

December 2012 Quarterly Report

25 January 2013

Royalco Resources is continuing to emphasise exploration initiatives in the medium term while anticipated revenue from the royalty portfolio comes to fruition in subsequent periods.

KEY POINTS

1. **Exploration – Philippines:** Trenching and soil sampling is ongoing at the Pao Project. Ground geophysics should be completed in February.
2. **Exploration – East Africa:** Seven tenements have been applied for in Uganda and are currently awaiting approval.
3. **Significant future royalty income should be derived from extensions to the Reefton Project in New Zealand and the development of the Bowdens Project in New South Wales.**

CORPORATE DETAILS

ASX Code: RCO

Issued Capital: 52,714,183 shares

Share Price: 51 cents

Market Capitalisation: \$26.9 million

Cash/Liquids: \$18.5 million

Major Shareholders

Acorn 14.89%

Directors 19.01%

Anglo Pacific 34.11%

Directors

Peter Topham Executive Chairman

David Ogg Executive Director

Bruce Pertzel Director

Piers Reynolds Director

The company's strategy is to expand a core royalty portfolio of income-producing base and precious metals 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

The first component of the royalty agreement for the ***Reefton Project*** in New Zealand has been completed and the second component will commence from production outside the Globe Progress environs which includes projects such as Blackwater.

The operator at ***Reefton***, Oceana Gold, has provided guidance as to the scoping studies for Blackwater which suggest an annual production rate of 50,000 to 60,000 ounces. If achieved and using the current spot price for gold, this would equate to approximately \$A2.5 million to \$A3.0 million a year payable to Royalco.

On the ***Bowdens Project*** in NSW, where Kingsgate Consolidated Limited is the operator, positive news continues. The resource base, as announced by Kingsgate to the ASX on 19 November 2012, has increased to 182 million ounces AgEq (silver equivalent), with a view to completing a definitive feasibility study by mid-2013.

The Royalco royalty interest on 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.

At the ***Sam's Creek Project*** in New Zealand, where Royalco holds a 1% royalty interest, MOD Resources Limited reported on 25 June 2012 a resource of 1.024 million ounces of gold following the first stage of drilling. A second stage is under way. MOD is earning up to an 80% interest in this project.

At ***Mount Garnet*** the Administrator on behalf of Kagara Limited was served documentation in support of Royalco's claim for unpaid royalties amounting to \$145,000. In addition the Administrator approved some further production from the small amount of stockpiled Mount Garnet ore. The royalty receivable on this short production run is an additional \$45,000.

During the quarter, a sale agreement between the Administrator and Snow Creek Mining Pty Ltd was entered into which, if completed, will see Snow Creek Mining become the new operator for the Mount Garnet Project. Royalco retains a 3% net smelter return on the Project.

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.

Exploration activities are now being undertaken in both the ***Philippines*** and ***East Africa*** with these two regions offering significant prospectivity and satisfactory risk/reward scenarios versus sovereign risk assessments. The Philippines is more mature in terms of the quantity of exploration and, given its recognised high potential for fresh discoveries, remains of strong commercial interest. East Africa on the other hand has had little modern exploration but, despite

this lack of technical support, has generated a number of substantial discoveries in the past few decades.

Philippines

Pao (gold/copper) 100%

Access was re-established to the Manidyo-Digyan region of the concession during the quarter and exploration recommenced with additional soil sampling and trenching.

The trenching is investigating bedrock in a north-easterly trending structural corridor between the Manidyo and Digyan mineralised enargite vein occurrences with a view to planning a drilling program.

Trench 1 has been mapped and sampled up to 591m. Significant gold intercepts, mostly in silica-clay-hematite/limonite altered breccia, are as follows:

- 78m @ 0.45g/t Au (from 78-156m)
- 57m @ 0.30g/t Au (from 222-279m)
- 69m @ 0.36g/t Au (from 381-450m)

Note: * metres are measured as lineal metres at bedrock levels in the contour trench. Individual samples were collected over three metre intervals in continuous channels. In diamond drill intercepts metres are measured down hole. True widths of mineralised zones are not known

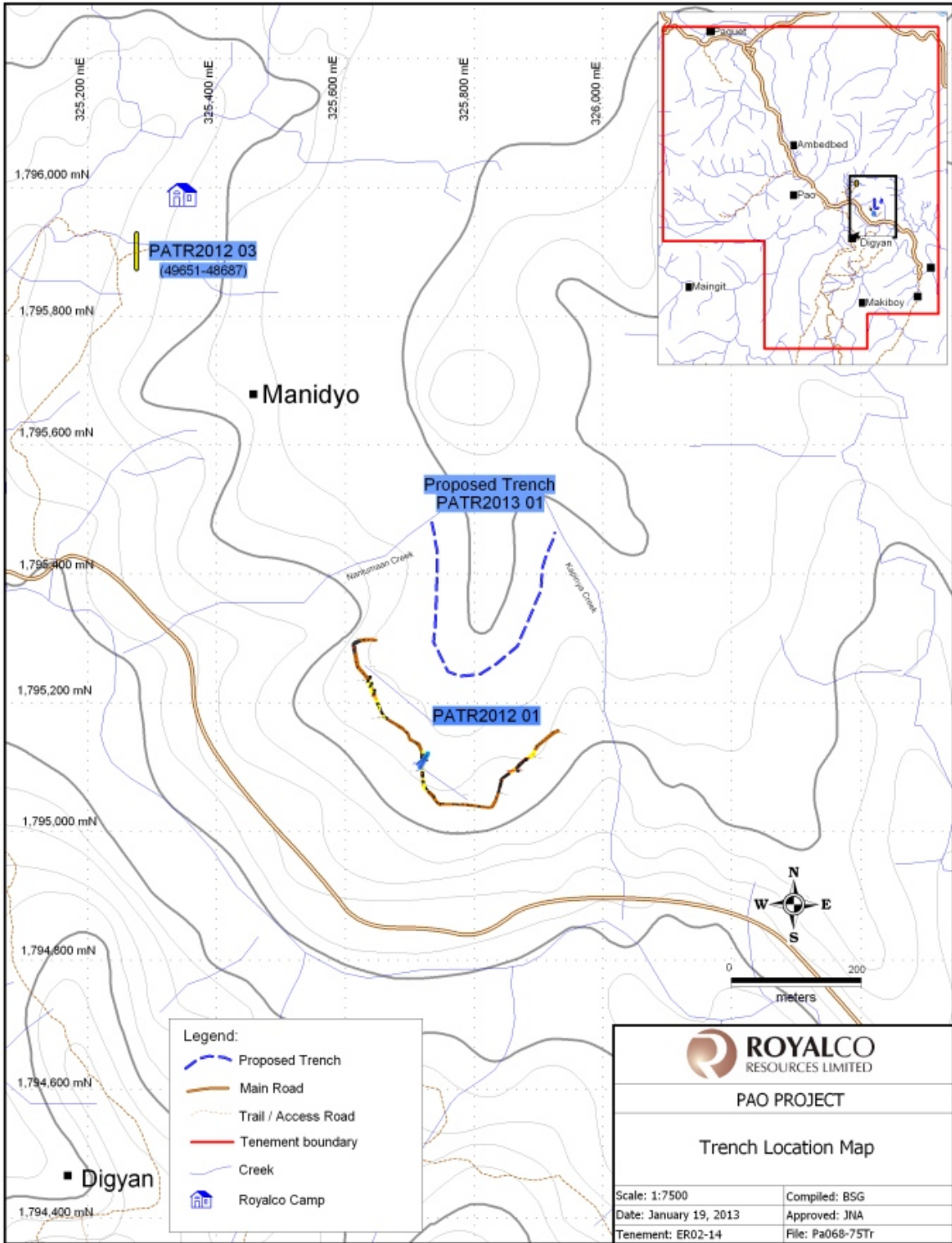
Trench 2 is another contour trench which is about 50m higher in elevation and 200m to the north compared with Trench 1. Excavation has now commenced.

(See following maps.)

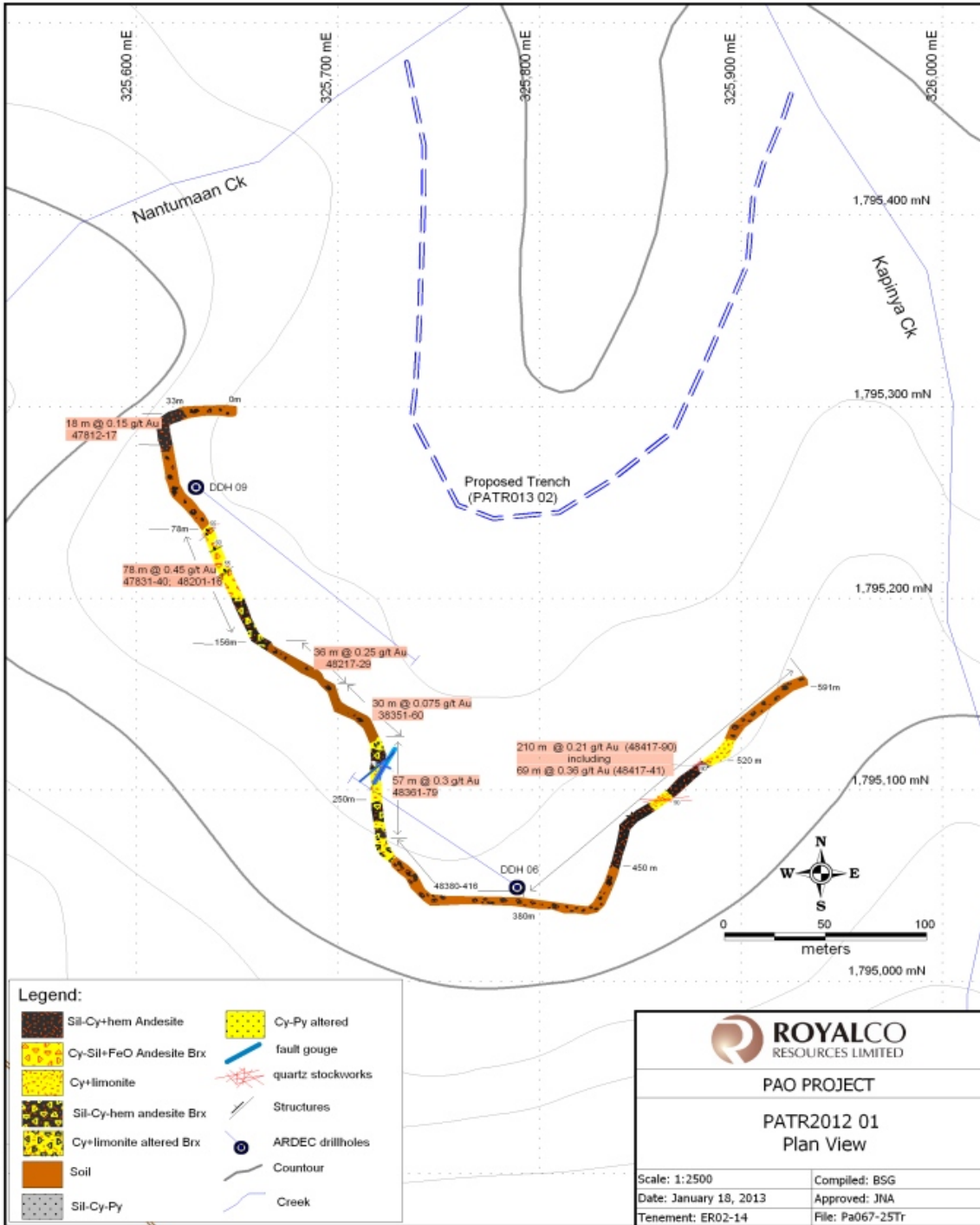
An IP-Res survey commenced in December to further investigate coincident IP and resistivity anomalies historically generated within the Manidyo-Digyan structural corridor. A ground magnetic survey will also be run over the same grid to better define discrete magnetic highs generated by the historic airborne survey.

Results from these surveys will be reviewed over coming weeks to assist with the design of the drilling program.

PAU PROJECT – TRENCH LOCATION



PAO PROJECT – TRENCH PLAN VIEW



Yabbe (gold/copper) 100%

Exploration of Phase 3 will commence once NCIP approvals are in place. Priority in the short term is being given to activities on the adjoining Pao tenement.

Conwap (gold/copper) 100%

Administrative requirements to convert the existing FTA application licence to an Exploration Permit are ongoing and will be advanced once Phase 3 approval at Yabbe has been finalised.

The above three tenements in Nueva Viscaya will provide Royalco Resources with a dominant and strategic tenement position on major interpreted structures in a corridor south-west of Oceana Gold's Didipio Project.

Gambang (copper) 100%

As Royalco advised the ASX on 13 November 2012, Vale withdrew from the option to purchase this tenement. Such a withdrawal was consistent with that company's global review of its commitments rather than a reflection on the project area itself.

Subsequent to this announcement approaches have been received from a number of major mining groups considering involvement in the Gambang tenement. A review of data with these parties has been initiated.

The renewal process for Phases 2 and 3 of the tenement is being progressed.

East Africa

Royalco has continued to build up its presence in East Africa. Initial activity is focussed on Uganda.

Uganda

Processing by the Ugandan Government of the company's applications for Exploration Licences, lodged in the June 2012 quarter, was not completed in the December 2012 quarter. This was not as expected. However the company is hopeful the processing for these applications – and another application lodged in mid-January 2013 – will be processed before the end of the March 2013 quarter.

Royalco now has seven applications before the Ugandan Government for processing – aggregating a total of 580 square kilometres – that encompass prospective Nyanzian Greenstones in south-east Uganda, flanked in part by younger intrusives. This terrain is considered prospective for Archean orogenic-style gold mineralisation similar to that found in Kenya, to the east, and at operating mines in the Lake Victoria Goldfields in Tanzania on the south-western side of Lake Victoria.

The Kakmega Project, a Kenyan series of deposits, sold by Aviva Corporation during the quarter to African Barrick for \$20 million, is also located in the Nyanzian Greenstones.

Corporate

A fully franked dividend of 2 cents per share should be paid by late February with further details to be announced shortly.

The company retains a healthy franking credit balance and further fully franked dividends are anticipated. The amount may vary according to the company's prevailing financial commitments.

The strength of the company's financial position leaves it well placed to take advantage of any opportunities presented in the current market conditions.

The information in this report as it relates to geology, geochemical, geophysical and exploration results was compiled by Mr. Bruce Pertzelt FAusIMM, who is a Competent Person and has in excess of 5 years' experience in the minerals industry and the activities being reported on. Mr. Pertzelt is a director of the company and consents to the inclusion of this information in the form and context in which it appears in this report.



Peter J Topham
Executive Chairman

Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001, 01/06/10.

Name of entity

Royalco Resources Ltd

ABN

53 096 321 532

Quarter ended ("current quarter")

December 2012

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (6months) \$A'000
1.1 Receipts from product sales and related debtors *	-	2,516
1.2 Payments for (a) exploration & evaluation	(434)	(817)
(b) development	-	-
(c) production	-	-
(d) administration	(262)	(511)
1.3 Dividends received		
1.4 Interest and other items of a similar nature received	95	283
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	(6)	(248)
1.7 Other (provide details if material)	(10)	(10)
Net Operating Cash Flows	(617)	1,213
Cash flows related to investing activities		
1.8 Payment for purchases of: (a) prospects	-	-
(b) equity investments	(412)	(412)
(c) other fixed assets	-	-
1.9 Proceeds from sale of: (a) prospects	-	-
(b) equity investments	350	350
(c) other fixed assets	-	-
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other (provide details if material)	-	-
Net investing cash flows	(62)	(62)
1.13 Total operating and investing cash flows (carried forward)	(679)	1,151

* Royalties received..

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(679)	1,830
	Cash flows related to financing activities		
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 *	-	(1,054)
1.19	Other (provide details if material)	-	-
	Net financing cash flows	-	(1,054)
	Net increase (decrease) in cash held	(679)	97
1.20	Cash at beginning of quarter/year to date	18,592	17,816
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	17,913	17,913

* Dividend of 2c per share (fully franked) paid 20/08/2012.

Payments to directors of the entity and associates of the directors
Payments to 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	173
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

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

Nil

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

Nil

Financing facilities available

Add notes as necessary for an understanding of the position.

Amount available \$A'000	Amount used \$A'000

+ See chapter 19 for defined terms.

3.1	Loan facilities	-	-
3.2	Credit standby arrangements	-	-

Estimated cash outflows for next quarter

		\$A'000
4.1	Exploration and evaluation	700
4.2	Development	-
4.3	Production	-
4.4	Administration	248
Total		948

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	395	487
5.2 Deposits at call	6,117	12,319
5.3 Bank overdraft	-	-
5.4 Other (provide details) Bank term deposits	11,401	5,786
Total: cash at end of quarter (item 1.22)	17,913	18,592

Changes in interests in mining tenements

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

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

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 Preference +securities <i>(description)</i>				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 +Ordinary securities	52,714,183	52,714,183	40 cents	40 cents
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	-	-	-	-
7.5 +Convertible debt securities <i>(description)</i>	-	-	-	-
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 Options <i>(description and conversion factor)</i>	-	-	<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 Debentures <i>(totals only)</i>				
7.12 Unsecured notes <i>(totals only)</i>				

+ 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 4).
- 2 This statement does give a true and fair view of the matters disclosed.



25 January, 2013

Sign here: Date:
(Director/Company secretary)

Print name: David L Ogg.....

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 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, 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 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting 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.