

13th May 2010

## Proposed Return of Capital

Dear Shareholder,

Your directors have determined that a cash distribution of approximately \$5.27 million should be made to Royalco shareholders in the form of a return of capital of 10 cents per share. This distribution is to be made due to Royalco having surplus cash for its current operations. As previously announced to the market, as at 28 April 2010 Royalco had cash/liquid assets of approximately \$14.2 million.

Your directors have reviewed Royalco's financial position and its ongoing cash requirements and have concluded that its cash/liquid assets are more than adequate to continue its development and objectives on the basis that it expects continued cash inflows from royalties, minimal expenditure commitments over the next 6 months and has no immediate other opportunities for acquisitions. Accordingly, the directors consider that it would be in shareholders' interests to return some of the surplus funds to shareholders at this time.

The proposed return of capital must be approved by Royalco's shareholders at a general meeting. Royalco also proposes a special resolution to amend its constitution to allow for certain alterations of capital, including reductions of capital.

Details relating to the proposed return of capital and the changes to Royalco's constitution are set out in the attached copy of the Notice of Meeting and Explanatory Memorandum for the shareholders meeting.

The meeting is to be held at 10:00 am on Wednesday 16<sup>th</sup> June 2010 at the offices of Baker & McKenzie, Level 19, 181 William Street, Melbourne. These documents are being dispatched to shareholders.



Peter Topham  
Executive Chairman

## NOTICE OF GENERAL MEETING

Notice is given that a General Meeting of shareholders of Royalco Resources Limited (the "Company" or "Royalco") will be held at the offices of Baker & McKenzie, Level 19, 181 William Street, Melbourne at **10:00 am on Wednesday 16th June 2010**.

### 1. Capital Reduction

To consider and if thought fit, pass the following resolution as an ordinary resolution:

"Subject to Resolution 2 being passed, that, on the basis set out in the Explanatory Statement and for all purposes, the capital of the Company be reduced by an aggregate of approximately \$5.27 million by means of a distribution of 10 cents per share to the holders of fully paid ordinary shares in the Company ("Distribution"), such distribution to be made pro rata to the number of fully paid ordinary shares in the Company held by each shareholder as at 7.00 pm Australian Eastern Standard Time on 24 June 2010 ("Record Date"), to be effected in accordance with the Company's Constitution, the ASX Listing Rules and as otherwise determined by the directors of the Company."

### 2. Amendments to Constitution

To consider and if thought fit, pass the following resolution as a special resolution:

"That the Company's Constitution be amended by inserting a new rule 2.6 as follows:

#### "2.6 Alterations to Share Capital

- (a) Subject to the Corporations Act and the Listing Rules, the company may reduce its capital in any manner, including by way of distributing specific assets, including securities of the company or of any other corporation, trust or entity. If the company distributes securities of any other corporation, each member consents to being a member of the other corporation and being bound by its constitution.
- (b) Subject to the Corporations Act, the directors may do anything required to give effect to any resolution which alters the company's share capital. Where a member becomes entitled to a fraction of a share, this power includes:
  - (1) making cash payments;
  - (2) determining that fractions may be disregarded to adjust the rights of all parties;
  - (3) appointing a trustee to deal with any fractions on behalf of members; and
  - (4) rounding up each fractional entitlement to the nearest whole share by capitalising any amount available for capitalisation even though only some of the members may participate in the capitalisation.
- (c) The company may:
  - (1) convert all or any of its shares into a larger or smaller number of shares. Any amount unpaid on the shares being converted is divided equally among the replacement shares; and
  - (2) cancel shares which have been forfeited."

# PROXY AND VOTING INSTRUCTIONS

## Voting Entitlements

For the purposes of the meeting, shares will be taken to be held by the persons who are registered as shareholders as at 7.00pm on Monday 14th June 2010.

## Proxies

If you are a shareholder entitled to attend and vote, you are entitled to appoint one or two proxies. Where two proxies are appointed, you may specify the number or proportion of votes that each may exercise, failing which each may exercise half of the votes. A proxy need not be a shareholder of the Company.

If you wish to appoint one proxy, please use the form provided. If you wish to appoint two proxies, please follow the instructions on the reverse side of the proxy form.

The Company's Constitution provides that on a show of hands, every person present and qualified shall have one vote. If you appoint one proxy, that proxy may vote on a show of hands, but if you appoint two proxies, neither proxy may vote on a show of hands.

If you appoint a proxy who is also a shareholder or is also a proxy for another shareholder, your directions may not be effective on a show of hands. But your direction will be effective if a poll is required and your proxy votes.

To be effective, the proxy form must be received by fax to the Company at 03 9670 4479, or at our registered office, Level 9, 356 Collins Street, Melbourne Victoria 3000 not later than 10.00am on Monday 14th June 2010.

## Admission to Meeting

Shareholders who will be attending the meeting, and who will not be appointing a proxy, are asked to bring the proxy form to the meeting to help speed admission.

Shareholders who do not plan to attend the meeting are encouraged to complete and return the proxy form for each of their shareholdings in the Company.

Dated: 13th May 2010

By order of the Board



**David Ogg**  
Company Secretary

# RESOLUTION 1 – REDUCTION OF CAPITAL – EXPLANATORY STATEMENT

## 1. BACKGROUND AND REASONS FOR THE PROPOSAL

- 1.1 Royalco is in the fortunate position of having surplus cash for its current operations. As announced in its quarterly report lodged with ASX on 28 April 2010, as at 31 March 2010 Royalco had a cash/liquid assets position of \$13.7 million comprising cash on deposit of approximately \$11.3 million, gold balance of 1,733.8 ounces with a spot value of \$2.16 million and listed equities of approximately \$225,000.
- 1.2 Subsequent to the end of the March 2010 quarter and as announced to ASX, Royalco had received a further US\$530,000 from Vale taking its cash/liquid assets position, as at 28 April 2010, to approximately \$14.2 million.
- 1.3 The directors have reviewed Royalco's financial position and its ongoing cash requirements. With expenditure commitments associated with the Philippines expected to be minimal over the next 6 months and no immediate other opportunities to acquire economic royalty streams or exploration projects we have concluded that its cash/liquid assets are more than adequate to continue its development and objectives.
- 1.4 Given the expected continuation of the cash inflows from the royalties, the directors consider that it would be in shareholders' interests to return some of the surplus funds to shareholders at this time.
- 1.5 The directors have reviewed the options available, including
  - A re-instatement of the share-buy back program

*The directors do not believe this is presently in all shareholders best interests as the quantum of the buy-back program would reduce significantly the available liquidity for share trades on the ASX.*
  - Payment of a dividend

*Notwithstanding that the directors expect Royalco to declare another year of profits, with the write offs associated with the Philippines projects, the company will still have accumulated losses carried forward. In addition Royalco has previously announced its dividend policy to shareholders. At the present time there is no capacity to pay a dividend either fully or partly franked.*
  - An equal return of capital to all shareholders
- 1.6 Having considered the company's requirements and the alternatives discussed above, the directors have determined that a cash distribution of approximately \$5.3 million should be made to shareholders in the form of a return of capital of 10 cents per share.

## 2. SUMMARY AND INDICATIVE TIMETABLE

### **Summary**

- 2.1 As at the date of this Explanatory Statement, Royalco has 52,714,183 ordinary shares on issue and 3,610,000 options to subscribe for ordinary shares. The options each have an expiry date of 31 March 2011 with exercise prices ranging from 50 to 80 cents. These options will not participate in the return of capital (unless they are exercised prior to the Record Date). Following any return of capital the exercise price of the options will be reduced by 10 cents each as a consequence of the return of capital (see section 6.2 for further details).
- 2.2 Royalco intends to distribute the aggregate amount of 10 cents per share via a pro-rata cash distribution to Shareholders by way of capital reduction.
- 2.3 The Corporations Act and the Listing Rules set out the procedure and timing for a capital reduction. The alteration to the share capital and the Distribution will become effective from the Record Date as described below. If the capital reduction proceeds, Shareholders will receive 10 cents cash calculated pro rata to the number of shares held at the Record Date. If shareholder approval is received, it is the directors' intention that Royalco will make the Distribution to Royalco Shareholders on 28<sup>th</sup> June 2010.
- 2.4 Your Board considers that the advantages of the reduction of capital outweigh the disadvantages. Please refer to the advantages and disadvantages of passing the resolution in Section 3.

- 2.5 Other than as shareholders and option holders of Royalco as set out in this Explanatory Statement, none of the Directors has any interest in the resolution.

#### ***Indicative Timetable***

- 2.6 The following is the indicative timetable set by the Directors in relation to the capital reduction as approved by ASX:

<b>Event</b>	<b>Date</b>
Shareholder meeting held and ASX announcement of results of meeting.	Wednesday 16 June 2010
Last day of trading of Royalco shares on a "cum" basis.	Thursday 17 June 2010
Trading of Royalco shares on an "ex" basis commences.	Friday 18 June 2010
Record date for Distribution.	Thursday 24 June 2010, 7.00pm
Effect Distribution of cash to Shareholders.	Monday 28 June 2010

### **3. ADVANTAGES AND DISADVANTAGES**

#### ***Advantages***

- 3.1 The payment of the Distribution will not materially diminish Royalco's capacity to undertake its ongoing business.
- 3.2 Royalco Shareholders will benefit from partly realising value for their shareholding in Royalco.

#### ***Disadvantages***

- 3.3 In the event that Royalco identifies, in the short-term, a potential acquisition or additional royalty interests it wishes to acquire it will not have access to the \$5.27 million which is being returned to Shareholders. The directors note that the Company expects to continue to receive income from the Reefton and Mt Garnet royalties over the next 12 months.

### **4. SHAREHOLDER APPROVAL AND REGULATORY ASPECTS**

#### ***Amendment to Constitution***

- 4.1 The resolution to proceed with the capital reduction is conditional upon the passing of a special resolution to amend Royalco's constitution to, amongst other things, enable the reduction in capital to take place. If the resolution to amend Royalco's Constitution is not passed, then the capital reduction will not proceed.

#### ***Corporations Act***

- 4.2 Under the Corporations Act, Royalco must not effect a reduction of capital unless it is fair and reasonable to its Shareholders as a whole, does not materially prejudice Royalco's ability to pay its creditors, and is approved by Shareholders.
- 4.3 Your Board considers that this Proposal is fair and reasonable to the Shareholders as a whole and does not materially prejudice Royalco's ability to pay its creditors. This is because each Royalco Shareholder is treated equally and in the same manner since the terms of the reduction of capital are the same for each Shareholder and the Distribution is on a pro rata basis, and the proportionate ownership interest of each Shareholders remains the same before and after the capital reduction.
- 4.4 In accordance with the Corporations Act:
- the proposed reduction is an equal reduction and requires approval by an ordinary resolution passed at a general meeting of Royalco Shareholders;
  - this Explanatory Statement must set out all information known to Royalco that is material to the decision on how to vote on Resolution 1, except if this would be unreasonable because Royalco has previously disclosed the information to its shareholders; and
  - Royalco has lodged with ASIC a copy of this Notice of Meeting and accompanying documentation prior to sending them to Shareholders.

### ***Effect of Shareholder Approval***

- 4.5 If both the Resolutions are passed, Shareholders as at the Record Date will receive a pro rata cash distribution. The reduction in Royalco's share capital will become effective from the Record Date.
- 4.6 No shares will be cancelled as part of the return of capital – the issued share capital of Royalco will not be affected by the proposal.
- 4.7 The Board considers the proposed reduction of capital will have no material effect on the interests of Shareholders, except as disclosed in the discussion of the advantages and disadvantages of the reduction set out in Section 3 above.
- 4.8 The proportionate ownership of Shareholders will remain the same both before and after the return of capital (although this may well change in due course).

## **5. Tax Implications**

- 5.1 The attached letter provided by Nexia ASR sets out the tax position for shareholders receiving the cash distribution. The opinion of Nexia ASR is based on the cash distribution being made as a return of capital.
- 5.2 To provide certainty for shareholders it is the intention of the company to seek a class ruling from the Australian Tax Office confirming that the cash distribution can properly be regarded by shareholders on capital account.
- 5.3 If the ATO makes a determination that Section 45C of the Income tax Assessment Act 1936 applies, then part, or all, of the cash distribution may be regarded as an unfranked dividend.
- 5.4 The application will be made as soon as practicable. Shareholders receiving the cash distribution will be advised of the ATO's ruling as soon as it is available.

## **6. Other**

### ***Directors' Interests***

- 6.1 The following list details Directors' shareholdings and option holdings in Royalco:-

Peter John Topham:-

4,530,000 ordinary shares held by spouse; 140,000 ordinary shares held by superannuation fund; 530,400 ordinary shares held by Porthill Resources Pty Ltd and which Peter Topham is a director and has an interest in the securities of Porthill Resources Pty Ltd; 1,400,000 employee options, expiring 31/03/2011 and exercisable at 50 cents each.

David Lindsay Ogg:-

240,000 ordinary shares held directly; 530,400 ordinary shares held by Porthill Resources Pty Ltd and which David Ogg is a director of and has an interest in the securities of Porthill Resources Pty Ltd; 2,400,000 ordinary shares held by Meballa Pty Ltd and which David Ogg is a director of and has an interest in Meballa Pty Ltd; 690,000 ordinary shares held by David Ogg & Associates Pty Ltd ATF David Lindsay Ogg Super Fund No2 A/C; 100,000 ordinary shares held by David Ogg & Associates Pty Ltd ATF David Lindsay Ogg Super Fund No1 A/C; 980,000 employee options, expiring 31/03/2011 and exercisable at 50 cents each.

Ernest Thomas Eadie:-

48,000 ordinary shares held directly and 150,000 employee options, expiring 31/03/2011, and exercisable at 50 cents each.

Bruce Arthur Pertz:-

15,000 ordinary shares held directly; 150,000 employee options, expiring 31/03/2011 and exercisable at 80 cents each; and 30,000 employee options, expiring 31/03/2011 and exercisable at 50 cents each.

Arthur Christopher Orchard:- Nil

### ***Effect Of Distribution On Existing Options***

- 6.2 In accordance with the terms of issue of each of the existing options outstanding as at the date the resolution is passed and in accordance with Listing Rule 7.22.3, the exercise price of each such outstanding option in Royalco will be automatically reduced by 10 cents being the same amount as the amount returned in relation to each Share.

### ***Recommendation***

- 6.3 Your Directors recommend that Shareholders vote in favour of Resolution 1 (and Resolution 2) as set out in the accompanying Notice of Meeting in order to effect the proposed Distribution for the reasons outlined in this Explanatory Statement.

## **RESOLUTION 2 – AMENDMENTS TO CONSTITUTION – EXPLANATORY STATEMENT**

- a) The proposed amendments to Royalco's Constitution set out in the accompanying Notice of Meeting relate to its ability to alter its share capital. It is common for companies to include provisions in their Constitution giving a company the ability to alter its share capital by a number of methods. These include, for example, by converting shares into larger or smaller numbers, cancelling shares which have been forfeited and reducing capital by way of distributions.
- b) Royalco is proposing a reduction of its capital (as set out in Resolution 1 and in this Explanatory Statement). Resolution 1 is subject to Royalco shareholders approving the resolution to amend Royalco's Constitution to enable the capital reduction to proceed. If Resolution 2 to approve amendments to Royalco's Constitution is not passed, the proposed capital reduction will not proceed.
- c) The proposed amendments to the Constitution also provide the Royalco's Directors with flexibility to deal with fractional entitlements resulting from a reorganisation of capital and expressly allow for share conversions into smaller or larger numbers.
- d) Your Directors recommend that Shareholders vote in favour of Resolution 2 as set out in the accompanying Notice of Meeting in order to effect the amendment to Royalco's Constitution for the reasons outlined in this Explanatory Statement.

10 May 2010

The Directors  
Royalco Resources Limited  
Level 9, 356 Collins Street  
MELBOURNE VIC 3000

Dear Sirs,

### **PROPOSED RETURN OF CAPITAL – TAX SUMMARY**

You have advised that it is the intention of Royalco Resources Limited (“**Royalco**” or “**the Company**”) to pay to shareholders a cash distribution of 10 cents per share on or about 28 June 2010 (“**the Distribution**”), with the Distribution being in the form of a return of capital.

You have requested we provide a summary of the taxation consequences for shareholders arising from the Distribution, in order that this letter may be provided to shareholders as part of the explanatory material.

We highlight that the position as set out in the following is generic and for general information purposes and is directed to Australian resident shareholders, who hold shares on capital account. Each shareholder should consider their own circumstances and consult their tax adviser to determine the applicable treatment for the 2010 income tax return disclosure.

#### *Distribution is on Capital Account*

To the extent that the Distribution is on capital account, as we believe will be the case for the full amount of the Distribution, CGT event G1 (section 104-135 of the Income tax Assessment Act 1997) will happen when Royalco pays the Distribution.

The return of capital will reduce the capital gains tax cost base of the shareholder’s Royalco share by 10 cents per share.

Royalco shareholders will not be required to include the Distribution in their assessable income.

In the event that a Royalco shareholder’s cost base per share is less than 10 cents per share, the Distribution will be treated as a capital gain only to the extent it exceeds the cost base.

\*value beyond numbers\*

Shareholders who are individuals, trusts or complying superannuation entities may be entitled to reduce their capital gain (after taking into account capital losses) by the CGT discount if they are not share traders and have held their Royalco shares for at least 12 months prior to the time of payment of the Distribution.

*ATO Class Ruling*

Royalco intends to apply for a Class Ruling from the ATO dealing with certain taxation matters on the proposed treatment of the Distribution as being a return of capital, including that certain anti-avoidance rules directed at the provision of capital benefits in substitution for dividends will have no application to this proposed return of capital.

Whilst the tax summary described above reflects the expected outcomes to be confirmed by the ATO in the Class Ruling, the final Class Ruling cannot be issued until after this return of capital is completed. Although it is not anticipated to be the case, when the final Class Ruling is issued by the ATO, it is possible that it may express a view contrary to that set out in this letter.

*Commissioner of Taxation deems Distribution as an unfranked dividend*

If the Commissioner of Taxation so determines, that the Distribution is to be treated (in whole or in part) as an unfranked dividend for Australian tax purposes, in those circumstances:

- Royalco shareholders who are Australian tax residents will be required to include the part of the Distribution determined to be an unfranked dividend in their assessable income; and
- non-resident Royalco shareholders will be required to pay withholding tax on that part of the Distribution.

Yours faithfully  
**Nexia ASR Pty Ltd**



**Gary Graco**  
**Partner**

DIRECT: 9608 0109  
EMAIL: [ggraco@nexiaasr.com.au](mailto:ggraco@nexiaasr.com.au)  
WEB: [www.nexiaasr.com.au](http://www.nexiaasr.com.au)

**All correspondence to:**  
9th Floor  
356 Collins Street  
MELBOURNE VIC 3000  
Telephone 61 3 9602 3626  
Facsimile 61 3 9670 4479

I/We the shareholder(s) named above hereby appoint(s) the Chairman of the meeting as proxy, **OR** if you are **NOT** appointing the Chairman of the Meeting as your proxy, please write the name of the person or body corporate (excluding the registered security holder) you are appointing as your proxy in the box below, or failing the person/body corporate named, or if no person/body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the meeting on my/our behalf and to vote in accordance with the following instructions (or if no directions have been given, as the proxy sees fit) at the General Meeting of the Company to be held at the offices of Baker & McKenzie, Level 19, 181 William Street, Melbourne 3000 at 10.00 am on Wednesday 16 June 2010 and at any adjournment of that meeting.

of

Where more than one proxy is to be appointed or where voting intentions cannot be adequately expressed using this form an additional form of proxy is available on request from the Company. Proxies will only be valid and accepted by the Company if they are signed and received no later than 48 hours before the meeting. The Chairman of the Meeting intends to vote undirected proxies in favour of all items of business

The proportion or number of my/our voting rights which this proxy is appointed to represent is

%	No.	(see note 2)
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**Voting Instructions**

**Resolutions**

1. To approve a capital reduction of approximately \$5.27 million
2. To amend the Company's Constitution to allow alterations to capital.

FOR	AGAINST	ABSTAIN
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

If no direction is given above or if more than one box is marked, I/we authorise my/our proxy to vote or abstain as my/our proxy thinks fit in respect of the resolution to be considered by the meeting and any adjournment of the meeting.

**Signature(s)**

Date

Individual or  
Joint Shareholder 1

Director/Company Secretary

Joint Shareholder 2

Director

Joint Shareholder 3

Sole Director & Sole Company  
Secretary

## NOTES ON PROXY FORM

### 1 Your Name and Address

This is your name and address as it appears on the company's share register. If this information is incorrect, please make the correction on the form. Please note: you cannot change ownership of your shares using this form.

### 2. Appointment of a Proxy

If you wish to appoint the Chairman of the Meeting as your proxy, mark the box underneath your name and address. If the person you wish to appoint as your proxy is someone other than the Chairman of the Meeting please write the name and address of that person in the boxes on the form for that purpose. If you leave this section blank, or your named proxy does not attend the meeting, the Chairman of the Meeting will be your proxy. A proxy need not be a shareholder of the company. A proxy may be an individual or a body corporate.

### 3. Votes on Items of Business

You should direct your proxy how to vote by placing a mark in one of the boxes opposite each item of business. All your shares will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of shares you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on the items of business, your proxy may vote as he or she chooses. If you mark more than one box on an item your vote on that item will be invalid.

### 4 Appointment of a Second Proxy

You are entitled to appoint up to two persons as proxies to attend the meeting and vote on a poll. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by telephoning the Company or you may copy this form.

To appoint a second proxy you must:

- (a) on each of the first Proxy Form and the second Proxy Form state the percentage of your voting rights or number of shares applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded.
- (b) return both forms together.

### 5 Signing Instructions

You must sign this form as follows in the spaces provided:

Individual: where the holding is in one name, the holder must sign.

Joint Holding: where the holding is in more than one name, either security holder may sign.

Power of Attorney: to sign under Power of Attorney, you must have already lodged the Power of Attorney with the registry. If you have not previously lodged this document for notation, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the *Corporations Act 2001*) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please indicate the office held by signing in the appropriate place.

If a representative of the corporation is to attend the meeting the appropriate "Certificate of Appointment of Corporate Representative" should be produced prior to admission. A form of the certificate may be obtained from the Company.

### 6. Lodgement of a Proxy

This Proxy Form (and any Power of Attorney under which it is signed) must be received at an address given below by 10.00 am on Monday, 14 June 2010, being not later than 48 hours before the commencement of the meeting. Any Proxy Form received after that time will not be valid for the scheduled meeting.

Proxy forms may be lodged:

- (a) by mail or by hand to the address set out below:

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Royalco Resources Limited  
9th Floor  
356 Collins Street  
MELBOURNE VIC 3000

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- (b) by facsimile to (03) 9670 4479.