



(ABN 53 096 321 532)

1st Floor  
394 – 396 Little Bourke Street  
Melbourne Victoria 3000 Australia  
(03) 9602 3626 Tel  
(03) 9670 4479 Fax  
www.royalco.com.au Web

## December 2014 Quarterly Report

29th January 2015

The cornerstone interest in the Weeks Petroleum Royalty continues to underpin cash flow for Royalco Resources and should do so for many years to come.

### KEY POINTS

A solid quarter from the Weeks Petroleum Royalty interest, with a payment of \$224,672 for the period ending September 2014.

Production has resumed at Mount Garnet. As at the end of December 90,000 tonnes of primarily zinc ore had been extracted.

Oceana Gold announced a “robust” Preliminary Economic Assessment for the Blackwater Project on 22 October.

The ongoing decline in commodity prices causing the evaporation in the share prices of explorers/developers continues to justify our patient review of fresh opportunities in the resource sector.

### CORPORATE DETAILS

ASX Code:	RCO
Issued Capital:	52,714,183 shares
Share Price:	22.5 cents
Market Capitalisation:	\$11.9 million
Cash/Liquids:	\$4.05 million

#### Major Shareholders

Acorn	14.89%
Directors	19.01%
Anglo Pacific	29.37%

#### Directors

Peter Topham	Executive Chairman
David Ogg	Director
Bruce Pertzelt	Director
Piers Reynolds	Director

*The company's strategy is to expand a core royalty portfolio of income-producing base metals, precious metals and energy interests. This may be achieved by direct acquisition, exploration initiatives, or as a result of mezzanine/project financing activities. In addition, successful exploration activities will be maximised to the benefit of shareholders in whatever corporate format deemed appropriate.*

## ***Royalty Interests***

Royalco owns a 1% interest in the *Weeks Petroleum Royalty* (the equivalent of a 0.025% overriding royalty from the entire hydrocarbon production of the main Bass Strait fields). Income received during the quarter was \$224,672, representing payment for the three months ending 30 September 2014. Seasonal factors which reduce short term gas demand and the fall in petroleum prices will have a negative impact in the current quarter. These will be marginally offset by advantageous currency movements and the rising price for gas on the east coast of Australia.

This “Tier 1” royalty encompasses 19 oil and/or gas production permits in the Offshore Gippsland Basin. Unlike most oil fields which show standard decline curves, these high quality and diverse fields have produced a near constant supply of liquids over the past three years.

On 17<sup>th</sup> December 2014, ExxonMobil-the operator for the project areas covered by the *Weeks Petroleum Royalty*, announced a fresh drilling program for the Turrum field comprising four gas wells and one oil well. All of these wells are to be completed by the second half, 2015, at a budgeted cost of \$335 million.

Of further note, ExxonMobil Australia Chairman, Richard Owen, commented that “The Gippsland Basin Joint Venture currently supplies nearly 40 per cent of east coast Australian gas demand. The Turrum field drilling program will help ensure that Bass Strait continues to be at the forefront of the oil and gas story in Australia.”

At *Mt Garnet* in far north Queensland, the operator, Consolidated Tin Mines Limited (ASX Code:CSD), advised the ASX on 15 January 2015, that 90,000 tonnes of primarily zinc ore had been extracted from the underground operations and the mine had been placed on care and maintenance for the wet season.

Previous production guidance was for 80,000 tonnes at 9.6% zinc, 0.3% copper and 21 grams per tonne silver. Based on the existing 3% net smelter return applicable to production and on prevailing commodity prices, a return in excess of \$200,000 is anticipated in the near term. Details of when the ore was/will be processed and what net receipts can be expected are due by the first week of February.

OceanaGold (ASX Code: OGC), the project operator for the *Blackwater Project* at Reefion in New Zealand, announced the Preliminary Economic Assessment for the project to the ASX on 22 October. The key findings included a 2.5-year pre-production period, a 10-year mine life and an assumed production rate of 58,000 ounces of gold a year. If achieved, and using the current spot price for gold, this would result in Royalco receiving 1740 ounces, or approximately \$2.4 million gross, per year. The operator retains the right to acquire back this interest, pre-decision to mine, based on a CPI-adjusted price of \$5 million from a base year of 1991. In terms of current value that is approximately \$9 million.

The project operator has not provided public information as to when the next stage of activity at *Blackwater* can be expected. It should be noted, however, that the gold price outlook has improved significantly since the above study was completed.

On the *Bowdens Project* in NSW, where Kingsgate Consolidated Limited (ASX Code: KCN) is the operator, a definitive feasibility study was due for completion before the end of 2014. Other events appear to have distracted the operator and the results of the study have not been released. Given the

prevailing silver price, it may be unlikely that the project will be advanced in the short term. The Royalco royalty interest in this project starts at a 2% net smelter return until \$US5 million has been received, then reverts to a 1% net smelter return for the life of the mine.

No activities of substance have been reported during the quarter on the royalty interests held at *Sam's Creek, LFB, Lyndhurst, Red Dam, Stanton and Uganda*.

### *Exploration*

The rationale for Royalco's exploration initiatives is to generate royalties and free-carried interests in a portfolio of projects. It is not necessarily the company's intention to be the operator of any mining project. Third parties would probably be introduced to develop any discovery made.

In the Philippines, exploration activities remain on hold pending Phase 3 renewal of tenements.

Proposed new taxation measures are rumoured to be implemented within days of this report. These are said to be along the lines of a 10% gross revenue royalty, or 55% of net profits with a number of items to be non-deductible when calculating the net profit scenario. Such a draconian step will create substantial additional hurdles for investment in the Filipino mining sector.

Added to the proposed introduction of "no go" zones which will effectively blanket most of the country's more prospective regions and the extreme uncertainty over tenement renewal, the situation suggests to Royalco's management that any future involvement in this country may be difficult to justify. This particular exposure will be under review during the current quarter.

### *Corporate*

As previously advised, income from the Weeks Petroleum Royalty interest broadly matches anticipated head office and exploration costs. Royalco remains well placed to take advantage of opportunities that prevailing market conditions may present. The cash position at 31 December 2014 was \$4.05 million – virtually unchanged from the previous quarter.

Management time continued to be focused on completing desk top studies which reflect:

- a) a strong bias in favour of base and precious metals,
- b) projects located in resource development-"friendly" regions,
- c) projects at an advanced stage of identifying acceptable commercial potential, and
- d) projects that possess a readily identifiable exit strategy, i.e. sale for capital profit and/or royalty creation.

A number of potential projects have been identified and will be the subject of negotiation over coming weeks.



Peter J Topham  
Executive Chairman



## Appendix 5B

### Mining exploration entity and oil and gas exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10, 01/05/2013

Name of entity

Royalco Resources Limited

ABN

53 096 321 532

Quarter ended ("current quarter")

December, 2014

#### Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (6 months) \$A'000
1.1 Receipts from product sales and related debtors*	224	480
1.2 Payments for (a) exploration & evaluation	(70)	(130)
(b) development	-	-
(c) production	-	-
(d) administration	(192)	(564)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	32	72
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other (provide details if material)	-	-
<b>Net Operating Cash Flows</b>	<b>(6)</b>	<b>(142)</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of: (a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
1.9 Proceeds from sale of: (a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other (provide details if material)	-	-
<b>Net investing cash flows</b>	<b>-</b>	<b>-</b>
1.13 Total operating and investing cash flows (carried forward)	<b>(6)</b>	<b>(142)</b>

\* Royalties received

## Appendix 5B

### Mining exploration entity and oil and gas exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(6)	(142)
	<b>Cash flows related to financing activities</b>		
1.14	Proceeds from issues of shares, options, etc.	-	-
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid*	-	(527)
1.19	Other (provide details if material)	-	-
	<b>Net financing cash flows</b>	-	(527)
	<b>Net increase (decrease) in cash held</b>	(6)	(669)
1.20	Cash at beginning of quarter/year to date	4,048	4,711
1.21	Exchange rate adjustments to item 1.20		
		4,042	4,042
1.22	<b>Cash at end of quarter</b>		

\* Dividend of 1 cent per share fully franked paid 19/09/14

### Payments to directors of the entity, associates of the directors, related entities of the entity and associates of the related entities

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	121
1.24	Aggregate amount of loans to the parties included in item 1.10	

1.25 Explanation necessary for an understanding of the transactions

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### Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

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2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

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+ See chapter 19 for defined terms.

### Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities		
3.2 Credit standby arrangements		

### Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	120
4.2 Development	
4.3 Production	
4.4 Administration	220
<b>Total</b>	

### Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	185	155
5.2 Deposits at call	219	263
5.3 Bank overdraft		-
5.4 Other (provide details) Term Deposits	3,638	3,630
<b>Total: cash at end of quarter (item 1.22)</b>	<b>4,042</b>	<b>4,048</b>

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+ See chapter 19 for defined terms.

## Appendix 5B

### Mining exploration entity and oil and gas exploration entity quarterly report

#### Changes in interests in mining tenements and petroleum tenements

	Tenement reference and location	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements and petroleum tenements relinquished, reduced or lapsed			
6.2	Interests in mining tenements and petroleum tenements acquired or increased			

#### Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1	<b>Preference securities</b> (description)	-		
7.2	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions	-  -		
7.3	<b>*Ordinary securities</b>	52,714,183	52,714,183	40 cents
7.4	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	-  -		
7.5	<b>*Convertible debt securities</b> (description)	-		

+ See chapter 19 for defined terms.



**Appendix 5B**  
**Mining exploration entity and oil and gas exploration entity quarterly report**

7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted	- -			
7.7	<b>Options</b> (description and conversion factor)	-		<i>Exercise price</i>	<i>Expiry date</i>
7.8	Issued during quarter	-			
7.9	Exercised during quarter	-			
7.10	Expired during quarter	-			
7.11	<b>Debentures</b> (totals only)	-			
7.12	<b>Unsecured notes</b> (totals only)	-			

Pursuant to Listing Rule 5.3.3 a schedule of Company tenements and interests therein is provided as follows:

**Tenement Status for Quarter ending 30 September 2014**

Tenement Reference	Country	Tenement Holder	Acquired Interest during the Quarter	Disposed Interest during the Quarter	Interest held (%)	NOTE
EP-001A-CAR	Philippines	Royalco Philippines Inc			100%	
EP-005A-2008 CAR	Philippines	Royalco Philippines Inc			100%	
EP-005B-2008 CAR	Philippines	Royalco Philippines Inc			100%	

+ See chapter 19 for defined terms.

**Compliance statement**

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 5).
- 2 This statement does give a true and fair view of the matters disclosed.



29 January, 2015

Sign here: ..... Date: .....  
(Company Secretary)

Print name: Nick Boicos .....

**Notes**

- 1 The quarterly report provides a basis for informing the market how the entity’s activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The “Nature of interest” (items 6.1 and 6.2) includes options in respect of interests in mining tenements and petroleum tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement or petroleum tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 6: Exploration for and Evaluation of Mineral Resources* and *AASB 107: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Financial Reporting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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+ See chapter 19 for defined terms.