

Royalco Resources Limited

ABN 53 096 321 532

Half-year Financial Report - 31 December 2011

Royalco Resources Limited
Corporate directory
31 December 2011

Directors	Mr Peter Topham Mr David Ogg Mr Bruce Pertzelt Mr Chris Orchard
Company secretary	Mr David Ogg and Mr Nick Boicos
Registered office	Level 1 394-396 Little Bourke Street Melbourne Victoria 3000
Principal place of business	Level 1 394-396 Little Bourke Street Melbourne Victoria 3000
Share register	Security Transfer Registrars Pty Ltd 770 Canning Highway Applecross Western Australia 6133
Auditor	Loren Datt Leydin Freyer Audit Pty Ltd Chartered Accountants Suite 304 22 St Kilda Road St Kilda Victoria 3182
Stock exchange listing	Royalco Resources Limited shares are listed on the Australian Securities Exchange (ASX code: RCO)
Website address	www.royalco.com.au

Royalco Resources Limited
Directors' report
31 December 2011

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 for the half-year ended 31 December 2011.

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 David Ogg (Executive Director)
Mr Bruce Pertzelt (Non Executive Director)
Mr Chris Orchard (Non Executive Director)

Principal activities

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

- management of resource based royalties
- exploration of mineral tenements in the Philippines
- investigating exploration opportunities in Africa.

Review of operations

The profit for the consolidated entity after providing for income tax amounted to \$3,433,339 (31 December 2010: \$3,493,619).

Refer to the separate technical review of operations that follows this Director's report.

Significant changes in the state of affairs

On 23 September the company incorporated a 100% subsidiary in Ethiopia.

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

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 on the following page.

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

8 March 2012
Melbourne

Half Yearly Report Period Ending 31st December 2011

Royalco Resources Limited has recorded a profit of \$3,433,339 (\$3,493,619 in 2010) on revenue of \$5,570,231 (\$5,144,601 2010) for the six months period ending 31st December 2011.

Royalty Interests

During the half year significant royalty income continued to be received from Royalco's portfolio of royalty interests. Four out of the ten royalty interests held contributed to revenue.

Whilst the cessation of mining at both Mt Garnet and Dagworth will reduce the number of producing royalties the impact on Royalco's revenue will only be marginal as neither was a major source of income. Conversely, future royalty income has been enhanced with developments at both Bowdens and additional developments at Reefton.

The primary source of royalty income remains the **Reefton** royalty interest where 2,500 ounces of gold was received pre New Zealand withholding tax -2,125 ounces post the withholding tax.

The prices at delivery during the period averaged in excess of A\$1600 per ounce resulting in royalty income of approximately A\$3.5 million for the period.

The operator, Oceana Gold, has advised that substantial drilling/development programs have been commissioned on additional targets in the Reefton region. These include the Blackwater and Big River Prospects which will yield additional royalty payments to Royalco once these projects have been brought into production.

Small contributions from the royalty at **Mt Kelly** continue to be received.

In various recent presentations Kingsgate Consolidated Limited has expressed a desire to commence production on the **Bowdens** silver project by 2014. The Royalco royalty interest on this project commences at a 2% net smelter return until US\$5 million has been received then reverts to a 1% net smelter return for the life of the mine.

Exploration

In the Philippines soil sampling is ongoing in the Yabbe tenement whilst the renewal of the Pao tenement is being progressed. Two substantial typhoons hit this region of Nueva Viscaya during the period slowing down field work.

An application for a third tenement in the region, Conwap, has been lodged and once completed Royalco will hold a dominant and strategic tenement position on major interpreted structures in a corridor south east of Oceana Gold's Didipio Project.

At Gambang, where Vale has an option to purchase, geophysical interpretation is ongoing prior to the next round of drilling.

Royalco Resources Limited
Review of Operations
31 December 2011

Royalco has established a presence in East Africa, based in Ethiopia, and is currently reviewing regions in both Ethiopia and Uganda.

A number of Memorandums of Understanding were executed with a range of parties during the period however none have been progressed to date either for failing subsequent due diligence or the vendors developed unrealistic expectations as to consideration. Royalco wishes to spend money on exploration rather than merely buying a tenement position.

Tenement applications were suspended in Ethiopia during the last quarter of 2011. This suspension has allowed Government authorities to resolve a substantial backlog of administrative issues outstanding and is due to be lifted shortly.

In Uganda Royalco has acquired the geophysical data generated from the Block 1 aerial survey sponsored by the World Bank in 2008. This data has been interpreted by the company's consultant and combined with a commissioned photogeological study of the region. Identified areas of interest are now being pursued.

Peter Topham

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

To the Directors of Royalco Resources Ltd:

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 2011, 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

no contraventions of any applicable code of professional conduct in relation to the review



LOREN DATT
Registered Company Auditor
Registration: 339204

Dated: 8 March 2012

Royalco Resources Limited
Financial report
For the half-year ended 31 December 2011

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General information

The financial report covers Royalco Resources Limited as a consolidated entity consisting of Royalco Resources Limited and the entities it controlled. The financial report is presented in Australian dollars, which is Royalco Resources Limited's functional and presentation currency.

The financial report consists of the financial statements, notes to the financial statements and the directors' declaration.

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 report.

The financial report was authorised for issue, in accordance with a resolution of directors, on 8 March 2012. The directors have the power to amend and reissue the financial report.

Royalco Resources Limited
Statement of comprehensive income
For the half-year ended 31 December 2011

		Consolidated	
	Note	31/12/11	31/12/10
		\$	\$
Revenue	3	5,570,231	5,144,601
Expenses			
Cost of royalty		(30,858)	(35,474)
Administrative expenses		(337,355)	(367,225)
Employee benefits expense		(336,266)	(302,734)
Depreciation and amortisation expense		(1,586)	(20,333)
Exploration expenditure written off		<u>(273,703)</u>	<u>(17,973)</u>
Profit before income tax expense		4,590,463	4,400,862
Income tax expense		<u>(1,157,124)</u>	<u>(907,243)</u>
Profit after income tax expense for the half-year attributable to the owners of Royalco Resources Limited		3,433,339	3,493,619
Other comprehensive income			
Foreign currency translation		<u>202,786</u>	<u>473,978</u>
Other comprehensive income for the half-year, net of tax		<u>202,786</u>	<u>473,978</u>
Total comprehensive income for the half-year attributable to the owners of Royalco Resources Limited		<u><u>3,636,125</u></u>	<u><u>3,967,597</u></u>
		Cents	Cents
Basic earnings per share		6.51	6.63
Diluted earnings per share		6.51	6.21

The above statement of comprehensive income should be read in conjunction with the accompanying notes

Royalco Resources Limited
Statement of financial position
As at 31 December 2011

		Consolidated	
	Note	31/12/11	30/06/11
		\$	\$
Assets			
Current assets			
Cash and cash equivalents		15,227,577	13,772,764
Trade and other receivables		1,003,615	978,221
Financial assets at fair value through profit or loss		1,659,191	1,510,302
Other		-	2,068
Total current assets		<u>17,890,383</u>	<u>16,263,355</u>
Non-current assets			
Receivables		625,625	488,839
Property, plant and equipment		20,830	20,164
Intangibles		481,162	512,020
Exploration and evaluation	4	4,099,631	3,498,148
Deferred tax		102,832	106,602
Other		72,817	81,088
Total non-current assets		<u>5,402,897</u>	<u>4,706,861</u>
Total assets		<u>23,293,280</u>	<u>20,970,216</u>
Liabilities			
Current liabilities			
Trade and other payables		24,787	54,020
Income tax		449,310	700,254
Employee benefits		168,236	188,707
Other		537,579	691,713
Total current liabilities		<u>1,179,912</u>	<u>1,634,694</u>
Non-current liabilities			
Deferred tax		1,012,779	824,896
Employee benefits		210,130	201,958
Total non-current liabilities		<u>1,222,909</u>	<u>1,026,854</u>
Total liabilities		<u>2,402,821</u>	<u>2,661,548</u>
Net assets		<u>20,890,459</u>	<u>18,308,668</u>
Equity			
Contributed equity		12,321,611	12,321,611
Reserves		(159,021)	(361,807)
Retained profits		8,727,869	6,348,864
Total equity		<u>20,890,459</u>	<u>18,308,668</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 2011

	Contributed equity \$	Reserves \$	Retained profits \$	Total equity \$
Consolidated				
Balance at 1 July 2010	12,321,611	249,269	1,079,250	13,650,130
Other comprehensive income for the half-year, net of tax	-	473,978	-	473,978
Profit after income tax expense for the half-year	-	-	3,493,619	3,493,619
Total comprehensive income for the half-year	-	473,978	3,493,619	3,967,597
Balance at 31 December 2010	<u>12,321,611</u>	<u>723,247</u>	<u>4,572,869</u>	<u>17,617,727</u>
	Contributed equity \$	Reserves \$	Retained profits \$	Total equity \$
Consolidated				
Balance at 1 July 2011	12,321,611	(361,807)	6,348,864	18,308,668
Other comprehensive income for the half-year, net of tax	-	202,786	-	202,786
Profit after income tax expense for the half-year	-	-	3,433,339	3,433,339
Total comprehensive income for the half-year	-	202,786	3,433,339	3,636,125
<i>Transactions with owners in their capacity as owners:</i>				
Dividends paid	-	-	(1,054,334)	(1,054,334)
Balance at 31 December 2011	<u>12,321,611</u>	<u>(159,021)</u>	<u>8,727,869</u>	<u>20,890,459</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 2011

Note	Consolidated	
	31/12/11	31/12/10
	\$	\$
Cash flows from operating activities		
Payments to suppliers (inclusive of GST)	(604,319)	(576,806)
Interest received	444,336	218,678
Royalty received	1,148,207	516,247
Income taxes paid	<u>(1,216,415)</u>	<u>(597,976)</u>
Net cash used in operating activities	<u>(228,191)</u>	<u>(439,857)</u>
Cash flows from investing activities		
Payments for property, plant and equipment	(2,252)	-
Payments for exploration and evaluation	4 (724,265)	(375,553)
Proceeds from sale of financial assets	<u>3,463,855</u>	<u>5,863,514</u>
Net cash from investing activities	<u>2,737,338</u>	<u>5,487,961</u>
Cash flows from financing activities		
Dividends paid	5 <u>(1,054,334)</u>	<u>-</u>
Net cash used in financing activities	<u>(1,054,334)</u>	<u>-</u>
Net increase in cash and cash equivalents	1,454,813	5,048,104
Cash and cash equivalents at the beginning of the financial half-year	<u>13,772,764</u>	<u>7,112,774</u>
Cash and cash equivalents at the end of the financial half-year	<u><u>15,227,577</u></u>	<u><u>12,160,878</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 2011

Note 1. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 31 December 2011 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001.

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 2011 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.

New, revised or amending Accounting Standards and Interpretations adopted

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

Any new, revised or amending 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 two operating segments: royalty and exploration. These operating segments are 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. There is no aggregation of operating segments.

The CODM reviews both adjusted earnings before interest, tax, depreciation and amortisation (segment result) and profit before income tax.

The information reported to the CODM is on at least a monthly basis.

Types of products and services

The principal products and services of each of the two operating segments are as follows:

Royalty	Management of resource based royalties
Exploration	exploration of mineral tenements in the Philippines

Royalco Resources Limited
Notes to the financial statements
31 December 2011

Note 2. Operating segments (continued)

Operating segment information

31/12/11	Royalty Royalties	Exploration Exploration	Intersegment eliminations/ unallocated	Consolidated
	\$	\$	\$	\$
Revenue				
Sales to external customers	4,913,460	184,300	-	5,097,760
Total sales revenue	4,913,460	184,300	-	5,097,760
Other income	-	-	472,471	472,471
Total revenue	<u>4,913,460</u>	<u>184,300</u>	<u>472,471</u>	<u>5,570,231</u>
Segment result	4,913,460	27,864	(320,003)	4,621,321
Cost of royalty	(30,858)	-	-	(30,858)
Profit/(loss) before income tax expense	<u>4,882,602</u>	<u>27,864</u>	<u>(320,003)</u>	4,590,463
Income tax expense				(1,157,124)
Profit after income tax expense				<u>3,433,339</u>
Assets				
Segment assets	3,196,477	4,099,631	15,997,172	23,293,280
Total assets				<u>23,293,280</u>
Liabilities				
Segment liabilities	-	657,229	1,745,592	2,402,821
Total liabilities				<u>2,402,821</u>

Royalco Resources Limited
Notes to the financial statements
31 December 2011

Note 2. Operating segments (continued)

	Royalty	Exploration	Intersegment eliminations/ unallocated	Consolidated
	\$	\$	\$	\$
31/12/10				
Revenue				
Sales to external customers	4,791,903	-	-	4,791,903
Total sales revenue	4,791,903	-	-	4,791,903
Other income	-	-	352,698	352,698
Total revenue	4,791,903	-	352,698	5,144,601
Segment result	4,791,903	(78,761)	(483,712)	4,229,430
Depreciation and amortisation	-	(19,073)	(1,260)	(20,333)
Interest revenue	-	-	245,212	245,212
Exploration expenditure written off	-	(17,973)	-	(17,973)
Cost of royalty	(35,474)	-	-	(35,474)
Profit/(loss) before income tax expense	4,756,429	(115,807)	(239,760)	4,400,862
Income tax expense				(907,243)
Profit after income tax expense				3,493,619
30/06/11				
Assets				
Segment assets	2,785,300	3,498,148	14,686,768	20,970,216
Total assets				20,970,216
Liabilities				
Segment liabilities	-	691,713	1,969,835	2,661,548
Total liabilities				2,661,548

Note 3. Revenue

	Consolidated	
	31/12/11	31/12/10
	\$	\$
<i>Sales revenue</i>		
Royalty	4,913,460	4,203,864
<i>Other revenue</i>		
Interest	426,539	245,212
Joint venture option fee	184,300	588,039
Net fair value gain (loss) on available-for-sale assets	-	(45,368)
Profit on sale of financial assets	45,932	152,854
	<u>656,771</u>	<u>940,737</u>
Revenue	<u>5,570,231</u>	<u>5,144,601</u>

Royalco Resources Limited
Notes to the financial statements
31 December 2011

Note 4. Non-current assets - exploration and evaluation

	Consolidated	
	31/12/11	30/06/11
	\$	\$
Exploration and evaluation	4,099,631	3,498,148
	<u>4,099,631</u>	<u>3,498,148</u>
	<u>4,099,631</u>	<u>3,498,148</u>

Reconciliations

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

	Exploration & evaluation	Total
	\$	\$
Consolidated		
Balance at 1 July 2011	3,498,148	3,498,148
Additions	<u>601,483</u>	<u>601,483</u>
Balance at 31 December	<u>4,099,631</u>	<u>4,099,631</u>

Included in this balance is expenditure totalling \$2,722,061 relating to Filipino tenements currently being reviewed. The directors are confident that these leases will be successfully renewed.

Note 5. Equity - dividends

	Consolidated	
	31/12/11	31/12/10
	\$	\$
Final dividend for the year ended 30 June 2011 of 2 cents per ordinary share paid on 29th August 2011, fully franked based on a tax rate of 30%	<u>1,054,334</u>	<u>-</u>

Note 6. Contingent liabilities

There were no contingent liabilities in existence at 31 December 2011 and 31 December 2010.

Note 7. Commitments

There has been no material change in the Group's commitments since the last reporting period.

Royalco Resources Limited
Notes to the financial statements
31 December 2011

Note 8. Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1:

Name of entity	Country of incorporation	Equity holding	
		31/12/11	30/06/11
		%	%
Royalco Philippines Inc	Philippines	100.00	100.00
Ginto Minerals Pty Ltd	Australia	100.00	100.00
Royalco Resources (No1) Pty Ltd	Australia	100.00	100.00
Royalco Resources Cambodia Ltd	Cambodia	100.00	100.00
Royalco Mining PLC *	Ethiopia	100.00	-

* on 23 September the company incorporated a 100% subsidiary in Ethiopia.

Note 9. Events after the reporting period

No matter or circumstance has arisen since 31 December 2011 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

In the directors' opinion:

- the attached financial statements and notes thereto 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 thereto give a true and fair view of the consolidated entity's financial position as at 31 December 2011 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) of the Corporations Act 2001.

On behalf of the directors

A handwritten signature in blue ink, appearing to read 'P. J. Topham', is written over a horizontal line. The signature is stylized and includes a long horizontal stroke extending to the right.

P J Topham
Executive Chairman

8 March 2012
Melbourne

INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF ROYALCO RESOURCES LTD AND CONTROLLED ENTITIES

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Royalco Resources Ltd and controlled entities ("Group"), which comprises the statement of financial position as at 31 December 2011, and the statement of comprehensive income, statement of changes in equity, cash flow statement for the half-year ended on that date, selected explanatory notes and the directors' declaration of the company 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 and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 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 2011 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 audit opinion.

Auditor's Independence Declaration

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

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 Ltd and controlled entities ("Group") is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the entity's financial position as at 31 December 2011 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*.



LOREN DATT
Registered Company Auditor
Registration: 339204

Dated: 8 March 2012