,733 in fiscal 1999 to $1,193,108 in fiscal 2000, primarily due to the depletion associated with the Company's purchase of the GSR3 royalty at the Pipeline Mining Complex.

Interest and other income decreased from $654,448 in fiscal 1999 to $271,347 in fiscal 2000, primarily due to decreased funds available for investing.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors
Royal Gold, Inc.:

In our opinion, the accompanying consolidated balance sheets and related consolidated statements of operations and comprehensive income, of stockholders' equity and of cash flows present fairly, in all material respects, the financial position of Royal Gold, Inc. and its subsidiaries at June 30, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2001, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Denver, Colorado
August 9, 2001

CONSOLIDATED BALANCE SHEETS

	For The Years Ended June 30, 2001	2000
ASSETS		
Current assets		
Cash and equivalents	$ 4,578,278	$ 4,647,160
Royalty receivables	1,219,147	1,761,266
Prepaid expenses and other	206,751	235,990
Available for sale securities	—	920,273
Total current assets	6,004,176	7,564,689
Property and equipment, at cost, net	9,772,364	9,337,746
Available for sale securities	1,017,016	—
Other assets	468,649	595,147
Total assets	**$17,262,205**	**$17,497,582**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 485,785	$ 713,580
Dividend payable	894,490	885,004
Accrued compensation	150,000	212,370
Other	43,034	61,292
Total current liabilities	1,573,309	1,872,246
Other liabilities	127,100	124,697
Commitments and contingencies (notes 8 and 12)		
Stockholders' equity		
Common stock, $.01 par value, authorized 40,000,000 shares; and issued 18,101,622 and 17,910,822 shares, respectively	181,016	179,108
Additional paid-in capital	55,868,222	55,846,280
Accumulated other comprehensive income	(553,472)	(400,215)
Accumulated deficit	(38,837,098)	(39,080,904)
	16,658,668	16,544,269
Less treasury stock, at cost (226,226 and 210,726 shares, respectively)	(1,096,872)	(1,043,630)
Total stockholders' equity	15,561,796	15,500,639
Total liabilities and stockholders' equity	**$17,262,205**	**$17,497,582**

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

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

	For The Years Ending June 30,		
	2001	2000	1999
Royalty revenues	$ 5,963,153	$ 9,406,656	$ 959,014
Costs and expenses			
Costs of operations	784,993	692,940	361,055
General and administrative	1,715,512	1,768,428	1,704,326
Exploration costs	743,627	1,625,698	2,831,095
Lease maintenance and holding costs	30,433	242,127	410,249
Impairment of mining assets	490,215	—	4,615,731
Depreciation and depletion	1,270,621	1,193,108	463,733
Total costs and expenses	5,035,401	5,522,301	10,386,189
Operating income (loss)	927,752	3,884,355	(9,427,175)
Interest and other income	258,010	271,347	654,448
Loss on marketable securities	—	5,444	35,446
Interest and other expense	24,234	116,541	—
Income (loss) before income taxes	1,161,528	4,033,717	(8,808,173)
Income tax expense	23,231	80,738	—
Net earnings	**$ 1,138,297**	**$ 3,952,979**	**$ (8,808,173)**
Adjustments to comprehensive income			
Unrealized loss on available for sale securities	(153,257)	(400,215)	—
Comprehensive income	**$ 985,040**	**$ 3,552,764**	**$ (8,808,173)**
Basic earnings per share	**$ 0.06**	**$ 0.23**	**$ (0.51)**
Basic weighted average shares outstanding	17,765,877	17,528,244	17,160,228
Diluted earnings per share	**$ 0.06**	**$ 0.22**	**$ (0.51)**
Diluted weighted average shares outstanding	17,770,735	17,710,371	17,160,228

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

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	For The Years Ended June 30, 2001, 2000 and 1999	
	Common Stock	
	Shares	Amount
Balance at June 30, 1998	17,069,602	$ 170,696
Issuance of common stock for:		
Exercise of options	251,720	2,517
Balance at June 30, 1999	17,321,322	173,213
Issuance of common stock for:		
Exercise of options	137,000	1,370
Private placement	452,500	4,525
Balance at June 30, 2000	17,910,822	179,108
Issuance of common stock for:		
Exercise of options	190,800	1,908
Balance at June 30, 2001	**18,101,622**	**$ 181,016**

	For The Years Ended June 30, 2001, 2000 and 1999		
	Additional Paid-In Capital	Accumulated Deficit	Other Comprehensive Income (Loss)
Balance at June 30, 1998	$ 53,978,827	$ (33,340,707)	$ 0
Issuance of common stock for:			
Exercise of options	48,323		
Net loss and comprehensive loss for the year ended June 30, 1999		(8,808,173)	
Balance at June 30, 1999	54,027,150	(42,148,880)	0
Issuance of common stock for:			
Exercise of options	15,755		
Private placement	1,805,475		
Issuance of treasury shares to:			
Non-employee directors	(2,100)		
Net earnings and comprehensive income (loss) for the year ended June 30, 2000		3,952,979	(400,215)
Dividends		(885,003)	
Balance at June 30, 2000	55,846,280	(39,080,904)	(400,215)
Issuance of common stock for:			
Exercise of options	21,942		
Net earnings and comprehensive income (loss) for the year ended June 30, 2001		1,138,297	(153,257)
Dividends		(894,491)	
Balance at June 30, 2001	**$55,868,222**	**$ (38,837,098)**	**$ (553,472)**

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

	For The Years Ended June 30, 2001, 2000 and 1999		
	Treasury Stock		Total Stockholders'
	Shares	Amount	Equity
Balance at June 30, 1998	143,726	$ (759,783)	$ 20,049,033
Issuance of common stock for:			
Exercise of options			50,840
Purchases of common stock	95,000	(422,447)	(422,447)
Net loss and comprehensive loss			
for the year ended June 30, 1999			(8,808,173)
Balance at June 30, 1999	238,726	(1,182,230)	10,869,253
Issuance of common stock for:			
Exercise of options			17,125
Private placement			1,810,000
Issuance of treasury shares to:			
Non-employee directors	(28,000)	138,600	136,500
Net earnings and comprehensive income			
for the year ended June 30, 2000			3,552,764
Dividends			(885,003)
Balance at June 30, 2000	210,726	(1,043,630)	15,500,639
Issuance of common shares for:			
Exercise of options			23,850
Purchase of common stock	15,500	(53,242)	(53,242)
Net earnings and comprehensive income			
for the year ended June 30, 2001			985,040
Dividends			(894,491)
Balance at June 30, 2001	**226,226**	**$ (1,096,872)**	**$15,561,796**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For The Years Ending June 30, 2001	2000	1999
Cash flows from operating activities			
Net income (loss)	$ 1,138,297	$ 3,952,979	$ (8,808,173)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and depletion	1,270,621	1,193,108	463,733
Loss on marketable securities	—	5,444	35,446
Impairment of mining assets	490,215	—	4,615,731
Non cash compensation	—	136,500	—
(Increase) decrease in:			
Royalty receivables	542,119	(1,449,168)	(95,068)
Other current assets	29,239	222,702	61,627
Increase (decrease) in:			
Accounts payable and accrued liabilities	(308,424)	122,782	93,687
Other liabilities	2,403	43,599	(26,399)
Total adjustments	2,026,173	274,967	5,148,757
Net cash provided by (used in) operating activities	3,164,470	4,227,946	(3,659,416)
Cash flows from investing activities			
Capital expenditures for property and equipment	(2,195,454)	(8,340,629)	(740,696)
Maturity (purchase) of held-to-maturity securities, net	—	4,000,000	980,312
Purchase of available for sale securities	(250,000)	(1,320,488)	—
Increase in other assets	126,498	(417,270)	(200)
Net cash provided by (used in) investing activities	(2,318,956)	(6,078,387)	239,416
Cash flows from financing activities			
Dividends	(885,004)	—	—
Purchase of common stock	(53,242)	—	(422,447)
Proceeds from issuance of common stock	23,850	1,827,125	50,840
Net cash provided by (used in) financing activities	(914,396)	1,827,125	(371,607)
Net increase (decrease) in cash and equivalents	(68,882)	(23,316)	(3,791,607)
Cash and equivalents at beginning of period	4,647,160	4,670,476	8,462,083
Cash and equivalents at end of period	**$ 4,578,278**	**$ 4,647,160**	**$ 4,670,476**

Supplemental Information:

The Company declared a dividend on common stock of $894,491 during fiscal 2001, which was paid in July 2001.

The Company declared a dividend on common stock of $885,004 during fiscal year 2000, which was paid in July 2000.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Operations

Royal Gold, Inc. (the "Company" or "Royal Gold") was incorporated under the laws of the State of Delaware on January 5, 1981, and is engaged in the acquisition and management of precious metals royalty interests. Royalty revenue currently is generated from mining operations in the United States and Argentina. The Company also provides financial, operational, and environmental consulting services to companies in the mining industry. Substantially all the Company's revenues are and can be expected to be derived from its royalty interests rather than from its own mining activity or consulting services.

Summary of Significant Accounting Policies

Use of Estimates: The preparation of the Company's financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Basis of Consolidation: The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany transactions and account balances have been eliminated in consolidation.

Cash Equivalents: For purposes of the statements of cash flows, the Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. At June 30, 2001, cash equivalents included approximately $4,572,254 of temporary cash investments in five uninsured government securities money market funds.

Available for Sale Securities: Investments in securities that have readily determinable fair values are classified as available-for-sale investments. Unrealized gains and losses on these investments are recorded in accumulated other comprehensive income as a separate component of stockholders' equity, except that declines in market value judged to be other than temporary are recognized in determining net income. Realized gains and losses on these investments are included in determining net income.

Mineral Properties: Acquisition costs of royalty properties are capitalized and depleted using the units of production method over the life of the mineral property. Exploration costs are charged to operations when incurred. The recoverability of the carrying value of royalty interests is evaluated based upon estimated future net cash flows from each royalty interest property using estimates of proven and probable reserves. Impairments in the carrying value of each property are measured and recorded to the extent that the Company's carrying value in each property exceeds its estimated fair value, which is generally calculated using future discounted cash flows.

Management's estimate of the gold prices, recoverable proven and probable reserves related to the royalty property, operating, capital and reclamation costs of the mine operators are subject to certain risks and uncertainties which may affect the recoverability of the Company's investment in property, plant and equipment. Although management has made its best estimate of these factors based on current conditions, it is possible that changes could occur in the near term, which could adversely affect management's estimate of the net cash flows expected to be generated from properties in operation.

Office Furniture, Equipment and Improvements: The Company depreciates its office furniture, equipment and improvements over estimated useful lives of 15 years for office furniture, 3 years for computer equipment, and 5 years for other office equipment, using the straight-line method. The cost of normal maintenance and repairs is charged to expenses as incurred. Significant expenditures, which increase the life of the asset, are capitalized and depreciated over the estimated remaining useful life of the asset. Upon retirement or disposition of office furniture, equipment, or improvements, related gains or losses are recorded in operations.

Revenue: Royalty revenue is recognized when earned. For royalties received in gold, royalty revenue is recorded at the spot price of gold.

Income Taxes: Deferred income taxes reflect the expected future tax consequences of temporary differences between the tax basis amounts and financial statement carrying amounts of assets and liabilities at each year end and the expected future benefits of net operating loss carryforwards, tax credits and other carryforwards.

Reclassifications: Certain accounts in the prior period financial statements have been reclassified for comparative purposes to conform with the presentation in the current period financial statements.

Earnings (Loss) Per Share: Basic earnings (loss) per share is computed by dividing the net income or loss by the weighted average number of common shares outstanding during each year. Diluted earnings per share reflects the effect of dilutive options and warrants.

2. PROPERTY AND EQUIPMENT

The carrying value of the Company's property and equipment consists of the following components at June 30, 2001 and 2000:

	Gross	Accumulated Depreciation & Depletion	Net
As of June 30, 2001			
Royalties			
GSR1	$ —	$ —	$ —
GSR2	—	—	—
GSR3	8,105,020	1,803,958	6,301,062
NVR1	2,135,107	33,868	2,101,239
Bald Mountain	1,978,547	1,065,323	913,224
Mule Canyon	180,714	—	180,714
Yamana Resources, Inc.	172,810	—	172,810
Total royalties	12,572,198	2,903,149	9,669,049
Office furniture, equipment and improvements	834,252	730,937	103,315
	$13,406,450	**$ 3,634,086**	**$ 9,772,364**
As of June 30, 2000			
Royalties			
GSR1	$ —	$ —	$ —
GSR2	—	—	—
GSR3	8,105,020	856,389	7,248,631
Bald Mountain	2,468,762	822,649	1,646,113
Mule Canyon	180,714	—	180,714
Yamana Resources, Inc.	172,809	—	172,809
Total royalties	10,927,305	1,679,038	9,248,267
Office furniture, equipment and improvements	773,906	684,427	89,479
	$11,701,211	**$ 2,363,465**	**$ 9,337,746**

Presented below is a discussion of the status of each of the Company's currently significant mineral properties.

Pipeline Mining Complex:
The Company holds two sliding-scale gross smelter returns royalties (GSR1 and GSR2) and a fixed gross royalty (GSR3) over the Pipeline Mining Complex that includes the Pipeline and South Pipeline gold deposits in Lander County, Nevada. The Company also owns a net value royalty (NVR1) on the South Pipeline gold deposit.

The Pipeline Mining Complex is owned by The Cortez Joint Venture, a joint venture between Placer Cortez Inc. (60%), a subsidiary of Placer Dome Inc., and Kennecott Explorations (Australia) Ltd. (40%), a subsidiary of Rio Tinto.

Bald Mountain:
Effective January 1, 1998, the Company purchased a 50% undivided interest in a sliding-scale net smelter returns royalty that burdens a portion of the Bald Mountain mine, in White Pine County, Nevada. Bald Mountain is an open pit, heap leach mine operated by Placer Dome U.S. Inc. During fiscal 2001, the Company recorded an impairment of $490,215. This resulted from the operator decreasing its long-term gold price estimate to $300 per ounce, which reduced its reserve estimate at the property.

Mule Canyon:
In fiscal 1999, the Company purchased a 5% NSR royalty on a portion of the Mule Canyon mine, operated by Newmont Gold Company.

Yamana Resources:
In fiscal 2000, the Company purchased a 2% NSR royalty on Yamana Resources' properties in Argentina.

Inyo Gold Project (formerly Long Valley):
Due to the decline in the gold price during the fourth quarter of fiscal 1999, the Company recorded a full impairment of its investment in the Inyo Gold project. The recoverability of the carrying value of the Inyo Gold project was evaluated based upon estimated future net cash flows from the property using estimates of proven and probable reserves, and resulted in an impairment of the property.

3. RELATED PARTY TRANSACTION

The Company acquired a portion of a 1.25% net value royalty ("NVR") over production from the GAS Claims located on the Pipeline Mining Complex, in Lander County, Nevada, from a group of individuals. This royalty is know as NVR1. Royal Gold acquired NVR1 for approximately $2.1 million. Of this amount, approximately 45% or $967,500 was distributed to those officers and directors of the Company who participated.

4. DERIVATIVES

The Company has purchased gold put options to cover its production through calendar year 2003. These puts consist of 10,200 ounces of gold per year at $270 per ounce and 15,000 ounces of gold per year at $250 per ounce. The Company does not use hedge accounting under FAS 133 and therefore marks-to-market these puts each quarter and records the gain or loss in operating costs. In fiscal year 2001, the Company expensed $90,472 related to these puts.

5. AVAILABLE FOR SALE SECURITIES

The Company holds equity positions in a number of mining and exploration companies. The Company had an unrealized loss of $553,472 in these securities at June 30, 2001.

6. EARNINGS PER SHARE ("EPS") COMPUTATION

For The Year Ended June 30, 2001

	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Basic EPS			
Income available to common stockholders	$ 1,138,297	17,762,877	$ 0.06
Effect of dilutive securities		7,858	
Diluted EPS	**$1,138,297**	**17,770,735**	**$0.06**

Options to purchase 907,079 shares of common stock, at an average purchase price of $5.36 per share, were outstanding at June 30, 2001, but were not included in the computation of diluted EPS because the exercise price of these options was greater than the average market price of the common shares.

For The Year Ended June 30, 2000

	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Basic EPS			
Income available to common stockholders	$ 3,952,979	17,528,244	$ 0.23
Effect of dilutive securities		182,127	
Diluted EPS	**$3,952,979**	**17,710,371**	**$0.22**

Options to purchase 1,080,532 shares of common stock, at an average purchase price of $5.46 per share, were outstanding at June 30, 2000, but were not included in the computation of diluted EPS because the exercise price of these options were greater than the average market price of the common shares.

For The Year Ended June 30, 1999

	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Basic EPS			
Income (loss) available to common stockholders	$(8,808,173)	17,160,228	$(0.51)
Effect of dilutive securities		—	
Diluted EPS	**$(8,808,173)**	**17,160,228**	**$(0.51)**

Options to purchase 341,800 shares of common stock, at an average purchase price of $0.28 per share, and 892,498 shares, at an average price of $5.96 per share, were not included in the computation of diluted EPS because the Company experienced a net loss in the year and these options were antidilutive.

7. INCOME TAXES

The tax effects of significant temporary differences and carryforwards, which give rise to the Company's deferred tax assets and liabilities at June 30, 2001 and 2000, are as follows:

	2001	2000
Net operating loss carryforwards	$ 7,629,710	$ 8,311,261
Mineral property basis	1,188,861	1,273,075
AMT credit carryforward	4,467	155,715
Loss on sale of gold	—	—
Other	61,740	114,926
Total deferred tax assets	8,884,778	9,854,977
Valuation allowance	(8,867,171)	(9,305,431)
Net deferred tax assets	17,607	549,546
Gold inventory	(17,607)	(549,546)
Mineral property basis	—	—
Other	—	—
Total deferred tax liabilities	(17,607)	(549,546)
Total net deferred taxes	$ —	$ —

At June 30, 2001, the Company has approximately $21.8 million of net operating loss carryforwards, which, if unused, will expire during the years 2002 through 2021. The Company's ability to generate future taxable income to realize the benefits of its tax assets will depend primarily on the spot price of gold. Due to the sliding-scale royalties which decrease as the price of gold decreases, the inability of the Company to control the gold production upon which its royalty is based, and the volatility in the spot price of gold ($255 to $291 per ounce, in fiscal year 2001), a full valuation allowance has been established for the deferred tax asset at June 30, 2001.

The components of income tax expense (benefit) for the years ended June 30, 2001, 2000 and 1999, are as follows:

	2001	2000	1999
Current federal tax expense	$ 23,231	$ 80,738	$ —
Deferred tax expense (benefit)	438,260	2,222,726	(3,464,237)
Increase (decrease) in deferred tax asset valuation allowance	(438,260)	(2,222,726)	3,464,237
	$ 23,231	**$ 80,738**	**$ —**

The provision for income taxes for the years ended June 30, 2001, 2000 and 1999, differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pre-tax loss from operations as a result of the following differences:

	2001	2000	1999
Total expense (benefit) computed by applying statutory rate	$ 394,920	$ 1,411,801	$ (3,082,861)
Adjustments of valuation allowance	(438,260)	(1,124,726)	3,464,237
Excess depletion	(211,917)	(328,661)	(381,376)
Other	278,488	122,324	—
	$ 23,231	**$ 80,738**	**$ —**

The change in the valuation allowance in fiscal 2001 and 2000 is due to the utilization of net operating loss in the current year.

The change in the valuation allowance in fiscal 1999 is due to the loss for the year.

8. COMMITMENTS

Operating Lease:

The Company leases office space under a lease agreement, which expires October 31, 2004. Future minimum cash rental payments are as follows:

For The Years Ending June 30,	
2002	$ 107,014
2003	111,317
2004	115,797
2005	39,104
2006	—
Total:	**$ 373,232**

Rent expense charged to operations for the years ended June 30, 2001, 2000 and 1999, amounted to $110,888, $159,122 and $145,731, respectively.

Employment Agreements:

The Company has one-year employment agreements with three of its officers, which require total minimum future compensation, at June 30, 2001, of $540,000. The terms of each of these agreements automatically extend, every February, for one additional year, unless terminated by the Company or the officer, according to the terms of the agreements.

9. STOCKHOLDERS' EQUITY

Preferred Stock:

The Company has 10,000,000 authorized and unissued shares of $.01 par value Preferred Stock.

Stockholders' Rights Plan:

The Company's board of directors adopted a Stockholders' Rights Plan in which preferred stock purchase rights ("Rights") were distributed as a dividend at the rate of one Right for each share of common stock held as of close of business on September 11, 1997. The terms of the Stockholders Rights plan provide that if any person or group were to announce an intention to acquire or were to acquire 15 percent or more of the Company's outstanding common stock, then the owners of each share of common stock (other than the acquiring person or group) would become entitled to exercise a right to buy one one-hundredth of a newly issued share of Series A Junior Participating Preferred Stock of the Company at an exercise price of $50 per Right.

Stock Option Plans:

The Company adopted an Equity Incentive Plan ("the Plan") whereby options under the Plan are exercisable at prices equal to the market value of the Company's Common Stock as of the date of grant and expire ten years after the date of grant.

Stock Options and Warrants:

The following schedules detail activity related to options for the years ended June 30, 1999, 2000 and 2001:

	Optioned Shares	Weighted Average Option Prices
Options Outstanding at June 30, 1998	1,313,018	$ 3.59
Granted	199,000	$ 4.59
Exercised	(251,720)	$ 0.20
Surrendered or expired	(26,000)	$ 4.00
Options Outstanding at June 30, 1999	1,234,298	$ 4.66
Granted	310,000	$ 4.42
Exercised	(137,000)	$ 0.13
Surrendered or expired	(165,570)	$ 6.08
Options Outstanding at June 30, 2000	1,241,728	$ 4.67
Granted	145,000	$ 2.81
Exercised	(190,800)	$ 0.13
Surrendered or expired	(144,849)	$ 6.11
Options Outstanding at June 30, 2001	**1,051,079**	**$ 5.01**

All exercisable options outstanding at June 30, 2001, are exercisable at a weighted average exercise price of $5.36. Options outstanding at June 30, 2001, consist of: 991,079 options, at an average strike price of $4.54 (a range of $2.81 to $5.63), and a weighted average remaining contractual life of 6.6 years; and 60,000 options, at an average strike price of $12.73 (a range of $8.50 to $14.13), and a weighted average remaining contractual life of 1.9 years.

The Company measures compensation cost as prescribed by APB Opinion No. 25 ("APB 25"), accounting for Stock Issued to Employees. No compensation cost has been recognized in the financial statements as the exercise price of all option grants is equal to the market price of the Company's Common Stock at the date of grant. In October 1995, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 123 ("SFAS 123"). SFAS defines a "fair value" based method of accounting for employee options or similar equity instruments. Had compensation cost been determined under the provisions of SFAS 123, the following pro forma net income (loss) and per share amounts would have been recorded.

	2001	2000	1999
Net income (loss)			
As reported	$ 1,138,297	$ 3,952,979	$ (8,808,173)
Pro Forma	$ 1,025,466	$ 3,522,851	$ (9,154,224)
Net income (loss) per basic share			
As reported	$ 0.06	$ 0.23	$ (0.51)
Pro Forma	$ 0.06	$ 0.20	$ (0.53)
Net income (loss) per diluted share			
As reported	$ 0.06	$ 0.22	$ (0.51)
Pro Forma	$ 0.06	$ 0.20	$ (0.53)

The pro forma amounts were determined using the Black-Scholes model with the following assumptions:

	2001	2000	1999
Weighted average expected volatility	51.2%	45.5%	58.9%
Weighted average expected option term in years	5.5	5.5	5.5
Weighted average risk free interest rate	5.7%	5.4%	4.6%
Forfeiture rate	5%	5%	5%
Weighted average grant fair value	$1.27	$2.12	$2.62

10. MAJOR CUSTOMERS

In each of fiscal years 2001, 2000 and 1999, $5,963,152, $8,976,422 and $441,102, respectively, of the Company's royalty revenues were received from the same source.

11. SIMPLIFIED EMPLOYEE PENSION ("SEP") PLAN

The Company maintains a SEP Plan in which all employees are eligible to participate. The Company contributes a minimum of 3% of an employee's compensation to an account set up for the benefit of the employee. If an employee also chooses to contribute to the SEP Plan through salary reduction contributions, the Company will match such contributions to a maximum of 7% of the employee's salary. The Company contributed $76,063, $82,528 and $79,543, in fiscal years 2001, 2000 and 1999, respectively.

12. CONTINGENCIES

Casmalia:

The Company received notice, on March 24, 2000, that the U.S. Environmental Protection Agency ("EPA") has identified Royal Resources, Inc. (Royal Gold's corporate predecessor) as one of 22,000 potentially responsible parties ("PRPs"), along with many oil companies, for clean-up of a fully-permitted hazardous waste landfill at Casmalia, Santa Barbara County, California, under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended ("Superfund"). The Company's alleged PRP status stems from oil and gas exploration activities undertaken by Royal Resources in California during 1983-84.

At the end of June 2001, the Company agreed in principle, subject to the drafting of an acceptable consent decree, to accept financial responsibility for approximately two million pounds of customary oil and gas well drilling mud, and to settle with the EPA for approximately $110,000. The Company has also spent $20,000 on legal fees in the fiscal year. These amounts, along with legal fees of $20,000, are accrued in the June 30, 2001 financials.

13. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

	Operating Revenues	Gross Profit	Net Income (Loss)	Earnings (Loss) Per Share of Common Stock	Earnings (Loss) Per Share of Common Stock Assuming Dilution
Fiscal Year 2001 Quarter Ended:					
September 30	$ 1,537,944	$ 641,922	$ 629,084	$ 0.04	$ 0.04
December 31	1,405,106	(160,819)	(157,603)	(0.01)	(0.01)
March 31	1,446,010	378,243	358,997	0.02	0.02
June 30	1,574,093	68,405	307,819	0.01	0.01
	$ 5,963,153	**$ 927,752**	**$ 1,138,297**	**$ 0.06**	**$ 0.06**
Fiscal Year 2000 Quarter Ended:					
September 30	$ 2,022,882	$ 799,061	$ 855,296	$ 0.05	$ 0.05
December 31	3,007,747	1,002,804	997,897	0.06	0.06
March 31	2,391,903	1,138,263	1,142,303	0.06	0.06
June 30	1,984,124	1,215,574	957,483	0.06	0.05
	$ 9,406,656	**$ 4,155,702**	**$ 3,952,979**	**$ 0.23**	**$ 0.22**

MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Common Stock of the Company is traded on the Nasdaq Stock Market under the symbol "RGLD" and on the Toronto Stock Exchange under the symbol "RGL."

The following table shows the high and low closing sales prices, in U.S. dollars, for the Common Stock on Nasdaq for each quarter since June 30, 1999.

	Sales Prices	
Fiscal Year:	**High Closing**	**Low Closing**
2000		
First Quarter *(July, Aug., Sept. - 1999)*	$6.13	$3.38
Second Quarter *(Oct., Nov., Dec. - 1999)*	$5.75	$3.31
Third Quarter *(Jan., Feb., March - 2000)*	$4.75	$3.38
Fourth Quarter *(April, May, June - 2000)*	$4.00	$2.50
2001		
First Quarter *(July, Aug., Sept. - 2000)*	$3.75	$2.56
Second Quarter *(Oct., Nov., Dec. - 2000)*	$3.38	$2.38
Third Quarter *(Jan., Feb., March - 2001)*	$3.56	$2.50
Fourth Quarter *(April, May, June - 2001)*	$3.85	$2.50

As of August 31, 2001, there were approximately 3,500 shareholders of the Company's Common Stock.

Dividends

The Company paid its first dividend of $0.05 per share on July 21, 2000. The Company declared its second annual dividend of $0.05 per share on its Common Stock, payable to holders of record as of July 6, 2001. This dividend was paid on July 20, 2001.

The Company plans to sustain a dividend on a fiscal year basis, subject to the discretion of the board of directors, which will consider among other things gold prices, economic and market conditions, and the financial needs of opportunities that might arise in the future.

Sales of Unregistered Securities

The Company did not make any unregistered sales of its securities during the fiscal year ended June 30, 2001.

CORPORATE INFORMATION

WWW.ROYALGOLD.COM

BOARD OF DIRECTORS

Stanley Dempsey
Chairman and Chief Executive Officer
Royal Gold, Inc.

Peter Babin
President
Royal Gold, Inc.

John W. Goth
Mining Consultant

Pierre Gousseland
Mining Consultant

S. Oden Howell, Jr.
Howell & Howell Painting Contractors

Merritt E. Marcus
President
Marcus Paint Company

Edwin W. Peiker, Jr.
Formerly President of the Company
Mining Consultant

James W. Stuckert
Chairman & Chief Executive Officer
Hilliard, Lyons, Inc.

Donald Worth
Mining Consultant

OFFICERS

Stanley Dempsey
Chairman & CEO

Peter Babin
President

Karen Gross
Vice President and Corporate Secretary

Donald Baker
Vice President of Corporate Development

John Skadow
Controller and Treasurer

CORPORATE HEADQUARTERS

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E-mail: royalgold@royalgold.com
Web Site: *Please visit the Company's web site at* **www.royalgold.com** *for additional information about the Company.*

LEGAL COUNSEL

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Broomfield, Colorado

AUDITORS

PricewaterhouseCoopers LLP
Denver, Colorado

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Calgom Mining, Inc.
GRAMEX, Ltd.
GRAMEX SRL
Mono County Mining Company
Royal Camp Bird, Inc.
Royal Crescent Valley, Inc.
Royal Kanaka Creek Corporation
Royal Long Valley, Inc.
Royal Trading Company
SOMIN, Ltd.
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Computershare Trust Company of Canada
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Canada

STOCK EXCHANGE LISTINGS

Nasdaq Stock Market
(Symbol: RGLD)

Toronto Stock Exchange
(Symbol: RGL)

INVESTOR RELATIONS

Copies of the Company's Form 10-K are available at no charge. Please direct requests and any other investor relations questions to:

Karen Gross
Vice President & Corporate Secretary
Phone: 303.575.6504
E-mail: kgross@royalgold.com

SHAREHOLDER COMMUNICATION

It is important for our shareholders to get timely information about the Company. We encourage our shareholders to access our web site at **www.royalgold.com**, or to receive information via e-mail or facsimile.

ANNUAL MEETING

Tuesday, November 13, 2001
9:30 a.m. MDT
Oxford Hotel, Sage Room
1600 Seventeenth Street
Denver, CO 80202

ROYAL GOLD, INC

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