



Royal Gold, Inc.
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Corporate Profile

Royal Gold, Inc. is the leading publicly-traded precious metals royalty company. Royal Gold owns and manages royalties on precious metals mines. Through its royalty portfolio, Royal Gold provides investors with a unique opportunity to capture value in the precious metals sector. The Company holds royalties in a number of properties without incurring the ongoing capital or operating costs associated with an operating mining company. Additionally, Royal Gold provides its investors with valuable leverage to improving gold prices with sliding-scale royalties. The Company has also lowered its risk on the downside with fixed price royalties and floors on its sliding-scale royalties.

Through its dividend policy and business strategy, Royal Gold strives to provide shareholders with a premium precious metals investment vehicle. The Company's royalty portfolio is designed to provide an excellent royalty-based risk profile, quality operating partners and assets, low corporate expenses, leverage to precious metal prices, and reserves and production growth potential to provide an attractive return on investment.

The Company is a Denver-based corporation. Management and directors beneficially own about 21% of the shares of the Company. Royal Gold is traded on the Nasdaq Stock Market, under the symbol "RGLD," and on the Toronto Stock Exchange, under the symbol "RGL."

"The great merit of gold is precisely that it is scarce;

that its quantity is limited by nature; that it is costly to discover, to mine and to process;

and that it cannot be created by political fiat or caprice."

Henry Hazlitt

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Business Strategy

Royal Gold seeks to create collaborative relationships with royalty owners and mine operators. Future growth of the Company will occur from the addition of new royalty streams from precious metal operations. The key elements of Royal Gold's business strategy are:

1. *acquiring and holding royalties on high quality deposits that are or will be exploited by competent operators;*
2. *holding royalties on properties in major mineralized regions that have upside potential;*
3. *diversifying its portfolio of producing royalties to reduce risk;*
4. *having a productive staff who possess creative deal making and strong diligence skills, and are motivated by significant equity ownership in the Company;*
5. *committing to smart growth, not growth at any cost; and*
6. *maintaining an efficient overhead structure to maximize cash flow.*

Financial Highlights

Selected Financial Data

Selected Statements of Operations Data

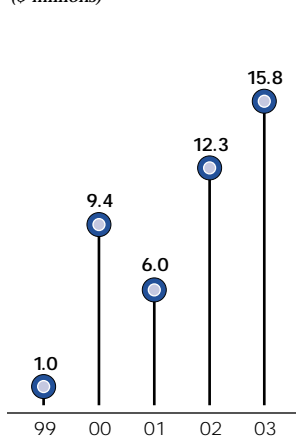
for the years ended June 30, (amounts in thousands, except per share data)	2003	2002	2001	2000	1999
Royalty revenue	\$ 15,788	\$ 12,323	\$ 5,963	\$ 9,407	\$ 959
Exploration and business development	1,233	618	774	1,868	3,241
General and administrative expense	1,966	1,875	1,716	1,768	1,704
Non-cash employee stock option compensation expense	-	1,484	-	-	-
Depreciation and depletion	2,855	2,289	1,271	1,193	464
Impairment of mining assets	166	-	490	-	4,616
Net income (loss)	6,752	10,699	1,138	3,953	(8,808)
Basic earnings (loss) per share	\$ 0.34	\$ 0.60	\$ 0.06	\$ 0.23	\$ (0.51)
Diluted earnings (loss) per share	\$ 0.33	\$ 0.59	\$ 0.06	\$ 0.22	\$ (0.51)
Dividends declared per share	\$ 0.10	\$ 0.075	\$ 0.05	\$ 0.05	\$ 0.00

Selected Balance Sheet Data

for the years ended June 30, (amounts in thousands)	2003	2002	2001	2000	1999
Total assets	\$ 86,359	\$ 29,590	\$ 17,262	\$ 17,498	\$ 11,815
Working capital	34,296	11,990	4,431	5,692	8,582
Long-term obligations	113	121	127	125	81
Deferred tax liability	8,747	-	-	-	-

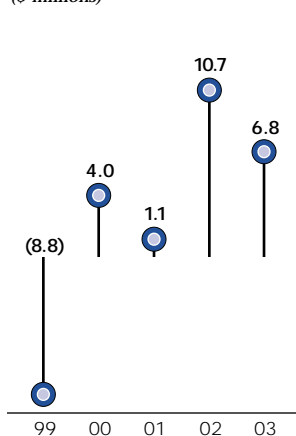
Royalty Revenues

For the years ended June 30
(\$ millions)



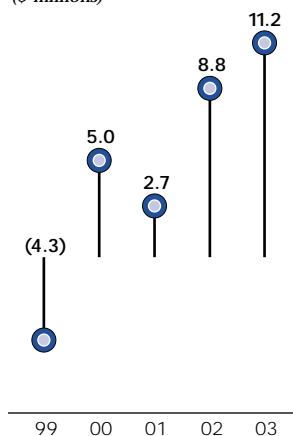
Net Income

For the years ended June 30
(\$ millions)



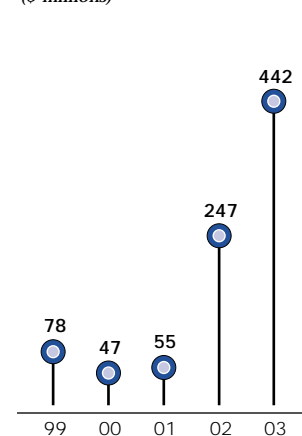
Free Cash Flow¹

For the years ended June 30
(\$ millions)



Market Cap

As of June 30
(\$ millions)



¹ For a reconciliation of free cash flow to the most directly comparable GAAP financial measure, see Free Cash Flow Reconciliation on page 32.

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 levels, adequacy of our liquidity for operations and acquisitions, reserves, mineralization, settlement of the Casmalia matter, and the likelihood of growth from acquisitions. Factors that could cause actual results to differ materially from the projections incorporated herein include, among others, changes in precious metals prices, decisions and activities of the operators of our royalty properties, unanticipated grade, geological, metallurgical, processing or other problems at producing and development properties, the availability and size of acquisitions, as well as other factors described elsewhere in our report on Form 10-K for the year ended June 30, 2003. 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.

Letter to Shareholders



We had a very good year. Revenues, cash flow and earnings were all up for the year. We increased our dividend by 33 percent. We were successful in acquiring High Desert Mineral Resources, another gold royalty company. This acquisition brought us royalties on portions of the two largest gold mining complexes in the United States. We also raised a total of \$14.1 million by selling one million common shares in equity issuances. We ended the year with cash of \$33.5 million and no debt.

Increased production at the Pipeline Mining Complex, and higher gold prices combined to bring us higher revenues. We were particularly pleased that the average gold price of \$352 per ounce for our third quarter caused a step-up of the royalty rate of our GSR1 sliding-scale royalty from 3.0% to 3.4% at the Pipeline Mining Complex. This gave us an extra \$480,000 in revenues over what we would have received if the average gold price for the third quarter had stayed below \$350 per ounce. This demonstrates the wonderful leverage provided by the sliding-scale feature of our royalty.

We did a good job of managing costs during the year, making it possible to achieve excellent margins. Most of the increase in our costs can be attributed to higher Nevada Net Proceeds Tax payments. A higher tax burden is a reflection of more production and more revenue to Royal Gold.

Dividends have become popular again. We have been paying a dividend since 2000, and this year increased our payout to \$0.10 per share. Our Board reviews each dividend action and decides to increase the dividend only when they believe operating results justify an increase.

The High Desert acquisition helped us diversify our portfolio of royalties. The SJ Claims royalty covers part of the Betze-Post pit at the Goldstrike mine in Nevada. Goldstrike is the largest producing gold mine in North America. The Leeville royalty covers most of the Leeville Project, the newest major underground gold mine on the Carlin Trend. We are already receiving regular royalty payments from the SJ Claims, and from the Carlin East deposit which is part of the Leeville Project. The Leeville royalty will increase significantly in late 2005 or early 2006 when development of the main part of the Leeville Project is completed. These royalties have already boosted our revenues, and will add even more over the coming years.

The High Desert royalties have also diversified our operator portfolio. We now look to Placer Dome, Barrick and Newmont for production on the majority of our revenue stream. These are three of the finest gold mining firms in the business. We can count on them for outstanding operating performance and are happy to be associated with them.

We were pleased to be able to acquire High Desert. High Desert is a modern day exploration and mining success story. That story involved the combined effort of plucky individuals and highly professional, large mining companies. Working together, they found a major gold deposit where many said it could not occur. The prospectors' dream of finding a rich ore deposit came true, validating the dream for all of us. The wealth unlocked by these intrepid explorers will benefit not only the prospectors and the mining companies, but also the men and women who mine at Leeville, and the broader community that enjoys jobs and tax revenues. We won't forget the High Desert success story, and aim to keep the story alive as we enjoy the benefits of our involvement in the next chapter of the story.

*The High Desert royalties have also diversified our operator portfolio.
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for production on the majority of our revenue stream.*

The stock placements we completed early in fiscal 2003 have helped us build up a strong cash position. That position continues to strengthen as we generate more free cash flow. We were pleased that we were able to do the placements without a sales commission, a discount or paying fees to intermediaries. Equity financings can be expensive with the added commissions, discounts and fees, but the Royal Gold story was so compelling that we were able to secure funds on this very favorable basis. We were also able to use our shelf registration for the placements, so we were able to keep legal fees to a minimum. All up, these were very cost effective placements.

Having taken credit for the success of fiscal 2003, I don't want to leave you with the impression that we plan to rest on our laurels in the coming year. Our plan calls for aggressive efforts to add more royalties to our portfolio through the acquisition of cash-flowing royalties. We will continue to hold back on domestic exploration unless we see an attractive opportunity. We were very active in looking at possible royalty purchases and royalty financings during fiscal 2003. Deal flow has been good, but we turned down a large number of opportunities not meeting our investment criteria. As I said to you in the annual report letter for the past two years, we believe in smart growth, not growth at any cost. By smart growth, we mean that we will grow the Company by acquiring royalties on mines that have a good chance for growth in reserves. We also like leverage to precious metals price increases.

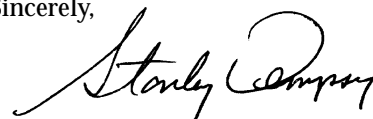
We believe the outlook for gold in the coming years continues to be positive. Current political and economic conditions are creating a strong interest in gold as a means to diversify portfolio risk.

I am happy to report that we took steps in fiscal 2003 to materially strengthen the management of the Company. Tony Jensen, our new President and Chief Operating Officer, joined us

on August 11, 2003. Tony has over 20 years experience in the mining industry, most recently serving as mine general manager at Placer Dome's Cortez Gold Mines in Nevada. During his career with Placer Dome, Tony held various senior operating positions domestically and internationally, as well as corporate positions. Prior to his posting at Cortez, Tony was Director of Finance and Strategic Growth for Placer Dome Latin America. His knowledge of the mining industry and strong business acumen will add a level of depth and expertise to our team and will be a great asset to the Company. We are excited to have him on board.

We have entered fiscal 2004 with a diversified royalty portfolio, a strong cash position, and an enhanced management team. We believe that we can continue to create additional value for all of our shareholders and we look forward to the opportunities and challenges that are ahead of us.

Sincerely,



Stanley Dempsey
Chairman and Chief Executive Officer

Property Portfolio

Pipeline Mining Complex

Lander County, Nevada

The Pipeline Mining Complex is owned and operated by the Cortez Joint Venture (“Cortez”), a joint venture between Placer Cortez Inc., a subsidiary of Placer Dome Inc. (60%) and Kennecott Explorations (Australia) Ltd., a subsidiary of Rio Tinto (40%). Royal Gold currently holds four principal royalty interests on the property: two sliding-scale gross smelter returns royalties (GSR1 and GSR2), a fixed-rate gross royalty (GSR3), and a net value royalty (NVR1). Cumulative royalty payments made to Royal Gold by Cortez during the year ended June 30, 2003, totaled approximately \$13.9 million.

Pipeline Mining Complex Royalty Interests

- ◆ **GSR1:** This royalty covers 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. GSR1 is a sliding-scale royalty tied to the price of gold (see table, pg. 7). Royalty payments received during fiscal year 2003 from GSR1 were approximately \$10.4 million.
- ◆ **GSR2:** This royalty covers all gold produced from the claim block lying outside the reserve claims (the remaining 296 lode claims known as the “GAS Claims”). GSR2 is also a sliding-scale royalty tied to the price of gold, but it pays out at a rate that is 80% higher than that of GSR1, at all gold prices. There were no royalty payments received in fiscal 2003 from GSR2.

*During fiscal year 2003,
Cortez produced approximately 1.1 million
ounces of gold from the
Pipeline Mining Complex.*

- ◆ **GSR3:** This royalty is a 0.71% fixed-rate royalty, for the life of the mine, encompassing all of the “GAS Claims” and “Reserve Claims.” Royalty payments received during fiscal year 2003 from GSR3 were approximately \$2.5 million.
- ◆ **NVR1:** This 0.37% net value royalty applies to most of the GAS Claims, including the South Pipeline deposit and Crossroads area, but does not include the Pipeline pit. The NVR1 is calculated by deducting processing-related and associated capital costs, but not mining costs. Royalty payments received during fiscal year 2003 from NVR1 were approximately \$1.0 million.

Cortez Production

During fiscal year 2003, Cortez produced approximately 1.1 million ounces of gold from the Pipeline Mining Complex. Cortez reports that production is expected to be about 1 million ounces for calendar year 2003. Cortez has a contract with Barrick Gold for the processing of refractory ores at the Barrick Goldstrike facility, but has also commissioned a study comparing the viability of treating these ores at Cortez with new processes.

Ore Reserves and Mineralization

Placer Dome reported proven and probable reserves for the Pipeline Mining Complex, as of December 31, 2002, at a gold price of \$300 per ounce, of 186.3 million tons (169.0 million tonnes), at an average grade of 0.035 ounces per ton (“opt”) (1.21 grams per ton (“gpt”)), containing approximately 6.6 million ounces of gold. Placer Dome also reported that in addition to the proven and probable reserves, the property contains approximately 135.1 million tons (122.6 million tonnes) of additional mineralized material, at an average grade of 0.032 opt (1.10 gpt). The new reserve additions replaced about 83% of the Pipeline Mining Complex production in 2002, and mineralized material increased by 52%.

The royalty positions held by Royal Gold at the Pipeline Mining Complex relate to the following portions of the reserves and additional mineralized material attributable to our royalties as of December 31, 2002:

Royalty Category ^{1, 2}		Tons/Tonnes (millions)		Average Gold Grade (opt/gpt)	Contained Ounces ³
GSR1	Reserve	176.8	(160.4)	0.036 (1.24)	6,377,574
	Mineralized Material	45.5	(41.3)	0.028 (0.97)	–
GSR2	Reserve	9.5	(8.6)	0.020 (0.70)	192,080
	Mineralized Material	89.6	(81.3)	0.034 (1.17)	–
GSR3	Reserve	186.3	(169.0)	0.035 (1.21)	6,569,654
	Mineralized Material	135.1	(122.6)	0.032 (1.10)	–
NVR1	Reserve	144.1	(130.7)	0.033 (1.13)	4,733,110
	Mineralized Material	112.5	(102.1)	0.033 (1.12)	–

¹ An ore reserve is that part of a mineral deposit which could be economically and legally extracted or produced at the time of the reserve determination. See glossary for the definition of “proven (measured) reserves” and “probable (indicated) reserves.”

² Mineralized material has not been included in the proven and probable reserve estimates because even though drilling indicates a sufficient quantity and grade to warrant further exploration or development expenditures, these deposits do not qualify as commercially mineable ore bodies until further drilling and metallurgical work are completed, and until other economic and technical feasibility factors based upon such work are resolved.

³ The Company’s royalties at the Pipeline Mining Complex cover some of the same reserves.



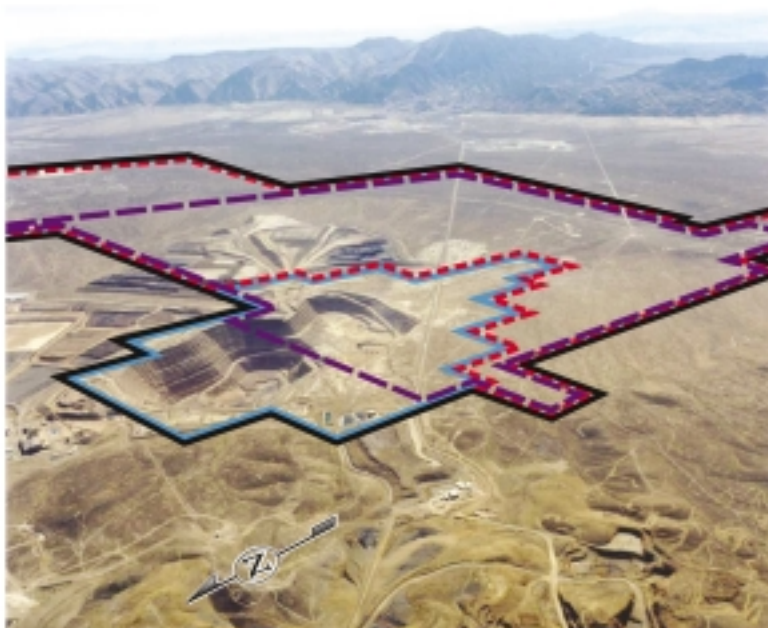
Property Portfolio

Exploration

Cortez continues to systematically explore and evaluate the Pipeline Mining Complex royalty lands with various drilling programs, including continuing efforts at Crossroads. The majority of the mineralized material reported in the prior table is contained within the Crossroads deposit. Most of Crossroads resides on lands subject to Royal Gold's GSR2 ("super") royalty, and the entire Crossroads mineralized material inventory is covered by both the GSR3 and NVR1 royalties. Recent discoveries by Cortez (on land not covered by Royal Gold's royalty interest), is a continuing testament of the upside exploration potential of this segment of the Battle Mountain-Eureka trend.

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





- GSR1 — GSR3
- - - GSR2 - - - NVR1

**PIPELINE MINING COMPLEX:
GROSS SMELTER RETURNS 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%

Leeville Complex
Eureka County, Nevada

Royal Gold owns a carried working interest equal to a 1.8% net smelter returns (“NSR”) royalty which covers the majority of the Leeville Project. We acquired this royalty in December 2002

through the acquisition of High Desert Mineral Resources. The Leeville Project is an underground mine currently under development by Newmont Mining Corporation. Newmont has announced that it expects to initiate production at Leeville in late 2005 or early 2006, at an average annual rate of 500,000 ounces per year.

We derive current royalty revenue from the Leeville Project royalty ground from on-going underground operations on a portion of the Carlin East mine, operated by Newmont. In fiscal 2003, we received approximately \$410,000 in royalty revenues from 64,000 ounces of gold produced at Carlin East subject to our royalty interest. Newmont reported to Royal Gold that it estimates total gold production in calendar 2003 at 110,000 ounces.

As of December 31, 2002, Newmont estimated that at a \$300 gold price, proven and probable reserves on the royalty land at the Carlin East mine includes 0.6 million tons (0.5 million tonnes) of ore, at an average grade of 0.453 opt (15.5 gpt), containing 292,486 ounces of gold.

At the Leeville project, proven and probable reserves include 5.4 million tons (4.9 million tonnes) of ore, at an average grade of 0.498 opt (17.0 gpt), containing 2,672,754 ounces of gold. In addition, Newmont has reported additional mineralized material totaling 0.9 million tons (0.8 million tonnes), at an average grade of 0.484 opt (16.6 gpt) on royalty land at the Leeville Complex.

SJ Claims
Eureka County, Nevada

Royal Gold owns a 0.9% NSR royalty on the SJ Claims which cover a portion of the Betze-Post open pit at the Goldstrike mine. The Goldstrike mine is operated by Barrick Gold Corporation. We acquired this royalty in December 2002 through the acquisition of High Desert Mineral Resources.

Property Portfolio

Production from the SJ Claims in fiscal 2003 totaled approximately 239,000 ounces, resulting in approximately \$721,000 in royalty revenues for Royal Gold. Barrick estimates that during calendar 2003 production from the SJ Claims will total 395,866 ounces of gold subject to Royal Gold's royalty.

Barrick reported proven and probable reserve estimates for the SJ Claims at 9,763,593 contained ounces as of December 31, 1999. From January 1, 2000 through June 30, 2003, Barrick has produced an estimated 2,044,013 ounces of gold from the SJ Claims.

Bald Mountain White County, Nevada

Royal Gold holds a 1.75% net smelter returns royalty on a portion of the Bald Mountain Mine. Bald Mountain is operated by Placer Dome U.S. Inc., a subsidiary of Placer Dome Inc., as an open pit, heap leach mine. During fiscal 2003, the Bald Mountain mine produced approximately 113,000 ounces of gold which are subject to our royalty interest and generated approximately \$652,000 in royalty revenues for Royal Gold.

As of December 31, 2002, Placer Dome reported that, at a \$300 gold price, proven and probable reserves related to Royal Gold's royalty include 9.2 million tons (8.3 million tonnes) of ore, at an average gold grade of 0.039 opt (1.34 gpt), containing approximately 363,000 ounces of gold. This is an increase of about 56% compared with reported proven and probable reserves as of December 31, 2001.

In addition to the proven and probable reserves, the operator reported that the property contains approximately 8.3 million tons (7.6 million tonnes) of additional mineralized material, at an average grade of 0.047 opt (1.61 gpt) of gold, related to Royal Gold's royalty interest.

The operator at Bald Mountain has advised that it has exceeded its original production forecast for calendar 2003. However, the operator has not yet prepared a new production forecast.

South America Santa Cruz Province, Argentina

Royal Gold holds a 2% net smelter returns royalty on all mineral production from all of the development and exploration properties encompassing about 365,000 acres (148,000 hectares), in Santa Cruz Province, located in southern Argentina, held by Coeur d'Alene Mines Corporation ("Coeur") and Yamana Gold (formerly Yamana Resources), including the high-grade silver property known as the Martha mine.

Coeur holds the properties in western Santa Cruz Province and commenced production at the Martha mine in the second half of calendar 2002. Royal Gold received approximately \$52,000 in royalty revenues related to production from the Martha mine in fiscal 2003.

In February 2003, Coeur reported that reserves at the Martha mine total 5.3 million silver-equivalent ounces. Coeur continues to aggressively explore the area in the immediate vicinity of the Martha mine.

Yamana holds gold properties in eastern Santa Cruz Province, Argentina, and has formed a joint venture with Compania de Minas Buenaventura S.A.A. and Mauricio Hochschild & Compania S.A.C. to further exploration efforts. There are no reported reserves or resources on these properties.

Non-Producing Royal ty Portfolio

Royal Gold also holds royalty interests on the following non-producing properties.

Property ¹	Location	Royalty Interest	Owner/Operator
Mule Canyon	Nevada	5% NSR	Newmont
Buckhorn South	Nevada	14% NSR	Cortez JV
Rye	Nevada	0.5% NPI	Barrick
Simon Creek	Nevada	1.0% NSR	Barrick
Ferris/Cooks Creek	Nevada	1.5% NVR	Cortez JV
Horse Mountain	Nevada	0.25% NVR	Cortez JV
BSC	Nevada	2.5% NSR	Nevada Pacific
Long Valley	California	1.0% NSR	Vista Gold
RG Russia ²	Russia	1.0% NSR	Phelps Dodge

¹ There are no reserves on any of these properties.

² Vesting through funding of \$1.3 million in exploration. Through June 30 2003, we have funded \$411,500.

Geological Exploration South America

Geological Exploration and Development S.A. (formerly Milos Gold Project) Milos, Greece

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

In August 2000, Royal Gold was informed by Silver & Baryte that the Greek Ministry of Environment, Regional Planning and Public Works declined to allow further exploration work on the island of Milos under the gold license, citing unfavorable consequences for the environment. At this time, we are not aware when or if the Ministry's decision will be modified to allow further work on the project.

Greek American Exploration Ltd.

Greek American Exploration Ltd. ("GRAMEX") is a Bulgarian company owned equally by Royal Gold and Silver & Baryte Ores Mining Co. of Athens, Greece. GRAMEX operates through Sofia Minerals Ltd ("SOMIN"), which is a 50/50 venture

of GRAMEX and Phelps Dodge Exploration Corporation. SOMIN currently holds one exploration license in Bulgaria, targeting potential for large gold and copper-gold systems.



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 strive for responsible mining.

The Gold Market*

General Information

According to the World Gold Council, gold was the strongest major currency in 2002 outperforming the dollar, the yen, sterling, and the Euro by between 9% and 25% over the year. The increase in gold price during 2002, which ranged from a low of \$278 to a high of \$349, largely reflects the fact that more institutional investors returned to the use of gold as a risk management tool. Given global economic, political and financial uncertainties over the past year, diminishing gold supplies, and domestic corporate governance problems, gold emerged as a strong alternate asset class providing portfolio diversification and risk management.

Since January 2003 through September 5, 2003, the gold price has ranged from a low of \$321 to a high of \$382. Industry observers believe the current market for gold will continue because of the continued geopolitical risks, the weakness in the U.S. dollar, low U.S. interest rates, declining mine supply and stable central bank selling under the Washington Agreement.

Trends in Supply and Demand

In their 35th annual Gold Survey 2003, Gold Fields Mineral Services, an independent precious metals research consultancy, noted that the main component of world gold supply, mine production, fell 1% having little impact on the price of gold. Production costs rose to \$180 per ounce, due to lower production, higher power costs and currency appreciation. Net official sales increased by 5% in 2002, in contrast with lending which fell by 293 tons (266 tonnes) largely due to low lease rates. As a result of increased gold prices, scrap production volumes rose 18%.

On the demand side of the equation, the Gold Survey 2003 noted that total fabrication declined almost 10% from 2001 levels in conjunction with the 11% slump in sales of gold used for gold jewelry. Offsetting the decline in jewelry fabrication was a 22% rise in the demand for official coins. Net outstanding producer hedge positions declined last year by 466 tons (423 tonnes) from 166 tons (151 tonnes) in 2001 due to increases in miner's price expectations, increased shareholder pressure on corporate boards to reduce their hedge books and continued weakness of the contango.

Recent Developments

The World Gold Council reported that it filed documents with the Securities Exchange Commission in May of 2003 to launch a gold exchange traded fund ("ETF") on the New York Stock Exchange. In the event final Securities and Exchange Commission approval is received, the ETF shares will be traded on the NYSE as the first commodity-backed ETF in the United States. Each ETF share will represent 1/10th of one ounce of gold and will be backed by 1/10th of one ounce of physical gold. Hopefully, the ETF will be a significant consumer of gold and will have a positive influence on gold prices.

The Washington Agreement expires in September 2004. According to the World Gold Council, no announcement has been made as to whether the Agreement will be renewed; however, it is widely expected that the Agreement will be renewed in some form.

Royal Gold is an active participant in organizations involved in promoting the use of gold. The Company holds memberships and is represented on the boards of both the World Gold Council and the National Mining Association. For more information on gold, you can visit the World Gold Council's website at www.gold.org or the National Mining Association's website at www.nma.org.

* This information is derived from various industry sources. Investors are urged to reach their own conclusions regarding the gold market.

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Glossary

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

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

Gross smelter returns royalty: *A defined percentage of the gross revenue from a resource extraction operation, with no deduction for any costs paid by or charged to the operator.*

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

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 returns royalty interest: *A defined percentage of the gross revenue from a resource extraction operation, less a proportionate share of incidental transportation, insurance and smelting costs.*

Net value royalty: *A passive interest in a resource extraction operation that is determined on the basis of deducting contract defined processing-related and associated capital costs, but not mining costs.*

Probable reserve: *Ore reserves for which quantity and grade are computed from information similar to that used for proven (measured) reserves, but the sites for inspection, sampling and measurement are farther apart or are otherwise less adequately spaced. The degree of assurance, although lower than that for proven (measured) 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, working or drill holes, and grade is computed from the results of detailed sampling; and (b) the sites for inspection, sampling and measurement are spaced so closely and the geologic character is so well defined that size, shape, depth and mineral content of reserves are well established.*

Refractory: *Gold mineralization normally requiring 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.*

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

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

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

Management's Discussion and Analysis of Financial Condition and Results of Operations

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" in this Annual Report on Form 10-K.

OVERVIEW

Royal Gold is engaged in the acquisition and management of precious metals royalties. Although we also explore and develop properties thought to contain precious metals in exchange for royalty or other carried interests, we are primarily engaged in the acquisition of existing royalty interests and in financing projects that are in or near production in exchange for royalty interests. We do not operate the properties on which we have royalties.

CRITICAL ACCOUNTING POLICIES

The preparation of our financial statements, in conformity with accounting principles 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. The most critical accounting policies to Royal Gold relate to the 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 and have found them to be reasonable. 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 operators' reserves stated as of December 31, 2002, were based on a gold price of \$300 per ounce. We based our deferred tax asset valuation on a \$300 per ounce gold price as of June 30, 2003. If the long-term gold price is substantially lower, these estimates would need to change and could result in material adverse write-offs of assets and the need to establish a valuation allowance against the deferred tax asset.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2003, we had current assets of \$36,801,548 compared to current liabilities of \$2,505,981 for a current ratio of 15 to 1. This compares

to current assets of \$14,291,592 and current liabilities of \$2,301,825 at June 30, 2002, resulting in a current ratio of 6 to 1.

During fiscal 2003, liquidity needs were met from \$15,788,212 in royalty revenues, \$14,125,000 from the common stock issuances discussed below, our available cash resources, and interest and other income of \$383,957.

For calendar 2003, based on information from the operator, we anticipate production of approximately one million ounces of gold at the Pipeline Mining Complex. Production at the Pipeline Mining Complex was approximately 1.1 million ounces of gold during the fiscal year ended June 30, 2003.

In July 2002, we sold 500,000 shares of common stock, at a price of \$13.75 per share, resulting in gross proceeds of \$6,875,000. In September 2002, we sold an additional 500,000 shares of common stock, at a price of \$14.50 per share, resulting in gross proceeds of \$7,250,000.

During December 2002, we purchased High Desert. As consideration, we issued 1,412,229 shares of common stock and paid \$2,151,530 in cash to the former shareholders of High Desert. At the time of acquisition, High Desert had cash of \$853,480. See Note 2: ACQUISITION OF HIGH DESERT MINERAL RESOURCES, INC.

We have a \$10 million line of credit from HSBC Bank USA that may be used to acquire producing royalties. Repayment of any loan under the line of credit will be secured by a mortgage on our GSR3 royalty at the Pipeline Mining Complex, and by a security interest in the proceeds from any of our royalties at the Pipeline Mining Complex. Any assets purchased with the line of credit will also serve as collateral. At this time, no funds have been drawn under the line of credit.

We currently anticipate that 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 fiscal 2004 and beyond. Our current financial resources are available for royalty acquisition and to fund dividends. In the event of a substantial acquisition, we could seek additional debt or equity financing. We may also seek additional funding in any event from time to time if management deems appropriate.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Our contractual obligations as of June 30, 2003 follow:

Contractual Obligations	Total	Payments Due by Period			
		Less than 1 Year	1-3 Years	4-5 Years	More than 5 Years
Operating leases	\$ 154,903	\$ 115,799	\$ 39,104	\$ -	\$ -
RG Russia	888,500	-	888,500	-	-
Long-term retirement obligation	139,889	26,400	52,800	52,800	7,889
Total	\$ 1,183,292	\$ 142,199	\$ 980,404	\$ 52,800	\$ 7,889

For information on our contractual obligations, see Note 10 to the Consolidated Financial Statements. 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, 2003, Compared with Fiscal Year Ended June 30, 2002

For the fiscal year ended June 30, 2003, we recorded net income of \$6,752,346, or \$0.34 per basic share, as compared to net income of \$10,698,723, or \$0.60 per basic share, for the fiscal year ended June 30, 2002. Net income for the fiscal year ended June 30, 2003, reflects \$15,788,212 in royalty revenues. In fiscal 2002, we recognized a deferred tax asset of \$6,849,687, which increased net income for the period by \$0.38 per share.

For fiscal 2003, we received royalty revenues of \$13,953,232 from the Pipeline Mining Complex, \$720,724 from the SJ Claims, \$409,729 from the Leeville Project, \$652,107 from Bald Mountain, and \$52,420 from the Martha mine. For the fiscal year ended June 30, 2002, we received total royalty revenues of \$12,323,071, of which \$11,658,527 was attributed to our royalties from the Pipeline Mining Complex. This increase in royalty revenue in fiscal 2003 resulted from a higher sliding-scale royalty rate from the Pipeline Mining Complex due to a higher gold price in fiscal 2003, and the addition of revenues from the acquired SJ Claims and Leeville Project royalties. The royalties from the SJ Claims and Leeville Project represent revenues for approximately seven months of production.

Cost of operations increased compared to the fiscal year ended June 30, 2002, primarily related to Nevada net proceeds tax expenditures associated with the increased royalty revenues, and due to losses of \$213,990 associated with the mark-to-market of put option contracts during the year. Costs of operations associated with approximately seven months of activity from the acquired SJ Claims and Leeville Project royalties also contributed to the increase.

General and administrative expenses of \$1,966,283 for the fiscal year ended June 30, 2003, increased compared to \$1,874,952 for the fiscal year ended June 30, 2002, primarily because of increased investor relations costs associated with a substantial increase in the number of our shareholders.

Exploration and business development expenses increased from \$618,308 for the fiscal year ended June 30, 2002, to \$1,232,853 for the fiscal year ended June 30, 2003, primarily due to the acquisition of the RG Russia interest and additional exploration and lease maintenance costs associated with the acquired High Desert exploration properties in Nevada.

Depreciation and depletion increased from \$2,289,104 for the fiscal year ended June 30, 2002, to \$2,854,839 for the fiscal year ended June 30, 2003, primarily due to increased production at Bald Mountain and the amortization of the recently acquired SJ Claims and Leeville Project royalty properties, partially offset by lower depletion rates associated with our GSR3 and NVR1 royalties.

Based upon updated production information we obtained from the operator during the fourth quarter of fiscal 2003, we recorded a non-cash impairment of mining assets of \$165,654 related to our royalty interest in the Mule Canyon mine. Also in fiscal 2003, we recorded a gain of \$158,396 on the sale of certain patented mining claims in southwestern Colorado.

We recorded a non-cash charge of \$1,171,679 related to our equity investments in Yamana Resources for the fiscal year ended June 30, 2002. The decline in value of these securities was deemed to be other-than-temporary and, therefore, the decline in value was recognized. Included in the charge for the fiscal year ended June 30, 2002, was a previous unrealized loss of \$553,472 recorded in Other Comprehensive Income. There was no comparable charge in the current period.

Interest and other income increased from \$138,671 for the fiscal year ended June 30, 2002, to \$383,957 for the fiscal year ended June 30, 2003, primarily due to an increase in investable funds, partially offset by lower interest rates.

As noted above, we recognized a non-cash deferred tax asset of \$6,849,687, during fiscal 2002. During fiscal 2003, we recorded \$1,708,053 in deferred tax expense associated with the utilization of net operating loss carry-forwards, partially offset by the reduction of a portion of the remaining valuation allowance on the deferred tax asset of \$525,232.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Fiscal Year Ended June 30, 2002, Compared with Fiscal Year Ended June 30, 2001

For the year ended June 30, 2002, we recorded net earnings of \$10,698,723, or \$0.60 per basic share, as compared to net earnings of \$1,138,297, or \$0.06 per basic share, for the year ended June 30, 2001. Net earnings reflect \$12,323,071 in royalty revenues for fiscal 2002 compared with \$5,963,153 in royalty revenues in fiscal 2001.

In fiscal 2002, we received royalty revenues of \$11,658,527 from 1.2 million ounces of production from the Pipeline Mining Complex, and \$511,473 from our royalty at Bald Mountain. In the prior fiscal year, we received royalty revenues of \$5,658,995 from 1.1 million ounces of production from the Pipeline Mining Complex, and \$304,158 from Bald Mountain. This increase in royalty revenue was directly related to the higher gold price in fiscal 2002, which also increased the royalty rate on our GSR1 royalty above price thresholds from the prior periods. During the first three quarters of fiscal 2002, the gold price averaged greater than \$270 per ounce and averaged greater than \$310 per ounce for the fourth quarter.

Costs of operations of \$971,068 for the year ended June 30, 2002, increased compared to \$784,993 for the year ended June 30, 2001, primarily related to Nevada net proceeds tax expenditures associated with the increased royalties at the Pipeline Mining Complex.

General and administrative expenses of \$1,874,952 for the year ended June 30, 2002, increased from \$1,715,512 for the year ended June 30, 2001, primarily due to increased legal fees, investor relations and annual report expenses, increased listings fees and a decrease in costs allocated to exploration/business development expenses.

We recorded \$1,484,371 for non-cash employee stock option compensation expense for the year ended June 30, 2002, resulting from employees surrendering shares at fair market value as payment for the exercise price of options. There were none in the prior year.

Exploration and business development expenses decreased from \$774,060 in fiscal 2001 to \$618,308 in fiscal 2002, primarily due to decreased expenditures for gold exploration in Europe.

Depreciation and depletion costs increased from \$1,270,621 in fiscal 2001 to \$2,289,104 in fiscal 2002, primarily due to the increased depletion associated with our purchase of the NVR1 royalty at the Pipeline Mining Complex, and higher production rates at the Pipeline Mining Complex.

In fiscal 2001, we recorded an impairment related to our royalty interest at Bald Mountain of \$490,215, because of the operator's revised reserve estimates. No impairment was taken in fiscal 2002.

Interest and other income decreased from \$258,010 in fiscal 2001 to \$138,671 in fiscal 2002, primarily due to significantly lower investment rates on funds available for investing offset by higher funds available for investing.

We recorded a non-cash deferred tax asset of \$6,849,687 during the year ended June 30, 2002, related to our assessment that the utilization of our net operating losses were more likely than not due to the higher gold price at fiscal year end 2002 and our history of profitability. See our Consolidated Financial Statements, Note 9: INCOME TAXES included in this Annual Report on Form 10-K.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The market price of various precious metals varies widely and is affected by numerous factors beyond our control. Please see "Risk Factors - Decreases in prices of precious metals would reduce our royalty revenues," for more information on factors that can affect gold prices.

The royalties we receive can fluctuate significantly with changes in the market price of precious metals as a result of royalty rates that are tied to the price of gold and because operators may curtail or cease mining operations on properties on which we have royalties if gold prices fall significantly. During the fiscal year ended June 30, 2003, we reported royalty revenues of \$15,788,212, with an average gold price for the period of \$334 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 (which includes a one price step in GSR1), we would have recorded an increase in revenues or decrease in revenues of approximately \$2,471,000 or \$2,250,000, 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 3,183 ounces of gold bullion in fiscal 2003 at an average realized price of \$354 per ounce, and 2,543 ounces of gold bullion in fiscal 2002 at an average realized price of \$293 per ounce.

We have purchased puts for 12 calendar quarters to protect against a significant decline in the price of gold through calendar year 2003. These puts, however, allow us to benefit from any gold price increase. Each calendar quarter covered by these puts has revenue protection for 2,550 ounces of gold at \$270 per ounce and 3,750 ounces of gold at \$250 per ounce. Under current circumstances, we have no plans to enter into additional put contracts.

Report of Independent Accountants

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

In our opinion, the accompanying consolidated balance sheets and related consolidated statements of operations and comprehensive income, of stockholders' equity and of cash flows present fairly, in all material respects, the financial position of Royal Gold, Inc. and its subsidiaries at June 30, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2003, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards

generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Denver, Colorado
August 11, 2003.

Consolidated Balance Sheets

As of June 30,

	2003	2002
Assets		
Current assets		
Cash and cash equivalents	\$ 33,485,543	\$ 11,104,140
Royalty receivables	3,125,437	3,022,214
Prepaid expenses and other	190,568	165,238
Total current assets	36,801,548	14,291,592
Royalty interests in mineral properties, net	43,559,743	7,426,687
Office furniture, equipment and improvements, net	72,551	91,518
Available for sale securities	457,584	583,771
Deferred tax asset	5,454,500	6,849,687
Other assets	12,746	346,825
Total assets	\$ 86,358,672	\$ 29,590,080
Liabilities and Stockholders' equity		
Current liabilities		
Accounts payable	\$ 1,126,591	\$ 698,136
Dividend payable	1,032,735	1,354,022
Accrued compensation	200,000	150,000
Other	146,655	99,667
Total current liabilities	2,505,981	2,301,825
Deferred tax liability	8,746,702	-
Other long term liabilities	113,489	120,525
Commitments and contingencies (notes 10 and 14)		
Stockholders' equity		
Common stock, \$.01 par value, authorized 40,000,000 shares; issued 20,883,914 and 18,279,840 shares, respectively	208,838	182,798
Additional paid-in capital	100,612,048	57,389,220
Accumulated other comprehensive income	64,963	184,981
Accumulated deficit	(24,796,477)	(29,492,397)
Treasury stock, at cost (229,226 shares)	(1,096,872)	(1,096,872)
Total stockholders' equity	74,992,500	27,167,730
Total liabilities and stockholders' equity	\$ 86,358,672	\$ 29,590,080

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,

	2003	2002	2001
Royalty revenues	\$ 15,788,212	\$ 12,323,071	\$ 5,963,153
Costs and expenses			
Costs of operations	1,346,890	971,068	784,993
General and administrative	1,966,283	1,874,952	1,715,512
Non-cash employee stock option compensation expense	-	1,484,371	-
Exploration and business development	1,232,853	618,308	774,060
Impairment of mining assets	165,654	-	490,215
Depreciation, depletion and amortization	2,854,839	2,289,104	1,270,621
Total costs and expenses	<u>7,566,519</u>	<u>7,237,803</u>	<u>5,035,401</u>
Operating income	8,221,693	5,085,268	927,752
Interest and other income	383,957	138,671	258,010
Loss on marketable securities	-	(1,171,679)	-
Gain on sale of other assets	158,396	-	-
Interest and other expense	(126,968)	(124,672)	(24,234)
Income before income taxes	8,637,078	3,927,588	1,161,528
Deferred tax (expense) benefit	(1,708,053)	6,849,687	-
Current tax expense	(176,679)	(78,552)	(23,231)
Net income	<u>\$ 6,752,346</u>	<u>\$ 10,698,723</u>	<u>\$ 1,138,297</u>
Adjustments to other comprehensive income			
Unrealized gain (loss) on available for sale securities	(120,018)	184,981	(153,257)
Realization of the change in market value of available for sale securities	-	553,472	-
Comprehensive income	<u>\$ 6,632,328</u>	<u>\$ 11,437,176</u>	<u>\$ 985,040</u>
Basic earnings per share	<u>\$ 0.34</u>	<u>\$ 0.60</u>	<u>\$ 0.06</u>
Basic weighted average shares outstanding	19,795,949	17,930,767	17,765,877
Diluted earnings per share	<u>\$ 0.33</u>	<u>\$ 0.59</u>	<u>\$ 0.06</u>
Diluted weighted average shares outstanding	20,231,638	18,170,225	17,770,735

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

Consolidated Statements of Stockholders' Equity

For the Years Ended June 30, 2003, 2002 and 2001

	Common Stock Shares	Common Stock Par Value Amount
Balance at June 30, 2000	17,910,822	\$ 179,108
Issuance of common stock for Exercise of options	190,800	1,908
Balance at June 30, 2001	18,101,622	181,016
Issuance of common stock for Exercise of options	178,218	1,782
Balance at June 30, 2002	18,279,840	182,798
Issuance of common stock for Acquisition of High Desert Stock issuances Exercise of options and other	1,412,229 1,000,000 191,845	14,122 10,000 1,918
Balance at June 30, 2003	20,883,914	\$ 208,838

	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)
Balance at June 30, 2000	\$ 55,846,280	\$ (39,080,904)	\$ (400,215)
Issuance of common stock for Exercise of options	21,942		
Net income and comprehensive income (loss) for the year ended June 30, 2001		1,138,297	(153,257)
Dividends		(894,491)	
Balance at June 30, 2001	55,868,222	(38,837,098)	(553,472)
Issuance of common stock for Exercise of options	1,520,998		
Net income and comprehensive income for the year ended June 30, 2002		10,698,723	738,453
Dividends		(1,354,022)	
Balance at June 30, 2002	57,389,220	(29,492,397)	184,981
Issuance of common shares for Acquisition of High Desert Stock issuances Exercise of options and other	28,116,756 14,115,000 991,072		
Net income and comprehensive income for the year ended June 30, 2003		6,752,346	(120,018)
Dividends		(2,056,426)	
Balance at June 30, 2003	\$ 100,612,048	\$ (24,796,477)	\$ 64,963

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

Consolidated Statements of Stockholders' Equity

For the Years Ended June 30, 2003, 2002 and 2001

	Treasury Stock Shares	Treasury Stock Amount	Total Stockholders' Equity
Balance at June 30, 2000	210,726	\$ (1,043,630)	\$ 15,500,639
Issuance of common shares for Exercise of options			23,850
Purchase of common stock	18,500	(53,242)	(53,242)
Net earnings and comprehensive income for the year ended June 30, 2001			985,040
Dividends			(894,491)
Balance at June 30, 2001	229,226	(1,096,872)	15,561,796
Issuance of common shares for Exercise of options			1,522,780
Net earnings and comprehensive income for the year ended June 30, 2002			11,437,176
Dividends			(1,354,022)
Balance at June 30, 2002	229,226	(1,096,872)	27,167,730
Issuance of common shares for Acquisition of High Desert Stock issuances Exercise of options and other			28,130,878 14,125,000 992,990
Net income and comprehensive income for the year ended June 30, 2003			6,632,328
Dividends			(2,056,426)
Balance at June 30, 2003	229,226	\$ (1,096,872)	\$ 74,992,500

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

Consolidated Statements of Cash Flows

For the Years Ended June 30,

	2003	2002	2001
Cash flows from operating activities			
Net income	\$ 6,752,346	\$ 10,698,723	\$ 1,138,297
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and depletion	2,854,839	2,289,104	1,270,621
Loss on marketable securities	-	1,171,679	-
Deferred tax expense (benefit)	1,708,053	(6,849,687)	-
Impairment of mining assets	165,654	-	490,215
Non-cash employee option compensation expense	-	1,484,371	-
Gain on sale of other assets	(158,396)	-	-
Other	220,346	111,603	90,472
(Increase) decrease in:			
Royalty receivables	95,390	(1,803,067)	542,119
Prepaid expenses and other assets	(8,528)	51,734	65,265
Increase (decrease) in:			
Accounts payable and accrued liabilities	61,421	268,984	(308,424)
Other liabilities	(7,036)	(6,575)	2,403
Net cash provided by operating activities	<u>11,684,089</u>	<u>7,416,869</u>	<u>3,290,968</u>
Cash flows from investing activities			
Capital expenditures for property and equipment	\$ (24,067)	\$ (34,945)	\$ (2,195,454)
Acquisition, net of cash acquired of \$853,480	(2,296,179)	-	-
Proceeds from marketable securities	-	19	-
Purchase of available for sale securities	-	-	(250,000)
Proceeds from sale of other assets	277,283	-	-
Net cash used in investing activities	<u>(2,042,963)</u>	<u>(34,926)</u>	<u>(2,445,454)</u>
Cash flows from financing activities			
Dividends paid	(2,377,713)	(894,490)	(885,004)
Purchase of common stock	-	-	(53,242)
Proceeds from issuance of common stock	15,117,990	38,409	23,850
Net cash provided by (used in) financing activities	<u>12,740,277</u>	<u>(856,081)</u>	<u>(914,396)</u>
Net increase (decrease) in cash and equivalents	<u>22,381,403</u>	<u>6,525,862</u>	<u>(68,882)</u>
Cash and equivalents at beginning of year	<u>11,104,140</u>	<u>4,578,278</u>	<u>4,647,160</u>
Cash and equivalents at end of year	<u>\$ 33,485,543</u>	<u>\$ 11,104,140</u>	<u>\$ 4,578,278</u>

Supplemental Information:

We declared a dividend on common stock of \$2,056,426 during fiscal 2003, which was paid in semi-annual payments in January and July 2003 of \$1,023,691 and \$1,032,735, respectively. We declared a dividend on common stock of \$1,354,022 during fiscal 2002, which was paid in July 2002. We declared a dividend on common stock of \$894,491 during fiscal 2001, which was paid in July of 2001.

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

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

OPERATIONS

Royal Gold, Inc. was incorporated under the laws of the State of Delaware on January 5, 1981, and is engaged in the acquisition and management of precious metals royalty interests. Royalty revenue is currently generated from mining operations in the United States and Argentina. We seek to acquire existing royalties or to finance projects that are in production or near production in exchange for royalty interests. We also explore and develop properties thought to contain precious metals and seek to obtain royalties and other carried ownership interests in such properties from other mining companies. Substantially all of our revenues are and can be expected to be derived from royalty interests, rather than from mining operations that we conduct.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates: The preparation of our financial statements in conformity with generally accepted accounting principles 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 from those estimates.

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

We hold interests of between 25% and 67% in other entities, which we account for as joint venture interests. These companies are exploration entities with no significant operations, for which all investments are expensed as incurred.

Cash and Cash Equivalents: For purposes of the Statements of Cash Flows, we consider all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. At June 30, 2003, cash and cash equivalents were primarily held in uninsured interest bearing cash and money market accounts, with an AAA rated financial institution.

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 are included in determining net income.

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 intangible assets.

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 amortized on a straight-line basis over the expected useful life of the royalty interest. At such time as the associated exploration stage mineral interests are converted to proven and probable reserves, the remaining unamortized basis is amortized over the mineral properties remaining life, using proven and probable reserves. Exploration costs are charged to operations when incurred.

Asset Impairment: We evaluate long-lived assets for impairment when events or circumstances indicate that the related carrying amounts 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 future discounted cash flows.

Our estimate of gold prices, operators' estimates of proven and probable reserves related to our royalty properties and operators' 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.

Notes to Consolidated Financial Statements

Office Furniture, Equipment and Improvements: We depreciate our office furniture and equipment over estimated useful lives of two 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 when earned on the basis of production from mine operations pursuant to the terms of our royalty agreements. For royalties 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: Deferred income taxes reflect the expected future tax consequences of temporary differences

between the tax basis amounts and financial statement carrying amounts of assets and liabilities at each year end and the expected future benefits of net operating loss carryforwards, tax credits and other carryforwards.

Stock Options: We measure compensation cost as prescribed by APB Opinion No. 25 ("APB 25"), Accounting for Stock Issued to Employees. No compensation cost related to the granting of stock options has been recognized in the financial statements 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 Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 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 Twelve Months Ended June 30,

	2003	2002	2001
Net income, as reported	\$ 6,752,346	\$ 10,698,723	\$ 1,138,297
Less: Total stock-based employee compensation expense determined under the fair value based method for all awards, net of related tax effects	\$ (780,639)	\$ (316,673)	\$ (112,831)
Pro forma net income	\$ 5,971,707	\$ 10,382,050	\$ 1,025,466
Earnings per share:			
Basic, as reported	\$ 0.34	\$ 0.60	\$ 0.06
Basic, pro forma	\$ 0.30	\$ 0.58	\$ 0.06
Diluted, as reported	\$ 0.33	\$ 0.59	\$ 0.06
Diluted, pro forma	\$ 0.30	\$ 0.57	\$ 0.06

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

	2003	2002	2001
Weighted average expected volatility	56.7%	46.1%	51.2%
Weighted average expected option term in years	5.5	5.5	5.5
Weighted average risk free interest rate	3.2%	4.3%	5.7%
Forfeiture rate	5%	5%	5%
Weighted average grant fair value	\$ 10.05	\$ 4.05	\$ 1.27

Derivatives: Gold price derivatives are recorded at fair market value at the balance sheet date. All gains or losses on these derivatives are recorded as costs of operations in the Consolidated Statements of Operations and Comprehensive Income.

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 fair value of marketable securities held for sale.

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

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

In June 2001, the FASB issued SFAS Nos. 141 and 142, "Business Combinations" and "Goodwill and Other Intangible Assets," respectively. Upon adoption of SFAS 142 as required on July 1, 2002, we reclassified \$7.4 million of intangible royalty interests in mineral properties, as defined by SFAS 142, from property and equipment to royalty interests in mineral properties. We now amortize the carrying values of intangible assets over their useful lives.

In August 2001, the FASB issued SFAS No. 143 "Accounting for Asset Retirement Obligations," which established uniform methodology for accounting for estimated reclamation and abandonment costs. The adoption of SFAS 143 on July 1, 2002 had no impact on our financial statements.

In August 2001, the FASB issued SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets," which established a single accounting model, based on the framework of SFAS No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," for long-lived assets to be disposed of by sale. The statement was adopted July 1, 2002 and there was no impact on our consolidated financial statements upon adoption.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, including Indirect Guarantees of Indebtedness of Others" ("FIN 45"), which elaborates on the existing disclosure requirements for most guarantees, including loan guarantees. It also clarifies that at the time a company issues a guarantee, the company must recognize an initial liability for the fair value, or market value, of the obligations it assumes under the guarantee and must disclose the information in its interim and annual financial statements. The initial recognition and initial measurement provisions apply on a prospective basis to guarantees issued or modified after December 31, 2002, regardless of the guarantor's fiscal year end. The disclosure requirements in FIN 45 are effective for financial statements of interim or annual periods ending after December 15, 2002. The adoption of FIN 45 did not have a material effect on our financial position or results of operations.

In December 2002, the FASB issued SFAS 148 "Accounting for Stock-Based Compensation-Transition and Disclosure" to provide alternative methods for voluntary transition to the fair value based method of accounting for stock-based compensation. SFAS 148 also amends the disclosure provisions of SFAS 123 "Accounting for Stock-Based Compensation" to require prominent

disclosure about the effects on reported net income of an entity's accounting policy decisions with respect to stock-based employee compensation. Finally, this Statement amends APB Opinion No. 28 "Interim Financial Reporting" to require disclosure about those effects in interim financial information. SFAS 148 is effective for fiscal years ending after December 15, 2002. We adopted the provisions of SFAS 148 during fiscal 2003.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46") which requires the consolidation of variable interest entities, as defined. FIN 46 is applicable to financial statements to be issued by Royal Gold after 2002. As of June 30, 2003, we have no interest in any such entities.

2. Acquisition of High Desert Mineral Resources, Inc.

In December of 2002, we completed the acquisition of 49,371,293 (93.5%) of the common stock of High Desert Mineral Resources, Inc. ("High Desert"), from High Desert's principal stockholder. Consideration for the purchase was 1,412,229 newly issued shares of Royal Gold common stock and \$200,000 in cash. As a result of the acquisition, Royal Gold held a total of 49,411,793 shares of common stock of High Desert, representing 93.5% of the issued and outstanding shares.

After the closing of the binding agreement and completion of delivery of all High Desert shares, Royal Gold owned sufficient High Desert shares to allow it to proceed with a short-form merger under Delaware law. Royal Gold proceeded to effect a short-form merger under Delaware law to merge High Desert into a wholly-owned subsidiary of Royal Gold, for cash consideration of \$1,951,530. As a result of the completion of the short-form merger, Royal Gold owns 100% of the issued and outstanding shares of High Desert.

The primary assets of High Desert were royalties associated with two producing mineral properties. One is a 2% carried working interest, equal to a 2% net smelter returns royalty, in the Newmont HD Venture Property (Leeville Project, which includes a portion of the Carlin East mine), operated by Newmont Mining Corporation. The other is a 1% net smelter returns royalty on the SJ Claims, which covers a large part of the Betze-Post mine operated by Barrick Gold Corporation. In a separate agreement, Royal Gold agreed to repay an acquired \$2.9 million note payable. In lieu of repaying the debt in cash, Royal Gold has conveyed to the note holder 10% of the SJ Claims royalty and 10% of the Leeville Project royalty, owned by High Desert at the time of the acquisition. As a result, our remaining interest in the SJ Claims and Leeville Project royalties is 0.9% and 1.8%, respectively.

The acquisition was accounted for as an asset acquisition using the purchase method of accounting, whereby

Notes to Consolidated Financial Statements

assets acquired and liabilities assumed were recorded at their fair market values as of the date of acquisition. The purchase price in the acquisition was calculated using the fair market value of the shares issued, as of the date of the announcement of the transaction, plus cash and direct acquisition costs paid by Royal Gold. We have allocated the purchase price of \$30.5 million to the fair market values of the assets and liabilities acquired,

including \$39.1 million royalty interests in mineral properties, \$1.1 million to acquired tax assets and \$9.5 million to deferred tax liabilities resulting from the acquisition. At the time of acquisition, High Desert had a \$216,500 working capital deficit. We incurred approximately \$360,000 for costs related to this acquisition. The results of High Desert have been reflected in the results of Royal Gold from December 6, 2002.

3. Royalty Interests in Mineral Properties

As of June 30, 2003	Gross	Accumulated Depletion & Amortization	Net
Production stage royalty interests:			
GSR1	\$ -	\$ -	\$ -
GSR2	-	-	-
GSR3	8,105,020	(4,042,730)	4,062,290
NVR1	2,135,107	(929,805)	1,205,302
Bald Mountain	1,978,547	(1,729,643)	248,904
SJ Claims	20,788,444	(678,557)	20,109,887
Carlin East mine	1,642,757	(380,185)	1,262,572
Martha mine	172,810	(100,212)	72,598
	<u>34,822,685</u>	<u>(7,861,132)</u>	<u>26,961,553</u>
Development stage royalty interests:			
Leeville	14,240,418	-	14,240,418
Exploration stage royalty interests:			
Leeville	2,305,845	(67,819)	2,238,026
Carlin East mine	133,052	(13,306)	119,746
Mule Canyon	-	-	-
	<u>2,438,897</u>	<u>(81,125)</u>	<u>2,357,772</u>
Total royalty interest in mineral properties	\$ 51,502,000	\$ (7,942,257)	\$ 43,559,743
As of June 30, 2002	Gross	Accumulated Depletion & Amortization	Net
Production stage royalty interests:			
GSR1	\$ -	\$ -	\$ -
GSR2	-	-	-
GSR3	8,105,020	(3,097,904)	5,007,116
NVR1	2,135,107	(530,475)	1,604,632
Bald Mountain	1,978,547	(1,431,154)	547,393
SJ Claims	-	-	-
Carlin East mine	-	-	-
Martha mine	172,810	(85,978)	86,832
	<u>12,391,484</u>	<u>(5,145,511)</u>	<u>7,245,973</u>
Development stage royalty interests:			
Leeville	-	-	-
Exploration stage royalty interests:			
Leeville	-	-	-
Carlin East mine	-	-	-
Mule Canyon	180,714	-	180,714
	<u>180,714</u>	<u>-</u>	<u>180,714</u>
Total royalty interests in mineral properties	\$ 12,572,198	\$ (5,145,511)	\$ 7,426,687

Notes to Consolidated Financial Statements

Presented below is a discussion of the status of each of our royalty interests in mineral properties.

Pipeline Mining Complex:

We own two sliding-scale gross smelter returns royalties (GSR1 and GSR2), a fixed gross royalty (GSR3), and a net value royalty (NVR1) over the Pipeline Mining Complex that includes the Pipeline and South Pipeline gold deposits in Lander County, Nevada.

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

Bald Mountain:

We own a 1.75% net smelter returns, 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 Placer Dome U.S. Inc.

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 Gold Corporation 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. The Leeville Project royalty ground covers production from the fol-

lowing operations, which are operated by Newmont Mining Corporation:

Leeville - Leeville is an underground mine currently under development by Newmont Mining Corporation. Newmont has announced that production at Leeville will begin in late 2005 or early 2006.

Carlin East mine - Carlin East is an underground mine currently under production by Newmont Mining Corporation.

Mule Canyon:

We own a 5% NSR royalty on a portion of the Mule Canyon mine, operated by Newmont Mining Corporation. Based upon updated production information obtained from the operator during the fourth quarter of fiscal 2003, we recorded an impairment charge of \$165,654 during fiscal 2003 to write-off the remaining book value of our investment in Mule Canyon. We continue to own this royalty, but do not expect to receive revenues from production at Mule Canyon at current gold prices.

Martha mine:

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

4. Office Furniture, Equipment and Improvements

The components of our office furniture, equipment and improvements consist of the following at June 30, 2003 and 2002:

	Gross	Accumulated Depletion & Amortization	Net
As of June 30, 2003			
Office furniture and equipment	\$ 443,941	\$ (393,000)	\$ 50,941
Leasehold improvements	449,323	(427,713)	21,610
Total office furniture, equipment and improvements	<u>\$ 893,264</u>	<u>\$ (820,713)</u>	<u>\$ 72,551</u>
As of June 30, 2002			
Office furniture and equipment	\$ 419,874	\$ (367,508)	\$ 52,366
Leasehold improvements	449,323	(410,171)	39,152
Total office furniture, equipment and improvements	<u>\$ 869,197</u>	<u>\$ (777,679)</u>	<u>\$ 91,518</u>

5. Derivatives

We have purchased gold put options to cover a portion of our royalty ounces through calendar year 2003. At June 30, 2003, these puts consist of 5,100 ounces of gold at \$270 per ounce and 7,500 ounces of gold at \$250 per ounce. We do not apply hedge accounting and therefore we mark-to-market these puts each quarter and record the gains or losses in operating costs. In fiscal year 2003, 2002 and 2001, we expensed \$213,990, \$111,603 and \$90,472 related to the change in fair value of these puts,

respectively. The fair value of the remaining outstanding gold put option contracts was zero at June 30, 2003.

6. Available for Sale Securities

We hold equity positions in a number of mining and exploration companies. We had an unrealized gain of \$64,963 in these securities at June 30, 2003. We had an unrealized gain of \$184,981 in these securities at June 30, 2002. In fiscal 2001, the unrealized loss was \$553,472.

Notes to Consolidated Financial Statements

7. Sale of Mining Claims

In April 2003, we sold approximately 325 acres of land contained within 42 patented mining claims, in Ouray County, Colorado, for proceeds of \$320,000. We

realized a gain, net of selling costs, of \$158,396 during the fourth quarter of fiscal 2003 related to the sale.

8. Earnings Per Share ("EPS") Computation

For The Year Ended June 30, 2003	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Basic EPS			
Income available to common stockholders	\$ 6,752,346	19,795,949	\$ 0.34
Effect of potentially dilutive options		435,689	
Diluted EPS	\$ 6,752,346	20,231,638	\$ 0.33

Options to purchase 164,980 shares of common stock, at an average purchase price of \$20.06 per share, were outstanding at June 30, 2003, but were not included in

the computation of diluted EPS because the exercise price of these options was greater than the average market price of the common shares.

For The Year Ended June 30, 2002	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Basic EPS			
Income available to common stockholders	\$ 10,698,723	17,930,767	\$ 0.60
Effect of potentially dilutive options		239,458	
Diluted EPS	\$ 10,698,723	18,170,225	\$ 0.59

Options to purchase 115,000 shares of common stock, at an average purchase price of \$9.96 per share, were outstanding at June 30, 2002, but were not included

in the computation of diluted EPS because the exercise price of these options was greater than the average market price of the common shares.

For The Year Ended June 30, 2001	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Basic EPS			
Income available to common stockholders	\$ 1,138,297	17,765,877	\$ 0.06
Effect of potentially dilutive options		4,858	
Diluted EPS	\$ 1,138,297	17,770,735	\$ 0.06

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

9. Income Taxes

The tax effects of significant temporary differences and carryforwards, which give rise to our deferred tax assets and liabilities at June 30, 2003 and 2002, are as follows:

	2003	2002
Deferred tax assets:		
Net operating loss carryforwards	\$ 5,243,811	\$ 6,855,059
Mineral property basis	-	875,946
AMT credit carryforwards	182,146	5,467
Other	467,569	77,473
Total deferred tax assets	5,893,526	7,813,945
Valuation allowance	(439,026)	(964,258)
Net deferred tax assets	5,454,500	6,849,687
Deferred tax liabilities:		
Mineral property basis	(8,746,702)	-
Total deferred tax liabilities	(8,746,702)	-
Total net deferred taxes	\$ (3,292,202)	\$ 6,849,687

Notes to Consolidated Financial Statements

At June 30, 2003, we had approximately \$15.0 million of net operating loss carryforwards which, if unused, will expire during the years 2004 through 2022. Our ability to generate future taxable income to realize

the benefits of our tax assets will depend primarily on the spot price of gold. Due to the increase in the price of gold and our history of profitability, we decreased the valuation allowance at June 30, 2003, to reflect the amount of net operating losses more likely than not to be realized.

	2003	2002	2001
Current federal tax expense	\$ 176,679	\$ 78,552	\$ 23,231
Deferred tax expense	2,233,285	1,053,226	438,260
Decrease in deferred tax asset valuation allowance	(525,232)	(7,902,913)	(438,260)
	<u>\$ 1,884,732</u>	<u>\$ (6,771,135)</u>	<u>\$ 23,231</u>

The provision for income taxes for the years ended June 30, 2003, 2002 and 2001, differs from the amount of income tax determined by applying the applicable U.S.

statutory federal income tax rate to pre-tax income from operations as a result of the following differences:

	2003	2002	2001
Total expense computed by applying statutory rate	\$ 3,022,977	\$ 1,374,656	\$ 394,920
Adjustments of valuation allowance	(525,232)	(7,902,913)	(438,260)
Excess depletion	(545,321)	(431,685)	(211,917)
Other	(67,692)	188,807	278,488
	<u>\$ 1,884,732</u>	<u>\$ (6,771,135)</u>	<u>\$ 23,231</u>

The reduction in the deferred tax asset valuation allowance in fiscal 2003, 2002 and 2001, reflects revisions of estimates regarding our ability to utilize these deferred tax assets in future periods.

charged to operations for the years ended June 30, 2003, 2002 and 2001, amounted to \$116,786, \$108,120 and \$110,888, respectively.

10. Commitments

RG Russia:

On June 20, 2003, through a newly formed wholly-owned subsidiary, RG Russia, Inc., we entered into an agreement for exploration in Russia with a subsidiary of Phelps Dodge Exploration Corporation, who holds an exploration license granted by the Russian government. If exploration is successful, and a license to mine can be secured, we will have a 1% NSR royalty. We must provide exploration funding totaling \$1.3 million over a period not to exceed 24 months from the date of the agreement to vest in this royalty interest.

As of June 30, 2003, we have funded \$411,500 of the committed \$1.3 million. We have expensed the initial funding amount as a component of Exploration and Business Development in the accompanying financial statements. We expect to fund the balance of the commitment prior to June of 2005.

Operating Lease:

We lease office space under a lease agreement, which expires October 31, 2004. Future minimum cash rental payments are \$115,799 and \$39,104 for fiscal years ending June 30, 2004 and 2005, respectively. Rent expense

Employment Agreements:

We have one-year employment agreements with all of our officers which, under certain circumstances, require total minimum future compensation, at June 30, 2003, of \$658,500. The terms of each of these agreements automatically extend, every February, 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 \$10 million line of credit from HSBC Bank USA that may be used to acquire producing royalties. Repayment of any loan under the line of credit will be secured by a mortgage on our GSR3 royalty at the Pipeline Mining Complex, and by a security interest in the proceeds from any of our royalties at the Pipeline Mining Complex. Any assets purchased with the line of credit will also serve as collateral. At this time, no funds have been drawn under the line of credit. During Fiscal 2003, 2002 and 2001, we paid commitment fees of \$76,282, \$75,417 and \$0 to HSBC.

11. Stockholders' Equity

Stock Issuances:

In July 2002, we sold 500,000 shares of common stock, at a price of \$13.75 per share, resulting in pro-

Notes to Consolidated Financial Statements

ceeds of \$6,875,000. In September 2002, we sold an additional 500,000 shares of common stock, at a price of \$14.50 per share, resulting in proceeds of \$7,250,000.

On December 7, 2002, we issued 1,412,229 shares of common stock as part of the purchase of 93.5% of the common shares of High Desert, at a value of \$19.74 per share. See Note 2: ACQUISITION OF HIGH DESERT MINERAL RESOURCES, INC.

During the fiscal year ended June 30, 2003, options to purchase 188,853 shares were exercised, resulting in proceeds of \$992,961.

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 229,226 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.

Stock Option Plan:

We have an Equity Incentive Plan ("the Plan") whereby options under the Plan are exercisable at prices equal to the market value of our common stock as of the date of grant and expire ten years after the date of grant.

Stock Options:

The following schedules detail activity related to options for the years ended June 30, 2003, 2002 and 2001:

	Optioned Shares	Weighted Average Exercise Prices
Options Outstanding at June 30, 2000	1,241,728	\$ 4.67
Granted	145,000	\$ 2.81
Exercised	(190,800)	\$ 0.13
Surrendered or expired	<u>(144,849)</u>	\$ 6.11
Options Outstanding at June 30, 2001	1,051,079	\$ 5.01
Granted	135,000	\$ 8.94
Exercised	(346,025)	\$ 4.36
Surrendered or expired	<u>0</u>	
Options Outstanding at June 30, 2002	840,054	\$ 5.90
Granted	164,980	\$ 20.06
Exercised	(188,853)	\$ 5.41
Surrendered or expired	<u>0</u>	
Options outstanding at June 30, 2003	<u>816,181</u>	\$ 8.87

All exercisable options outstanding at June 30, 2003, consist of 791,281 options exercisable at a weighted average exercise price of \$8.52. All options outstanding at June 30, 2003, consist of 816,181 options, at an average exercise price of \$8.87, and a weighted average remaining contractual life of 5.39 years.

12. Major Customers

In each of fiscal years 2003, 2002 and 2001, we received \$14,605,339, \$12,170,000 and \$5,963,152, respectively, of our royalty revenues from the same operator.

13. Simplified Employee Pension ("SEP") Plan

We maintain a 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 \$75,808, \$85,368 and \$76,063, in fiscal years 2003, 2002 and 2001, respectively.

Notes to Consolidated Financial Statements

14. Contingencies

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 intending to settle their liability for the United States' 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 on May 9, 2003. The United States may only pursue Royal Gold and the other PRPs for additional clean-up costs if the United States' total clean-up costs at the site significantly exceed the expected cost of approximately \$272 million. We believe this to be a remote possibility; therefore, we consider our potential liability to the United States to be resolved.

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 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.

15. 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 2003 Quarter Ended:					
September 30	\$ 3,366,172	\$ 1,928,141	\$ 1,425,505	\$ 0.08	\$ 0.07
December 31	3,117,384	1,598,761	1,232,345	0.06	0.06
March 31	5,587,567	3,526,771	2,473,159	0.12	0.12
June 30	3,717,089	1,168,020	1,621,337	0.08	0.08
	<u>\$ 15,788,212</u>	<u>\$ 8,221,693</u>	<u>\$ 6,752,346</u>	<u>\$ 0.34</u>	<u>\$ 0.33</u>
Fiscal Year 2002 Quarter Ended:					
September 30	\$ 2,831,633	\$ 1,448,496	\$ 372,299	\$ 0.02	\$ 0.02
December 31	2,889,380	1,509,562	1,385,802	0.08	0.08
March 31	3,140,760	1,620,611	1,587,766	0.09	0.09
June 30	3,461,298	506,599	7,352,856	0.41	0.40
	<u>\$ 12,323,071</u>	<u>\$ 5,085,268</u>	<u>\$ 10,698,723</u>	<u>\$ 0.60</u>	<u>\$ 0.59</u>

Market for the Registrant's Common Equity and Related Stockholder Matters

Our common stock is traded on the Nasdaq National Stock Market under the symbol "RGLD" and on the Toronto Stock Exchange under the symbol

"RGL." The following table shows the high and low closing sales prices, in U.S. dollars, for the common stock on Nasdaq, for each quarter since July 1, 2001.

Fiscal Year:	Sales Prices High Closing	Sales Prices Low Closing
2002		
First Quarter (July, Aug., Sept. - 2001)	\$ 6.25	\$ 4.00
Second Quarter (Oct., Nov., Dec. - 2001)	\$ 5.98	\$ 5.13
Third Quarter (Jan., Feb., March - 2002)	\$ 8.90	\$ 5.09
Fourth Quarter (April, May, June - 2002)	\$ 15.48	\$ 8.26
2003		
First Quarter (July, Aug., Sept. - 2002)	\$ 19.15	\$ 10.04
Second Quarter (Oct., Nov., Dec. - 2002)	\$ 26.08	\$ 15.88
Third Quarter (Jan., Feb., March - 2003)	\$ 28.42	\$ 13.08
Fourth Quarter (April, May, June - 2003)	\$ 22.27	\$ 13.66

As of August 15, 2003, there were approximately 16,000 shareholders of our common stock.

Dividends

For fiscal 2003, we declared an annual dividend of \$0.10 per share of common stock, in two semi-annual payments of \$0.05 each. We paid the first payment of \$0.05 per share on January 17, 2003, to shareholders of record at the close of business on January 3, 2003. We paid the second payment of \$0.05 per share on July 18, 2003, to shareholders of record at the close of business on July 3, 2003.

We paid our first dividend of \$0.05 per share on July 21, 2000. For fiscal 2001, we declared our second annual dividend of \$0.05 per share on our common stock, payable to holders of record as of July 6, 2001, which was paid on July 20, 2001. For fiscal 2002, we declared a third annual dividend of \$0.075 per share of common stock, payable on July 19, 2002, to shareholders of record at the close of business on July 5, 2002.

We currently plan to sustain a dividend on a fiscal year basis, subject to the discretion of the board of directors. However, our board of directors may determine not to declare a dividend based on a number of factors including gold prices, 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, 2003.

Equity Compensation Plan Information

The following table sets forth certain information as of June 30, 2003, concerning shares of our common stock that may be issued upon the exercise of options, warrants and rights under all of our existing equity compensation plans approved by the stockholders, including the Equity Incentive Plan, and equity compensation plans not approved by the stockholders.

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by stockholders:			
Equity Incentive Plan	816,181	\$ 8.87	121,717
Equity compensation plans not approved by stockholders:	-	-	-
Total	816,181	\$ 8.87	121,717

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, which are measures of cash flow that are not calculated in accordance with generally accepted accounting principles (GAAP). Free cash flow is defined by the Company as operating income plus depreciation, depletion and amortization, any impairments of mining assets, and other non-cash charges. 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 profits earned 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 reported in the Company's Consolidated Statements of Operations. As a non-GAAP financial measure, free cash flow should not be considered in isolation or as a substitute for measures of cash flow determined in accordance with GAAP. Below is a reconciliation of free cash flow to operating income:

(\$ in millions)	1999	2000	2001	2002	2003
Operating income	\$(9.4)	\$3.9	\$0.9	\$5.1	\$ 8.2
Depreciation, depletion and amortization	0.5	1.1	1.3	2.3	2.9
Impairment of mining assets	4.6	-	0.5	-	0.1
Non-cash employee stock option compensation expense	-	-	-	1.4	-
Free Cash Flow	<u>\$(4.3)</u>	<u>\$5.0</u>	<u>\$2.7</u>	<u>\$8.8</u>	<u>\$11.2</u>

Annual Meeting

Tuesday, November 11, 2003
9:30 a.m. MST
Wells Fargo Center
John D. Herschner Conference Room
1700 Lincoln Street
Denver, CO 80274

Board of Directors

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

John W. Goth
Mining Consultant

Pierre Goussel and
Mining Consultant

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

Merritt E. Marcus
*President
Marcus Paint Company*

Edwin W. Peiker, Jr.
Mining Consultant

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

Donald Worth
Mining Consultant

Officers

Stanley Dempsey
Chairman and Chief Executive Officer

Tony Jensen
President and Chief Operating Officer

Karen Gross
Vice President and Corporate Secretary

Donald Baker
Vice President of Corporate Development

Stefan Wenger
Treasurer and Chief Accounting Officer

Corporate Headquarters

Royal Gold, Inc.
1660 Wynkoop Street, Suite 1000
Denver, Colorado 80202
(303) 573-1660 (phone)
(303) 595-9385 (fax)
E-mail: royalgold@royalgold.com

Web Site

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

Legal Counsel

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

Auditors

PricewaterhouseCoopers LLP
Denver, Colorado

Transfer Agent/Registrar

Computershare Trust Company
350 Indiana Street
Suite 800
Golden, CO 80401
(303) 262-0600 (phone)
(303) 262-0700 (fax)

Computershare Trust Company of Canada
100 University Avenue
11th Floor, South Tower
Toronto, Ontario M5J 2Y1
Canada

Stock Exchange Listings

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

Investor Relations

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

Karen Gross
Vice President & Corporate Secretary
(303) 575-6504
E-mail: kgross@royalgold.com

Shareholder Communications

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



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