

Royalco Resources Limited

ABN 53 096 321 532

Half-year Financial Report - 31 December 2016

Royalco Resources Limited
Corporate directory
31 December 2016

Directors	Mr Peter Topham (Executive Chairman) Mr Malcolm McComas (Non-Executive Director) Ms Susan Thomas (Non-Executive Director)
Company secretary	Mr Nick Boicos
Share register	Security Transfer Registrars Pty Ltd 770 Canning Highway Applecross Western Australia 6133
Auditor	John Wheller FCA Suite 304 22 St Kilda Road St Kilda VIC 3182
Bankers	ANZ Banking Group 388 Collins Street, Melbourne Victoria 3000 Commonwealth Bank of Australia 367 Collins Street, Melbourne Victoria 3000
Stock exchange listing	Royalco Resources Limited shares are listed on the Australian Securities Exchange (ASX code: RCO)
Website	www.royalco.com.au

Royalco Resources Limited
Directors' report
31 December 2016

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of Royalco Resources Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the half-year ended 31 December 2016.

Directors

The following persons were directors of Royalco Resources Limited during the whole of the financial half-year and up to the date of this report, unless otherwise stated:

Mr Peter Topham (Executive Chairman)
Mr Bruce Pertzelt (Non-Executive Director - resigned on 7 March 2017)
Mr Nick Boicos (Non-Executive Director - appointed 24 November 2016 and resigned on 7 March 2017)
Mr Piers Reynolds (Non-Executive Director - resigned 24 November 2016)
Mr Malcolm McComas (Non-Executive Director - resigned 14 October 2016 and reappointed on 22 February 2017)
Ms Susan Thomas (Non-Executive Director - appointed 22 February 2017)
Mr Justin Clyne (Non-Executive Director - appointed 22 February 2017 and resigned on 7 March 2017)

Principal activities

During the financial half-year the principal continuing activities of the consolidated entity consisted of:

- management of resource based royalties

Review of operations

The loss for the consolidated entity after providing for income tax amounted to \$445,915 (31 December 2015: \$313,587).

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the consolidated entity during the financial half-year.

Matters subsequent to the end of the financial half-year

On 17 January 2017, the company sold its interest in an unlisted investment for \$50,272 realising a gain of \$8,000

On 22 February 2017, a general meeting was held and Malcolm McComas, Susan Thomas and Justin Clyne were appointed as Non-Executive Directors.

On 6 March 2017, the off market offer from Fitzroy River Corporation Ltd (FZR) expired. FZR now hold 24,669,539 fully paid ordinary shares in the company, representing 46.79% of the company's issued capital.

On 7 March 2017, Nick Boicos, Bruce Pertzelt and Justin Clyne resigned as Directors of the company.

No other matter or circumstance has arisen since 31 December 2016 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

Royalco Resources Limited
Directors' report
31 December 2016

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors



P J Topham
Executive Chairman

14 March 2017
Melbourne

Royalco Resources Limited
Chairman's Address
31 December 2016

Royalco Resources Limited recorded a loss of \$445,915 on revenue of \$323,857 for the six months period ending 31 December 2016.

Royalty Interests

Royalty income for the six month period was sourced from the interests held in the ***Weeks Petroleum Royalty*** (hydrocarbons) and the ***Mt Garnet Royalty*** (zinc and copper).

Production from the Bass Strait fields covered by the Weeks Petroleum Royalty continues to generate mixed results with rising east coast gas prices being offset by ongoing industrial action that continues to restrict oil production.

Income attributable to the **Mt Garnet Royalty** was \$48,150 which represented the first dividend from the liquidators of Kagara Zinc Limited.

The current operators at Mt Garnet, namely Snow Peak Mining Pty Ltd and Consolidated Tin Mines Limited, (**CSD**), were placed in the hands of administrators on 19 July 2016. A Statement of Claim has been lodged with the administrators and we are advised that a final payment is likely to be received later in March 2017.

In a release to the ASX by CSD dated 23 February 2017, the company is in the process of drilling at Mount Garnet with a view to restarting production in the short term.

Silver Mines Limited, (**SVL**), completed the acquisition of the **Bowden's** silver project, where Royalco retains a royalty interest, during the second half of 2016, SVL have made a number of positive announcements with respect to this project and are progressing with the requisite Environmental Impact Statement and subsequent feasibility studies.

No announcements of note have been made on Royalco's remaining royalty interests.

Corporate

A fully franked dividend (0.5 cents per share) was paid during the period and this represents the last dividend anticipated to be distributed in the foreseeable future.

On 14 October 2016, Mr Malcolm McComas resigned from the Board as a non-executive Director.

On 19 October 2016, Fitzroy River Corporation Limited (**FZR**) made an on-market takeover offer for Royalco at 18 cents per share. This offer expired on 12 December 2016. On 14 December, FZR announced an off-market takeover offer at 20 cents per share. This offer was reviewed by Royalco and was recommended to shareholders in the Target's Statement dated 19 December 2017. The offer closed on 6 March 2017 and FZR now own 46.8% of Royalco's total issued share capital.

On 23 November 2016, Mr Piers Reynolds resigned as a non-executive Director. Mr Nick Boicos was appointed to the Board on the same day.

As part of the Royalco 2016 Annual General Meeting, shareholders recorded a second strike to the Remuneration Report which caused the company to convene a General Meeting of shareholders that was held on 22 February 2017.

An existing director Mr Bruce Pertzel nominated and was re-elected and a further three Directors (Malcolm McComas, Sue Thomas and Justin Clyne) were also elected as directors. Following an internal review, the Board resolved to reduce its size to 3 directors comprising Malcolm McComas, Sue Thomas and Peter Topham. This change was announced on 7 March 2017.

Royalco continues to review new investments in the resources sector and several opportunities are being pursued.

Peter Topham

AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

To the Directors of Royalco Resources Limited:

I declare that to the best of my knowledge and belief, in relation to the Independent Half-year Auditor's Review for the half-year ending 31 December 2016, there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the review



JOHN WHELLER.
Registered Company Auditor
Registration 9003

14 March 2017

Royalco Resources Limited

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General information

The financial statements cover Royalco Resources Limited as a consolidated entity consisting of Royalco Resources Limited and the entities it controlled at the end of, or during, the half-year. The financial statements are presented in Australian dollars, which is Royalco Resources Limited's functional and presentation currency.

Royalco Resources Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 1
394-396 Little Bourke Street
Melbourne
Victoria 3000

A description of the nature of the consolidated entity's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 9 March 2017. The directors have the power to amend and reissue the financial statements.

Royalco Resources Limited
Statement of profit or loss and other comprehensive income
For the half-year ended 31 December 2016

		Consolidated	
	Note	December 2016 \$	December 2015 \$
Revenue	3	323,857	476,678
Expenses			
Administration expenses		(279,401)	(244,020)
Employee benefits expense		(238,688)	(240,760)
Depreciation and amortisation expense		(2,275)	(1,825)
Exploration expenditure written off		(19,000)	(43,184)
Amortisation of royalty rights		(212,500)	(212,500)
Other expenses		(17,908)	(47,976)
Loss before income tax expense		(445,915)	(313,587)
Income tax expense		-	-
Loss after income tax expense for the half-year attributable to the owners of Royalco Resources Limited		(445,915)	(313,587)
Other comprehensive income for the half-year, net of tax		-	-
Total comprehensive income for the half-year attributable to the owners of Royalco Resources Limited		<u>(445,915)</u>	<u>(313,587)</u>
		Cents	Cents
Basic earnings per share		(0.85)	(0.59)
Diluted earnings per share		(0.85)	(0.59)

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

Royalco Resources Limited
Statement of financial position
As at 31 December 2016

		Consolidated	
	Note	December 2016 \$	June 2016 \$
Assets			
Current assets			
Cash and cash equivalents		2,633,725	3,085,378
Trade and other receivables	4	122,945	199,837
Other		5,417	5,417
Total current assets		<u>2,762,087</u>	<u>3,290,632</u>
Non-current assets			
Property, plant and equipment		4,434	6,709
Intangibles	5	6,965,372	7,177,872
Other financial assets		42,272	24,000
Total non-current assets		<u>7,012,078</u>	<u>7,208,581</u>
Total assets		<u>9,774,165</u>	<u>10,499,213</u>
Liabilities			
Current liabilities			
Trade and other payables		45,871	71,130
Employee benefits		259,588	251,649
Total current liabilities		<u>305,459</u>	<u>322,779</u>
Non-current liabilities			
Employee benefits		7,756	5,998
Total non-current liabilities		<u>7,756</u>	<u>5,998</u>
Total liabilities		<u>313,215</u>	<u>328,777</u>
Net assets		<u>9,460,950</u>	<u>10,170,436</u>
Equity			
Issued capital		12,321,611	12,321,611
Accumulated losses		(2,860,661)	(2,151,175)
Total equity		<u>9,460,950</u>	<u>10,170,436</u>

The above statement of financial position should be read in conjunction with the accompanying notes

Royalco Resources Limited
Statement of changes in equity
For the half-year ended 31 December 2016

Consolidated	Contributed equity \$	Retained profits \$	Total equity \$
Balance at 1 July 2015	12,321,611	(871,847)	11,449,764
Loss after income tax expense for the half-year	-	(313,587)	(313,587)
Other comprehensive income for the half-year, net of tax	-	-	-
Total comprehensive income for the half-year	-	(313,587)	(313,587)
<i>Transactions with owners in their capacity as owners:</i>			
Dividends paid (note 6)	-	(263,571)	(263,571)
Balance at 31 December 2015	<u>12,321,611</u>	<u>(1,449,005)</u>	<u>10,872,606</u>
Consolidated	Contributed equity \$	Retained profits \$	Total equity \$
Balance at 1 July 2016	12,321,611	(2,151,175)	10,170,436
Loss after income tax expense for the half-year	-	(445,915)	(445,915)
Other comprehensive income for the half-year, net of tax	-	-	-
Total comprehensive income for the half-year	-	(445,915)	(445,915)
<i>Transactions with owners in their capacity as owners:</i>			
Dividends paid (note 6)	-	(263,571)	(263,571)
Balance at 31 December 2016	<u>12,321,611</u>	<u>(2,860,661)</u>	<u>9,460,950</u>

The above statement of changes in equity should be read in conjunction with the accompanying notes

Royalco Resources Limited
Statement of cash flows
For the half-year ended 31 December 2016

	Note	Consolidated December 2016 \$	December 2015 \$
Cash flows from operating activities			
Payments to suppliers		(589,526)	(566,534)
Interest received		40,490	49,526
Royalty received		<u>379,226</u>	<u>410,892</u>
Net cash used in operating activities		<u>(169,810)</u>	<u>(106,116)</u>
Cash flows from investing activities			
Payments for investments		<u>(18,272)</u>	<u>(36,000)</u>
Net cash used in investing activities		<u>(18,272)</u>	<u>(36,000)</u>
Cash flows from financing activities			
Dividends paid	6	<u>(263,571)</u>	<u>(263,571)</u>
Net cash used in financing activities		<u>(263,571)</u>	<u>(263,571)</u>
Net decrease in cash and cash equivalents		(451,653)	(405,687)
Cash and cash equivalents at the beginning of the financial half-year		<u>3,085,378</u>	<u>3,789,712</u>
Cash and cash equivalents at the end of the financial half-year		<u><u>2,633,725</u></u>	<u><u>3,384,025</u></u>

The above statement of cash flows should be read in conjunction with the accompanying notes

Royalco Resources Limited
Notes to the financial statements
31 December 2016

Note 1. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 31 December 2016 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2016 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

New or amended Accounting Standards and Interpretations adopted

The consolidated entity has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Note 2. Operating segments

Identification of reportable operating segments

The consolidated entity is organised into one operating segment : management of resource based royalties. This operating segment is based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources.

Note 3. Revenue

	Consolidated	
	December	December
	2016	2015
	\$	\$
<i>Sales revenue</i>		
Royalty	287,130	421,381
<i>Other revenue</i>		
Interest	36,727	48,097
Other revenue	-	7,200
	<u>36,727</u>	<u>55,297</u>
Revenue	<u>323,857</u>	<u>476,678</u>

Royalco Resources Limited
Notes to the financial statements
31 December 2016

Note 4. Current assets - trade and other receivables

	Consolidated	
	December	June 2016
	2016	2016
	\$	\$
Trade receivables	-	115,523
Less: Provision for impairment of receivables	-	(105,020)
	<u>-</u>	<u>10,503</u>
Other receivables	18,967	-
Royalty receivable	99,480	181,073
Interest receivable	4,498	8,261
	<u>122,945</u>	<u>199,837</u>

Note 5. Non-current assets - intangibles

	Consolidated	
	December	June 2016
	2016	2016
	\$	\$
Royalty rights - at cost	8,819,738	8,819,738
Less: Accumulated amortisation	(1,854,366)	(1,641,866)
	<u>6,965,372</u>	<u>7,177,872</u>

Reconciliations

Reconciliations of the written down values at the beginning and end of the current financial half-year are set out below:

Consolidated	Royalty rights \$	Total \$
Balance at 1 July 2016	7,177,872	7,177,872
Amortisation expense	(212,500)	(212,500)
Balance at 31 December 2016	<u>6,965,372</u>	<u>6,965,372</u>

Note 6. Equity - dividends

Dividends paid during the financial half-year were as follows:

	Consolidated	
	December	December
	2016	2015
	\$	\$
Final dividend of 0.5 cents per ordinary, fully franked based on a tax rate of 30% (December 2015 0.5 cents per ordinary share)	<u>263,571</u>	<u>263,571</u>

Note 7. Contingent liabilities

There were no contingent liabilities in existence at 31 December 2016 and 31 December 2015.

Royalco Resources Limited
Notes to the financial statements
31 December 2016

Note 8. Events after the reporting period

On 17 January 2017, the company sold its interest in an unlisted investment for \$50,272 realising a gain of \$8,000

On 22 February 2017, a general meeting was held and Malcolm McComas, Susan Thomas and Justin Clyne were appointed as Non-Executive Directors.

On 6 March 2017, the offer market off from Fitzroy River Corporation Ltd (FZR) expired. FZR now hold 24,669,539 fully paid ordinary shares in the company, representing 46.79% of the company's issued capital.

On 7 March 2017, Nick Boicos, Bruce Pertzelt and Justin Clyne resigned as Directors of the company.

No other matter or circumstance has arisen since 31 December 2016 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Royalco Resources Limited
Directors' declaration
31 December 2016

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the financial half-year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors



P J Topham
Executive Chairman

14 March 2017
Melbourne

INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF ROYALCO RESOURCES LIMITED

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Royalco Resources Limited, which comprises the statement of financial position as at 31 December 2016, and the statement of comprehensive income, statement of changes in equity, cash flows statement for the half-year ended on that date, selected explanatory notes and the directors' declaration of the company and the entities it controlled at the end of the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matters that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the entity's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Royalco Resources Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Auditor's Independence Declaration

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Royalco Resources Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Royalco Resources Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



JOHN WHELLER
Registered Company Auditor
Registration: 9003

14 March 2017