Royal Gold, Inc
2006 Annual Report

An Investment With Weight To It

Corporate Profile

Royal Gold, Inc. (Nasdaq: RGLD; TSX: RGL) is the leading publicly-traded precious metals royalty company. Royal Gold owns and manages royalties on precious metals mines, most of which contain gold and silver deposits. The Company's royalty portfolio provides investors with a unique opportunity to capture value in the precious metals sector without incurring the capital and operating costs, and many of the risks faced by mine operators. Additionally, Royal Gold's sliding-scale royalties provide investors with upside leverage during periods of gold price appreciation. Conversely, the Company's fixed rate royalties and floors on the sliding-scale royalties mitigate investor risk in times of decreasing gold prices.

With a successful business strategy that generates strong cash flow and high margins due to its low cost structure, Royal Gold provides shareholders with a premium precious metals investment vehicle. Royal Gold's management team possesses over 125 years of collective mining industry experience, giving the Company a broad base of industry knowledge from which to make sound business decisions. Royal Gold's royalty portfolio offers direct exposure to precious metals prices and the growth potential of world class ore deposits.

A Denver-based corporation, Royal Gold is traded on the Nasdaq Global Select Market, under the symbol "RGLD," and on the Toronto Stock Exchange, under the symbol "RGL." Management and directors beneficially own about 17% of the common shares of Royal Gold.

Business Strategy

Royal Gold is well positioned to continue its growth through the acquisition of existing royalties, and the creation of new royalties through project financing and strategic exploration alliances. The key elements of our business strategy are to:

1. **Provide lower-risk exposure to gold through royalty ownership.** Royal Gold's business model is based on acquiring royalty interests in precious metals properties rather than engaging in costly and more complex mining operations.

2. **Maintain financial flexibility to compete for royalty acquisitions.** Royal Gold's position of liquidity allows us to compete for royalty acquisitions by means of a purchase, by providing financing, or by entering into a strategic exploration alliance in exchange for a royalty.

3. **Further enhance high margins by maintaining low cost structure.** Royal Gold's unique business model allows us to grow our royalty portfolio without adding significant overhead costs.

4. **Adhere to rigorous royalty evaluation criteria.** The Company's in-depth, technical evaluation and monitoring procedures provide us with a competitive advantage in acquiring and managing royalties.

5. **Continue geographic focus on Nevada gold districts with increasing worldwide exposure.** The historical track record of successful gold mining in Nevada makes it an attractive region to seek royalties. With our strong royalty portfolio base in Nevada, we are now able to add attractive royalties in other parts of the world.

Table of Contents

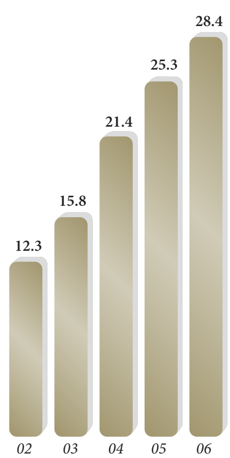
Financial Highlights

Selected Financial Data

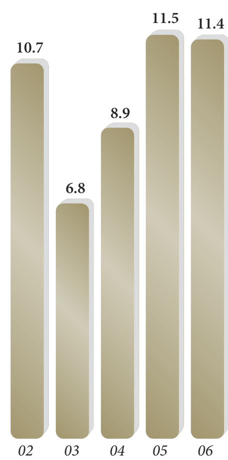
For the Years Ended June 30,	Selected Statements of Operations Data 2006	2005	2004	2003	2002
(Amounts in thousands, except per share data)					
Royalty revenue	$ 28,380	$ 25,302	$21,353	$15,788	$12,323
Exploration and business development	3,397	1,893	1,392	1,233	618
General and administrative expense	5,022	3,695	2,923	1,966	1,875
Depreciation and depletion	4,261	3,205	3,314	2,855	2,289
Impairment of mining assets	-	-	-	166	-
Current and deferred tax expense (benefit)	5,101	4,102	3,654	1,885	(6,771)
Net income	11,350	11,454	8,872	6,752	10,699
Basic earnings per share	$ 0.50	$ 0.55	$ 0.43	$ 0.34	$ 0.60
Diluted earnings per share	$ 0.49	$ 0.54	$ 0.42	$ 0.33	$ 0.59
Dividends declared per share	$ 0.22	$ 0.20	$ 0.15	$ 0.10	$ 0.075

For the Years Ended June 30,	Selected Balance Sheet Data 2006	2005	2004	2003	2002
(Amounts in thousands)					
Total assets	$172,260	$102,319	$ 93,522	$ 86,359	$29,590
Working capital	81,452	53,330	49,460	34,296	11,990
Long-term obligations	98	97	103	113	121
Deferred tax liability	7,179	7,586	8,079	8,747	-

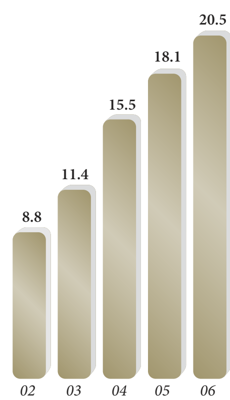
Royalty Revenue
For the Years Ended June 30,
($ Millions)



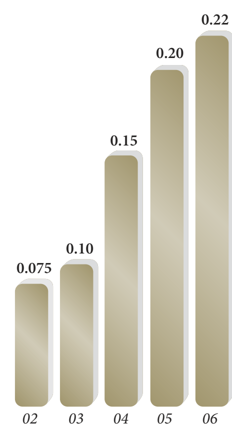
Net Income
For the Years Ended June 30,
($ Millions)



Free Cash Flow[1]
For the Years Ended June 30,
($ Millions)



Calendar Year Dividends
Dollars per Share



[1] *The term "free cash flow" is a non-GAPP financial measure. For a reconciliation of free cash flow to the most directly comparable GAAP financial measure, see Free Cash Flow Reconciliation on page 51.*

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 projected production estimates from the operators of our royalty properties, the adequacy of financial resources and funds to cover anticipated expenditures for general and administrative expenses as well as capital expenditures and costs associated with business development and exploration, settlement of the Casmalia matter, the potential need for additional funding for acquisitions, our future capital commitments and our expectation that substantially all our revenues will be derived from royalty interests. Factors that could cause actual results to differ materially from these forward-looking statements include, among others: changes in gold and other metals prices, the performance of the Pipeline Mining Complex, Betze-Post mine and facilities, as well as the Leeville and Robinson mines, decisions and activities of the operators of our royalty properties, unanticipated grade, geological, metallurgical, processing or other problems at these properties, changes in project parameters as plans of the operators are refined, changes in estimates of reserves and mineralization by the operators of our royalty properties, the completion of the construction of the Taparko Project in 2007, economic and market conditions, future financial needs, the availability and size of acquisitions, and the ultimate additional liability, if any, to the State of California in connection with the Casmalia matter, as well as other factors described elsewhere in our Fiscal 2006 Annual Report on Form 10-K. Most of these factors are beyond our ability to predict or control. We disclaim any obligation to update any forward-looking statement made herein. Readers are cautioned not to put undue reliance on forward-looking statements.

Fiscal 2006 was another successful year for Royal Gold. The Company's financial results and shareholder return were solid, we executed on our multi-year plan to grow and diversify the company, and the fundamentals for a strong gold market held steady throughout the period.

Stanley Dempsey, Executive Chairman and
Tony Jensen, President and Chief Executive Officer

Dear Shareholders,

Fiscal 2006 was another successful year for Royal Gold. The Company's financial results and shareholder return were solid, we executed on our multi-year plan to grow and diversify the company, and the fundamentals for a strong gold market held steady throughout the period.

Over the past year, revenue and free cash flow[1] increased 12% and 13%, respectively. These gains were made despite a significant production decline at the Pipeline Mining Complex. Earnings remained healthy but relatively flat compared to fiscal 2005, due to an accounting principle change mandated by the Financial Accounting Standards Board for all publicly-traded companies regarding non-cash stock compensation.

Royal Gold's share price appreciated nearly 40% during the year, in line with the increase in gold price. However, over the past five years, Royal Gold's share price has gone up 595% as As compared to a 126% increase in the price of gold for the same period. This demonstrates that our stock is much more than a bellwether for the price of gold. This leveraged growth reflects our royalty-based business model which supports high profit margins, low operational risks, and cost-free exposure to exploration upside.

During the year, our business model continued to perform efficiently, generating the following results:

- 72% of revenue reported directly to free cash flow.[1]

- Royal Gold's ongoing cash operating and general and administrative expenses remained flat, while cost inflation continued to take its toll on gold mining companies. The United States Department of Labor's Gold Ore Mining Producer Price Index indicates that the cost of mining gold increased 42% in fiscal 2006. Our Company is generally free of this risk since mine operating costs are principally the responsibility of the mine operator, without contribution from Royal Gold.

- Our interest in gold reserves increased 33%, and we also had a dramatic increase in copper reserves related to our royalties. These gains were due to both the exploration success of the mine operators and the addition of new royalties. As of December 31, 2005, reserves subject to our royalties totaled 21 million ounces of gold, 19 million ounces of silver, and nearly 2.3 billion pounds of copper.

In the first quarter of fiscal 2006, we concluded a secondary offering and promptly invested the proceeds into new growth opportunities. We acquired four new royalty interests: the Robinson mine in Nevada, the Mulatos mine in Mexico, the Taparko project in Burkino Faso, and a strategic alliance with Taranis Resources in Finland. The Robinson and Mulatos royalties are already generating cash for Royal Gold, and Taparko is scheduled to provide royalty revenue starting in the April 2007 quarter. These acquisitions, along with the growth of our royalty revenues at the Bald Mountain and Goldstrike mines in Nevada, more than offset the reduction at the Pipeline Mining Complex in Nevada.

This diversification of revenue within our royalty portfolio is a significant milestone for Royal Gold. Traditionally, the Pipeline Mining Complex contributed over 80% of our revenues. In fiscal 2006, Pipeline contributed 59%, in part due to lower production compared to the prior fiscal year and partly due to additional revenue streams outside of Pipeline. While this asset will continue to be very important to the Company, we expect fiscal 2007 revenue to be even more diversified among our eight active properties and the developing Taparko mine.

Royal Gold has never been stronger – financially or technically. We closed the fiscal year with working capital of over $80 million and no debt, providing us with ample financial flexibility to put together deals of significant size. We also added staff with expertise in the areas of finance, business development and minerals engineering, while still maintaining our lean corporate structure.

As we look ahead, Royal Gold is well positioned to grow and in the coming fiscal year, we expect:

- Gold price strength, supported by the fundamentals of strong investment demand, static mine production, limited central bank selling, a highly leveraged U.S. balance sheet, and the unfortunate likelihood of continued world geopolitical strife.
- Growth in revenues as a result of our newly acquired royalties and production increases at several of our existing assets.
- Profit margin increases as we maintain cost control and grow free cash flow.[1]

This past year has also been the culmination of a well-planned, three-year transition of Chief Executive Officer responsibilities. Although the CEO position has shifted, we retain the same solid vision, strategy and desire to grow Royal Gold aggressively in its unique precious metals royalty niche.

In closing, we would like to express our appreciation to our exceptional employees, and to our Board of Directors for their dedication and counsel over the past year. And finally, we want to thank you, our fellow shareholders, for your support and confidence in us and the Company.

Tony A. Jensen
President and Chief Executive Officer

Stanley Dempsey
Executive Chairman

September 2006

[1] *The term "free cash flow" is a non-GAPP financial measure. For a reconciliation of free cash flow to the most directly comparable GAAP financial measure, see Free Cash Flow Reconciliation on page 51.*

Pipeline Mining Complex

Lander County, Nevada

Royal Gold currently holds four gold royalties on the Pipeline Mining Complex. The Complex is owned and operated by the Cortez Joint Venture ("Cortez"), a joint venture between Barrick Gold Corporation (60%) and Kennecott Explorations (Australia) Ltd., a subsidiary of Rio Tinto plc (40%). Royal Gold's royalty interests, described below, include two sliding-scale gross smelter return royalties (GSR1 and GSR2), a fixed-rate gross smelter return royalty (GSR3), and a net value royalty (NVR1).

Pipeline Mining Complex Royalty Interests

- ***GSR1:*** This is a sliding-scale royalty for all gold produced from the "Reserve Claims," a block of 52 claims encompassing all of the proven and probable reserves in the Pipeline and South Pipeline deposits as of April 1, 1999. The GSR1 sliding-scale royalty rate is tied to the price of gold (see table, pg. 6). Royalty payments received during fiscal year 2006 from GSR1 were approximately $14.2 million.

- ***GSR2:*** This is a sliding-scale royalty for all gold produced from the claim block lying outside the Reserve Claims and is also known as the "GAS Claims." The GSR2 sliding-scale royalty rate is 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 2006 from GSR2.

- ***GSR3:*** This is a fixed-rate 0.71% royalty for the life of the mine and covers the same cumulative area as is covered by our two sliding-scale GSR royalties, GSR1 and GSR2. Royalty payments received during fiscal year 2006 from GSR3 were approximately $2.1 million.

- ***NVR1:*** This is a fixed 0.39% net value royalty on production from the GAS Claims located on a portion of the Pipeline Mining Complex that excludes the Pipeline open pit. This NVR1 royalty is determined on the basis of deducting contract-defined processing-related and associated capital costs, but not mining costs. Royalty payments received during fiscal year 2006 from NVR1 totaled approximately $0.5 million.

Payments and Production

In fiscal 2006, cumulative royalty payments to Royal Gold from Cortez totaled approximately $16.8 million based upon 598,974 ounces of gold production subject to our royalties. This compares with $21.4 million in royalty revenue and 973,602 ounces of gold production in the previous fiscal year. The decrease in revenue at the Pipeline Mining Complex reflects a decline in production mainly due to the mining of lower grade ore. In early calendar 2006, Barrick reported that the Pipeline Mining Complex is expected to produce approximately 385,000 ounces of gold in calendar 2006. The processing of oxide ores takes place at the Cortez mill and heap leach facilities and the processing of refractory ores occurs at Barrick's Goldstrike facility.

Exploration

Royal Gold has a significant interest in the development of the Pipeline Mining Complex area known as Crossroads because the majority of the additional mineralized material, attributable to the Company's royalties, is contained within this area. Crossroads resides on lands subject to Royal Gold's GSR2 ("super") royalty, GSR3 and NV1 royalties. Last year, Barrick announced proven and probable reserves of approximately 1.0 million ounces at the Crossroads deposit.

NOTE: A table summarizing the Company's producing and development stage royalties can be found on pages 14-15. This table includes current royalty reserves, mineralized material, and production estimates for calendar year 2006.

Royal Gold's four royalty positions at the Pipeline Mining Complex.

Cable shovel loading haul trucks at the Pipeline Mining Complex.

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	4.75%	8.55%
$470 - and above	5.00%	9.00%

Robinson Mine
White Pine County, Nevada

In December 2005, Royal Gold acquired a 3.0% net smelter return ("NSR") royalty on the Robinson Mine operated by Quadra Mining Ltd. The Robinson Mine is an open pit copper and gold mine located in eastern Nevada. The mine produces two flotation concentrates for sale to third party smelters. One concentrate contains copper, gold and silver. The second is a molybdenum concentrate.


Tripp-Veteran Pit at the Robinson mine.

Royal Gold began receiving revenue from the Robinson royalty in May 2006. The Company received approximately $2.2 million in royalty revenue for the last two months of fiscal 2006, based upon production of 27.2 million pounds of copper and 13,082 ounces of gold.

In August 2006, Quadra reported that it had revised its production guidance for calendar 2006 to a range of 125-130 million pounds of copper, from 128-132 million pounds, due to lower recovery resulting from high iron levels. Their gold production estimate for calendar 2006 remains at 53,300 ounces.

Haul trucks on the ready line at the Robinson mine.

Aerial view of the Goldstrike mine.

SJ Claims

Eureka County, Nevada

Royal Gold owns a 0.9% NSR royalty covering a portion of the Betze-Post mine, known as the SJ Claims. The Betze-Post mine, which is a part of the larger Goldstrike operation, is an open pit gold mine operated by Barrick Gold Corporation.

In fiscal 2006, the SJ Claims produced a total of 1,005,549 ounces of gold, subject to our royalty resulting in approximately $4.8 million in royalty revenue. This compares with 531,342 ounces of gold providing about $2.0 million in royalty revenue during fiscal 2005. The significant increase in production was due to a larger portion of total mine production being derived from the SJ claim block. Barrick estimates that during calendar 2006, production from the SJ Claims will total 903,000 ounces of gold subject to Royal Gold's royalty interest.

Leeville Complex

Eureka County, Nevada

Royal Gold owns a 1.8% NSR royalty, which covers the majority of the Leeville project, consisting of the Leeville North and Leeville South underground gold mines. Leeville is operated by Newmont Mining Corporation. Royal Gold derives royalty revenue from both Leeville South as well as the recently constructed Leeville North mine.

During fiscal 2006, Royal Gold received approximately $768,000 in royalty revenue on production of 83,696 ounces of gold subject to our royalty interest. This compares with revenue of about $763,000 on a total of 93,180 royalty ounces for the previous fiscal year. Newmont estimates total gold production in calendar 2006 from both Leeville North and Leeville South will be approximately 225,000 ounces. Newmont has also stated that once full production is reached at Leeville North, the mine is expected to produce approximately 400,000 ounces of gold per year.

Aerial view of the Leeville North operation.

Troy mine operation.

Troy Mine
Lincoln County, Montana

Royal Gold holds a 7.0% GSR royalty that covers the Troy underground mine operated by Revett Silver Company, a subsidiary of Revett Minerals Inc. ("Revett"). This 7.0% GSR royalty extends until either cumulative production reaches approximately 9.9 million ounces of silver and 84.6 million pounds of copper, or Royal Gold receives $10.5 million in cumulative payments, whichever occurs first. Royal Gold also acquired a perpetual GSR royalty that begins at 6.1% on any production in excess of 11.0 million ounces of silver and 94.1 million pounds of copper. This 6.1% GSR royalty steps down to a perpetual 2.0% GSR royalty after cumulative production has exceeded 12.7 million ounces of silver and 108.2 million pounds of copper.

For Royal Gold's fiscal 2006, the Troy mine produced 884,528 ounces of silver and about 7.1 million pounds of copper that were subject to Royal Gold's interest, providing roughly $1.7 million in royalty revenue. This compares with 522,145 ounces of silver and 4.6 million pounds of copper, providing about $749,000 of royalty revenue for fiscal 2005.

Revett reported that they expect the Troy mine to produce approximately 1.8 million ounces of silver and 15.6 million pounds of copper in calendar 2006. The Troy mine commenced production in early calendar 2005 and is continuing to ramp up to its full production capacity of 6,500 tons per day.

Bald Mountain
White Pine County, Nevada

Royal Gold holds a 1.75% to 3.5% NSR sliding-scale royalty on a portion of the Bald Mountain mine. For fiscal 2006, the Company's royalty rate was 1.75%. The Bald Mountain mine, owned and operated by Barrick Gold Corporation, is an open pit, heap leach gold mine.

During fiscal 2006, the Bald Mountain mine produced 126,317 ounces of gold which were subject to our royalty interest and generated about $1.5 million in royalty revenue. This compares with 28,037 ounces of production providing about $208,000 in royalty revenue for fiscal 2005.

Increased production and royalty revenue in fiscal 2006 is a direct result of a highly successful exploration program that was conducted over the past several years at Bald Mountain.

Barrick advised the Company that in calendar 2006 it anticipates production of 248,000 ounces of gold subject to Royal Gold's royalty interest.

Top Pit at the Bald Mountain mine.

Mulatos Mine

Sonora, Mexico

Aerial view of the Mulatos mining operation.

In December 2005, Royal Gold acquired a sliding-scale NSR royalty at the Mulatos project, an open pit, heap leach gold mine owned and operated by Alamos Gold, Inc. The sliding-scale ranges from 0.30%, at an average quarterly gold price of $299.99 or below, up to 1.5% when the price of gold averages $400 per ounce or higher. Commercial production at the Mulatos mine began on April 1, 2006. The royalty is capped at two million ounces of production.

During the fourth quarter of fiscal 2006, the Mulatos mine produced 23,912 ounces of gold providing $225,000 in royalty revenue. In August 2006, Mulatos reported that it had revised its production guidance for calendar 2006 to a range of 110,000 to 120,000 ounces of gold, from about 140,000 ounces of gold, due to lower crusher throughput. Alamos anticipates that once full production is reached, yearly production is expected to average in excess of 150,000 ounces of gold.

Martha Mine

Santa Cruz Province, Argentina

Jumbo drill at the Martha mine.

Royal Gold holds a 2.0% NSR royalty on the Martha mine, operated by Coeur d'Alene Mines Corporation ("Coeur"). The Martha mine is a high grade silver mine located in Argentina. In fiscal 2006, Royal Gold received approximately $402,000 in royalty revenue on production of about 2.3 million ounces of silver. This compares with $163,000 in royalty revenue on approximately 1.8 million ounces of production in fiscal 2005. Coeur informed the Company that it anticipates the Martha mine will produce approximately 2.5 million ounces of silver in calendar 2006 attributable to Royal Gold's interest.

Development Stage Royalties

Construction at the Taparko mill site.

Taparko-Bouroum

Burkino Faso, West Africa

Royal Gold holds two initial GSR royalties (TB-GSR1 and TB-GSR2), and two subsequent GSR royalties (TB-GSR3 and TB-MR1) at the Taparko-Bouroum project, an open pit gold operation currently under construction in Burkino Faso, West Africa. The operator, High River Gold, expects the majority of the project construction to be completed in the fourth quarter of calendar 2006. Royal Gold expects royalty revenue to commence in the second quarter of calendar 2007.

The first GSR royalty ("TB-GSR1") is fixed at a rate of 15.0%. The second GSR royalty ("TB-GSR2") pays out at a rate of 4.3% when the average monthly gold price ranges between $385 and $430 per ounce, and changes to a sliding-scale royalty when the average monthly gold price is outside of this range. Both TB-GSR1 and TB-GSR2 royalties continue until either production reaches 804,420 ounces of gold or payments totaling $35.0 million under the TB-GSR1 royalty are received by Royal Gold, whichever comes first.

The two subsequent royalties consist of a 2.0% GSR perpetual royalty ("TB-GSR3"), applicable to gold production from defined portions of the Taparko-Bouroum Project area, and a 0.75% milling royalty ("TB-MR1"). The TB-MR1 applies to ore that is mined outside of the defined area of the Taparko-Bouroum Project that is processed through the Taparko facilities to a maximum of 1.1 million tons per year. Both the TB-GSR3 and TB-MR1 royalties commence once the TB-GSR1 and TB-GSR2 royalties described earlier have ceased.

Royalty Portfolio

For Calendar 2006

Gold

Operator	Royalty	Category[1]	Tons (millions)	Tonnes (millions)	Average Gold Grade (opt)	Average Gold Grade (gpt)	Gold Contained Ounces[2] (millions)	2006 Estimated Production Ounces (thousands)
Barrick	Pipeline Mining Complex GSR1	Reserve[3]	102.2	92.7	0.030	1.02	3.040[4]	385
	0.40 – 5.0% GSR (sliding-scale)	Mineralized Material	75.2	68.2	0.022	0.75	-	-
	Pipeline Mining Complex GSR2	Reserve[3]	48.2	43.7	0.029	0.98	1.380[4]	-
	0.72 – 9.0% GSR (sliding-scale)	Mineralized Material	60.8	55.2	0.032	1.10	-	-
	Pipeline Mining Complex GSR3	Reserve[3]	150.3	136.3	0.029	1.01	4.420[4]	385
	0.71% GSR	Mineralized Material	136.0	123.4	0.026	0.89	-	
	Pipeline Mining Complex NVR1	Reserve[3]	116.6	105.8	0.028	0.97	3.281[4]	213
	0.39% NVR	Mineralized Material	96.4	87.5	0.028	0.96	-	-
Newmont	Leeville North	Reserve[3]	5.1	4.6	0.465	15.94	2.381	196
	1.8% NSR	Mineralized Material	1.4	1.27	0.435	14.9	-	-
	Leeville South	Reserve[3]	0.086	0.078	0.371	12.72	0.032	29
	1.8% NSR	Mineralized Material	0.021	0.019	0.300	10.29	-	-
Barrick	SJ Claims – Goldstrike	Reserve[3]	64.9	58.9	0.137	4.70	8.898	903
	0.9% NSR	Mineralized Material[5]	-	-	-	-	-	-
Barrick	Bald Mountain	Reserve[3]	45.4	41.3	0.039	1.34	1.778	2485
	1.75 – 3.5% NSR (sliding-scale)	Mineralized Material	20.6	18.7	0.027	0.93	-	-
Alamos	Mulatos	Reserve[3]	40.6	36.8	0.047	1.61	1.892	110-120[6]
	0.30 – 1.5% NSR (sliding-scale)	Mineralized Material	153.2	139.0	0.026	0.89	-	-
Quadra	Robinson	Reserve[3]	160.4	145.5	0.007	0.24	1.160	53.5[7]
	3.0% NSR	Mineralized Material[5]	-	-	-	-	-	-
High River	Taparko	Reserve[3]	9.4	8.5	0.087	2.98	0.827	-[8]
	15.0% GSR (TB-GSR1) and a 4.3% GSR sliding-scale (TB-GSR2)[9]	Mineralized Material	-	-	-	-	-	-

Silver

Operator	Royalty	Category[1]	Tons (millions)	Tonnes (millions)	Average Gold Grade (opt)	Average Gold Grade (gpt)	Gold Contained Ounces[2] (Millions)	2006 Estimated Production Ounces (Thousands)
Coeur d'Alene	Martha	Reserve[10]	0.067	0.061	60.3	2,067	4.054	2.5
	2.0% NSR	Mineralized Material	0.134	0.122	45.4	1,557	-	-
Revett	Troy	Reserve[10]	10.4	9.4	1.41	48.34	14.651	1.8
	7.0% GSR[11]	Mineralized Material	46.3	42.0	1.54	52.8	-	-

Copper

Operator	Royalty	Category[1]	Tons (millions)	Tonnes (millions)	Average Copper Grade %Cu	Gold Contained Pounds[2] (millions)	2006 Estimated Production Pounds (millions)
Revett	Troy	Reserve[13]	10.4	9.4	0.60	124.854	15.6
	7% GSR[11]	Mineralized Material	46.3	42.0	0.74	-	-
Quadra	Robinson[12]	Reserve[13]	160.4	145.5	0.69	2,213	125.0-130.0
	3.0% GSR	Mineralized Material[5]	-	-	-	-	-

Molybdenum

Operator	Royalty	Category[1]	Tons (millions)	Tonnes (millions)	Average Molybdenum Grade %Mo	Molybdenum Contained Ounces[2] (millions)	2006 Estimated Production Pounds (millions)
Quadra	Robinson	Reserve[14]	-	-	-	-	0.5-1.0[7]
	3.0% GSR	Mineralized Material[5]	-	-	-	-	-

Footnotes:

[1] For a breakdown of reserves see pages 26-28 of the Company's Fiscal 2006 Annual Report on Form 10-K.

[2] "Contained ounces" or "contained pounds" are 100% of the reserves subject to our royalty interests and do not take into account losses in processing the ore.

[3] Gold reserves were calculated by the various operators at $400 per ounce as of 12/31/05, except for the Robinson mine where Quadra calculated reserves at $425 per ounce, and the Mulatos mine where Alamos calculated reserves at $350 per ounce.

[4] GSR1, GSR2 and NVR1 attributable reserves and mineralized material are a subset of the reserves and mineralized material covered by GSR3.

[5] Mineralized material was not reported by the operators for the SJ Claims - Goldstrike or the Robinson mines.

[6] Production estimate is for the full year. Receipt of royalty revenue commenced April 1, 2006. Production guidance was revised by the operator in August 2006.

[7] Production estimate is for the full year. Receipt of royalty revenue commenced in May 2006.

[8] Taparko royalty revenue is expected to commence in the second quarter of calendar 2007.

[9] Both royalties run concurrently until either production reaches 804,420 ounces of gold under TB-GSR1 or payments of $35M under TB-GSR1 are received. Then a 2.0% GSR royalty and a 0.75% milling royalty commence.

[10] Silver reserves were calculated by the operators at $7.00 per ounce for Troy and $6.50 per ounce for Martha.

[11] Royalty extends until either production of 9.9M ounces of silver and 84.6M pounds of copper or receipt of $10.5M, whichever occurs first. A 6.1% GSR royalty will commence on production in excess of 11.0M ounces of silver and 94.1M pounds of copper, which then steps down to a perpetual 2.0% GSR on production in excess of 12.7M ounces of silver and 108.2M pounds of copper.

[12] Production guidance was revised by the operator in August 2006.

[13] Copper reserves were calculated by the operators at $1.60 per pound for Troy and $1.15 per pound for Robinson.

[14] Quadra, the operator of the Robinson mine, has reported that no molybdenum values were used in the update of the ore reserves nor will a molybdenum grade be reported because of the lack of support for estimating grade and tons (tonnes).

Taranis Resources, Inc.

In November 2005, Royal Gold entered into a strategic alliance with Taranis Resources obtaining a 2.0% NSR royalty and future earn-in rights on Taranis' exploration activities in Finland. Royal Gold received 937,500 shares of Taranis' common stock and 468,750 warrants in exchange for a $322,000 investment. Taranis has a three-year period in which to expend the funds for general exploration operations in Finland.

In the first quarter of fiscal 2007, Royal Gold acquired an additional 100,000 shares of Taranis' common stock and 50,000 warrants giving Royal Gold total ownership of 1,037,500 common shares. Due to the position of Stanley Dempsey as a board member of both Royal Gold and Taranis, Royal Gold can be considered to control options exercisable for an additional 100,000 common shares of Taranis. This gives Royal Gold the direct or indirect right to acquire a total of 618,750 additional common shares.

The Company also entered into an Exploration and Earn-In Agreement with Taranis on its Kettukuusikko property in Lapland, Finland, by providing $500,000 in exchange for a 2.0% NSR royalty on the property. During fiscal 2006, Royal Gold funded the entire $500,000 commitment. The Company also elected to exercise its option to fund up to an additional $600,000 in this project. By funding the full $600,000, Royal Gold will earn a 51% joint venture interest in the Kettukuusikko project, and will release its 2% NSR royalty. If the $600,000 is not fully funded to earn the joint venture interest, the Company will retain its 2% NSR royalty. Royal Gold also has an option to earn an additional 24% joint venture interest (75% joint venture interest in total) by funding 100% of the cost of the
Kettukuusikko project through completion of a feasibility study.

The Svetloye Project

Royal Gold holds a 1.0% NSR royalty on the Svetloye project which is being explored by Fortress Minerals Corporation. Phelps Dodge Exploration Corporation holds a 49% interest in the project. Fortress is conducting an extensive 20,000-foot drilling program during calendar 2006.

Royal Gold also holds direct ownership or exploration agreements on the following exploration properties:

Sparrow Hawk Claims – ownership of a block of 31 unpatented mining claims in Eureka County, Nevada, located southeast of the Pipeline Mining Complex.

Hoosac Project – ownership in 16 unpatented mining claims, and an indirect interest in 192 unpatented claims through leases, all located in Elko County, Nevada.

Dixie Flats Project – exploration agreement on 1,280 acres of patented land adjacent to the Dixie Flats project located in Elko County, Nevada (see Exploration Royalty Portfolio for related royalty).

None of the above exploration properties have reserves or mineralized material associated with them.

Exploration Royalty Portfolio

Royal Gold holds royalty interests on the following exploration properties:

Property[1]	Location	Royalty	Royalty	Operator
Santa Cruz Province	Argentina	2.00%	NSR	Hidefield
Long Valley	California	1.00%	NSR	Vista Gold
Kettukuusikko	Finland	2.00%	NSR	Taranis Resources
Rock Creek[2]	Montana	1.00%	NSR	Revett Minerals
Mule Canyon	Nevada	5.00%	NSR	Newmont
Buckhorn South	Nevada	16.50%	NPI	Cortez JV
Ferris/Cooks Creek	Nevada	1.50%	NVR	Cortez JV
Horse Mountain	Nevada	0.25%	NVR	Cortez JV
Simon Creek	Nevada	1.00%	NSR	Barrick
Rye	Nevada	0.50%	NSR	Barrick
BSC	Nevada	2.50%	NSR	Nevada Pacific
Copper Basin	Nevada	0.75%	NSR	BH Minerals
ICBM	Nevada	0.75%	NSR	BH Minerals
Long Peak	Nevada	0.75%	NSR	BH Minerals
Dixie Flats	Nevada	0.75%	NSR	BH Minerals
Svetloye	Russia	1.00%	NSR	Fortress Minerals

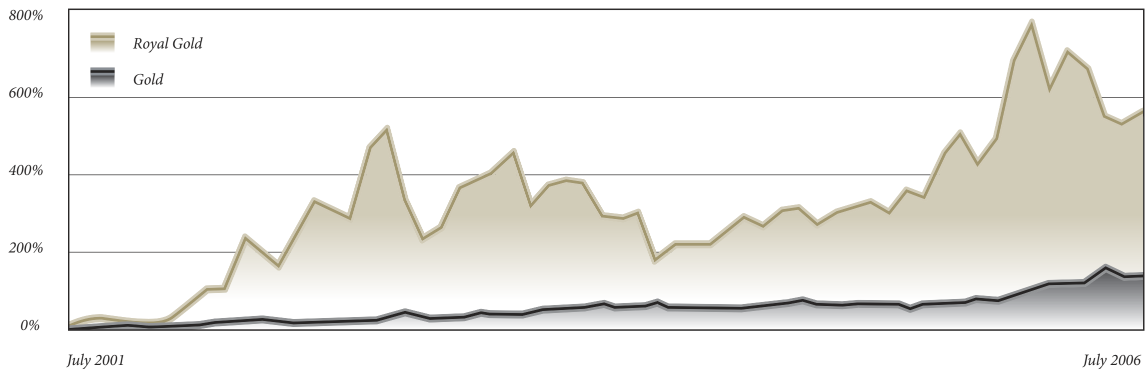
[1] There are no reserves on any of these properties.

[2] Royal Gold owns 1.3 million shares of Revett Minerals which are convertible into a 1% NSR royalty.

Taranis Resource's winter drilling program in Finland.

Corporate Responsibility and the Gold Market

Royal Gold Five-year Price Performance Compared with Gold



Corporate Responsibility

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 programs it may conduct are 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 and contractors to meet or exceed such performance standards. Likewise, we expect the operators of the properties over which we hold royalties to conduct their activities in a responsible manner.

The Gold Market*

Recent Trends in Supply and Demand
Demand for gold reached record levels in 2005 with all categories of demand—jewelry, industrial and investment—recording double-digit, year-over-year growth. Correlated closely with this increased demand, was a steady increase in the price of gold throughout 2005 and into the spring of 2006 when it reached a 25-year high of $725 per ounce. The average price of gold was $591 for the first half of calendar 2006, a 38% increase over the $427 per ounce average for the first six months of calendar 2005.

According to Gold Fields Mineral Service ("GFMS"), an independent precious metals research consultancy, in their *Gold Survey 2006-Update 1*, the first half of calendar 2006 saw a 5% decrease in the demand for physical gold driven largely by lower jewelry demand. The first six months of 2006 also saw strong producer de-hedging. GFMS reported that global mine production in the first half of the year showed a very modest decline with a notable drop in output from Indonesia, and weaker performance from Australia, South Africa, Canada and the U.S. During this same time period, producer cash costs rose by approximately 10%, year-over-year, due to higher global energy prices and increases in the cost of mining consumables. GFMS forecasts total net official sector sales to fall by 42% year-over-year to around 421 tons (382 tonnes) by the end of calendar 2006 (see Central Bank Gold Agreement below).

United States Gold Production

Nevada remained at the top of the list as the nation's largest gold producer in 2005 contributing 85% of the total U.S. gold production. The state's gold production for calendar 2005 was reported at 6.852 million ounces for a combined value of $3.05 billion. This compares with production of 6.977 million ounces in 2004 with a total value of $2.84 billion. Other top U.S. gold producing states are Alaska, California, Colorado, New Mexico and Utah. The United States is one of the three largest gold producing countries in the world along with South Africa and Australia.

Central Bank Gold Agreement

The Central Bank Gold Agreement ("CBGA"), formerly known as the Washington Agreement, remains in effect and is seen as a positive development for the long-term stability of the gold market. Under the terms of the Agreement, participating central banks have agreed to limit their gold sales to a maximum of 551 tons (500 tonnes) per year for a five-year period, or until 2009. At the end of the second year of the CBGA (September 2006), annual sales were only 433 tons (393 tonnes).

Other Developments

Gold exchange-traded funds ("GETFs") have experienced large inflows of money over the past several years by investors seeking a less complicated way to engage in gold ownership as well as those investors looking for a hedge against inflation and portfolio diversification. GETFs now trade on stock exchanges in the U.S., Australia, South Africa, France, England, and Switzerland with several other countries contemplating a GETF launch.

In May 2006, the first U.S exchange-traded fund ("ETF") based on shares of gold and silver mining companies began its initial trading on the American Stock Exchange under the symbol "GDX." It is based upon the 44 gold and silver mining companies which comprise the AMEX Gold Miners Index of which Royal Gold is a part.

Organizational Involvement

Royal Gold is an active participant in organizations involved in promoting the mining industry and the use of gold. The Company holds memberships and is represented by its Executive Chairman on the board of the World Gold Council, and its President and Chief Executive Officer on the boards of the National Mining Association, Nevada Mining Association and the Colorado Mining Association.

For more information on gold, you can visit the following web sites:

World Gold Council - www.gold.org
National Mining Association - www.nma.org
Nevada Mining Association - www.nevadamining.org
Colorado Mining Association – www.coloradomining.org

*This information is derived from various industry sources and represents the data and opinions of those sources. Royal Gold has not verified this data and presents this information as a representative overview of views on the gold business from gold industry sources. No assurance can be given that this data or these opinions will prove accurate. Investors are urged to reach their own conclusions regarding the gold market.

Concentrate: The clean product recovered in froth flotation.

Fixed-rate royalty: A royalty rate that stays constant.

Flotation: The method of mineral separation in which a froth created in water by a variety of reagents floats some finely crushed minerals, whereas other minerals sink.

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 return 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 metals from ore placed on an impervious pad, whereby a dilute leaching solution is allowed to percolate through the heap, dissolving the metal, which is subsequently captured and recovered.

Milling royalty: A royalty on ore throughput at a mill.

Mineralized material: That part of a mineral system that has potential economic significance but 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.

Net smelter return royalty: A defined percentage of the gross revenue from a resource extraction operation, less a proportionate share of incidental transportation, insurance, refining costs, smelting-related charges and deductions.

Net value royalty: A defined percentage of the gross revenue from a resource extraction operation less certain contract-defined costs.

Probable reserve: Ore reserves for which quantity and grade are computed from information similar to that used for proven 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 reserves, is high enough to assume geological continuity between points of observation.

Proven reserve: Ore reserves for which: (a) the 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: Mineralization whereby metal recovery normally requires a more sophisticated processing technology for extraction such as roasting, or use of autoclaves.

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).

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

Consolidated Financial Statements

This analysis should be read in conjunction with the selected financial data on page 1 and the financial statements beginning on page 30.

The following discussion contains forward-looking statements that involve risks and uncertainties. Royal Gold's actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including the risks described in the section titled "Risk Factors" within the Company's Fiscal 2006 Annual Report on Form 10-K.

Overview

Royal Gold, Inc., together with its subsidiaries, is engaged in the business of acquiring and managing precious metals royalties. Royalties are passive (non-operating) interests in mining projects that provide the right to revenue from the project after deducting specified costs, if any.

We seek to acquire existing royalties or to finance projects that are in production or near production in exchange for royalty interests. We also fund exploration on properties thought to contain precious metals and seek to obtain royalties and other carried ownership interests in such properties through the subsequent transfer of operating interests to other mining companies. Substantially all of our revenues are and will be expected to be derived from royalty interests. We do not conduct mining operations at this time. During the 2006 fiscal year, we focused on the management of our existing royalty interests, the acquisition of royalty interests, and the creation of royalty interests through financing and strategic exploration alliances.

Our financial results are closely tied to the price of gold and production from our royalty properties. During the 2006 fiscal year, the price of gold averaged $527 per ounce compared with an average price of $422 per ounce for the 2005 fiscal year. As a result of the increased gold price, our GSR1 sliding-scale royalty rate at the Pipeline Mining Complex paid out at rates ranging from 4.5% to 5.0% compared with rates ranging from 4.0% to 4.5% during the prior period. Lower production at the Pipeline Mining Complex (which was largely offset by rising metal prices and an increase in our GSR1 sliding-scale royalty rate), an increase in revenues from SJ Claims and Bald Mountain, and payments from the recently acquired Mulatos and Robinson royalties resulted in revenues of $28,380,143 during the 2006 fiscal year, compared with total revenues of $25,302,332 during the 2005 fiscal year.

Our principal mineral property interests are set forth below:

- Pipeline: Four royalty interests at the Pipeline Mining Complex, which includes the Pipeline and South Pipeline, GAP and Crossroads gold deposits. The Pipeline Mining Complex is operated by the Cortez Joint Venture, which is a joint venture between Barrick (60%), and Kennecott Explorations (Australia) Ltd. (40%), a subsidiary of Rio Tinto plc. Our four royalty interests at the Pipeline Mining Complex are:
  - GSR1 – A sliding-scale GSR royalty that covers the current mine footprint, which includes the Pipeline and South Pipeline deposits, and ranges from 0.4% at a gold price below $210 per ounce to 5.0% at a gold price of $470 per ounce or above;
  - GSR2 – A sliding-scale GSR royalty that covers areas outside the Pipeline deposit and ranges from 0.72% at a gold price below $210 per ounce to 9.0% at a gold price of $470 per ounce or above;
  - GSR3 – A 0.71% fixed rate GSR royalty on the production covered by GSR1 and GSR2; and
  - NVR1 – A fixed rate 0.39% net value royalty on all production on the South Pipeline, Crossroads and some of the GAP deposit, but not covering the Pipeline deposit.
- Leeville: We hold a 1.8% carried working interest, equal to a 1.8% NSR royalty, on the majority of the Leeville Project, which includes Leeville South and Leeville North underground mines, located in Nevada and operated by Newmont;
- SJ Claims: We hold a 0.9% NSR royalty on the SJ Claims, which covers a portion of the Betze-Post open pit mine, at the Goldstrike operation, located in Nevada and operated by Barrick;
- Troy: Two royalty interests in the Troy underground silver and copper mine, operated by Revett, located in northwestern Montana:
  - A production payment equivalent to a 7.0% GSR royalty until either cumulative production of approximately 9.9 million ounces of silver and 84.6 million pounds of copper, or we receive $10.5 million in cumulative payments, whichever occurs first; and
  - A GSR royalty which begins at 6.1% on any production in excess of 11.0 million ounces of silver and 94.1

million pounds of copper, and steps down to a 2% GSR royalty after cumulative production has exceeded 12.7 million ounces of silver and 108.2 million pounds of copper;

- Martha: A 2% NSR royalty on a number of properties in Santa Cruz Province, Argentina, including the Martha silver mine, which is operated by Coeur d'Alene Mines Corporation; and
- Bald Mountain: A 1.75% NSR sliding-scale royalty interest that increases to 2% at a gold price of approximately $811 per ounce and covers a portion of the Bald Mountain mine in Nevada, operated by Barrick.

During the 2006 fiscal year, we acquired the following royalty interests:

- Taparko: Four royalty interests on the Taparko Project, located in Burkina Faso and operated by High River. Our four royalty interests at the Taparko Project are:
  - TB-GSR1 – A production payment equivalent to a 15% GSR royalty on all gold produced from the Taparko Project until either cumulative production of 804,420 ounces of gold is achieved or until we receive $35 million in cumulative payments;
  - TB-GSR2 – A production payment equivalent to a GSR sliding-scale royalty on all gold produced from the Taparko Project. TB-GSR2 remains in force until the termination of TB-GSR1;
  - TB-GSR3 – A perpetual 2% GSR royalty on all gold produced from the Taparko Project area. TB-GSR3 will commence upon the termination of the TB-GSR1 and TB-GSR2 royalties; and
  - TB-MR1 – A 0.75% milling fee royalty on all gold, subject to annual caps, processed through the Taparko Project processing facilities that is mined from any area outside the Taparko Project area.
- Robinson: A 3% NSR royalty on the Robinson mine, located in eastern Nevada and operated by Quadra; and
- Mulatos: A sliding-scale NSR royalty on the Mulatos mine, located in Sonora, Mexico, and operated by Alamos. The sliding-scale NSR royalty, capped at two million ounces of gold production, ranges from 0.30% payout for gold prices below $300 per ounce up to a maximum rate of 1.50% for gold prices above $400 per ounce.

Estimates received from the mine operators during the first quarter of calendar year 2006 indicated that production, attributable to our royalty interests, for calendar year 2006 are expected to be as follows:

Royalty	Operator	Metal	Production
Pipeline GSR1	Barrick	Gold	385,000 oz
Pipeline GSR3	Barrick	Gold	385,000 oz
Pipeline NVR1	Barrick	Gold	213,000 oz
Leeville North	Newmont	Gold	196,000 oz
Leeville South	Newmont	Gold	29,000 oz
SJ Claims	Barrick	Gold	903,000 oz
Bald Mountain	Barrick	Gold	248,000 oz
Robinson[1]	Quadra	Gold	53,500 oz
Mulatos[2]	Alamos	Gold	110,000 - 120,000 oz
Troy	Revett	Silver	1.8 M oz
Martha	Coeur d'Alene	Silver	2.5 M oz
Troy	Revett	Copper	15.6 M lbs
Robinson[2]	Quadra	Copper	125 - 130 M lbs
Robinson[2]	Quadra	Molybdenum	0.5 - 1.0 M lbs[3]

[1]Production estimates are for the full calendar year. Receipt of royalty revenue commenced during our fourth quarter of fiscal year 2006.

[2]Production estimates are for the full calendar year. Royalty revenue began accruing to us on April 1, 2006.

[3]In August 2006, Quadra reported that their original molybdenum production estimates will not be met. Quadra was not able to provide updated molybdenum production estimates at this time.

During the first six months of calendar 2006, the mine operators have reported production attributable to our royalty interests as follows:

Royalty	Operator	Metal	Production
Pipeline GSR1	Barrick	Gold	174,376 oz
Pipeline GSR3	Barrick	Gold	174,376 oz
Pipeline NVR1	Barrick	Gold	57,663 oz
Leeville North	Newmont	Gold	19,875 oz
Leeville South	Newmont	Gold	18,827 oz
SJ Claims	Barrick	Gold	503,952 oz
Bald Mountain	Barrick	Gold	100,598 oz
Robinson[1]	Quadra	Gold	13,082 oz
Mulatos[2]	Alamos	Gold	23,912 oz
Troy	Revett	Silver	449,075 oz
Martha	Coeur d'Alene	Silver	1,176,500 oz
Troy	Revett	Copper	3,580,454 lbs
Robinson[1]	Quadra	Copper	27,214,572 lbs
Robinson[1]	Quadra	Molybdenum	60,743 lbs

[1]Royalty revenue commenced during our fourth quarter of fiscal year 2006. We began receiving revenue from the Robinson royalty as a $20 million reclamation trust account was fully funded by Quadra during our fourth quarter of fiscal 2006.

[2]Royalty revenue commenced effective April 1, 2006. Royalty revenue began accruing to us on April 1, 2006.

Critical Accounting Policies

The preparation of our financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities, at the date of the financial statements, as well as the reported amount of revenues and expenses during the reporting period.

Our most critical accounting estimates relate to our assumptions regarding future gold prices and the estimates of reserves and recoveries of mine operators. We rely on reserve estimates reported by the operators on the properties in which we have royalty interests. These estimates and the underlying assumptions affect the potential impairments of long-lived assets and the ability to realize income tax benefits associated with deferred tax assets. These estimates and assumptions also affect the rate at which we charge depreciation and amortization to earnings. On an ongoing basis, management evaluates these estimates and assumptions; however, actual amounts could differ from these estimates and assumptions. The reserves reported by our various operators as of December 31, 2005, were based on a gold price of $400 per ounce, except Alamos who calculated reserves at $350 per ounce and Quadra who calculated reserves at $425 per ounce.

We based our deferred tax asset valuation on a $425 per ounce gold price, as of June 30, 2006. If the long-term gold price is substantially lower, these estimates would need to change and could result in material write-offs of assets and the need to establish a valuation allowance against the deferred tax asset.

Liquidity and Capital Resources

As of June 30, 2006, we had current assets of $84.8 million compared to current liabilities of $3.3 million for a current ratio of 26 to 1. This compares to current assets of $56.2 million and current liabilities of $2.9 million at June 30, 2005, resulting in a current ratio of 19 to 1. The increase is due primarily to an increase in our cash and equivalents. We continue to have no long-term debt.

In September 2005, we sold 2,227,912 shares of our common stock in an underwritten public offering, at a price of $26.00 per share, resulting in proceeds of approximately $54.7 million, which is net of the underwriter's discount of $2.9 million and transaction costs of approximately $327,000. The net proceeds from this equity offering have been and will continue to be used to fund the acquisition and financing of additional royalty interests and for general corporate purposes.

During fiscal year 2006, liquidity needs were met from $28.4 million in royalty revenues, net proceeds from issuance of common stock of approximately $58.6 million, our available cash resources, and interest and other income of $3.2 million.

We have a line of credit from HSBC that may be used to acquire producing royalties and for general corporate purposes. During our second quarter, we finalized a line of credit expansion with HSBC to raise the availability under the line of credit from $10 million to $30 million. Any loan under the line of credit will be secured by a mortgage on our GSR1, GSR3 and NVR1 royalties at the Pipeline Mining Complex, and by a security interest in the cash proceeds from our royalty interests. The maturity date of our line of credit was extended in July 2006 for one year to December 31, 2009. As of June 30, 2006, no funds have been drawn under the line of credit.

We believe that our current financial resources and funds generated from operations will be adequate to cover anticipated expenditures for general and administrative expense costs, exploration and business development costs, and capital expenditures for the foreseeable future. Our current financial resources are also available for royalty acquisitions and to fund dividends. Our long-term capital requirements are primarily affected by our ongoing business development activities. In the event of a substantial royalty or other acquisition, we may explore debt or equity financing opportunities.

Our contractual obligations as of June 30, 2006, are as follows:

	Payments Due by Period				
Contractual Obligations	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Operating leases	$ 430,989	$ 119,067	$ 248,196	$ 63,726	$ -
Long-term retirement obligation	97,749	26,400	52,800	18,549	-
Total	$ 528,738	$ 145,467	$ 300,996	$ 82,275	$ -

For information on our contractual obligations, see Note 10 to the Consolidated Financial Statements on page 48, or under Part II, Item 8. "Financial Statements and Supplementary Data" of the Annual Report on Form 10-K. Royal Gold believes it will be able to fund all existing obligations from net cash provided by operating activities.

Results of Operations

Fiscal Year Ended June 30, 2006, Compared with Fiscal Year Ended June 30, 2005

For the fiscal year ended June 30, 2006, we recorded net income of $11,350,081, or $0.50 per basic share and $0.49 per diluted share, as compared to net income of $11,453,715, or $0.55 per basic share and $0.54 per diluted share, for the fiscal year ended June 30, 2005.

For fiscal year 2006, we received total royalty revenue of $28,380,143, at an average gold price of $527 per ounce, compared to royalty revenue of $25,302,332, at an average gold price of $422 per ounce for fiscal year 2005. Royalty revenue and the corresponding production, attributable to our royalty interests, for fiscal year 2006 compared to fiscal year 2005 is as follows:

Royalty Revenue and Production Subject to Our Royalty Interests
Fiscal Years Ended June 30, 2006 and 2005

Royalty	Metal(s)	Fiscal Year 2006 Royalty Revenue	Fiscal Year 2006 Production	Fiscal Year 2005 Royalty Revenue	Fiscal Year 2005 Production
Pipeline	Gold	$ 16,813,059	598,974 oz	$ 21,392,636	973,602 oz
Leeville	Gold	$ 767,744	83,696 oz	$ 763,012	93,180 oz
SJ Claims	Gold	$ 4,783,896	1,005,549 oz	$ 2,026,052	531,342 oz
Bald Mountain	Gold	$ 1,492,659	126,317 oz	$ 208,103	28,037 oz
Robinson[1]		$ 2,202,749		N/A	
	Gold		13,082 oz		N/A
	Copper		27,214,572 lbs		N/A
	Molybdenum		60,743 lbs		N/A
Mulatos[1]	Gold	$ 225,000	23,912 oz	N/A	N/A
Troy		$ 1,693,447		$ 749,362	
	Silver		884,528 oz		522,145 oz
	Copper		7,091,876 lbs		4,584,574 lbs
Martha	Silver	$ 401,589	2,284,784 oz	$ 163,167	1,795,853 oz

[1]Receipt of royalty revenue commenced during our fourth quarter of fiscal year 2006.

The increase in royalty revenue compared with fiscal year 2005 resulted from a higher GSR sliding-scale royalty rate from the Pipeline Mining Complex due to higher gold prices in fiscal year 2006, an increase in revenues from the SJ Claims and Bald Mountain, and payments from the recently acquired Mulatos and Robinson royalties. These increases were partially offset by a decrease in production at the Pipeline Mining Complex.

Cost of operations increased to $2,288,347 for the fiscal year ended June 30, 2006, compared to $1,847,343 for the fiscal year ended June 30, 2005. The increase was primarily due to non-cash employee compensation expense of $380,565, discussed below, and an increase in Nevada Net Proceeds Tax expenditures due to increased royalty revenues at our SJ Claims and Bald Mountain royalties. These increases were partially offset by a decrease in consulting services.

General and administrative expenses increased to $5,022,157 for the fiscal year ended June 30, 2006, compared to $3,695,098 for the fiscal year ended June 30, 2005. The increase is primarily due to non-cash employee compensation expense of $1,465,055, discussed below.

Exploration and business development expenses increased to $3,396,733 for the fiscal year ended June 30, 2006, compared to $1,892,865 for the fiscal year ended June 30, 2005. The increase is primarily due to non-cash employee compensation expense of $932,066, discussed below, and an increase in our exploration funding of approximately $463,000, due to the Taranis Resources exploration alliance, as discussed in Note 2 in the accompanying Notes to Consolidated Financial Statements.

Depreciation and depletion increased to $4,261,060 for the fiscal year ended June 30, 2006, compared to $3,204,984 for the fiscal year ended June 30, 2005. The increase is primarily due to increased production at our SJ Claims.

As discussed in Note 3 in the accompanying Notes to Consolidated Financial Statements, the Financial Accounting Standards Board ("FASB") issued FASB Statement No. 123 (revised 2004), Share-Based Payment ("SFAS 123(R)"). SFAS 123(R) requires all share-based payments to employees, including grants of employee stock options, restricted stock, and performance shares, to be recognized in the financial statements based on their fair values. The Company has adopted SFAS 123(R) as of July 1, 2005, using the modified prospective application transition method. As a result of the adoption of SFAS 123(R), the Company recorded total non-cash stock compensation expense related to our equity compensation plans of $2,777,686 for the fiscal year ended June 30, 2006, which is allocated among cost of operations, general and administrative expenses, and exploration and business development expenses in our consolidated statements of operations and comprehensive income. The total non-cash compensation expense allocated to cost of operations, general and administrative, and exploration and business development for the fiscal year ended June 30, 2006, was $380,565, $1,465,055 and $932,066, respectively. The total income tax benefit associated with non-cash stock compensation expense was approximately $1,011,078 for the fiscal year ended June 30, 2006.

Interest and other income increased to $3,203,968 for the fiscal year ended June 30, 2006, compared to $834,136 for the fiscal year ended June 30, 2005. The increase is primarily due to higher interest rates and an increase in funds available for investing over the prior period. The increase in funds available for investing is primarily due to the public offering of our common stock during the first quarter of fiscal year 2006 and cash flow from operations.

For the fiscal year ended June 30, 2006, we recognized current and deferred tax expense totaling $5,100,667 compared with $4,102,462 for the fiscal year ended June 30, 2005. This resulted in an effective tax rate of 31.0% in the current period, compared with 26.4% in the prior period. The increase in our effective tax rate is the result of the release of a valuation allowance associated with the sale of available for sale securities of approximately $320,000 and the recognition of Colorado loss carryforwards totaling approximately $150,000 during the fiscal year ended June 30, 2005.

Fiscal Year Ended June 30, 2005, Compared with Fiscal Year Ended June 30, 2004

For the fiscal year ended June 30, 2005, we recorded net income of $11,453,715, or $0.55 per basic share and $0.54 per diluted share, as compared to net income of $8,871,679, or $0.43 per basic share and $0.42 per diluted share, for the fiscal year ended June 30, 2004.

For fiscal year 2005, we received total royalty revenue of $25,302,332, at an average gold price of $422 per ounce, compared to royalty revenue of $21,353,071, at an average gold price of $389 per ounce for fiscal year 2004. Royalty revenue and the corresponding production, attributable to our royalty interests, for fiscal year 2005 compared to fiscal year 2004 is as follows:

**Royalty Revenue and Production Subject to Our Royalty Interests
Fiscal Years Ended June 30, 2005 and 2004**

Royalty	Metal(s)	Fiscal Year 2005 Royalty Revenue	Fiscal Year 2005 Production	Fiscal Year 2004 Royalty Revenue	Fiscal Year 2004 Production
Pipeline	Gold	$ 21,392,636	973,602 oz	$ 18,737,676	973,220 oz
Leeville	Gold	$ 763,012	93,180 oz	$ 729,717	105,505 oz
SJ Claims	Gold	$ 2,026,052	531,342 oz	$ 1,398,629	401,913 oz
Bald Mountain	Gold	$ 208,103	28,037 oz	$ 230,713	33,894 oz
Troy[1]		$ 749,362		N/A	
	Silver		522,145 oz		N/A
	Copper		4,584,574 lbs		N/A
Martha[2]	Silver	$ 163,167	1,795,853 oz	$ 256,336	N/A

[1]Troy mine began production during our fiscal year 2005.

[2]We did not receive production data from the Martha mine for our fiscal year 2004.

The increase in royalty revenue compared with fiscal year 2004 resulted from a higher sliding-scale royalty rate from the Pipeline Mining Complex due to a higher gold price in fiscal year 2005, and the addition of revenues from the acquired Troy mine royalties.

Cost of operations increased to $1,847,343 for the fiscal year ended June 30, 2005, compared to $1,512,867 for the fiscal year ended June 30, 2004, primarily related to an increase in Nevada Net Proceeds Tax expenditures of approximately $161,000, which is associated with increased royalty revenues. Nevada net proceeds of mines taxes are paid on all royalties received which are attributed to production in Nevada, at a rate of 5% of gross cash receipts. The increase is also due to an increase in consulting fees, which were related to the Crossroads project at the Cortez Joint Venture.

General and administrative expenses increased to $3,695,098 for the fiscal year ended June 30, 2005, compared to $2,923,289 for the fiscal year ended June 30, 2004, primarily due to increased accounting and consulting fees of approximately $341,000. The increased accounting and consulting fees were the result of Sarbanes-Oxley compliance work. Increases in employee related costs of approximately $124,000 along with an increase in costs for investor relations of approximately $99,000 also contributed to the increase in general and administrative expenses.

Exploration and business development expenses increased to $1,892,865 for the fiscal year ended June 30, 2005, compared to $1,391,944 for the fiscal year ended June 30, 2004, primarily due to an increase in employee related costs allocated to business development of approximately $778,000, due to increased business development activities throughout the year. This increase was offset partially by a decrease in consulting services for business development activities of approximately $353,000.

Depreciation and depletion decreased to $3,204,984 for the fiscal year ended June 30, 2005, compared to $3,313,953 for the fiscal year ended June 30, 2004, primarily due to decreases in depletion rates for our GSR3, NVR1, Bald Mountain, SJ Claims, and Leeville South interests in the current fiscal year, which were due to increases in proven and probable reserves attributable to our royalty interests. These decreases were partially offset by increased production at the Pipeline Mining Complex along with additional depletion for the newly acquired GSR royalty at the Troy mine.

As discussed in Note 3 in the accompanying Notes to Consolidated Financial Statements, we recorded non-cash employee stock compensation expense of $205,301 for the fiscal year ended 2005, compared to $0 for the fiscal year ended June 30, 2004. The employee non-cash stock compensation allocated to cost of operations, general and administrative and business development for the fiscal year ended June 30, 2005, was $16,839, $154,517 and $33,945, respectively. The non-cash compensation expense recorded during the period represents amortization, based on the employees' service period, of the fair value of the Restricted Stock issued pursuant to the 2004 Omnibus Long-Term Incentive Plan at the issuance or measurement date.

Interest and other income increased to $834,136 for the fiscal year ended June 30, 2005, compared to $442,181 for the fiscal year ended June 30, 2004, primarily due to higher interest rates and an increase in funds available for investing over the prior year.

For the fiscal year ended June 30, 2005, we recognized current and deferred tax expense totaling $4,102,462 compared with $3,654,358 for the fiscal year ended June 30, 2004. This resulted in an effective tax rate of 26.4% in the current period, compared with 29.2% in the prior period. The decrease in the effective tax rate resulted from an increase in allowable percentage depletion deductions associated with higher revenue from our GSR1 royalty during the period, and the release of the valuation allowance associated with the sale of available for sale securities of approximately $320,000 during the period.

Quantitive and Qualitative Disclosure About Market Risk

Our earnings and cash flow are significantly impacted by changes in the market price of gold. Gold prices can fluctuate widely and are affected by numerous factors, such as demand, production levels, economic policies of central banks, producer hedging, world political and economic events, and the strength of the U.S. dollar relative to other currencies. Please see "Decreases in prices of precious metals would reduce our royalty revenues," under Part I, Item 1A of the Annual Report on Form 10-K for more information that can affect gold prices. During the last five years, the market price for gold has fluctuated between $278 per ounce and $725 per ounce.

During the fiscal year ended June 30, 2006, we reported royalty revenues of $28,380,143, with an average gold price for the period of $527 per ounce. The GSR1 royalty, on the Pipeline Mining Complex, which produced the majority of our revenues for the period, is a sliding-scale royalty with variable royalty rate steps based on the average London PM gold price for the period. For the fiscal year, if the price of gold had averaged higher or lower by $20 per ounce, we would have recorded an increase or decrease in revenues of approximately $1.0 million, respectively. Due to the set price steps in the GSR1 royalty, it is not possible to extrapolate these effects on a linear basis.

We receive royalties from the NVR1 royalty on the Pipeline Mining Complex in gold, and the value of this royalty therefore depends on the price of gold. We sold 1,733 ounces of gold bullion in fiscal year 2006, at an average realized price of $524 per ounce, and 2,905 ounces of gold bullion in fiscal year 2005, at an average realized price of $417 per ounce.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Management assessed the effectiveness of our internal control over financial reporting as of June 30, 2006. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on our assessment and those criteria, management concluded that, as of June 30, 2006, our internal control over financial reporting is effective.

PricewaterhouseCoopers LLP, the registered public accounting firm that audited the financial statements included in this annual report, has also audited management's assessment of the effectiveness of the Company's internal control over financial reporting as of June 30, 2006 and the effectiveness of the Company's internal control over financial reporting as of June 30, 2006, as stated in their report, which is included herein.

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors
Royal Gold, Inc:

We have completed integrated audits of Royal Gold, Inc.'s 2006 and 2005 consolidated financial statements and of its internal control over financial reporting as of June 30, 2006, and an audit of its 2004 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated Financial Statements

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Royal Gold, Inc. and its subsidiaries at June 30, 2006 and 2005, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 2006 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 the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements 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.

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for share-based compensation and adopted SFAS No. 123(R), Share-Based Payment, effective July 1, 2005.

Internal Control Over Financial Reporting

Also, in our opinion, management's assessment, included in Management's Report on Internal Control Over Financial Reporting on page 28, that the Company maintained effective internal control over financial reporting as of June 30, 2006 based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 30, 2006, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers LLP
Denver, Colorado
August 25, 2006

Consolidated Balance Sheets

As of June 30,	2006	2005
Current assets:		
Cash and equivalents	$ 78,449,383	$ 48,840,371
Royalty receivables	5,962,053	6,601,329
Deferred tax assets	131,621	452,730
Prepaid expenses and other	232,839	333,883
Total current assets	84,775,896	56,228,313
Royalty interests in mineral properties, net (Note 5)	84,589,569	44,817,242
Available for sale securities (Note 4)	1,988,443	554,812
Deferred tax assets	495,018	160,417
Other assets	410,895	557,771
Total assets	$ 172,259,821	$102,318,555
Current liabilities:		
Accounts payable	$ 1,075,644	$ 1,140,509
Income taxes payable	334,767	253,496
Dividend payable	1,300,623	1,050,628
Accrued compensation	375,000	278,500
Other	237,482	175,095
Total current liabilities	3,323,516	2,898,228
Deferred tax liabilities	7,178,907	7,586,402
Other long term liabilities	97,749	96,634
Total Liabilities	10,600,172	10,581,264
Commitments and contingencies (Note 10)		
Stockholders' equity		
Common stock, $.01 par value, authorized 40,000,000 shares;		
issued 23,816,640 and 21,258,576 shares, respectively	238,165	212,585
Additional paid-in capital	166,459,671	104,163,515
Accumulated other comprehensive income (loss)	498,462	(284,920)
Deferred compensation	-	(524,659)
Accumulated deficit	(4,439,777)	(10,732,358)
Treasury stock, at cost (229,224 shares)	(1,096,872)	(1,096,872)
Total stockholders' equity	161,659,649	91,737,291
Total liabilities and stockholders' equity	$ 172,259,821	$102,318,555

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

Consolidated Statements of Operations and Comprehensive Income

For the years ended June 30,	2006	2005	2004
Royalty revenues	$ 28,380,143	$ 25,302,332	$ 21,353,071
Costs and expenses			
Costs of operations	2,288,347	1,847,343	1,512,867
General and administrative	5,022,157	3,695,098	2,923,289
Exploration and business development	3,396,733	1,892,865	1,391,944
Depreciation, depletion and amortization	4,261,060	3,204,984	3,313,953
Total costs and expenses	14,968,297	10,640,290	9,142,053
Operating income	13,411,846	14,662,042	12,211,018
Interest and other income	3,203,968	834,136	442,181
Gain on sale of available for sale securities	-	163,577	-
Interest and other expense	(165,066)	(103,578)	(127,162)
Income before income taxes	16,450,748	15,556,177	12,526,037
Current tax expense (Note 7)	(5,973,878)	(3,047,551)	(882,243)
Deferred tax benefit (expense) (Note 7)	873,211	(1,054,911)	(2,772,115)
Net income	$ 11,350,081	$ 11,453,715	$ 8,871,679
Adjustments to other comprehensive income			
Unrealized change in market value of available for sale securities, net of tax	783,382	(208,328)	(36,866)
Realization of the change in market value on sale of available for sale securities, net of tax	-	(104,689)	-
Comprehensive income	$ 12,133,463	$ 11,140,698	$ 8,834,813
Basic earnings per share (Note 6)	$ 0.50	$ 0.55	$ 0.43
Basic weighted average shares outstanding	22,863,784	20,875,957	20,760,452
Diluted earnings per share (Note 6)	$ 0.49	$ 0.54	$ 0.42
Diluted weighted average shares outstanding	23,121,862	21,070,797	21,110,521

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

Consolidated Statements of Stockholders' Equity

	Common Shares			Accumulated			Treasury Stock		
	Shares	Amount	Additional Paid-In Capital	Other Comprehensive Income (Loss)	Deferred Compensation	Accumulated Deficit	Shares	Amount	Total Stockholders' Equity
Balance at June 30, 2003	20,883,914	$208,838	$100,612,048	$ 64,963	$ -	$(24,796,477)	229,224	$(1,096,872)	$ 74,992,500
Issuance of common stock for:									
exercise of options	128,669	1,287	736,890						738,177
Tax benefit of stock option exercises			670,953						670,953
Net income and comprehensive income for the year ended June 30, 2004				(36,866)		8,871,679			8,834,813
Dividends						(2,338,131)			(2,338,131)
Balance at June 30, 2004	21,012,583	$210,125	$102,019,891	$ 28,097	$ -	$(18,262,929)	229,224	$(1,096,872)	$ 82,898,312
Issuance of common stock for:									
Acquisition of royalty interest in mineral property	3,000	30	55,140						55,170
Exercise of options	200,993	2,010	971,002						973,012
Tax benefit of stock option exercises			387,942						387,942
Issuance of restricted stock	42,000	420	729,540		(729,960)				
Recognition of compensation expense for restricted stock issuance (Note 3)					205,301				205,301
Net income and comprehensive income for the year ended June 30, 2005				(313,017)		11,453,715			11,140,698
Dividends						(3,923,144)			(3,923,144)
Balance at June 30, 2005	21,258,576	$212,585	$104,163,515	$ (284,920)	$ (524,659)	$(10,732,358)	229,224	$(1,096,872)	$ 91,737,291
Issuance of common stock for:									
Equity offering	2,227,912	22,279	54,696,156						54,718,435
Exercise of stock options	276,777	2,768	3,909,107						3,911,875
Vesting of restricted stock	53,375	533	(533)						-
Tax benefit of stock-based compensation exercises			1,438,399						1,438,399
Recognition of non-cash compensation expense for share-based compensation (Note 3)			2,777,686						2,777,686
Reversal of deferred compensation			(524,659)		524,659				-
Net income and comprehensive income for the year ended June 30, 2006				783,382		11,350,081			12,133,463
Dividends						(5,057,500)			(5,057,500)
Balance at June 30, 2006	23,816,640	$238,165	$166,459,671	$ 498,462	$ -	$ (4,439,777)	229,224	$(1,096,872)	$161,659,649

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

Consolidated Statements of Cash Flows

For the years ended June 30,	2006	2005	2004
Cash flows from operating activities			
Net income	$ 11,350,081	$ 11,453,715	$ 8,871,679
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, depletion and amortization	4,261,060	3,204,984	3,313,953
Gain on available for sale securities	-	(163,577)	(22,778)
Deferred tax (benefit) expense	(873,211)	1,054,911	2,772,115
Non-cash employee stock compensation expense	2,777,686	205,301	-
Tax (benefit) expense of share-based compensation exercises	(1,438,399)	387,942	670,953
Other	-	-	26,623
Changes in assets and liabilities:			
Royalty receivables	639,276	(1,380,022)	(2,095,870)
Prepaid expenses and other assets	184,638	(65,889)	(112,955)
Accounts payable	(64,865)	(141,502)	(95,135)
Federal income taxes payable	1,519,670	253,496	-
Accrued liabilities and other current liabilities	165,577	17,388	82,863
Other long term liabilities	1,115	(6,455)	(10,400)
Net cash provided by operating activities	$ 18,522,628	$ 14,820,292	$ 13,401,048
Cash flows from investing activities			
Capital expenditures for property and equipment	$ (38,657)	$ (126,954)	$ (271,020)
Acquisition of royalty interests in mineral properties (Note 2)	(43,931,448)	(7,514,947)	-
Purchase of available for sale securities (Notes 2 and 4)	(204,715)	(1,000,000)	-
Proceeds from sale of available for sale securities	-	539,960	38,642
Net cash used in investing activities	$(44,174,820)	$ (8,101,941)	$ (232,378)
Cash flows from financing activities			
Dividends paid	$ (4,807,505)	$ (3,651,893)	$ (2,591,489)
Tax benefit from share-based compensation exercises	1,438,399	-	-
Proceeds from issuance of common stock	58,630,310	973,012	738,177
Net cash provided by (used in) financing activities	$ 55,261,204	$ (2,678,881)	$ (1,853,312)
Net increase in cash and equivalents	29,609,012	4,039,470	11,315,358
Cash and equivalents at beginning of year	48,840,371	44,800,901	33,485,543
Cash and equivalents at end of year	$ 78,449,383	$ 48,840,371	$ 44,800,901
Supplemental cash flow information:			
Cash paid during the period for:			
Interest	-	-	-
Income taxes	$ 4,610,911	$ 2,330,000	$ 453,000
Non-cash financing activities:			
Deferred compensation (equity offset)	$ -	$ 729,960	$ -
Acquisition of royalty interest in mineral property	$ -	$ 55,170	$ -

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

NOTE 1: Operations, Summary of Significant Accounting Policies and Recently Issued Accounting Pronouncements

Operations

Royal Gold, Inc. ("Royal Gold", the "Company", "we", "us", or "our"), together with its subsidiaries, is engaged in the business of acquiring and managing precious metals royalties. Royalties are passive (non-operating) interests in mining projects that provide the right to revenue from the project after deducting specified costs, if any.

We seek to acquire existing royalties or to finance projects that are in production or near production in exchange for royalty interests. We also fund exploration on properties thought to contain precious metals and seek to obtain royalties and other carried ownership interests in such properties through the subsequent transfer of operating interests to other mining companies. Substantially all of our revenues are and will be expected to be derived from royalty interests. We do not conduct mining operations at this time.

Summary of Significant Accounting Policies

Use of Estimates:

The preparation of our financial statements in conformity with accounting principles generally accepted in the United States of America requires us 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 significantly from those estimates.

Basis of Consolidation:

The consolidated financial statements include the accounts of Royal Gold, Inc. and its wholly-owned subsidiaries. Intercompany transactions and account balances have been eliminated in consolidation.

Cash and Cash Equivalents:

We consider all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. At June 30, 2006, cash and cash equivalents were primarily held in uninsured interest bearing cash and money market accounts.

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. When investments are sold, the realized gains and losses on these investments, determined using the specific identification method, are included in determining net income.

The Company's policy for determining whether declines in fair value of available-for-sale investments are other than temporary includes a quarterly analysis of the investments and a review by management of all investments that are impaired. If such impairment is determined by the Company to be other than temporary, the investment's cost basis is written down to fair value and recorded in net income during the period the Company determines such impairment to be other than temporary.

Royalty Interests in Mineral Properties:

Royalty interests in mineral properties include acquired royalty interests in production stage, development stage and exploration stage properties. The fair value of acquired royalty interests in mineral properties are capitalized as tangible assets when such interests do not meet the definition of a financial asset under the Financial Accounting Standard Board's ("FASB") Statement of Financial Account Standards ("SFAS") No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities – a Replacements of FASB Statement No. 125, or a derivative instrument under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. Also, in accordance with FASB Emerging Issues Task Force Issue No., or EITF, 04-02, Working Group Report No.1, Whether Mineral Rights are Tangible or Intangible Assets and Related Issues, we recognize our royalty interests as tangible assets as of June 30, 2006 and 2005. We based our conclusion on the following factors:

1. Our royalty interests in mineral properties do not meet the definition of financial assets under FASB Statement No. 140; and

2. Our royalty interests in mineral properties do not meet the definition of derivative instruments under FASB Statement No. 133.

Acquisition costs of production and development stage royalty interests are depleted using the units of production method over the life of the mineral property, which is estimated using proven and probable reserves. Acquisition costs of royalty interests on exploration stage mineral properties, where there are no proven and probable reserves, are not amortized. At such time as the associated exploration stage mineral interests are converted to proven and probable reserves, the cost basis is amortized over the mineral properties remaining life, using proven and probable reserves. The carrying values of exploration stage mineral interests are evaluated for impairment at such time as information becomes available indicating that the production will not occur in the future. Exploration costs are charged to operations when incurred.

Asset Impairment:

We evaluate long-lived assets for impairment whenever events or changes in circumstances indicate that the related carrying amounts of an asset or group of assets may not be recoverable. The recoverability of the carrying value of royalty interests in production and development stage mineral properties is evaluated based upon estimated future undiscounted net cash flows from each royalty interest property using estimates of proven and probable reserves. We evaluate the recoverability of the carrying value of royalty interests in exploration stage mineral properties in the event of significant decreases in the price of gold, and whenever new information regarding the mineral properties is obtained from the operator that could affect the future recoverability of our royalty interests. Impairments in the carrying value of each property are measured and recorded to the extent that the carrying value in each property exceeds its estimated fair value, which is generally calculated using estimated future discounted cash flows.

Our estimate of gold prices, operator's estimates of proven and probable reserves related to our royalty properties, and operator's estimates of operating, capital and reclamation costs are subject to certain risks and uncertainties which may affect the recoverability of our investment in these royalty interests in mineral properties. Although we have made our best assessment of these factors based on current conditions, it is possible that changes could occur, which could adversely affect the net cash flows expected to be generated from these royalty interests.

Office Furniture, Equipment and Improvements:

We record the acquisition cost of office furniture and equipment and leasehold improvements, less accumulated depreciation and amortization, as a component of other assets in our consolidated balance sheets. We depreciate our office furniture and equipment over estimated useful lives ranging from two to seven years using the straight-line method. Leasehold improvements are amortized over the term of the lease using the straight-line method. The cost of normal maintenance and repairs is expensed 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 in accordance with the terms of the underlying royalty agreements subject to (i) the pervasive evidence of the existence of the arrangements; (ii) the risks and rewards having been transferred; (iii) the royalty being fixed or determinable; and (iv) the collectibility of the royalty being reasonably assured. For royalty payments received in gold, royalty revenue is recorded at the average spot price of gold for the period in which the royalty was earned.

Income Taxes:

The Company accounts for income taxes under SFAS No. 109, Accounting for Income Taxes. Deferred income taxes reflect the impact of temporary differences between the reported amounts of assets and liabilities for financial reporting purposes and such amounts measured by tax laws and regulations. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. A valuation allowance is provided for deferred tax assets when management concludes it is more likely than not that some portion of the deferred tax assets will not be realized.

Stock-Based Compensation:

Effective July 1, 2005, we account for our stock-based compensation in accordance with SFAS No. 123 (revised 2004), Share-Based Payment, ("SFAS 123(R)"). SFAS 123(R) requires all share-based payments to employees, including grants of employee stock options and restricted stock, to be recognized in the financial statements based on their fair values. Prior to July 1, 2005, we measured compensation cost as prescribed by Accounting Principles Board No. 25, Accounting for Stock Issued to Employees, ("APB 25"). See Note 3 within these Notes to Consolidated Financial Statements for further discussion on the Company's stock-based compensation.

Operating Segments:

We manage our business under one operating segment, consisting of royalty acquisition and management activities. All of our assets and revenues are attributable to the royalty operating segment.

Comprehensive Income:

In addition to net income, comprehensive income includes changes in equity during a period associated with cumulative unrealized changes in the fair value of marketable securities held for sale, net of tax effects.

Earnings Per Share:

Basic earnings 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 all potentially dilutive stock-based compensation awards.

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.

Recently Issued Accounting Pronouncements

Effective July 1, 2005, the Company adopted FASB Statement No. 123 (revised 2004), Share-Based Payment ("SFAS 123(R)"), which is a revision of FASB Statement No. 123, Accounting for Stock-Based Compensation ("SFAS 123"). The Company has adopted SFAS 123(R) using the modified prospective application transition method. SFAS 123(R) supersedes Accounting Principles Board No. 25, Accounting for Stock Issued to Employees ("APB 25"), and amends FASB Statement No. 95, Statement of Cash Flows. SFAS 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values.

In October 2005, the FASB issued FSP FAS123(R)-2, Practical Accommodation to the Application of Grant Date as Defined in FASB Statement No. 123(R), which provides guidance on the application of grant date as defined in SFAS 123(R). The guidance in the FSP has been applied upon the Company's initial adoption of SFAS 123(R).

In November 2005, the FASB issued FSP FAS123(R)-3, Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards. This FSP requires an entity to follow either the transition guidance for the additional-paid-in-capital pool as prescribed in SFAS 123(R), or the alternative method as described in the FSP. An entity that adopts SFAS 123(R) using the modified prospective application may make a one-time election to adopt the alternative transition method described in this FSP. The Company has elected to adopt the alternative transition method described in the FSP.

On July 13, 2006, FASB Interpretation ("FIN") No. 48, Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement No. 109, was issued. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with SFAS 109. FIN 48 also prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of tax position taken or expected to taken in a tax return. FIN 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The provisions of FIN 48 are effective for fiscal years beginning after December 15, 2006. The Company is evaluating the impact, if any, the adoption of FIN 48 could have on our financial statements.

NOTE 2: Royalty Acquisitions

Taranis Exploration Alliance

On November 4, 2005, Royal Gold entered into two Exploration and Earn-In Agreements (the "Agreements") with Taranis Resources Inc. ("Taranis") with respect to its exploration program in Finland. As part of the first Agreement, the Company will obtain a 2% net smelter return ("NSR") royalty and future earn-in rights on any new property acquired by Taranis in Finland as a result of its regional exploration program, in exchange for a $321,638 investment in 937,500 shares of Taranis' common stock and 468,750 warrants. On August 21, 2006, we acquired, under a private placement, an additional 100,000 shares of Taranis' common stock and warrants exercisable to purchase up to 50,000 Taranis common shares at $0.49.

As part of the Agreements, we have funded $500,000 to Taranis for exploration work on the Kettukuusikko property in Lapland, Finland, in exchange for a 2% NSR royalty on the property. As of June 30, 2006, we have funded the entire $500,000 commitment. We also have an option to fund up to an additional $600,000. If we fund the entire additional amount, we will earn a 51% joint venture interest in the Kettukuusikko project, and we will release our 2% NSR royalty. The Company has elected to exercise this option. In the event that Royal Gold does not fully fund the $600,000 to earn the joint venture interest, we would retain our 2% NSR royalty.

Taranis is publicly traded and therefore we have recorded the acquisition of the Taranis common stock and warrants as Available for sale securities on our consolidated balance sheets at their relative fair values. Our cost basis in the Taranis common stock and warrants is $204,715. We have expensed the remaining $116,923 of the $321,638 investment, plus approximately $34,000 in transaction costs, as Exploration and business development expense on our consolidated statements of operations and comprehensive income. Finally, amounts funded to Taranis as part of the $500,000 Kettukuusikko exploration commitment have been expensed as a component of Exploration and business development expense on our consolidated statements of operations and comprehensive income.

Robinson and Mulatos Royalties

On December 28, 2005, Royal Gold paid $25 million to Kennecott Minerals ("Kennecott") in exchange for two existing royalty interests held by Kennecott, including a 3% NSR royalty on the Robinson mine, located in eastern Nevada, and a sliding-scale NSR royalty on the Mulatos mine, located in Sonora, Mexico.

The Robinson mine is an open pit copper mine with significant gold and molybdenum credits. The mine has been owned and operated by Quadra Mining Ltd. ("Quadra") since 2004. Royal Gold began receiving revenue from the Robinson royalty during our fourth quarter after a $20.0 million reclamation trust account was fully funded by Quadra.

The Mulatos project, owned and operated by Alamos Gold, Inc. ("Alamos"), is an open pit, heap leach gold mine. According to Alamos, commercial production has been achieved effective April 1, 2006. The Mulatos mine sliding-scale royalty, capped at two million ounces of gold production, ranges from 0.30% for gold prices below $300 per ounce up to 1.50% for gold prices above $400 per ounce.

The Kennecott transaction has been accounted for as a purchase of assets. As such, the $25 million acquisition cost, and approximately $267,000 of our direct legal and other acquisition costs, have been allocated to the two acquired royalties according to their relative fair values, as separate components of Royalty Interests in Mineral Properties on our consolidated balance sheets. Accordingly, $17.8 million has been allocated to the Robinson royalty and $7.4 million has been allocated to the Mulatos royalty.

Taparko Project Royalties

On March 1, 2006, Royal Gold entered into an Amended and Restated Funding Agreement ("Funding Agreement") with Societe des Mines de Taparko, also known as Somita SA ("Somita"), a 90% owned subsidiary of High River Gold Mines Ltd. ("High River"), to acquire two initial production payments equivalent to gross smelter return ("GSR") royalties and two subsequent GSR royalty interests on the Taparko-Bouroum Project ("Taparko Project") in Burkina Faso, West Africa. The Funding Agreement amended and restated the initial Funding Agreement dated December 1, 2005, among Royal Gold, High River and Somita. The Taparko Project is operated by Somita. Royal Gold's funding of the project will total $35 million over approximately a one-year period, which will be used for the development and construction of the Taparko Project. Construction of the Taparko Project has been initiated by Somita and is expected to be largely completed during the fourth quarter of calendar 2006, with production commencing during the first quarter of calendar 2007.

As of June 30, 2006, we have funded approximately $18.7 million of the $35 million total funding commitment. As a result of our funding to-date, we have obtained the following mineral interests, all related to the Taparko Project:

1. TB-GSR1 – A production payment equivalent to a fifteen percent (15%) GSR royalty on all gold produced from the Taparko Project. TB-GSR1 remains in force until cumulative production of 804,420 ounces of gold is achieved, or until cumulative payments of $35 million have been made to us, whichever is earlier.

2. TB-GSR2 – A production payment equivalent to a GSR sliding-scale royalty on all gold produced from the Taparko Project. TB-GSR2 will be paid concurrently with, and remains in force until the termination of TB-GSR1. The sliding-scale royalty rate will be determined as follows:

    a. When the average price of gold is $430 per ounce or more, the rate will be equal to the average price divided by 100 (e.g., a $440 gold price divided by 100 = 4.4%).

    b. When the average gold price is $385 per ounce or less, the rate will be equal to the average price divided by 90 (e.g., a $350 gold price divided by 90 = 3.88%).

    c. When the average price is between $385 and $430 per ounce, the rate is 4.3%.

3. TB-GSR3 – A perpetual 2% GSR royalty on all gold produced from the Taparko Project area (as defined in the Funding Agreement). This royalty will commence upon termination of the TB-GSR1 and TB-GSR2 royalties.

4. TB-MR1 – A 0.75% milling fee royalty, calculated in the same manner as the TB-GSR1 royalty, on all gold processed through the Taparko Project processing facilities that is mined from any area outside of the Taparko Project area (as defined in the Funding Agreement). TB-MR1 royalty is subject to a cap of 1.1 million tons per year (e.g., if in a given year, the Taparko Project processing facility processes 800,000 tons of ore from the Taparko Project area and 500,000 tons of ore from areas outside the Taparko Project area, the 800,000 tons from the Taparko Project area would be subject to TB-GSR1, TB-GSR2, or TB-GSR3 and the TB-MR1 would only apply to 300,000 tons of ore.

The Taparko transaction has been accounted for as a purchase of assets. Accordingly, the four components of the transaction noted above have been recorded at their allocated relative fair values as components of Royalty Interests in Mineral Properties on our consolidated balance sheets. The remaining funding amounts will be allocated according to their relative fair values as funding occurs.

In order to secure our investment during the period between funding by Royal Gold and project completion (as defined in the funding agreement), High River has pledged its 90% interest in the equity of Somita. Royal Gold will maintain its security interest, in the form of the Somita shares, through the construction period. The security interest will be released upon the project meeting Project Completion, as defined in the Funding Agreement.

In addition to the 90% interest in Somita, Royal Gold also obtained as collateral a pledge of shares of two equity investments held by High River. The equity value underlying the pledge of these shares is valued at approximately $14.9 million as of June 30, 2006, and includes 12,015,000 common shares in the capital stock of Pelangio Mines, Inc. and 1,790,941 common shares in the capital stock of Intrepid Minerals Corporation. The purpose of this collateral is to maintain a construction reserve that can be used to remedy any construction defects noted during the construction contract warranty period. This collateral can only be used to remedy identified construction defects and cannot be used to repay any of Royal Gold's investment. This security interest will be released by Royal Gold at the end of the construction contract warranty period.

Investment in Revett Silver Company and the Troy Mine

On October 14, 2004, in a three-part transaction, the Company paid $8.5 million to Revett Silver Company ("Revett") and its wholly-owned subsidiary, Genesis Inc. ("Genesis"), in exchange for two royalty interests in the Troy underground silver and copper mine, located in northwestern Montana, and shares in Revett.

For consideration of $7.25 million, the Company obtained the right to receive a production payment equivalent to a 7.0% gross smelter return royalty ("GSR royalty") from all metals and products produced and sold from the Troy mine. The GSR royalty will extend until either cumulative production of approximately 9.9 million ounces of silver and 84.6 million pounds of copper, or the Company receives $10.5 million in cumulative payments, whichever occurs first. We have received cumulative payments associated with the GSR royalty totaling $2.4 million through June 30, 2006.

As a second component of the transaction, the Company acquired a perpetual GSR royalty ("perpetual royalty") at the Troy mine for $250,000. The rate for this perpetual royalty begins at 6.1% on any production in excess of 11.0 million ounces of silver and 94.1 million pounds of copper, and steps down to a perpetual 2% royalty after cumulative production has exceeded 12.7 million ounces of silver and 108.2 million pounds of copper. In the third component of the transaction, the Company purchased approximately 1.3 million shares of Revett common stock for $1.0 million. These shares can be converted, under certain circumstances and at the election of the Company, into a 1% net smelter return ("NSR") royalty on the Rock Creek mine, also located in northwestern Montana and owned by Revett.

Under the terms of the share agreement, the Company has the right, but not the obligation, to cure any default by Revett or Genesis under their obligations pursuant to an existing mortgage payable, secured by a Promissory Note, to Kennecott Montana Company, a third party and prior Joint Venture interest owner of the Troy mine. The principal and accrued interest under the Promissory Note as of June 30, 2006, was approximately $6.2 million with a maturity date of February 2008.

We have recorded the acquisition of the GSR royalty and the perpetual royalty interests as components of Royalty Interests in Mineral Properties on the consolidated balance sheets. The acquisition of the 1.3 million shares of Revett is recorded as an investment in Available for sale securities on the consolidated balance sheets. See Note 4 within these Notes to Consolidated Financial Statements for further detail on our investment in Revett.

NOTE 3: Stockholders Equity and Stock-based Compensation

Preferred Stock

We have 10,000,000 authorized and unissued shares of $.01 par value Preferred Stock.

Treasury Stock

We have adopted a stock repurchase program, in which the Board of Directors authorized the repurchase of up to $5 million of our common stock, from time-to-time, in the open market or in privately negotiated transactions. In accordance with this program, we have repurchased 229,224 shares of common stock. Repurchased shares are held in the treasury for general corporate purposes. We have no commitments to purchase our common stock.

Stockholders' Rights Plan

Our 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 the 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 our 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 Royal Gold, at an exercise price of $50 per Right.

2004 Omnibus Long-Term Incentive Plan

In November 2004, our shareholders approved and we adopted an Omnibus Long-Term Incentive Plan ("2004 Plan"). The 2004 Plan replaced our Equity Incentive Plan. Under the 2004 Plan, 900,000 shares of common stock are available for future grants to officers, directors, key employees and other persons. The 2004 Plan provides for the grant of stock options, unrestricted stock, restricted stock, dividend equivalent rights, stock appreciation rights, and cash awards. Any of these awards may, but need not, be made as performance incentives. Stock options granted under the 2004 Plan may be non-qualified stock options or incentive stock options.

For the fiscal years ended June 30, 2006 and 2005, we recorded total non-cash stock compensation expense related to our equity compensation plans of $2,777,686 and $205,301, respectively. Non-cash stock compensation is allocated among cost of operations, general and administrative, and exploration and business development in our consolidated statements of operations and comprehensive income. The total non-cash compensation expense allocated to cost of operations, general and administrative, and exploration and business development for the fiscal year ended June 30, 2006, was $380,565, $1,465,055 and $932,066, respectively. The total non-cash compensation expense allocated to cost of operations, general and administrative, and exploration and business development for the fiscal year ended June 30, 2005, was $16,839, $154,517 and $33,945, respectively. The Company had $0 of non-cash compensation expense during its fiscal year ended June 30, 2004.

The total income tax benefit associated with non-cash stock compensation expense was approximately $1,000,000, $74,000 and $0 for the fiscal years ended June 30, 2006, 2005, and 2004, respectively. In accordance with SFAS 123(R), the Company reversed $524,659 of deferred compensation upon adoption of SFAS 123(R).

Stock Options

Stock option awards are granted with an exercise price equal to the closing market price of the Company's stock at the date of grant. Stock option awards granted to officers, key employees and other persons vest based on one to three years of continuous service. Stock option awards granted to directors vest immediately with respect to 50% of the shares granted and after one year with respect to the remaining 50% granted. Stock option awards have 10 year contractual terms.

To determine non-cash stock compensation expense for stock option awards, the fair value of each stock option award is estimated on the date of grant using the Black-Scholes-Merton ("Black-Scholes") option pricing model for all periods presented. The Black-Scholes model requires key assumptions in order to determine fair value and those key assumptions are noted in the following table:

	2006	2005	2004
Weighted average expected volatility	61.20%	69.77%	74.1%
Weighted average expected option term in years	5.4	4.5	4.8
Weighted average dividend yield	1.00%	1.14%	0.86%
Weighted average risk-free interest rate	4.5%	3.6%	3.5%
Weighted average grant fair value	$12.04	$9.23	$12.17

The Company's expected volatility is based on the historical volatility of the Company's stock over the expected option term. The Company's expected option term is determined by historical exercise patterns along with other known employee or company information at the time of grant. The risk free interest rate is based on the zero-coupon U.S. Treasury bond at the time of grant with a term approximate to the expected option term.

On November 8, 2005, 92,500 stock options under the 2004 Plan were granted to certain employees and officers under the 2004 Plan. These options have an exercise price of $22.22, which was the closing market price for our common stock on the date of grant. On November 9, 2005, 15,000 stock options, under the 2004 Plan, were granted to the Board of Directors ("Directors") at an exercise price of $23.61, which was the closing market price of our common stock on the date of grant. The options have vesting terms ranging from one to three years. Directors' options vest 50% upon grant and 50% vest after one year.

A summary of stock option activity under our equity compensation plans as of June 30, 2006, and changes during the fiscal year then ended is presented below:

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at July 1, 2005	711,024	$13.53		
Granted	107,500	$22.41		
Exercised	(276,777)	$14.13		
Forfeited and Expired	(13,333)	$19.20		
Outstanding at June 30, 2006	528,414	$14.86	6.4	$6,844,454
Exercisable at June 30, 2006	396,080	$12.86	4.0	$5,927,119

The weighted-average grant date fair value of options granted during the fiscal years ended June 30, 2006, 2005 and 2004, was $12.04, $9.23 and $12.17, respectively. The total intrinsic value of options exercised during the fiscal years ended June 30, 2006, 2005 and 2004, were $5,561,205, $2,731,940 and $2,305,345, respectively.

A summary of the status of the Company's non-vested stock options as of June 30, 2006, and changes during the fiscal year ended June 30, 2006, is presented below:

	Shares	Weighted Average Grant Date Fair Value
Non-vested at July 1, 2005	133,850	$ 9.26
Granted	107,500	$ 12.04
Vested	(95,683)	$ 9.50
Forfeited	(13,333)	$ 10.30
Non-vested at June 30, 2006	132,334	$ 11.24

For the fiscal years ended June 30, 2006, 2005 and 2004, we recorded non-cash stock compensation expense associated with stock options of $1,116,362, $0 and $0, respectively. As of June 30, 2006, there was $790,965 of total unrecognized non-cash stock compensation expense related to non-vested stock options granted under our equity compensation plans, which is expected to be recognized over a weighted-average period of 1.9 years. The total fair value of shares vested during the fiscal years ended June 30, 2006, 2005 and 2004 was $450,342, $297,575 and $986,846 respectively.

Prior to July 1, 2005, we measured compensation cost as prescribed by APB 25. No compensation cost related to the granting of stock options has been recognized in the financial statements prior to July 1, 2005, as the exercise price of all option grants was equal to the market price of our common stock at the date of grant. In October 1995, the FASB issued SFAS 123. SFAS 123 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 and per share amounts would have been recorded:

For the years ended June 30,	2005	2004
Net Income as reported	$ 11,453,715	$ 8,871,679
ADD: Stock-based compensation expense for restricted stock awards included in reported net income, net of related tax effect	131,393	-
LESS: Stock-based compensation expense for restricted stock awards included in reported net income, net of related tax effect	(653,221)	(851,971)
Pro forma net income	$ 10,931,887	$ 8,019,708
Earnings per share:		
Basic, as reported	$ 0.55	$ 0.43
Basic, pro forma	$ 0.52	$ 0.39
Diluted, as reported	$ 0.54	$ 0.42
Diluted, pro forma	$ 0.52	$ 0.38

Stock-based Compensation

On November 8, 2005, certain employees and officers were granted 41,000 shares of restricted common stock that can be earned only if either one of two defined multi-year performance goals is met within five years of the date of grant ("Performance Shares"). If the performance goals are not earned by the end of this five year period, the Performance Shares will be forfeited. Vesting of Performance Shares is subject to certain performance measures being met and can be based on an interim earn out of 25%, 50%, 75% or 100%. The defined performance goals are tied to two different performance measures: (1) growth of free cash flow per share on a trailing twelve month basis; and (2) growth of royalty ounces in reserves on an annual basis.

A summary of the status of the Company's non-vested Performance Shares as of June 30, 2006, and changes during the fiscal year ended June 30, 2006, is presented below:

	Shares	Weighted Average Grant Date Fair Value
Non-vested at July 1, 2005	58,250	$ 17.38
Granted	41,000	$ 22.22
Vested	(49,625)	$ 19.38
Forfeited	(8,125)	$ 20.36
Non-vested at June 30, 2006	41,500	$ 19.19

We measure the fair value of the Performance Shares based upon the market price of our common stock as of the date of grant. In accordance with SFAS 123(R), the measurement date for the Performance Shares will be determined at such time that the performance goals are attained or that it is probable they will be attained. At such time that it is probable that a performance condition will be achieved, compensation expense will be measured by the number of shares that will ultimately be earned based on the grant date market price of our common stock. Interim recognition of compensation expense will be made at such time as management can reasonably estimate the number of shares that will be earned. As of June 30, 2006, our estimates indicated that it is probable that 100% of our non-vested Performance Shares will be earned. For the fiscal years ended June 30, 2006, 2005 and 2004, we recorded non-cash stock compensation expense associated with our Performance Shares of $1,234,129, $0 and $0, respectively. As of June 30, 2006, total unrecognized non-cash stock compensation expense related to our Performance Shares is $523,868, which is expected to be recognized over the next 1.75 years, the period over which it is probable that the performance goals will be attained.

On November 8, 2005, certain employees and officers were granted 56,500 shares of restricted common stock, which vest by continued service alone ("Restricted Stock"). For employees and officers, the vesting period for Restricted Stock begins after a three-year holding period from the date of grant with one-third of the shares vesting in years four, five and six, respectively. On November 9, 2005, our non-executive directors were granted 7,500 shares of Restricted Stock. The non-executive directors' shares of Restricted Stock vest as to 50% immediately and 50% one year after the date of grant. Shares of Restricted Stock represent issued and outstanding shares of common stock, with dividend and voting rights. We measure the fair value of the Restricted Stock based upon the market price of our common stock as of the date of grant. Restricted Stock is amortized over the applicable vesting period using the straight-line method. Unvested shares of Restricted Stock are subject to forfeiture upon termination of employment with the Company.

A summary of the status of the Company's non-vested Restricted Stock as of June 30, 2006, and changes during the fiscal year ended June 30, 2006, is presented below:

	Shares	Weighted Average Grant Date Fair Value
Non-vested at July 1, 2005	37,625	$ 17.38
Granted	64,000	$ 22.38
Vested	(7,500)	$ 20.50
Forfeited	(16,875)	$ 20.25
Non-vested at June 30, 2006	77,250	$ 20.60

For the fiscal years ended June 30, 2006, 2005 and 2004, we recorded non-cash stock compensation expense associated with the Restricted Stock of $427,195, $205,301 and $0, respectively. As of June 30, 2006, total unrecognized non-cash stock compensation expense related to Restricted Stock was $1,258,606, which is expected to be recognized over the remaining vesting period or 5.25 years.

Stock Issuances

During the fiscal year ended June 30, 2006, options to purchase 276,777 shares were exercised, resulting in proceeds of $3,911,875. During the fiscal year ended June 30, 2005, options to purchase 200,993 shares were exercised, resulting in proceeds of $973,012.

In September 2005, we sold 2,227,912 shares of our common stock in an underwritten public offering, at a price of $26.00 per share, resulting in proceeds of approximately $54.7 million, which is net of the underwriters discount of $2.9 million and estimated transaction costs of approximately $327,000. The net proceeds in this equity offering have been and will continue to be used to fund the acquisition and financing of additional royalty interests and for general corporate purposes.

NOTE 4: Available for Sale Securities

Investments in securities that have readily determinable market values are classified as available for sale investments. Unrealized gains and losses on these investments are recorded in accumulated other comprehensive income (net of tax) as a separate component of stockholders' equity. We recorded an unrealized gain (net of tax) of $783,382 for the fiscal year ended June 30, 2006. We recorded unrealized losses (net of tax) of $208,328 and $36,866 during the fiscal years ended June 30, 2005 and 2004, respectively. When investments are sold, the realized gains and losses on the sale of these investments, as determined using the specific identification method, are included in determining net income. We had no sales of available for sale investments during our fiscal year 2006. We recorded a gain on sale of available for sale securities of $0, $163,577, and $22,778 during the fiscal years ended June 30, 2006, 2005 and 2004, respectively.

As explained in Note 2, we hold 1.3 million shares of Revett. The market value for our investment in the shares of Revett was $1,483,137 as of June 30, 2006. Our cost basis in the Revett shares is $1.0 million. We also hold 937,500 and 468,750 shares of common stock and warrants, respectively, in Taranis as part of the alliance with Taranis as also explained in Note 2. Our cost basis in the Taranis common stock and warrants is $204,715. The market value for our investment in Taranis common stock and warrants was $505,306 as of June 30, 2006.

NOTE 5: Royalty Interests in Mineral Properties

The following table summarizes the net book value of each of our royalty interests in mineral properties as of June 30, 2006 and 2005.

As of June 30, 2006	Gross	Accumulated Depletion & Amortization	Net
Production stage royalty interests:			
Pipeline Mining Complex			
GSR1	$ -	$ -	$ -
GSR2	-	-	-
GSR3	8,105,020	(5,976,531)	2,128,489
NVR1	2,135,107	(1,548,577)	586,530
Bald Mountain	1,978,547	(1,817,586)	160,961
SJ Claims	20,788,444	(5,122,209)	15,666,235
Robinson mine	17,824,776	(301,460)	17,523,316
Mulatos miney	7,441,779	(128,798)	7,312,981
Troy mine GSR royalty	7,250,000	(1,140,870)	6,109,130
Troy mine Perpetual royalty	250,000	-	250,000
Leeville South	1,775,809	(1,753,588)	22,221
Leeville North	14,240,418	(180,379)	14,060,039
Martha	172,810	(172,810)	-
	81,962,710	(18,142,808)	63,819,902
Development stage royalty interests:			
Taparko Project			
TB-GSR1	13,859,877	-	13,859,877
TB-GSR2	4,053,927	-	4,053,927
TB-GSR3	569,062	-	569,062
	18,482,866	-	18,482,866
Exploration stage royalty interests:			
Taparko Project			
TB-GSR3	110,173	-	110,173
TB-MR1	71,853	-	71,853
Leeville North	2,305,845	(271,187)	2,034,658
Buckhorn South	70,117	-	70,117
	2,557,988	(271,187)	2,286,801
Total royalty interests in mineral properties	$103,003,564	$ (18,413,995)	$ 84,589,569

As of June 30, 2005	Gross	Accumulated Depletion & Amortization	Net
Production stage royalty interests:			
Pipeline Mining Complex			
GSR1	$ -	$ -	$ -
GSR2	-	-	-
GSR3	8,105,020	(5,586,436)	2,518,584
NVR1	2,135,107	(1,475,264)	659,843
Bald Mountain	1,978,547	(1,785,945)	192,602
SJ Claims	20,788,444	(2,936,632)	17,851,812
Troy mine GSR royalty	7,250,000	(388,594)	6,861,406
Leeville South (formerly Carlin East)	1,775,809	(1,638,007)	137,802
Martha	172,810	(172,810)	-
	42,205,737	(13,983,688)	28,222,049
Development stage royalty interests:			
Leeville North	14,240,418	-	14,240,418
Exploration stage royalty interests:			
Leeville North	2,305,845	(271,187)	2,034,658
Troy mine Perpetual royalty	250,000	-	250,000
Buckhorn South	70,117	-	70,117
	2,625,962	(271,187)	2,354,775
Total royalty interests in mineral properties	$ 59,072,117	$ (14,254,875)	$ 44,817,242

Discussed below is a status of each of our royalty interests in mineral properties.

Pipeline Mining Complex

We own two sliding-scale gross smelter return royalties (GSR1 ranging from 0.40% to 5.0% and GSR2 ranging from 0.72% to 9.0%), a 0.71% fixed gross smelter royalty (GSR3), and a 0.39% net value royalty (NVR1) over the Pipeline Mining Complex that includes the Pipeline, South Pipeline, GAP and Crossroads gold deposits in Lander County, Nevada.

The Pipeline Mining Complex is owned by the Cortez Joint Venture, a joint venture between Barrick Gold Corporation ("Barrick") (60%), and Kennecott Explorations (Australia) Ltd. (40%), a subsidiary of Rio Tinto plc.

Bald Mountain

We own a 1.75% to 3.5% sliding-scale net smelter return, or NSR, 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 Barrick. The sliding-scale royalty increases or decreases with the gold price, adjusted by the 1986 Producer Price Index. Our royalty rate is calculated quarterly and would currently increase to 2% at a quarterly average gold price of approximately $811 per ounce in today's dollars.

SJ Claims

We own a 0.9% NSR on the SJ Claims that covers a portion of the Betze-Post mine, in Eureka County, Nevada. Betze-Post is an open pit mine operated by Barrick at its Goldstrike property.

Leeville Project

We own a 1.8% carried working interest, equal to a 1.8% NSR royalty, which covers the majority of the Leeville Project, in Eureka County, Nevada. Current production from the Leeville Project is derived from Leeville South and Leeville North underground mines, which are operated by Newmont Mining Corporation ("Newmont").

During our first fiscal quarter of 2006, Newmont began mining operations at Leeville North. Accordingly, during our first fiscal quarter of 2006, we reclassified our cost basis in Leeville North as a production stage royalty interest. As such, we began depleting our cost basis using the units of production method during our first fiscal quarter. Prior to our first fiscal quarter of 2006, we carried our interest in the proven and probable reserves at Leeville North as a development stage royalty interest.

We carry our interest in the non-reserve portion of Leeville North as an exploration stage royalty interest, which is not subject to periodic amortization. In the event that future proven and probable reserves are developed at Leeville North associated with our royalty interest, the cost basis of our exploration stage royalty interest will be reclassified as a development stage royalty interest or a production stage royalty interest in future periods, as appropriate. In the event that future circumstances indicate that the non-reserve portion of Leeville North will not be converted into proven and probable reserves, we will evaluate our carrying value in the exploration stage interest for impairment.

Martha Mine

We own a 2% NSR royalty on the Martha mine located in the Santa Cruz Province of Argentina, operated by Coeur d'Alene Mining Corporation.

Troy Mine

We own a production payment equivalent to a 7.0% GSR royalty from all metals and products produced and sold from the Troy mine, located in northeastern Montana and operated by Revett. The GSR royalty will extend until either cumulative production of approximately 9.9 million ounces of silver and 84.6 million pounds of copper, or the Company receives $10.5 million in cumulative payments, whichever occurs first. As of June 30, 2006, we have received payments associated with the GSR royalty totaling $2.4 million. We carry our interest in the proven and probable reserves for the GSR royalty as a production stage royalty interest, which is depleted using the units of production method estimated by using proven and probable reserves. Mining operations commenced at the Troy mine during December 2004, with the first shipment of concentrate occurring during January 2005. Amortization of our production stage interest commenced with the first concentrate shipment from the Troy mine during the third quarter of our fiscal year 2005.

We also own a perpetual royalty at the Troy mine. The royalty rate for the perpetual royalty begins at 6.1% on any production in excess of 11.0 million ounces of silver and 94.1 million pounds of copper, and steps down to a perpetual 2% after cumulative production has exceeded 12.7 million ounces of silver and 108.2 million pounds of copper. Effective January 1, 2006, we have re-classified our interest in the perpetual royalty from an exploration stage royalty interest to a production stage interest due to an increase in reserves at the Troy mine. We will deplete our interest in the perpetual royalty using the units of production method as production occurs in future periods.

Taparko Mine

We own a production payment equivalent to a 15.0% GSR (TB-GSR1) royalty on all gold produced from the Taparko Project, located in Burkina Faso and operated by Somita. TB-GSR1 remains in-force until cumulative production of 804,420 ounces of gold is achieved or until cumulative payments of $35 million have been made to Royal Gold, whichever is earlier. We also own a production payment equivalent to a GSR sliding-scale royalty (TB-GSR2) on all gold produced from the Taparko Project. TB-GSR2 is effective concurrently with TB-GSR1, and remains in-force until the termination of TB-GSR1. We carry our interests in TB-GSR1 and TB-GSR2 as development stage royalty interests, which are not currently subject to periodic amortization.

We also own a perpetual 2% GSR royalty (TB-GSR3) royalty on all gold produced from the Taparko Project area. TB-GSR3 will commence upon termination of TB-GSR1 and TB-GSR2 royalties. A portion of the TB-GSR3 royalty is associated with existing proven and probable reserves and has been classified as a development stage royalty interest, which is not subject to periodic amortization at this time. The remaining portion of the TB-GSR3 royalty, which is not currently associated with proven and probable reserves, is classified as an exploration stage royalty interest, which is also not subject to periodic amortization at this time.

In addition, we own a 0.75% milling fee royalty (TB-MR1) on all gold processed through the Taparko Project processing facilities that is mined from any area outside of the Taparko Project area. TB-MR1 is classified as an exploration stage royalty interest and is not subject to periodic amortization at this time.

Robinson Mine

We own a 3% NSR royalty on the Robinson mine, located in eastern Nevada. The Robinson mine is an open pit copper mine with significant gold and molybdenum production. The mine has been owned and operated by Quadra since 2004.

Mulatos Mine

We own a sliding-scale NSR royalty on the Mulatos mine, located in Sonora, Mexico. The Mulatos mine, owned and operated by Alamos, is an open pit, heap leach gold mine.

The Mulatos mine sliding-scale royalty, capped at two million ounces of gold production, ranges from 0.30% for gold prices below $300 up to 1.50% for gold prices above $400.

Buckhorn South

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

NOTE 6: Earnings per Share ("EPS") Computation

For the Year Ended June 30, 2006	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Basic EPS			
Income available to common stockholders	$ 11,350,081	22,863,784	$ 0.50
Effect of potentially dilutive options		258,078	
Diluted EPS	$ 11,350,081	23,121,862	$ 0.49

As of June 30, 2006, all outstanding options were included in the computation of diluted EPS because the exercise price of all the options was less than the average market price of our common shares for the period.

For the Year Ended June 30, 2005	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Basic EPS			
Income available to common stockholders	$ 11,453,715	20,875,957	$ 0.55
Effect of potentially dilutive options		194,840	
Diluted EPS	$ 11,453,715	21,070,797	$ 0.54

Options to purchase 392,580 shares of common stock, at an average purchase price of $19.40 per share, were outstanding at June 30, 2005, 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.

For the Year Ended June 30, 2004	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Basic EPS			
Income available to common stockholders	$ 8,871,679	20,760,452	$ 0.43
Effect of potentially dilutive options		350,069	
Diluted EPS	$ 8,871,679	21,110,521	$ 0.42

Options to purchase 266,940 shares of common stock, at an average purchase price of $20.10 per share, were outstanding at June 30, 2004, 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.

NOTE 7: Income Taxes

The tax effects of temporary differences and carryforwards, which give rise to our deferred tax assets and liabilities at June 30, 2006 and 2005, are as follows:

	2006	2005
Deferred tax assets:		
AMT credit carryforwards	$ -	$ 120,745
Capital loss carrybacks	-	277,215
Non-cash stock-based compensation	495,018	47,052
Other	131,621	168,135
Total deferred tax assets	626,639	613,147
Valuation allowance	-	-
Net deferred tax assets	626,639	613,147
Deferred tax liabilities:		
Mineral property basis	(6,860,016)	(7,574,680)
Other	(318,891)	(18,412)
Total deferred tax liabilities	(7,178,907)	(7,593,092)
Total net deferred taxes	$ (6,552,268)	$ (6,979,945)

At June 30, 2004, we had approximately $4,300,000 of net operating loss carryforwards which were fully utilized during our fiscal year 2005.

	2006	2005	2004
Current federal tax expense	$ 5,973,878	$ 3,047,551	$ 882,243
Deferred tax (benefit) expense	(873,211)	1,375,357	2,890,695
Decrease in deferred tax asset valuation allowance	-	(320,446)	(118,580)
	$ 5,100,667	$ 4,102,462	$ 3,654,358

The provision for income taxes for the fiscal years ended June 30, 2006, 2005 and 2004, differs from the amount of income tax determined by applying the applicable United States statutory federal income tax rate to pre-tax income from operations as a result of the following differences:

	2006	2005	2004
Total expense computed by applying statutory rate	$ 5,757,761	$ 5,444,662	$ 4,384,113
State income taxes, net of federal benefit	191,856	156,600	130,741
Adjustments of valuation allowance	-	(320,446)	(118,580)
Excess depletion	(922,433)	(952,529)	(836,534)
Other	73,483	(225,825)	94,618
	$ 5,100,667	$ 4,102,462	$ 3,654,358

As of June 30, 2006 and 2005, there was no valuation allowance recorded with respect to our deferred tax assets. As of June 30, 2004, our remaining valuation allowance was associated with the book versus tax basis difference attributed to our available for sale securities. During fiscal year 2005, the related available for sale securities were sold, resulting in the realization of the tax asset associated with those securities. As such, the valuation allowance of $320,446 was fully reversed during fiscal 2005.

NOTE 8: Major Customers

In each of fiscal years 2006, 2005 and 2004, we received $23,089,615, $21,600,739 and $18,968,389, respectively, of our royalty revenues from the same operator, but not from the same mine.

NOTE 9: Simplified Employee Pension ("SEP") Plan

We maintain a Simplified Employee Pension ("SEP Plan") in which all employees are eligible to participate. We contribute 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, we will match such contributions to a maximum of 7% of the employee's salary. We contributed $150,683, $126,390 and $104,422, in fiscal years 2006, 2005 and 2004, respectively.

NOTE 10: Commitments and Contingencies

Taparko Project

As discussed in Note 2, on March 1, 2006, Royal Gold entered into a Funding Agreement with Somita related to the Taparko Project in Burkina Faso, West Africa. As part of the $35 million funding commitment, we have funded approximately $18.7 million as of June 30, 2006. During July and August of 2006, we funded an additional $10.8 million to the Taparko Project, resulting in total funding by us of $29.5 million as of August 25, 2006. Subsequent funding of the Taparko Project will be made in installments over the remaining construction period. The Funding Agreement outlines the construction milestones that must be met prior to each specific funding installment. The project is expected to meet all construction requirements (as defined in the Funding Agreement) no later than second quarter of calendar 2007. We estimate the $35 million will be funded by the second quarter of calendar 2007, subject to construction milestones.

Under a separate Contribution Agreement, High River is responsible for contributing additional equity contributions for any cost overruns incurred during the construction and construction warranty periods. If High River is unable to make the required equity contributions, we have the right to either (a) provide funding that High River failed to fund, or (b) declare a default under the Funding Agreement. In the event that we elect to provide funding in the amount that High River fails to fund, we may elect to acquire either an equity interest in High River, consisting of units of common shares and warrants of High River as defined, or to obtain additional royalty interests in the Taparko Project in an amount in proportion to the amount of the additional funding compared with our original $35 million funding commitment. As of August 25, 2006, High River has made all required equity commitments as scheduled, under its Contribution Agreement.

Taranis

As discussed in Note 2, on November 4, 2005, we entered into an agreement for exploration of the Taranis Kettukuusikko project in Finland with Taranis. We have funded exploration totaling $500,000 in return for a 2% NSR royalty. We also have an option to fund up to an additional $600,000. If we fund the entire additional amount, we will earn a 51% joint venture interest in the Kettukuusikko project, and we will release our 2% NSR royalty. The Company has elected to exercise this option. In the event that Royal Gold does not fully fund the $600,000 to earn the joint venture interest, we would retain our 2% NSR royalty.

Revett

Under the terms of the Revett purchase agreement, the Company has the right, but not the obligation, to cure any default by Revett under their obligations pursuant to an existing mortgage payable, secured by a promissory note, to Kennecott Montana Company, a third party and prior joint venture interest owner of the Troy mine. If the Company elects to exercise its right, it would have the subsequent right to reimbursement from Revett for any amounts disbursed in curing such defaults. The principal and accrued interest under the promissory note as of June 30, 2006, was approximately $6.2 million with a maturity date of February 2008.

Casmalia

On March 24, 2000, the United States Environmental Protection Agency ("EPA") notified Royal Gold and 92 other entities that they were considered potentially responsible parties ("PRPs") under the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended ("Superfund"), at the Casmalia Resources Hazardous Waste Disposal Site (the "Site") in Santa Barbara County, California. EPA's allegation that Royal Gold was a PRP was based on the disposal of allegedly hazardous petroleum exploration wastes at the Site by Royal Gold's predecessor, Royal Resources, Inc., during 1983 and 1984.

After extensive negotiations, on September 23, 2002, Royal Gold, along with 35 members of the PRP group targeted by EPA, entered into a Partial Consent Decree with the United States of America intending to settle their liability for the United States of America' past and future clean-up costs incurred at the Site. Based on the minimal volume of allegedly hazardous waste that Royal Resources, Inc. disposed of at the Site, our share of the $25.3 million settlement amount was $107,858, which we deposited into the escrow account that the PRP group set up for that purpose in January 2002. The funds were paid to the United States of America on May 9, 2003. The United States of America may only pursue Royal Gold and the other PRPs for additional clean-up costs if the United States of America total clean-up costs at the Site significantly exceed the expected cost of approximately $272 million. We believe our potential liability with the United States of America to be a remote possibility.

The Partial Consent Decree does not resolve Royal Gold's potential liability to the State of California ("State") for its response costs or for natural resource damages arising from the Site. The State has not expressed any interest in pursuing natural resource damages. However, on October 1, 2002, the State notified Royal Gold and the rest of the PRP group that participated in the settlement with the United States of America that the State would be seeking response costs totaling approximately $12.5 million from them. It is not known what portion of these costs the State expects to recover from this PRP group in settlement. If the State agrees to a volumetric allocation, we will be liable for 0.438% of any settlement amount. However, we expect that our share of liability will be completely covered by a $15 million, zero-deductible insurance policy that the PRP group purchased specifically to protect itself from claims such as that brought by the State. No notices or any other forms of actions with respect to Royal Gold have been made by the State since its October 1, 2002 notice.

Operating Lease

We lease office space under a lease agreement, which expires December 31, 2009. Future minimum cash rental payments are $119,067, $122,421, $125,775 and $63,726 for fiscal years ending June 30, 2007, 2008, 2009, and 2010, respectively. Rent expense charged to operations for the years ended June 30, 2006, 2005 and 2004, amounted to $115,206, $111,089 and $122,507, respectively.

Employment Agreements

We have one-year employment agreements with some of our officers which, under certain circumstances, require total minimum future compensation, at June 30, 2006, of $682,000. The terms of each of these agreements automatically extend annually, for one additional year, unless terminated by Royal Gold or the officer, according to the terms of the agreements.

Line of Credit Commitment Fees

We have a line of credit from HSBC that may be used to acquire producing royalties and for general corporate purposes. During our second quarter, we finalized a line of credit expansion with HSBC to raise the availability under the line of credit from $10 million to $30 million. Costs associated with the line of credit expansion were approximately $78,000. These costs were capitalized as a component of other assets on the consolidated balance sheets and will be amortized over the life of the credit facility. Any loan under the line of credit will be secured by a mortgage on our GSR1, GSR3 and NVR1 royalties at the Pipeline Mining Complex, and by a security interest in the cash proceeds from our royalty interests. The maturity date of our line of credit is December 31, 2009. As of June 30, 2006, no funds have been drawn under the line of credit. During fiscal years 2006, 2005 and 2004, we paid commitment fees of $157,500, $76,042 and $76,510, respectively, to HSBC.

NOTE 11: Quarterly Results of Operations (Unaudited)

	Royalty Revenues	Operating Income	Net Income (Loss)	Earnings Per Share of Common Stock	Earnings Per Share of Common Stock Assuming Dilution
Fiscal Year 2006 Quarter Ended:					
September 30	$ 6,827,619	$ 4,045,678	$ 3,057,431	$ 0.14	$ 0.14
December 31	7,575,307	3,252,818	2,907,295	0.12	0.12
March 31	5,760,750	1,742,577	1,819,139	0.08	0.08
June 30	8,216,467	4,370,773	3,566,216	0.15	0.15
	$ 28,380,143	$ 13,411,846	$11,350,081	$ 0.50	$ 0.49
Fiscal Year 2005 Quarter Ended:					
September 30	$ 5,924,091	$ 3,333,143	$ 2,498,426	$ 0.12	$ 0.12
December 31	6,031,833	2,952,042	2,618,318	0.13	0.12
March 31	5,868,538	3,440,586	2,726,089	0.13	0.13
June 30	7,477,870	4,936,271	3,610,882	0.17	0.17
	$ 25,302,332	$ 14,662,042	$11,453,715	$ 0.55	$ 0.54

Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information and Current Stockholders

Our common stock is traded on the Nasdaq Global Select Market ("Nasdaq") under the symbol "RGLD" and on the Toronto Stock Exchange under the symbol "RGL." The following table shows the high and low sales prices, in U.S. dollars, for the common stock on Nasdaq, for each quarter since July 1, 2004.

	Sales Prices	
	High	Low
Fiscal Year:		
2005		
First Quarter (July, Aug., Sept. – 2004)	$17.11	$ 12.30
Second Quarter (Oct., Nov., Dec. – 2004)	$19.03	$ 14.95
Third Quarter (Jan., Feb., March – 2005)	$19.95	$ 15.35
Fourth Quarter (April, May, June – 2005)	$20.50	$ 15.99
2006		
First Quarter (July, Aug., Sept. – 2005)	$30.20	$ 18.74
Second Quarter (Oct., Nov., Dec. – 2005)	$35.69	$ 20.95
Third Quarter (Jan., Feb., March – 2006)	$41.66	$ 27.01
Fourth Quarter (April, May, June – 2006)	$37.50	$ 23.00

As of August 25, 2006, there were approximately 765 shareholders of record of our common stock.

Dividends

For calendar year 2006, we declared an annual dividend of $0.22 per share of common stock, in four quarterly payments of $0.055 each. We paid the first payment of $0.055 per share on January 20, 2006, to shareholders of record at the close of business on January 6, 2006. We paid the second payment of $0.055 per share on April 21, 2006, to shareholders of record at the close of business on April 7, 2006. We paid the third payment of $0.055 on July 28, 2006 to shareholders of record at the close of business on July 7, 2006. We anticipate paying the fourth payment of $0.055 in October 2006, to shareholders of record at the close of business in October 2006.

For calendar year 2005, we declared an annual dividend of $0.20 per share of common stock, in four quarterly payments of $0.05 each. We paid the first payment of $0.05 per share on January 21, 2005, to shareholders of record at the close of business on January 7, 2005. We paid the second payment of $0.05 per share on April 22, 2005, to shareholders of record at the close of business on April 8, 2005. We paid the third payment of $0.05 on July 22, 2005 to shareholders of record at the close of business on July 8, 2005. We paid the fourth payment of $0.05 on October 21, 2005, to shareholders of record at the close of business on October 7, 2005.

We currently plan to continue to pay dividends on a calendar year basis, subject to the discretion of our board of directors. However, our board of directors may determine not to declare a dividend based on a number of factors including the gold price, economic and market conditions, and the financial needs of opportunities that might arise in the future.

Sales of Unregistered Securities

We did not make any unregistered sales of our securities during the fiscal year ended June 30, 2006.

Free Cash Flow Reconciliation

Non-GAAP Financial Measures

The Company computes and discloses free cash flow and free cash flow as a percentage of revenues. Free cash flow is a non-GAAP financial measure. Free cash flow is defined by the Company as operating income plus depreciation, depletion and amortization, non-cash charges, and any impairment of mining assets. Management believes that free cash flow and free cash flow as a percentage of revenues are useful measures of performance of our royalty portfolio. Free cash flow identifies the cash generated in a given period that will be available to fund the Company's future operations, growth opportunities, and shareholder dividends. Free cash flow, as defined, is most directly comparable to operating income in the Statements of Operations. Below is reconciliation to operating income:

For the Fiscal Year Ended June 30,	*2006*	*2005*	*2004*
Operating income	$ 13,411,846	$ 14,662,042	$ 12,211,018
Depreciation, depletion and amortization	4,261,060	3,204,984	3,313,953
Non-cash employee stock compensation expense	2,777,686	205,301	-
Free cash flow	$ 20,450,592	$ 18,075,327	$ 15,524,971

Corporate Information

Annual Meeting

Wednesday, November 8, 2006
9:30 a.m. MST
Oxford Hotel, Sage Room
1600 Seventeenth Street
Denver, CO 80202

Board of Directors

Stanley Dempsey
Executive Chairman
Royal Gold, Inc.

Tony Jensen
President and Chief Executive Officer
Royal Gold, Inc.

John W. Goth
Mining Consultant

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

Merritt E. Marcus
Former President
Marcus Paint Company

Edwin W. Peiker, Jr.
Mining Consultant

James W. Stuckert
Senior Executive
Hilliard, Lyons, Inc.

Donald Worth
Mining Consultant

Officers

Stanley Dempsey
Executive Chairman

Tony Jensen
President and Chief Executive Officer

Stefan Wenger
Chief Financial Officer

Karen Gross
Vice President and Corporate Secretary

Randy Parcel
Vice President and General Counsel

Corporate Headquarters

Royal Gold, Inc.
1660 Wynkoop Street, Suite 1000
Denver, Colorado 80202
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(303) 595-9385 (fax)
E-mail: info@royalgold.com

Website

Please visit the Company's web site at www.royalgold.com for additional information about Royal Gold.

Legal Counsel

Hogan & Hartson L.L.P.
Denver, Colorado

Auditors

PricewaterhouseCoopers LLP
Denver, Colorado

Corporate Information

www.royalgold.com

Transfer Agent/Registrar

Computershare Trust Company
350 Indiana Street, Suite 800
Golden, CO 80401
1-800-962-4284
(303) 262-0600 (phone)
(303) 262-0700 (fax)
Web site: www.computershare.com

Computershare Trust Company of Canada
100 University Avenue, South Tower
Toronto, Ontario M5J 2Y1
Canada
1-800-564-6253
(416) 263- 9200 (phone)
(888) 453-0330 (fax)
Web site: www.computershare.com

Stock Exchange Listings

Nasdaq Global Select Market
(Symbol: RGLD)
Toronto Stock Exchange
(Symbol: RGL)

Investor Relations

Copies of Royal Gold's Annual Report on Form 10-K for the year ended June 30, 2006, are available at no charge. Please direct requests and investor relations questions to:

Karen Gross
Vice President and Corporate Secretary
1660 Wynkoop Street, Suite 1000
Denver, Colorado 80202
(303) 575-6504
E-mail: kgross@royalgold.com

Shareholder Information

It is important for our shareholders to get timely information about Royal Gold. All shareholders are encouraged to visit our Company website at www.royalgold.com for the latest Company news or to sign up for our e-mail and fax lists.

Royal Gold, Inc

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