

# ANNUAL REPORT 2009



# CORPORATE DIRECTORY

## **REGISTERED/PRINCIPAL OFFICE:**

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## **DIRECTORS & MANAGEMENT:**

Mr Peter Topham  
*Executive Chairman, CEO*  
Mr David Ogg  
*Executive Director, CFO*  
Mr Tom Eadie  
*Non Executive Director*  
Mr Bruce Pertzelt  
*Non Executive Director*

## **COMPANY SECRETARY:**

Mr David Ogg

## **AUDITOR:**

Melanie Leydin  
Leydin Freyer Audit Pty Ltd  
Chartered Accountants  
Suite 304, 22 St Kilda Road  
St Kilda, Victoria 3182

## **SHARE REGISTRY:**

Security Transfer Registrars Pty Ltd  
770 Canning Highway  
Applecross WA 6153  
Ph: 08 9315 2333

## **BANKERS:**

ANZ Banking Group  
388 Collins Street  
Melbourne Victoria 3000

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# CHAIRMAN'S ADDRESS

Royalco has emerged from the "GFC" in a strong financial position. A maiden profit of \$2.692 million has been achieved with our royalty interests generating income from three separate project areas. The Company remains debt free with cash and physical gold holdings having a total value of approximately \$10 million, in addition to a small investment portfolio.

Royalco's growth strategy of adding to royalties through either acquisition, creation or exploration continues.

The financial turmoil of the past year presented Royalco with numerous royalty opportunities. Most did not meet our benchmark requirements in terms of the quality of the underlying projects versus the cost of any proposed royalty outlay. Some potentially have met our benchmarks and these are now the subject of more detailed review and price negotiation.

The attraction of Royalco's sound business model and the strength of its financial position resulted in an on market Takeover Offer being received from a subsidiary of Anglo Pacific Limited, already a major shareholder, in June of this year. The initial bid was 30 cents per share and was subsequently lifted to 34 cents per share. On expiry of the Offer, acceptances totalled only 11 per cent of Royalco's issued capital.

Royalty receipts for the June Quarter were the highest on record (approximately \$2.0 million allowing for the conversion of physical gold receipts from the Reefton royalty interest at prevailing spot prices). Included in this figure was a catch up payment from the Mt Kelly royalty interest where the then owners (Copperco Resources Limited) went into receivership. Control of this operation has now passed onto Cape Lambert Iron who has recently announced to the ASX that it is considering a trade sale or IPO for the Mt Kelly operations.

Receipts from the Mount Garnet royalty interest also commenced during the year and should continue for many years to come based on the reserves available from this deposit.

The receipts from the Reefton royalty interest continue to form the core of Royalco's profitability, generating approximately 5,000 ounces of physical gold on an annualised basis. As mentioned in earlier Quarterly Reports to the ASX, the Company continues to hold the physical gold on deposit rather than converting the bullion immediately to Australian dollars. We retain a positive attitude to further solid increases in the gold price in the short to medium term; however this attitude is extremely flexible and we are prepared to convert this holding should market circumstances move against us.

A number of non-productive royalty interests were curtailed during the year as exploration results received by the operators in each instance did not warrant further activity.

To replace these royalties and increase the 'quality' of our interests a number of fresh royalty opportunities have been reviewed covering various commodities such as silver, gold, nickel and copper.

A further means of expanding our royalty base is through the use of aggressive exploration initiatives.

Royalco maintains an exploration team of nationals in the Philippines and is one of the few companies in that country whose primary focus is on mineral exploration. On this point it is worth returning to the Company's Prospectus in 2006 as part of the listing on the Australian Stock Exchange.



The projects that were ranked the highest in that document were Gambang and Pao. The four lesser ranked tenement areas from that time have now been relinquished after further exploration/assessment in each instance.

The initial phase at Gambang was granted by the Government authorities in early 2008 and once access was achieved later last year the Company confirmed the high prospectivity of the tenement.

Diamond drilling was undertaken on the Gambang project with encouraging results received including 216 metres at 0.45 per cent copper in GDH-005.

This project is an advanced exploration play that will require considerable time and expenditure before any development could be considered. The encouraging results of Royalco's exploration efforts have been the catalyst for a number of enquiries from major mining houses as to farm in opportunities. The Company is now progressing farm in discussions through the due diligence process with several groups.

At Pao a substantial community relations effort has been undertaken on the Company's tenements to assist in overcoming access issues to these areas. Most anti mining factions have now been pacified however certain irresponsible elements of the Roman Catholic Church have been obstructionist from time to time.

The exploration emphasis at Pao is on advanced gold targets, particularly the Manidyo enargite vein system, where drilling is anticipated to commence in the near future. An additional tenement, Yabbe, is expected to be granted adjoining Pao in coming months.

Royalco takes its corporate social licence seriously and Operation Rainbow remains one of the Company's principal charities in the Philippines. This organization is of high repute, utilising Australian medical teams providing various surgical procedures to rectify facial disfigurements. Further information on this organization can be found at [www.operationrainbow.org](http://www.operationrainbow.org)

Capital management in the form of share buy backs continued through the year with a further 397,017 shares bought back on market at an average price of 20 cents each. Whilst opportunities that present themselves at a significant discount to the underlying worth of the shares will continue to be considered, the emphasis going forward is more aligned to the payment of dividends.

Royalco is now on a profitable footing and once the threshold into a tax paying company is achieved, the Directors intend to apply the following dividend policy:-

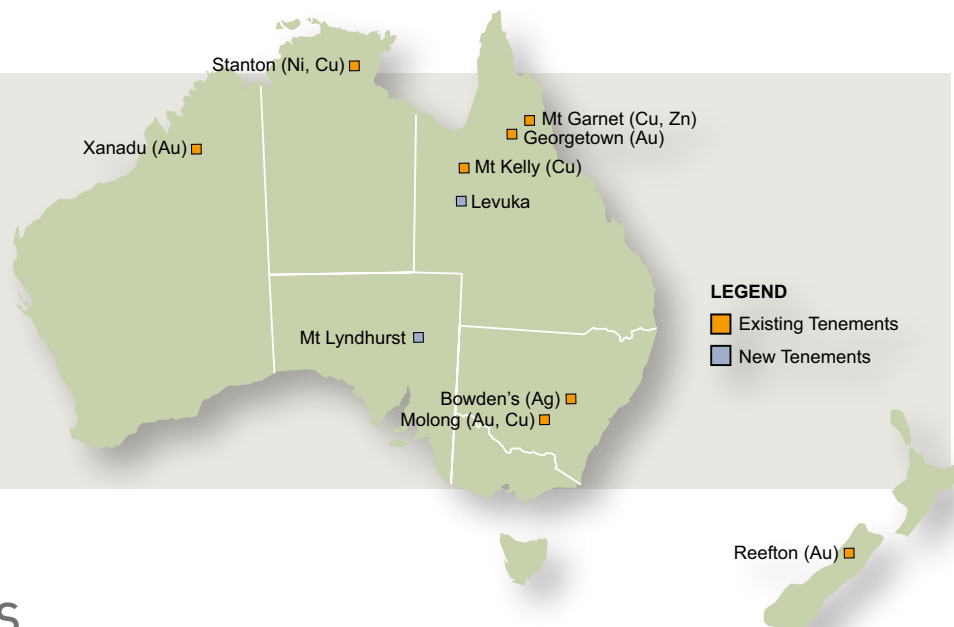
1. Dividends to commence once they can be classified as fully franked.
2. Biannual payments.
3. A formula reflecting the distribution of up to 60% of after tax profits be paid as dividends.
4. The right to alter the formula in the event of unforeseen circumstances.

In the probable event that Royalco generates a similar level of net revenue going forward this policy could achieve fruition in 2010. Further announcements will be made to the ASX as to the implementation of such a policy at a more appropriate date.

Of note, such a policy has a reasonable degree of flexibility and should not act as an impediment to any future royalty acquisitions by marginally reducing the Company's ongoing cash position.

**Peter Topham**  
Executive Chairman

# REVIEW OF ACTIVITIES



## ROYALTY INTERESTS

Royalco currently holds a total of 11 royalty interests of which three produced income during the year.

The delivery of physical gold into the Company's account at AGR Matthey continues under the **Reefton** royalty agreement with Oceana Gold Limited. The amount both received and accrued during 2008/9 was 5192.2 ounces. It is envisaged that the next royalty payment due in December will be 1314.9 ounces, then reverting to 1250 ounces through calendar 2010 subject to the spot price remaining above NZ\$900 (currently NZ\$1400+). At prevailing spot gold prices this equates to over A\$5 million per annum in royalty income.

Once 400,000 ounces have been produced (154,792 to the end of June 2009) this leg of the royalty lapses. The current production rate is between 70,000 and 80,000 ounces per annum. As per the Reserve Statement for 31st December 2008 as published on the Oceana website, the total reserve figure for Reefton was 350,000 ounces, contained within a total resource figure of 1,250,000 ounces.

Additional royalties based on a percentage of production basis are payable from any production on surrounding tenements and a further royalty becomes payable once a threshold of 1 million ounces is achieved from the field in total. The Blackwater prospect is on one of these surrounding tenements and has an inferred resource of 340,000 ounces with further exploration on this target being considered over coming months.

A separate royalty, being a 1% over riding royalty interest, applies to **Sam's Creek**, which has an inferred resource of 770,000 ounces of gold.

At **Mt Garnet** there is a 3% Net Smelter Return on production from the original **Mt Garnet** tenements. A total of \$248,814 was received and accrued for 2008/9. The payments due under this royalty interest are not only subject to movements in commodity prices but will also be irregular as the **Mt Garnet** operations are conducted on a campaign basis - ore requirements being sourced from several separate deposits, including those on which Royalco has no royalty interest.

The reported reserves for **Mt Garnet** at 30th June 2008 [Kagara website] were 898,306 tonnes plus a further 680,000 tonnes in the resource category. Production is averaging just below 100,000 tonnes on an annualised basis.

The royalty at **Mt Kelly** is a 1% Net Smelter Return, capped at \$1,000,000 in total from two separate royalty areas. Receipts and accruals for the year from the Receiver of Copperco Limited were \$257,830 including penalty interest. Though mining operations have now been suspended a small amount may be payable over coming months as residual copper continues to leach from the pads.

In June the **Mt Kelly** operations were acquired by Cape Lambert Iron Ore Limited. The current project owner has indicated a willingness to on sell the project and no indication can be provided as to when operations may resume.

At 30th September 2008, as reported in the Copperco 2008 Annual Report, the reserves at **Mt Kelly** were 6,904,000 tonnes. The mining rate prior to receivership was 3 million tonnes per annum.

The royalty interest on the **Dagworth & Huonfels** tenements has been assigned to a private German based group, Deutsche Rohstoff Australia Pty Ltd. Royalco is led to believe this incoming operator has plans to implement development of the Red Dam Project-to which the royalty applies-as a matter of priority.

A milestone payment on first production of \$100,000 is applicable as well as \$10 per ounce on the first 10,000 ounces of gold produced and a 1.5% over riding royalty on production thereafter.

No activities of substance have been advised on the company's other royalty interests whilst the royalties on **Lake Margaret, Munna, Heathcote, Norfolk and Mackenzie/Archie** lapsed following relinquishment of those projects by the respective operators.

# REVIEW OF ACTIVITIES CONTINUED

## SUMMARY OF EXISTING MINERAL ROYALTY INTERESTS

PROJECT	OPERATOR	ROYALTY	COMMODITY
Reefton (i)	Oceana Gold Limited	5000 ounces per annum	Gold
(ii)		1 - 3% ORR	
Mt Kelly	Cape Lambert Iron Ore Ltd	1% NSR	Copper, gold
Mt Garnet	Kagara Limited	3% NSR	Zinc, lead, silver
Bowden's	Silver Standard Resources Inc	1 - 2 % NSR	Silver
Stanton	Hydromet Corp Ltd	1% NSR	Nickel, cobalt
Dagworth/Huonfels	Deutsche Rohstoff Australia Pty Ltd	1.5% ORR	Gold, silver
Sam's Creek	Oceana Gold Limited	1% ORR	Gold
Xanadu	Pelican Resources Limited	4% ORR	Gold
LFB	Alkane Exploration Ltd	3% NSR	Gold, copper
Mt Lyndhurst	Syrah Resources Ltd	1.5% NSR	Copper, uranium
Levuka	Syrah Resources Ltd	1.5% NSR	Copper

ORR: Overriding Royalty

NSR: Net Smelter Return



*Tree-planting, Yabbe, Philippines*



*Road works, Pao, Philippines*

## EXPLORATION - PHILIPPINES

The Philippines represents one of the most prospective countries in South East Asia. A more pro-mining stance to assist with overall economic growth has been adopted by the Government and whilst there are still hurdles along the way the direction remains positive.

### PAO – YABBE PROJECT

#### EXPLORATION WORK

Exploration at Pao is currently suspended following perceived security threats in the broader region made in early 2008. This suspension is due to be lifted shortly at Royalco's request once a drilling commitment is made for the Manidyo vein system. The main pre-requisite for this request will be a high degree of confidence that unfettered access to the proposed drill site is obtained.

The initial drill target is a high-sulphidation epithermal vein comprising several sub-parallel veins and enargite-cemented vein breccias. A sample from this vein assayed 49 g/t gold, 348 g/t silver and 3.94% copper.

Processing of the adjoining Yabbe EP application is now well advanced having recently obtained local consent. A Memorandum of Agreement with the indigenous peoples is currently being finalised prior to NCIP validation and tenement approval by the MGB.

#### ENVIRONMENT AND COMMUNITY RELATIONS WORK

An initial baseline study with emphasis on water quality was completed in late 2007.

Approximately 34.2 kilometres of road was re-formed, widened, partially gravelled or freshly developed in 2007/8 and this activity has recently recommenced with the full support of the local government authorities.

In addition Royalco has been a strong contributor to the Department of Education and Culture's Adopt a School program supplying text books to a number of educational facilities in the Pao - Yabbe region.

Royalco also maintains a small nursery and is an active participant in numerous tree planting activities.

## REVIEW OF ACTIVITIES CONTINUED



*The basis for Royalco's exploration initiatives is to generate royalties and free carried interests on a portfolio of projects. It is not necessarily the Company's ultimate intention to be the operator of any mining project. Third parties would probably be introduced to develop/mine any discovery made. Exploration activities to date have concentrated in the Philippines however other countries may be considered subject to a sovereign risk assessment.*

### GAMBANG PROJECT

#### EXPLORATION WORK

Diamond drilling commenced at Gambang during the June 2008 Quarter and continued, with some weather-related delays, throughout the September and December Quarters. The program was terminated and the rig demobilised late in November 2008. A total of seven holes (GDH-001 to GDH-007) comprising an aggregate 2,486.9 metres was completed. Details of these drill holes are given in Table 1.

**Table 1 – Details of Drill Hole Collars – Gambang Project**

Hole ID	Prospect	Collar Co-ordinates		Azimuth (Magnetic)	Declination (degrees)	Total Depth (m)
		Northing	Easting			
GDH-001	Hermans	1855145	263479	308	-50	298.1
GDH-002	Hermans	1855145	263484	90	-50	490.5
GDH-003	East Brec	1854008	263909	90	-50	493.5
GDH-004	East Brec	1854342	264048	105	-50	303.8
GDH-005	Tokla	1853020	263790	205	-50	300.0
GDH-006	Tokla	1853018	267392	340	-70	300.0
GDH-007	Tokla	1853016	267391	145	-70	300.0

The diamond drill holes completed in the drilling campaign have tested three of the seven prospects in the Gambang Project area.



### EXPLORATION WORK CONTINUED

Porphyry copper-style mineralisation has been encountered in all holes drilled and results for holes GDH-001 to GDH-004 were reported in the September 2008 Quarter.

Holes GDH-005 to GDH-007 were drilled, from the same drill pad, at the Tokla Prospect, south of the Herman's Find and Eastern Breccia Prospect areas.

Details of significant mineralised intercepts are given in Table 2.

Porphyry copper-style mineralisation has been encountered in all holes drilled to date.

Infill grid soil sampling has been completed throughout the Phase 1 area.

Subsequent to the end of the financial year Royalco has been approached by a number of international mining groups in relation to farm in opportunities at Gambang. Ongoing discussions are in progress with a number of these parties.

**Table 2 - Mineralised Intercepts Diamond Drilling Gambang Project**

Hole ID	Prospect	From (m)	To (m)	Interval (m)	Cu %	Au g/t	Mo %
GDH-001	Herman's Find	34.00	114.80	80.80	0.17	0.056	0.001
	includes	74.00	88.00	14.00	0.29	0.022	<0.001
GDH-001	Herman's Find	112.00	114.00	2.00	0.13	1.613	0.003
GDH-001	Herman's Find	134.00	144.00	10.00	0.18	0.022	0.001
GDH-002	Herman's Find	53.00	67.00	14.00	0.13	0.047	0.002
GDH-002	Herman's Find	308.00	416.00	108.00	0.17	0.063	0.002
	includes	374.00	398.00	24.00	0.35	0.068	0.006
GDH-003	Eastern Breccia	138.00	384.00	246.00	0.25	0.021	0.008
	includes	208.00	252.00	44.00	0.42	0.023	0.020
	and	338.00	384.00	46.00	0.30	0.036	0.010
GDH-004	Eastern Breccia	178.00	303.80	125.80	0.28	0.035	0.008
	includes	236.00	266.20	30.20	0.51	0.078	0.013
GDH-005	Tokla	38.00	254.00	216.00	0.45	0.026	0.012
	includes	124.60	158.00	33.40	0.96	0.029	0.016
	and	181.35	228.00	46.65	0.80	0.086	0.032
GDH-006	Tokla	10.60	142.50	131.90	0.32	0.024	0.006
	includes	44.50	84.50	40.00	0.72	0.008	0.000
GDH-006	Tokla	168.50	230.50	62.00	0.15	0.024	0.002
GDH-006	Tokla	276.50	292.50	16.00	0.40	0.008	0.000
GDH-007	Tokla	44.00	78.00	34.00	0.35	0.048	0.014

## REVIEW OF ACTIVITIES CONTINUED



### ENVIRONMENTAL AND COMMUNITY RELATIONS WORK

As part of the agreement with the indigenous peoples, rehabilitation of roads is ongoing. These roads also serve as our access to the project area. During the currency of the exploration program assistance has been provided for two elementary school teachers, four day care centre volunteers and a nurse for the municipal health center. Repairs of existing water systems to provide potable water to the residents have also been completed.

The Mines & Geosciences Bureau continues to process Royalco's Request for Partial Approvals within the Gambang EP. The Phase 2 sub region has already been issued NCIP Compliance Certificate and has been submitted to the MGB for approval. This should be obtained within the month. The Phase 3 sub region, which includes the Cableway Prospect, has received indigenous peoples' consent under the NCIP guidelines and a Memorandum of Agreement has already been negotiated. Upon validation of this agreement by the NCIP, the application will be submitted to the MGB for approval.

### MALANGZA PROJECT

#### EXPLORATION WORK

A total of five holes comprising an aggregate of 1441 metres were completed in September 2008. Despite being a significant alteration system no commercial mineralisation was identified and the tenement was subsequently relinquished.

*The information in this report as it relates to geology, geochemical, geophysical and exploration results in the Philippines was compiled by Mr. Joey Ayson, MAusIMM, who is a Competent Person and has in excess of 5 years experience in the minerals industry and the activities being reported on. Mr. Ayson is a full time employee of the Company and consents to the inclusion of this information in the form and context in which it appears in this report.*

*Comments in regards to resources and reserves on royalty interests are sourced from publicly available information which has separate Competent Persons disclosed on each occasion.*

**ROYALCO RESOURCES LIMITED**  
**ABN 53 096 321 532**

**DIRECTORS' REPORT**

The Directors of Royalco Resources Limited submit herewith the annual financial report for the financial year ended 30 June 2009. In order to comply with the provisions of the Corporations Act 2001, the Directors report as follows:

Details of the Directors of the Company in office at any time during or since the end of the financial year and at the date of this report are:

**DIRECTORS**

<b>Mr Peter Topham</b>	Managing Director
Qualifications	B.Ec., LLB, M.AusIMM
Experience	<p>Board member since 26 March 2001. Peter Topham is a non-executive Director of Copper Strike Limited, a listed public company which specialises in exploration and development of base and precious metal projects.</p> <p>From 1989 to 2000, Peter was Executive Chairman and Managing Director of Mineral Commodities Limited, for which he was responsible for rejuvenating and which, under his effective control, undertook extensive exploration in Queensland and Western Australia. Prior to becoming involved with Mineral Commodities, Peter worked in stockbroking and corporate finance with various companies including D&amp;D Tolhurst, ANZ Capital Markets and HSBC. Peter is a Barrister and Solicitor of the Supreme Court of Victoria but does not carry on practice as such.</p>
Directorships in listed entities	Copper Strike Limited (since 30 March 2004)
Interests in Shares and options	5,180,400 shares 1,400,000 options exercisable at 50 cents by 31 March 2011
<b>Mr David Ogg</b>	Executive Director and Company Secretary
Qualifications	B.Ec. M.AusIMM
Experience	<p>Board member since 26 March 2001. David Ogg is the principal of David Ogg &amp; Associates Pty Ltd., which was the holder of a Financial Services Licence and provided corporate financial services. Prior to forming David Ogg &amp; Associates Pty Ltd in 1989, David was involved in a variety of roles in the stockbroking, merchant banking and the financial services area generally. David was an executive Director of Mineral Commodities Ltd from 1994 to 2000, and is a founding Director and Company Secretary of Royalco Resources Ltd. He is also Company Secretary of Copper Strike Ltd and Syrah Resources Ltd.</p>
Directorships in listed entities	Nil
Interests in Shares and options	3,960,400 shares 980,000 options exercisable at 50 cents by 31 March 2011

**ROYALCO RESOURCES LIMITED**  
**ABN 53 096 321 532**

**DIRECTORS' REPORT (CONT'D)**

<b>Mr Tom Eadie</b>	Non-Executive Director
Qualifications	B.Sc (Hons). M.Sc., F.AusIMM, SA Fin
Experience	<p>Board member since 19 October 2005. Tom Eadie has been Executive Chairman of Copper Strike Ltd since its inception in 2004. In addition, he is Chairman of Syrah Resources Ltd, an exploration company 30% owned by Copper Strike Ltd.</p> <p>Prior to these roles, Tom had twenty years of experience within the junior resources sector, including one year running Austminex NL, and at technical to senior executive levels with major mining companies including Pasminco, Aberfoyle Resources and Cominco. At Pasminco, he was Executive General Manager – Exploration &amp; Technology for 11 years. At Aberfoyle, he began as Chief Geophysicist before being put in charge of all mineral sands and base metal exploration. He is a past board member of the Australasian Institute of Mining and Metallurgy and the Australian Mineral Industry Research Association.</p>
Directorships in listed entities	Copper Strike Limited (since 30 March 2004) Syrah Resources Limited (since 4 May 2007)
Interests in Shares and options	48,000 shares 150,000 options exercisable at 50 cents by 31 March 2011
<b>Mr Bruce Pertzel</b>	Non-Executive Director (appointed 22 October 2007)
Qualifications	B.Sc. (Geol), Dipl. Geosci (Post Grad), F.AusIMM
Experience	<p>Bruce is the Principal of the long established geological consulting firm Pertzel Tahan &amp; Associates Pty Ltd. He established this firm in 1982 following a ten-year engagement with Endeavour Resources Limited during which time he progressed from Project Geologist to Exploration Manager.</p> <p>Bruce has had widespread experience in exploration activities in the Asia/Pacific region, and is currently the principal geologist for Vital Metals Ltd.</p>
Directorships in listed entities	Nil
Interests in Shares and options	30,000 options exercisable at 50 cents by 31 March 2011 150,000 options exercisable at 80 cents by 31 March 2011

**ROYALCO RESOURCES LIMITED**  
**ABN 53 096 321 532**

**DIRECTORS' REPORT (CONT'D)**

**MEETING OF DIRECTORS**

The following table sets out the number of meetings of the Company's Directors during the year ended 30 June 2009 and the number of meetings attended by each Director. During the financial year 5 board meetings and 3 audit committee meetings were held.

Director	Full Meetings of Directors	
	Maximum	Attended
Mr Peter Topham	5	5
Mr David Ogg	5	5
Mr Tom Eadie	5	5
Mr Bruce Pertzelt	5	5

**MANAGEMENT**

**Joey Ayson (BS Geology) – Country Manager**

Joey is an exploration geologist with over 23 years experience in the Philippines and South East Asia. Joey has worked for Royalco Philippines Inc. (previously Oxiana Philippines Inc.) for ten years, initially in a technical capacity, progressing to management of tenement administration, project evaluation, community relations, Government liaison and the Company's drilling program.

**Ruben Quitariano (BS Mining Engineering) - Senior Mining Engineer**

Ruben has worked as a mining engineer for over 20 years in the Philippines and South East Asia. Ruben has worked for Royalco Philippines Inc. for the past ten years, managing GIS data. Additional roles include supervising the Baguio regional office, tenement administration and community relations.

**PRINCIPAL ACTIVITIES**

The Company's principal activity in the course of the financial year was management of the resource based royalties and the exploration of mineral tenements located in the Philippines.

**FINANCIAL POSITION**

The consolidated operating profit after income tax for the financial year ended 30 June 2009 was \$2,692,951 (2008 – loss of \$390,747).

The net assets of the consolidated entity have increased by \$2,219,397 from 30 June 2008 to \$15,797,369. The major movements were:

- (i) Capitalisation of exploration expenditure;
- (ii) Total income of \$8,263,802 for the year;
- (iii) Operating costs; and
- (iv) Payments for financial assets

The consolidated entity's working capital, being current assets less current liabilities was \$10,468,725 in 2009 compared with \$7,239,354 in 2008.

The Directors believe the Company is in a very sound position to expand and grow its current operations.

**REVIEW OF OPERATIONS**

Refer to the Review of Operations preceding this Directors' Report.

**ROYALCO RESOURCES LIMITED**  
**ABN 53 096 321 532**

**DIRECTORS' REPORT (CONT'D)**

**DIVIDENDS**

No dividends were paid or declared during the year and the Directors do not recommend the payment of a dividend.

**CHANGES IN STATE OF AFFAIRS**

During the financial year there were the following significant changes in the state of affairs of the Company:

- The Company had an on market share buy-back of 397,017 ordinary shares.

**AFTER BALANCE DATE EVENTS**

There has been no matter or circumstance, other than that referred to in Note 27, that has arisen since the end of the financial year, that has significantly affected, or may significantly affect, the operations of the Company, the results of those operations or the state of affairs of the Company in future financial years.

**FUTURE DEVELOPMENTS**

Disclosure of information regarding likely developments of the operation of the Company in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the Company. Accordingly, this information has not been disclosed in this report.

**INDEMNIFICATION OF OFFICERS AND AUDITORS**

The Company has during or since the financial year, in respect of each of the Directors and the Company Secretary agreed to indemnify against a liability, including costs or expenses in successfully defending legal proceedings. The Company has not, however, agreed to pay a premium in respect of a contract insuring against a liability for the costs or expenses to defend legal proceedings.

**ENVIRONMENTAL REGULATIONS**

The economic entity holds participating interests in a number of mining and exploration tenements. The various authorities granting such tenements require the tenement holder to comply with the terms of the grant of the tenement and all directions given to it under those terms of the tenement. There have been no known breaches of the entity's tenement conditions, and no such breaches have been notified by any government agencies during the year ended 30 June 2009.

**SHARE OPTIONS GRANTED**

No share options were granted to Directors and executives or their nominees during and since the end of the financial year:

**SHARES UNDER OPTION**

Unissued ordinary shares of the Company under option at the date of this report are as follows:

Item	Number	Exercise Price	Expiry Date
Unlisted Options A	2,950,000	50 cents	31 March 2011
Unlisted Options B	510,000	52 cents	31 March 2011
Unlisted Options C	150,000	80 cents	31 March 2011

During the year and up to the date of this report there were no options issued or exercised.

**PROCEEDINGS ON BEHALF OF THE COMPANY**

During the year Royalco Resources Limited (No. 1) Pty Ltd, a wholly owned subsidiary of Royalco Resources Limited, settled a legal action relating to royalties against Oceana Gold (New Zealand) Limited. There were no court orders as a result of this settlement.

**Non-Audit Services**

The Directors are satisfied that the provision of non-audit services during the year by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act.

There were no non-audit services provided by the Company's auditor during the year to 30 June 2009.

**ROYALCO RESOURCES LIMITED**  
**ABN 53 096 321 532**

**DIRECTORS' REPORT (CONT'D)**

**AUDITOR'S INDEPENDENCE DECLARATION**

A copy of the auditor's independence declaration under s.307C of the *Corporation Act 2001* in relation to the audit of the full year is included on page 16.

**REMUNERATION REPORT (AUDITED)**

**This report outlines the remuneration arrangements in place for Directors and executives of Royalco Resources Limited (the "Company").**

The Board policy for determining the nature and amount of remuneration of Directors and executives is agreed by the Board of Directors as a whole. The Board obtains professional advice where necessary to ensure that the Company attracts and retains talented and motivated Directors and employees who can enhance Company performance through their contributions and leadership.

**Remuneration Philosophy**

The remuneration philosophy of the Company has been designed to align Director and executive objectives with shareholder and business objectives by providing both a fixed and variable remuneration component and offering long-term incentives based on key performance areas through the Company employee incentive option scheme (EIOS). The Board believes the remuneration policy, to be appropriate and effective in its ability to attract and retain the best executives and Directors to run and manage the Company, as well as create goal congruence between Directors, executives and shareholders.

**Executive Director Remuneration**

In determining the level and make-up of executive remuneration, the Board negotiates a remuneration to reflect the market salary for a position and individual of comparable responsibility and experience. Due to the limited size of the Company and of its operations and financial affairs, the use of a separate remuneration committee is not considered appropriate. Remuneration is regularly compared with the external market by participation in industry salary surveys and during recruitment activities generally. If required, the Board may engage an external consultant to provide independent advice in the form of a written report detailing market levels of remuneration for comparable executive roles.

Remuneration consists of a fixed remuneration and a long term incentive portion as appropriate.

All executives are eligible to receive a base salary (which is based on factors such as experience and comparable industry information), fringe benefits, options, and performance incentives. The Board reviews the Executive Chairman's remuneration package, and the Executive Chairman reviews the senior executives' remuneration packages, annually by reference to the Company's performance, executive performance and comparable information within the industry.

The performance of executives is measured against criteria agreed annually with each executive and is based predominantly on the overall success of the Company in achieving its broader corporate goals. Bonuses and incentives are linked to predetermined performance criteria. The Board may, however, exercise its discretion in relation to approving incentives, bonuses, and options, and can require changes to the Executive Chairman's recommendations. This policy is designed to attract the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth.

Directors, executives, staff and specialist consultants who are involved with the business may be invited to participate in the EIOS.

Australian-resident Directors or executives receive a Company paid superannuation contribution, which is currently 9-11% of their cash compensation, and do not receive any other retirement benefits (except salary sacrifice superannuation which is at the discretion of the employee).

All remuneration paid to Directors and executives is valued at the cost to the Company and expensed. Options are valued using the Black-Scholes methodology.

**ROYALCO RESOURCES LIMITED**  
**ABN 53 096 321 532**

**DIRECTORS' REPORT (CONT'D)**

**Non-Executive Director Remuneration**

Non-executive Directors' fees are paid within an aggregate limit which is approved by the shareholders from time to time. Retirement payments, if any, are agreed to be determined in accordance with the rules set out in the Corporations Act at the time of the Directors retirement or termination. Non-Executive Directors remuneration may include an incentive portion consisting of bonuses and/or options, as considered appropriate by the Board, which may be subject to shareholder approval in accordance with the ASX Listing Rules.

**Performance Based Remuneration**

As part of each executive's remuneration package there is a performance-based component. This is based on the executive meeting their responsibilities under the annual business plan related to the financial performance, exploration, operations and regulatory requirements to commercialise the Company's assets. The measurement of the Company's performance is achieved via periodic Board assessments of the Company's progress through its business plan, and by reference to its financial position. An individual member of staff's performance assessment is done by reference to their contribution to the Company's overall achievements. The intention of this program is to facilitate goal congruence between executives with that of the business and shareholders. Generally, the executive's performance-based remuneration is tied to the Company's successful achievement of certain key milestones as they relate to its operating activities, as well as the Company's overall financial position.

**Relationship between the remuneration policy and Company performance**

The tables below set out summary information about the Company's earnings and movements in shareholder wealth for the 5 years to June 2009:

	30/06/2009	30/06/2008	30/06/2007	30/06/2006	30/06/2005
Revenue	8,263,802	1,565,886	765,412	119,832	99,147
Net profit/(loss) before tax	4,783,326	(400,724)	(1,657,468)	(2,145,003)	(356,602)
Net profit/(loss) after tax	2,692,951	(390,747)	(1,469,938)	(1,652,373)	(237,895)
Share price at start of year	\$0.27	\$0.78	\$0.60	N/A	N/A
Share price at end of year	\$0.33	\$0.27	\$0.78	\$0.60	N/A
Basic earnings per share	5.08	(0.70)	(2.61)	(7.49)	(3.78)
Diluted earning per share	4.75	(0.66)	(2.46)	(6.94)	(3.78)

\*Royalco Resources Limited adopted the Australian equivalents to International Financial Reporting Standards with effect from 1 July 2004, which resulted in various changes in accounting policies from that date. The results for the year ended 30 June 2004 are reported in accordance with Royalco Resources Limited's previous accounting policies as permitted under Australian accounting standards as applicable at that time.

\*\*Royalco Resources Limited listed on the Australian Stock Exchange in June 2006.

**Key management personnel compensation**

The key management personnel of Royalco Resources Limited during the year were:

Mr P Topham	Chairman – Executive
Mr D Ogg	Director – Executive
Mr T Eadie	Director – Non Executive
Mr B Pertzel	Director – Non Executive

**ROYALCO RESOURCES LIMITED**  
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**DIRECTORS' REPORT (CONT'D)**

The aggregate compensation of the key management personnel of the consolidated entity and the Company is set out below:

	<b>Consolidated</b>	<b>Consolidated</b>	<b>Parent</b>	<b>Parent</b>
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Short-term employment benefits	428,588	425,931	415,463	425,931
Post-employment benefits	134,335	134,335	134,335	134,335
Other long-term benefits	-	-	-	-
Termination benefits	-	-	-	-
Share based payments	-	31,290	-	31,290
	<b>562,923</b>	<b>591,556</b>	<b>549,798</b>	<b>591,556</b>

The compensation of each member of the key management personnel of the consolidated entity is set out below.

**Details of Remuneration for Year Ended 30 June 2009**

The remuneration for each Director and executive officer of the consolidated entity was as follows:

	<b>Short-term benefits Salary &amp; Fees \$</b>	<b>Post- employment benefits Superannuation \$</b>	<b>Non-cash Benefits \$</b>	<b>Equity Options \$</b>	<b>Total \$</b>
Mr P Topham	283,500	31,185			314,685
Mr D Ogg	74,825	100,000			174,825
Mr T Eadie	35,000	3,150			38,150
Mr B Pertzelt	35,263	-			35,263
	<b>428,588</b>	<b>134,335</b>	<b>-</b>	<b>-</b>	<b>562,923</b>

**Options Issued as Part of Remuneration for the Year Ended 30 June 2009**

There were no options issued in the 2009 financial year.

**Details of Remuneration for Year Ended 30 June 2008**

The remuneration for each Director and executive officer of the consolidated entity was as follows:

	<b>Short-term benefits Salary &amp; Fees \$</b>	<b>Post- employment benefits Superannuation \$</b>	<b>Non-cash Benefits \$</b>	<b>Equity Options \$</b>	<b>Total \$</b>
Mr P Topham	270,000	31,185	-	-	301,185
Mr D Ogg	75,212	100,000	-	-	175,212
Mr T Eadie	35,000	3,150	-	-	38,150
Mr A Boyd	23,844	-	-	-	23,844
Mr P Lester	-	-	-	-	-
Mr B Pertzelt	21,875	-	-	31,290	53,165
	<b>425,931</b>	<b>134,335</b>	<b>-</b>	<b>31,290</b>	<b>591,556</b>

**ROYALCO RESOURCES LIMITED**  
**ABN 53 096 321 532**

**DIRECTORS' REPORT (CONT'D)**

**Options Issued as Part of Remuneration for the Year Ended 30 June 2008**

Options are issued to Directors and executives as part of their remuneration. The options are not issued based on performance criteria, but are issued to the majority of Directors, executives and certain staff and consultants of Royalco Resources Limited to increase goal congruence between executives, Directors and shareholders.

	Number of Options granted	Number of Options Vested	% of Granted Options Vested	Number of options exercisable	Value of Options Granted at grant date \$ (1) (2)	Total Remuneration Represented by Options %	Exercise price of options \$	Expiry Date of Options
<b>Director</b>								
Mr B Pertzel	150,000	150,000	100	150,000	31,290	58.85	\$0.80	31/03/2011
	<b>150,000</b>	<b>150,000</b>	<b>100</b>	<b>150,000</b>	<b>31,290</b>	<b>58.85</b>		

- (1) The value of options granted during the period is recognised in compensation over the vesting period of the grant, in accordance with Australian Accounting Standards.  
(2) Details on the valuation of options are in Note 26

**Employment contracts**

The Executive Chairman, Mr P Topham is employed under contract. The employment contract commenced on 1 July 2005. Under the terms of the present contract:

- Mr Topham may resign from his position and thus terminate this contract by giving 3 months written notice.
- The Company may terminate this employment agreement following 24 months from the date of the Agreement by providing 12 months written notice.
- The Company may terminate the contact at any time without notice if serious misconduct has occurred. Where termination with cause occurs the Managing Director is only entitled to that portion of remuneration which is fixed, and only up to the date of termination.
- On termination of the agreement Mr Topham will be entitled to be paid those outstanding amounts owing to him up until the Termination Date.

An Executive Director, Mr D Ogg, is employed under contract. The employment contract commenced on 1 July 2005. Under the terms of the present contract:

- Mr Ogg may resign from his position and thus terminate this contract by giving 3 months written notice.
- The Company may terminate this employment agreement following 24 months from the date of the Agreement by providing 12 months written notice.
- The Company may terminate the contact at any time without notice if serious misconduct has occurred. Where termination with cause occurs Mr Ogg is only entitled to that portion of remuneration which is fixed, and only up to the date of termination.
- On termination of the agreement Mr Ogg will be entitled to be paid those outstanding amounts owing to him up until the Termination Date.

Signed in accordance with a resolution of the Directors made pursuant to s.298(2) of the Corporations Act 2001.

On behalf of the Directors




PETER J TOPHAM  
MELBOURNE,  
25 September 2009

## **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 audit for the year ended 30 June 2009, 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.



**MELANIE J LEYDIN**  
Registered Company Auditor  
Registration: 212298

25 September 2009

**ROYALCO RESOURCES LIMITED**  
**ABN 53 096 321 532**

**INCOME STATEMENT**  
**FOR THE YEAR ENDED 30 JUNE 2009**

	Note	Consolidated		Parent	
		2009	2008	2009	2008
		\$	\$	\$	\$
Revenue	2	8,263,802	1,565,886	8,263,173	1,562,817
Cost of Royalty Income		(78,594)	(10,185)	(78,594)	(10,185)
Administration		(481,584)	(518,510)	(429,552)	(439,884)
Employment costs		(793,089)	(496,856)	(581,418)	(496,856)
Depreciation and amortisation		(28,291)	(32,775)	(18,229)	(14,464)
Fair value losses		(491,619)	(269,973)	(491,619)	(246,805)
Share based payments		-	(81,271)	-	(81,271)
Impairment of non-current assets		-	-	(4,151,119)	-
Exploration costs written off		(1,607,299)	(557,040)	(17,445)	-
<b>Operating profit/(loss) before income tax</b>	3	<b>4,783,326</b>	<b>(400,724)</b>	<b>2,495,197</b>	<b>273,352</b>
Income tax (expense)/benefit	4	(2,090,375)	9,977	(2,486,870)	9,977
Profit/(loss) for the year		<b>2,692,951</b>	<b>(390,747)</b>	<b>8,327</b>	<b>283,329</b>
		<b>Cents per Share</b>	<b>Cents per Share</b>		
<b>Earnings per Share</b>					
Basic Earnings/(Loss) per share	24	5.08	(0.70)		
Diluted Earnings/(Loss) per share	24	4.75	(0.66)		

*This statement is to be read in conjunction with the notes to the financial statements.*

**ROYALCO RESOURCES LIMITED**  
**ABN 53 096 321 532**

**BALANCE SHEET**  
**AS AT 30 JUNE 2009**

	Note	Consolidated		Parent	
		2009	2008	2009	2008
		\$	\$	\$	\$
<b>Current Assets</b>					
Cash and cash equivalents	22(a)	7,311,056	5,939,036	7,064,341	5,755,164
Trade and other receivables	6	1,943,803	75,990	1,913,940	68,182
Other financial assets	7	1,430,277	1,391,402	1,430,277	1,391,402
Other current assets	8	7,384	-	-	-
<b>Total Current Assets</b>		<b>10,692,520</b>	<b>7,406,428</b>	<b>10,408,558</b>	<b>7,214,748</b>
<b>Non-Current Assets</b>					
Deferred tax assets	9	2,831	1,115,765	2,831	1,512,260
Other financial assets	7	-	-	4,911,936	6,702,279
Plant and Equipment	10	39,928	57,937	6,698	9,690
Royalty rights	11	247,918	326,512	247,918	326,512
Intangible assets	12	426,681	439,010	8,646	20,975
Exploration expenditure	13	4,595,531	4,368,401	-	-
Other non-current assets	14	75,495	72,817	72,817	72,817
<b>Total Non-Current Assets</b>		<b>5,388,384</b>	<b>6,380,442</b>	<b>5,250,846</b>	<b>8,644,533</b>
<b>Total Assets</b>		<b>16,080,904</b>	<b>13,786,870</b>	<b>15,659,404</b>	<b>15,859,281</b>
<b>Current Liabilities</b>					
Trade and other payables	15	108,592	47,800	105,128	247,774
Provisions	16	115,203	119,274	115,203	119,274
<b>Total Current Liabilities</b>		<b>223,795</b>	<b>167,074</b>	<b>220,331</b>	<b>367,048</b>
<b>Non-Current Liabilities</b>					
Provisions	16	59,740	41,824	59,740	41,824
<b>Total Non-Current Liabilities</b>		<b>59,740</b>	<b>41,824</b>	<b>59,740</b>	<b>41,824</b>
<b>Total Liabilities</b>		<b>283,535</b>	<b>208,898</b>	<b>280,071</b>	<b>408,872</b>
<b>Net Assets</b>		<b>15,797,369</b>	<b>13,577,972</b>	<b>15,379,333</b>	<b>15,450,409</b>
<b>Equity</b>					
Contributed Equity	17	17,593,031	17,672,434	17,593,031	17,672,434
Reserves	18	45,054	439,205	676,441	676,441
Accumulated losses		(1,840,716)	(4,533,667)	(2,890,139)	(2,898,466)
<b>Total Equity</b>		<b>15,797,369</b>	<b>13,577,972</b>	<b>15,379,333</b>	<b>15,450,409</b>

*This statement is to be read in conjunction with the notes to the financial statements.*

**ROYALCO RESOURCES LIMITED**  
**ABN 53 096 321 532**

**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 30 JUNE 2009**

<b>CONSOLIDATED</b>	Issued Capital \$	Retained Earnings \$	Options Reserve(s) \$	Foreign Currency Transaction Reserve \$	Total \$
Equity as at 1 July 2007	18,546,934	(4,142,920)	595,170	(61,359)	14,937,825
Share based payments	-	-	81,271	-	81,271
Currency translation differences	-	-	-	(175,877)	(175,877)
Loss for the period	-	(390,747)	-	-	(390,747)
Share buy-back	(874,500)	-	-	-	(874,500)
<b>At 30 June 2008</b>	<b>17,672,434</b>	<b>(4,533,667)</b>	<b>676,441</b>	<b>(237,236)</b>	<b>13,577,972</b>

Equity as at 1 July 2008	17,672,434	(4,533,667)	676,441	(237,236)	13,577,972
Share based payments	-	-	-	-	-
Currency translation differences	-	-	-	(394,151)	(394,151)
Profit for the period	-	2,692,951	-	-	2,692,951
Share buy-back	(79,403)	-	-	-	(79,403)
<b>At 30 June 2009</b>	<b>17,593,031</b>	<b>(1,840,716)</b>	<b>676,441</b>	<b>(631,387)</b>	<b>15,797,369</b>

<b>PARENT</b>	Issued Capital \$	Retained Earnings \$	Options Reserve(s) \$	Foreign Currency Transaction Reserve \$	Total \$
Equity as at 1 July 2007	18,546,934	(3,181,795)	595,170	-	15,960,309
Share based payments	-	-	81,271	-	81,271
Profit for the period	-	283,329	-	-	283,329
Share buy-back	(874,500)	-	-	-	(874,500)
<b>At 30 June 2008</b>	<b>17,672,434</b>	<b>(2,898,466)</b>	<b>676,441</b>	<b>-</b>	<b>15,450,409</b>

Equity as at 1 July 2008	17,672,434	(2,898,466)	676,441	-	15,450,409
Share based payments	-	-	-	-	-
Profit for the period	-	8,327	-	-	8,327
Share buy-back	(79,403)	-	-	-	(79,403)
<b>At 30 June 2009</b>	<b>17,593,031</b>	<b>(2,890,139)</b>	<b>676,441</b>	<b>-</b>	<b>15,379,333</b>

*This statement is to be read in conjunction with the notes to the financial statements.*

**ROYALCO RESOURCES LIMITED**  
**ABN 53 096 321 532**

**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 30 JUNE 2009**

	Note	Consolidated		Parent	
		2009 \$	2008 \$	2009 \$	2008 \$
<b>Cash flows from operating activities</b>					
Interest received		334,725	512,975	334,096	509,906
Royalty received		23,000	-	23,000	-
Payments to suppliers and employees		(1,219,870)	(995,164)	(1,147,614)	(742,562)
Net cash used in operating activities	22	(862,145)	(482,189)	(790,518)	(232,656)
<b>Cash flows from investing activities</b>					
Payment for exploration expenditure		(2,219,960)	(1,545,168)	-	-
Proceeds from sale of financial assets		4,542,782	88,088	4,542,779	88,088
Payment for financial assets		-	(216,088)	-	(216,088)
Payment for plant and equipment		(6,576)	(39,418)	(2,908)	(24,621)
Payments to subsidiary		-	-	(2,360,774)	(1,824,650)
Payment for security deposits		(2,678)	-	-	-
Net cash provided by / (used in) investing activities		2,313,568	(1,712,586)	2,179,097	(1,978,071)
<b>Cash flows from financing activities</b>					
Payments for Share buy-backs		(79,403)	(874,500)	(79,403)	(874,500)
Net cash flows provided by financing activities		(79,403)	(874,500)	(79,403)	(874,500)
<b>Net Increase/(Decrease) in Cash Held</b>		1,372,020	(3,069,275)	1,309,176	(3,085,227)
Cash and cash equivalents at beginning of the financial year		5,939,036	9,008,311	5,755,164	8,840,391
<b>Cash and cash equivalents at the end of the financial year</b>	22(a)	7,311,056	5,939,036	7,064,340	5,755,164

*This statement is to be read in conjunction with the notes to the financial statements.*

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

**1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

**Corporate Information**

Royalco Resources Limited is a Company limited by shares incorporated and domiciled in Australia whose shares are publicly traded on the Australian Stock Exchange.

**Statement of compliance**

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations and complies with other requirements of the law.

The financial report includes the separate financial statements of the Company and the consolidated financial statements of the Group.

Accounting Standards include Australian equivalents to International Financial Reporting Standards ('A-IFRS'). Compliance with A-IFRS ensures that the financial statements and notes of the Group and the Company comply with International Financial Reporting Standards ('IFRS').

The financial statements were authorised for issue by the Directors on 28 September 2009.

The financial report has been prepared on the basis of historical cost except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

**Adoption of new and revised Accounting Standards**

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period. The Group has also adopted the following standards as listed below which impacted on the Group's financial statements with respect to disclosure.

- AASB 101 'Presentation of Financial Statements' (revised October 2006)
- AASB 7 'Financial Instruments: Disclosures'
- AASB 2007-4 'Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments'
- AASB 2007-7 'Amendments to Australian Accounting Standards' [AASB 1, AASB 2, AASB 4, AASB 5, AASB 107 & AASB 128] and Erratum: Proportionate Consolidation [AASB 101, AASB 107, AASB 121, AASB 127, Interpretation 113]

The following significant accounting policies set out below have been applied in the preparation and presentation of the financial report.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONT'D)**

**Principles of Consolidation**

The consolidated financial statements comprise the financial statements of Royalco Resources Limited and its subsidiaries as at 30 June each year ("the Group").

The financial statements of subsidiaries are prepared for the same reporting period as the parent Company, using consistent accounting policies.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

All intercompany balances and transactions have been eliminated in full.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Where there is a loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which Royalco Resources Limited has control.

At 30 June 2009 there were 3 subsidiary entities, as detailed in Note 7.

**Significant accounting policies**

The following significant accounting policies have been adopted in the preparation and presentation of the year financial report:

**(a) Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

**(b) Financial instruments issued by the Company**

Transaction costs on the issue of equity instruments

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

Interest and dividends

Interest and dividends are classified as expenses or as distributions of profit consistent with the balance sheet classification of the related debt or equity instruments or component parts of compound instruments.

**(c) Goods and services tax**

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- i. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- ii. for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONT'D)**

**(d) Impairment of assets**

At each reporting date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

**(e) Foreign Currency**

The individual financial statements of each group entity are presented in its functional currency being the currency of the primary economic environment in which the entity operates. For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Australian dollars, which is the functional currency of Royalco Resources Limited and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONT'D)**

Exchange differences are recognised in profit or loss in the period in which they arise except for:

- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned or likely to occur, which form part of the net investment in a foreign operation, and which are recognised in the foreign currency translation reserve and recognised in profit or loss on disposal of the net investment.

On consolidation, the assets and liabilities of the Group's foreign operations are translated into Australian dollars at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's foreign currency translation reserve. Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity on or after the date of transition to A-IFRS are treated as assets and liabilities of the foreign entity and translated at exchange rates prevailing at the reporting dates. Goodwill arising on acquisitions before the date of transition to A-IFRS is treated as an Australian dollar denominated asset.

**(f) Income tax**

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, branches, associates and joint ventures except where the consolidated entity is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONT'D)**

**(g) Exploration Expenditure**

Exploration and evaluation expenditures in relation to each separate area of interest are recognised as an exploration and evaluation asset in the year in which they are incurred where the following conditions are satisfied:

- (i) the rights to tenure of the area of interest are current; and
- (ii) at least one of the following conditions is also met:
  - (a) the exploration and evaluation expenditures are expected to be recouped through successful development and exploration of the area of interest, or alternatively, by its sale; or
  - (b) exploration and evaluation activities in the area of interest have not at the reporting date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation assets are initially measured at cost and include acquisition of rights to explore, studies, exploratory drilling, trenching and sampling and associated activities and an allocation of depreciation and amortisation of assets used in exploration and evaluation activities. General and administrative costs are only included in the measurement of exploration and evaluation costs where they are related directly to operational activities in a particular area of interest.

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. The recoverable amount of the exploration and evaluation asset (or the cash-generating unit(s) to which it has been allocated, being no larger than the relevant area of interest) is estimated to determine the extent of the impairment loss (if any). Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in previous years.

Where a decision is made to proceed with development in respect of a particular area of interest, the relevant exploration and evaluation asset is tested for impairment and the balance is then reclassified to development.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONT'D)

**(h) Royalty Rights**

Under AASB 138 Intangible Assets, Royalty Rights can only be recognised when it is probable that future economic benefits will flow to the entity and the cost of the asset can be measured reliably. On initial recognition, all Royalty Rights must be measured at cost. Subsequently, these Rights can be measured at fair value by reference to an active market. These carrying values must be assessed regularly to ensure the carrying amount does not materially differ from the fair value at reporting date.

Amortisation of these rights will commence once the asset is income producing. The amortisation method and useful life will be assessed at the end of each reporting period.

An active market does not exist for Royalty Rights therefore they have been recorded at cost. This will be reassessed at the end of each reporting period.

**(i) Financial Assets**

Investments are recognised and derecognised on trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the time frame established by the market concerned, and are initially measured at fair value, net of transaction costs except for those financial assets classified as at fair value through profit or loss which are initially measured at fair value.

Subsequent to initial recognition, investments in subsidiaries are measured at cost in the Company financial statements. Subsequent to initial recognition, investments in associates are accounted for under the equity method in the consolidated financial statements and the cost method in the Company financial statements.

Other financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss', 'held-to-maturity investments', 'available-for-sale' financial assets, and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method less impairment.

Interest is recognised by applying the effective interest rate.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONT'D)

**(j) Share-Based Payments**

Equity-settled share-based payments with employees and other providing similar services are measured at the fair value of the equity instrument at the grant date. Fair value is measured by use of a binomial model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations. Further details on how the fair value of equity-settled share-based transactions has been determined can be found in the Remuneration Report.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

**(k) Employment Benefits**

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave, when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of employee benefits expected to be settled within 12 months, are measured at their normal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

**(l) Property, Plant and Equipment**

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

Plant and equipment

Plant and equipment are measured on the cost basis.

The carrying amount of plant and equipment is reviewed annually by Directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation

The depreciable amount of all fixed assets including capitalised lease assets, is depreciated on a straight-line basis over their useful lives to the economic entity commencing from the time the asset is held for use.

The depreciation rates used for each class of depreciable assets are:

<b>Class of Fixed Asset</b>	<b>Depreciation</b>
Plant and equipment	40%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONT'D)

**(l) Property, Plant and Equipment (Cont'd)**

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

**(n) Provisions**

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cashflows estimated to settle the present obligation, its carrying amount is the present value of those cashflows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

**(o) Leases**

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognized as a liability and amortised on a straight-line basis over the life of the lease term.

**(p) Revenue**

Revenue is measured at the fair value of the consideration received or receivable.

Interest Revenue

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Royalties

Royalty revenue is recognised on an accrual basis. Royalties received in gold are recognised at market value of gold at the time the royalty is received. The value of gold held is then adjusted to market value at each reporting date.

**(q) Standards and Interpretations issued not yet effective**

At the date of authorization of the financial report, the Standards and Interpretation listed below were in issue but not yet effective.

Initial application of the following Standards will not affect any of the amounts recognized in the financial report, but will change the disclosures presently made in relation to the Group and the Company's financial report:

- |   |   |
|---|---|
| • AASB 101 'Presentation of Financial Statements' (revised September 2007), AASB 2007-8 'Amendments to Australian Accounting Standards arising from AASB 101' | Effective for annual reporting periods beginning on or after 1 January 2009 |
| • AASB 8 'Operating Segments', AASB 2007-3 'Amendments to Australian Accounting Standards arising from AASB 8'  | Effective for annual reporting periods beginning on or after 1 January 2009 |

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONT'D)**

Initial application of the following Standards and Interpretations is not expected to have any material impact on the financial report of the Group and the Company:

- |   |   |
|---|---|
| • AASB 123 'Borrowing Costs' (revised), AASB 2007-6 'Amendments to Australian Accounting Standards arising from AASB 123'   | Effective for annual reporting periods beginning on or after 1 January 2009   |
| • AASB 3 'Business Combinations' (2008), AASB 127 'Consolidated and Separate Financial Statements' and AASB 2008-3 'Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127' | AASB 3 (business combinations occurring after the beginning of annual reporting periods beginning 1 July 2009) AASB 127 and AASB 2008-3 (1 July 2009) |
| • AASB 2008-1 'Amendments to Australian Accounting Standard – Share-based payments: Vesting Conditions and Cancellations'   | Effective for annual reporting periods beginning on or after 1 January 2009   |
| • AASB 2008-5 'Amendments to Australian Accounting Standards arising from the Annual Improvements Process'  | Effective for annual reporting periods beginning on or after 1 January 2009   |
| • AASB 2008-6 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Process'  | Effective for annual reporting periods beginning on or after 1 January 2009   |
| • AASB 2008-7 'Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate'   | Effective for annual reporting periods beginning on or after 1 January 2009   |

**CRITICAL ACCOUNTING JUDGEMENTS AND SOURCES OF ESTIMATION AND UNCERTAINTY**

In the application of the Group's accounting policies, which are described in note 1, management is required to make judgments, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgments. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

**Key Estimates**

The Company assesses impairment at each reporting date by evaluating conditions specific to the Company that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

**Key Estimates – impairment**

*Exploration Expenditure*

During the year the Directors identified impairment indicators in the capitalised exploration expenditure. Based on these indicators the Directors agreed to write off exploration costs in the current year of \$1,607,299 (2008; \$557,040).

**ROYALCO RESOURCES LIMITED**  
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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONT'D)**

*Impairment of Investment in Subsidiary*

During the year the Company advanced \$2,360,774 to its 100% owned subsidiary Royalco Philippines. These advances will not be repayable and attract no interest receivable. The company therefore classifies these loans as an increase in the cost of the investment held in the subsidiary. This investment's carrying value is then reviewed each reporting period for impairment. During the 2009 financial year, the Company agreed to impair the investment to no greater than the net assets of Royalco Philippines adjusted for amounts payable to the parent. The impairment in the parent entity for the year was \$4,151,119.

*Goodwill on Consolidation*

Each reporting period the value of goodwill on consolidation is reviewed for impairment. It has not been deemed necessary to recognise an impairment loss in the 2009 financial year.

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONT'D)**

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>2. REVENUE</b>				
<b>Operating Revenue</b>				
Royalty Income	7,402,588	987,139	7,402,588	987,139
<b>Non-Operating Revenue</b>				
Fair value gains	-	40,018	-	40,018
Interest revenue	301,488	533,512	300,859	533,512
Profit on sale of investments	559,656	2,148	559,656	2,148
Other income	70	3,069	70	-
<b>Total Revenue</b>	<b>8,263,802</b>	<b>1,565,886</b>	<b>8,263,173</b>	<b>1,562,817</b>
<b>3. PROFIT/(LOSS) FOR THE YEAR</b>				
Loss before income tax has been arrived at after crediting/(charging) the following gains and losses from continuing operations				
Rental expense on operating lease	(31,940)	(21,420)	(31,940)	(21,420)
<b>Depreciation and amortisation of non-current assets</b>				
Depreciation of plant & equipment	(15,962)	(22,607)	(5,900)	(4,296)
Amortisation of software	(12,329)	(10,168)	(12,329)	(10,168)
	<b>(28,291)</b>	<b>(32,775)</b>	<b>(18,229)</b>	<b>(14,464)</b>
<b>Employee Benefit Expense</b>				
Superannuation Contributions	(130,003)	(134,335)	(130,003)	(134,335)
Employee entitlements	(13,845)	(27,577)	(13,845)	(27,577)
Equity settled share based payments	-	(81,274)	-	(81,271)
<b>Total Employee Benefit Expense</b>	<b>(143,848)</b>	<b>(243,186)</b>	<b>(143,848)</b>	<b>(243,183)</b>
Exploration costs written off	(1,607,299)	(557,040)	(17,445)	-
Changes in fair value of financial assets designated at fair value through profit or loss	(491,619)	(269,973)	(491,619)	(246,805)
Impairment of Investments in subsidiaries	-	-	(4,151,119)	-
Profit on sale of assets	-	2,148	-	2,148

**ROYALCO RESOURCES LIMITED**  
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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONT'D)**

	Consolidated		Parent	
	2009	2008	2009	2008
	\$	\$	\$	\$
<b>4. INCOME TAX EXPENSE</b>				
<b>(a) Income tax recognised in profit or loss</b>				
<b>Tax expense / (income) comprises:</b>				
Current Tax expense / (income)	770,916	169,182	770,916	169,182
Deferred Tax expense / (income) relating to the origination and reversal of temporary differences	1,319,459	(179,159)	1,715,954	(179,159)
	<b>2,090,375</b>	<b>(9,977)</b>	<b>2,486,870</b>	<b>(9,977)</b>
<b>(b) The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax as follows:</b>				
Profit / (loss) for the year	<b>4,783,326</b>	<b>(400,724)</b>	<b>2,495,197</b>	<b>273,352</b>
Prima Facie Tax payable on Profit from ordinary activities before income tax at 30% (2008 30%)	1,434,998	(120,217)	748,559	82,006
<b>Add Tax effect of:</b>				
- Non-deductible	-	24,381	-	24,381
- Share based payments	21,739	7,370	21,739	7,370
- Foreign loss of subsidiary not recognised	558,897	202,223	-	-
- Derecognition of deferred tax assets previously recognised	-	-	396,495	-
- Unrealised loss on revaluation of investments	80,440	-	80,440	-
- Impairment of investment in subsidiary	-	-	1,245,336	-
- Foreign royalty income	-	52,464	-	52,464
	<b>2,096,074</b>	<b>166,221</b>	<b>2,492,569</b>	<b>166,221</b>
<b>Less Tax effect of:</b>				
- Foreign tax credits	-	(169,182)	-	(169,182)
- Net prior year adjustments	(5,699)	(7,016)	(5,699)	(7,016)
- Other deductible	-	-	-	-
<b>Income Tax Expense (Benefit)</b>	<b>2,090,375</b>	<b>(9,977)</b>	<b>2,486,870</b>	<b>(9,977)</b>

**Relevance of tax consolidation to the economic entity**

Royalco Resources Ltd and its wholly owned subsidiaries have formed a tax consolidated group with effect from 1 July 2005 and are therefore taxed as a single entity from that date. The head entity within the tax consolidated group is Royalco Resources Ltd.

**Nature of tax funding arrangements and tax sharing agreements**

Entities within the tax consolidated group have not entered into a tax funding arrangement nor a tax sharing agreement with the head entity.

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONT'D)**

**5. KEY MANAGEMENT PERSONNEL**

**a) Key management personnel compensation**

Refer to Remuneration Report contained within the Directors' Report.

**(b) Options holdings by key management personnel**

	<b>Balance 1.7.2008</b>	<b>Granted as Compensation</b>	<b>Net Change Other (1)</b>	<b>Balance 30/06/2009</b>	<b>Vested but not exercisable No.</b>	<b>Vested and exercisable</b>
Mr P Topham	1,400,000	-	-	1,400,000	-	1,400,000
Mr D Ogg	980,000	-	-	980,000	-	980,000
Mr T Eadie	150,000	-	-	150,000	-	150,000
Mr B Pertzel	180,000	-	-	180,000	-	180,000
	<b>2,710,000</b>	<b>-</b>	<b>-</b>	<b>2,710,000</b>	<b>-</b>	<b>2,710,000</b>

	<b>Balance 1.7.2007</b>	<b>Granted as Compensation</b>	<b>Net Change Other (1)</b>	<b>Balance 30/06/2008</b>	<b>Vested but not exercisable No.</b>	<b>Vested and exercisable</b>
Mr P Topham	1,400,000	-	-	1,400,000	-	1,400,000
Mr D Ogg	980,000	-	-	980,000	-	980,000
Mr T Eadie	150,000	-	-	150,000	-	150,000
Mr A Boyd <sup>(1) (2)</sup>	150,000	-	(150,000)	-	-	-
Mr P Lester <sup>(2)</sup>	150,000	-	(150,000)	-	-	-
Mr B Pertzel	-	150,000	30,000	180,000	-	180,000
	<b>2,830,000</b>	<b>150,000</b>	<b>(270,000)</b>	<b>2,710,000</b>	<b>-</b>	<b>2,710,000</b>

(1) "Net Change Other" refers to securities purchased or sold during the year under normal marked conditions and Directors who have resigned during the year and no longer require disclosure.

(2) Resigned as a Director during the year

**(c) Share holdings by Key Management Personnel**

	<b>Balance 1.7.2008</b>	<b>Received as Compensation</b>	<b>Options Exercised</b>	<b>Net Change Other (1)</b>	<b>Balance 30.6.2009</b>
Mr P Topham	5,870,400	-	-	-	5,870,400
Mr D Ogg	4,550,400	-	-	100,000	4,650,400
Mr T Eadie	48,000	-	-	-	48,000
Mr B Pertzel	-	-	-	-	-
	<b>10,468,800</b>	<b>-</b>	<b>-</b>	<b>100,000</b>	<b>10,568,800</b>

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONT'D)**

**5. KEY MANAGEMENT PERSONNEL (CONT'D)**

	<b>Balance 1.7.2007</b>	<b>Received as Compensation</b>	<b>Options Exercised</b>	<b>Net Change Other (1)</b>	<b>Balance 30.6.2008</b>
Mr P Topham	5,740,400	-	-	130,000	5,870,400
Mr D Ogg	4,550,400	-	-		4,550,400
Mr T Eadie	48,000	-	-	-	48,000
Mr A Boyd (2)	78,800	-	-	(78,800)	-
Mr P Lester	-	-	-	-	-
Mr B Pertzel	-	-	-	-	-
	<b>10,417,600</b>	<b>-</b>	<b>-</b>	<b>51,200</b>	<b>10,468,800</b>

<sup>(1)</sup> "Net Change Other" refers to securities purchased or sold during the year under normal marked conditions and Directors who have resigned during the year and no longer require disclosure

<sup>(2)</sup> Resigned as a Director during the year

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>6. TRADE AND OTHER RECEIVABLES</b>				
Other receivables	39,863	7,808	10,000	-
Royalties receivable (1)	1,888,597	-	1,888,597	-
GST receivable	-	19,602	-	19,602
Interest receivable	15,343	48,580	15,343	48,580
	<b>1,943,803</b>	<b>75,990</b>	<b>1,913,940</b>	<b>68,182</b>

<sup>(1)</sup> Of these royalties receivable, \$1,737,703 are payable in gold and have been valued at the market rate at 30 June 2009. The remaining \$150,894 is payable in cash. These royalties are paid approximately 45 days in arrears.

**7. OTHER FINANCIAL ASSETS**

Investments carried at fair value

**Non-current**

Investments in subsidiaries (1)	-	-	<b>4,911,936</b>	<b>6,702,279</b>
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Financial Assets carried at fair value  
through profit or loss

**Current**

Shares in listed corporations	107,000	344,245	107,000	344,245
Shares in unlisted corporations (2)	20,000	20,000	20,000	20,000
Gold assets	1,303,277	1,027,157	1,303,277	1,027,157
	<b>1,430,277</b>	<b>1,391,402</b>	<b>1,430,277</b>	<b>1,391,402</b>

Disclosed in the financial statements as:

Current other financial assets	1,430,277	1,391,402	1,430,277	1,391,402
Non-current other financial assets	-	-	4,911,936	6,702,279
	<b>1,430,277</b>	<b>1,391,402</b>	<b>6,342,213</b>	<b>8,093,681</b>

**ROYALCO RESOURCES LIMITED**  
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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONT'D)**

**OTHER FINANCIAL ASSETS continued**

<sup>(1)</sup> Refer to Note 1 "Critical Accounting Judgments and Key Sources of Estimation and Uncertainty" for further details on the impairment policy on investments in subsidiaries.

<sup>(2)</sup> The fair value of unlisted available-for-sale financial assets cannot be reliably measured as variability in the range of reasonable fair value estimates are significant. As a result, all unlisted investments are reflected at cost. Unlisted available for sale financial assets exist with active markets and could be disposed of if required.

Details of controlled entities are:

Name of Entity	Country of Incorporation	% Held 2009	% Held 2008
Royalco Philippines Inc	Philippines	100	100
Ginto Minerals Pty Ltd	Australia	100	100
Royalco Resources (No1) Pty Ltd	Australia	100	100

	Consolidated		Parent	
	2009	2008	2009	2008
	\$	\$	\$	\$
<b>8. OTHER CURRENT ASSETS</b>				
Prepayments	7,384	-	-	-

**9. TAX ASSETS AND LIABILITIES**

**(a) Assets**

**Non-Current**

Deferred tax asset comprises:

Provisions	52,483	48,329	52,483	48,329
Capital raising costs	54,127	108,253	54,127	108,253
Accruals	5,400	5,400	5,400	5,400
Available for sale financial assets - gold	64,829	-	64,829	-
Other Financial Assets (Unlisted Investments)	-	-	-	396,495
Other	577	115	577	115
Carry Forward Tax Losses	218,571	981,024	218,571	981,024
Less: amount offset by deferred tax liabilities	(393,156)	(27,356)	(393,156)	(27,356)
	<b>2,831</b>	<b>1,115,765</b>	<b>2,831</b>	<b>1,512,260</b>

**(b) Liabilities**

**Non-Current**

Deferred tax liability comprises:

Exploration expenditure	-	-	-	-
Royalty rights	4,433	11,414	4,433	11,414
Interest receivable	4,602	14,574	4,602	14,574
Royalties receivable	384,121	-	384,121	-
Available for sale financial assets	-	1,018	-	1,018
Other	-	350	-	350
Less: amount offset by deferred tax assets	(393,156)	(27,356)	(393,156)	(27,356)
	-	-	-	-

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONT'D)**

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>9. TAX ASSETS AND LIABILITIES continued</b>				
<b>(c) Reconciliations</b>				
<b>(i) Gross Movements</b>				
The overall movement in the deferred tax balances is as follows:				
Opening balance	1,115,765	1,105,785	1,512,260	1,502,280
Charge/ (credit) to the income statement	(1,319,459)	67,104	(1,715,954)	67,104
Charge/ (credit) to the equity	(54,126)	(57,124)	(54,126)	(57,124)
Recognition of deferred tax asset on foreign royalty income	260,651	-	260,651	-
Closing balance	<u>2,831</u>	<u>1,115,765</u>	<u>2,831</u>	<u>1,512,260</u>
<b>(ii) Deferred tax assets</b>				
The movement in deferred tax assets for each temporary difference during the year is as follows:				
<b>Provision:</b>				
Opening balance	48,329	40,056	48,329	40,056
Charge/ (credit) to the income statement	4,154	8,273	4,154	8,273
Closing balance	<u>52,483</u>	<u>48,329</u>	<u>52,483</u>	<u>48,329</u>
<b>Capital Raising Costs</b>				
Opening balance	108,258	165,382	108,258	165,382
Charge/ (credit) to equity	(54,126)	(57,124)	(54,126)	(57,124)
Closing balance	<u>54,132</u>	<u>108,258</u>	<u>54,132</u>	<u>108,258</u>
<b>Accruals</b>				
Opening balance	5,400	5,400	5,400	5,400
Charge/ (credit) to the income statement	-	-	-	-
Closing balance	<u>5,400</u>	<u>5,400</u>	<u>5,400</u>	<u>5,400</u>
<b>Other Financial Assets (Unlisted Investments)</b>				
Opening balance	-	-	396,495	396,495
Charge/ (credit) to the income statement	-	-	(396,495)	-
Closing balance	<u>-</u>	<u>-</u>	<u>-</u>	<u>396,495</u>
<b>Carry Forward Tax Losses</b>				
Opening balance	981,024	981,204	981,024	981,204
Charge/ (credit) to the income statement	(762,453)	-	(762,453)	-
Closing balance	<u>218,571</u>	<u>981,204</u>	<u>218,571</u>	<u>981,204</u>
<b>Available for sale financial assets - gold</b>				
Opening balance	-	-	-	-
Credit / (charge) to the income statement	64,829	-	64,829	-
Closing balance	<u>64,829</u>	<u>-</u>	<u>64,829</u>	<u>-</u>

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONT'D)**

**9. TAX ASSETS AND LIABILITIES (CONT'D)**

**Amounts receivable from subsidiary**

Opening balance	-	-	-	-
Credit / (charge) to the income statement	-	-	1,245,336	-
Less amount not recognised	-	-	(1,245,336)	-
Closing balance	-	-	-	-

**Other**

Opening balance	115	551	115	551
Charge/ (credit) to the income statement	462	(436)	462	(436)
Closing balance	577	115	577	115

**(iii) Deferred tax liability**

**Royalty Rights**

Opening balance				
Charge/ (credit) to the income statement	(6,981)	(2,665)	(6,981)	(2,665)
Amount offset by deferred tax assets	6,981	2,665	6,981	2,665
Closing balance	-	-	-	-

**Interest Receivable**

Opening balance	-	-	-	-
Charge/ (credit) to the income statement	(9,972)	(7,082)	(9,972)	(7,082)
Amount offset by deferred tax assets	9,972	7,082	9,972	7,082
Closing balance	-	-	-	-

**Royalties Receivable**

Opening balance	-	-	-	-
Charge / (credit) to the income statement	384,121	-	384,121	-
Amount offset by deferred tax assets	(384,121)	-	(384,121)	-
Closing balance	-	-	-	-

**Available for sale financial assets**

Opening balance	-	-	-	-
Charge/ (credit) to the income statement	(1,018)	69,364	(1,018)	69,364
Amount offset by deferred tax assets	1,018	(69,364)	1,018	(69,364)
Closing balance	-	-	-	-

**Other**

Opening balance	-	-	-	-
Charge/ (credit) to the income statement	(350)	(350)	(350)	(350)
Amount offset by deferred tax assets	350	350	350	350
Closing balance	-	-	-	-

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONT'D)**

**11. ROYALTY RIGHTS**

Royalty Rights - at cost	336,697	336,697	336,697	336,697
Less Accumulated Amortisation	(88,779)	(10,185)	(88,779)	(10,185)
	<b>247,918</b>	<b>326,512</b>	<b>247,918</b>	<b>326,512</b>

*Reconciliation of Royalty Rights*

Opening balance	326,512	336,697	326,512	336,697
Amortisation of Royalty Rights	(78,594)	(10,185)	(78,594)	(10,185)
Closing balance	<b>247,918</b>	<b>326,512</b>	<b>247,918</b>	<b>326,512</b>

**12. INTANGIBLES**

Goodwill on consolidation (a)	418,035	418,035	-	-
Software - at cost (b)	35,245	35,245	35,245	35,245
Less Accumulated Amortisation	(26,599)	(14,270)	(26,599)	(14,270)
	8,646	20,975	8,646	20,975
	<b>426,681</b>	<b>439,010</b>	<b>8,646</b>	<b>20,975</b>

(a) The Company assessed the recoverable amount of goodwill and determined that the goodwill associated with the Company's exploration expenditure in the Philippines (representing 100%) was not impaired.

(b) *Reconciliation of software*

Opening balance	20,975	6,533	20,975	6,533
Acquisition of software	-	24,610	-	24,610
Amortisation of software	(12,329)	(10,168)	(12,329)	(10,168)
Closing balance	<b>8,646</b>	<b>20,975</b>	<b>8,646</b>	<b>20,975</b>

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONT'D)**

	Consolidated		Parent	
	2009	2008	2009	2008
	\$	\$	\$	\$
<b>13. EXPLORATION ASSETS</b>				
Costs carried forward in respect of areas of interest in exploration and evaluation phase	<b>4,595,531</b>	<b>4,368,401</b>	-	-
<i>Reconciliation of deferred exploration and evaluation costs</i>				
Balance at beginning of year	4,368,401	3,556,151	-	-
Current year expenditure	1,834,429	1,369,290	-	-
Write-off during the year	(1,607,299)	(557,040)	-	-
Balance at end of year	<b>4,595,531</b>	<b>4,368,401</b>	-	-

Recoverability of the carrying amount of exploration assets is dependent upon the successful exploration and sale of resources.

Capitalised cost of \$2,219,960 (2008: \$1,545,168) has been included in cash flows from investing activities in the cash flow statement. The difference represents foreign currency movements during the year.

**14. OTHER NON-CURRENT ASSETS**

Security deposits paid	<b>75,495</b>	<b>72,817</b>	<b>72,817</b>	<b>72,817</b>
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**15. TRADE AND OTHER PAYABLES**

Trade creditors and accruals	<b>108,592</b>	<b>47,800</b>	<b>105,128</b>	<b>247,774</b>
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(a) The average credit period on purchases is 30 days. No interest is charged on the trade payables. The consolidated entity has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

**16. PROVISIONS**

**CURRENT**

Provision for employee entitlements	<b>115,203</b>	<b>119,274</b>	<b>115,203</b>	<b>119,274</b>
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**NON-CURRENT**

Provision for employee entitlements	<b>59,740</b>	<b>41,824</b>	<b>59,740</b>	<b>41,824</b>
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(a) A provision has been recognised for employee entitlements relating to annual and long service leave. In calculating the present value of the future cash flows in respect of the long service leave, the probability of long service leave taken is based on historical data. The measurement and recognition criteria relating to employee benefits have been included in Note 1 of this report.

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONT'D)**

	Consolidated		Parent	
	2009	2008	2009	2008
	\$	\$	\$	\$
<b>17. CONTRIBUTED EQUITY</b>				
52,714,183 (2008: 53,111,200) fully paid ordinary shares	<u>17,593,031</u>	<u>17,672,434</u>	<u>17,593,031</u>	<u>17,672,434</u>

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

Changes to the Corporations Law abolished the authorised capital and par value concept in relation to the Share Capital from 1 July 1998. Therefore, the Company does not have a limited amount of authorised capital and issued shares do not have a par value.

	2009		2008	
	No.	\$	No.	\$
<b>(a) Fully paid ordinary shares</b>				
Balance at beginning of financial year	53,111,200	17,672,434	56,411,200	18,546,934
Share buy-back	<u>(397,017)</u>	<u>(79,403)</u>	<u>(3,300,000)</u>	<u>(874,500)</u>
Balance at end of financial year	<u><b>52,714,183</b></u>	<u><b>17,593,031</b></u>	<u><b>53,111,200</b></u>	<u><b>17,672,434</b></u>

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

(1) During the 2008 financial year, the Group executed a publicly announced share buy-back program resulting from a decision by the Group to maintain ongoing capital management. All the shares purchased are cancelled. There were three purchases made during the 2009 financial year and 397,017 shares were bought back.

**(b) Terms and Conditions of Issued Capital**

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.

At the shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

**(c) Options**

Royalco Resources Limited has the following unlisted options on issue at 30 June 2009:

2,950,000 options at an exercise price of \$0.50 exercisable on or before 31/03/2011  
150,000 options at an exercise price of \$0.80 exercisable on or before 31/03/2011  
510,000 options at an exercise price of \$0.52 exercisable on or before 31/03/2011

	2009	2008
	No.	No.
Balance at beginning of the financial year	<u>3,610,000</u>	<u>3,460,000</u>
Granted during the financial year	-	150,000
Balance at end of the financial year	<u><b>3,610,000</b></u>	<u><b>3,610,000</b></u>

**Directors' Options**

Options granted to Directors or their nominees are disclosed in the Remuneration Report.

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONT'D)**

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>18. RESERVES</b>				
Option reserve	676,441	676,441	676,441	676,441
Foreign currency translation reserve	(631,387)	(237,236)	-	-
	<b>45,054</b>	<b>439,205</b>	<b>676,441</b>	<b>676,441</b>

**Option Reserve**

The option reserve arises on the grant of share options to executives and senior employees under the employee share option plan. Amounts are transferred out of the reserve and to retained earnings when the options are exercised or lapsed. Further information about the share based payments is made in Note 26.

The movement table for the financial year ended 30 June 2009.

	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>
Balance at beginning of the financial year	676,441	595,170
Share based payments	-	81,271
<b>Balance at end of the financial year</b>	<b>676,441</b>	<b>676,441</b>

**Foreign Currency Translation Reserve**

The foreign currency translation reserve records exchange differences from the functional currencies of the Group's foreign controlled entities into Australian dollars.

The movement table for the financial year ended 30 June 2009.

	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>
Balance at beginning of the financial year	(237,236)	(61,359)
Translation of foreign operations	(394,151)	(175,877)
<b>Balance at end of the financial year</b>	<b>(631,387)</b>	<b>(237,236)</b>

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONT'D)**

	Consolidated		Parent	
	2009	2008	2009	2008
	\$	\$	\$	\$

**19. COMMITMENTS FOR EXPENDITURE**

**Exploration Tenements - Commitments for Expenditure**

In order to maintain current rights of tenure to exploration tenements, the Company and economic entity is required to outlay rentals and to meet the minimum expenditure requirements of the Mines Departments. Minimum expenditure commitments may be subject to renegotiation and with approval may otherwise be avoided by sale, farm out or relinquishment. These obligations are not provided in the accounts and are payable:

Not later than one year	115,230	82,132	-	-
Later than one year but not later than five	-	242,320	-	-
Later than five years	-	-	-	-
	<b>115,230</b>	<b>324,452</b>	-	-

**Operating Rental Leases - Commitments for Expenditure**

Not later than one year	2,076	10,998	-	-
Later than one year but not later than five	-	1,853	-	-
Later than five years	-	-	-	-
	<b>2,076</b>	<b>12,851</b>	-	-

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONT'D)**

**20. SEGMENT REPORTING**

**a) Industry Segments**

The economic entity has the following two business segments:

Royalty Rights is the primary business segment and the Company is also involved in the exploration of mineral deposits throughout the Philippines.

Exploration of the mineral deposits is predominately carried out in the Philippines through the Company's subsidiary Royalco Philippines Inc. The parent entity has minor activity in the exploration segment.

	ROYALTY RIGHTS		EXPLORATION		CORPORATE		CONSOLIDATED	
	2009	2008	2009	2008	2009	2008	2009	2008
<b>Revenue</b>								
External Sales	7,402,588	987,139	-	-	861,214	578,567	8,263,802	1,565,886
<b>Result</b>								
Segment Result before tax	7,323,994	976,954	(1,898,537)	(674,076)	(642,131)	(693,625)	4,783,326	(390,747)
<b>Assets</b>								
Segment Assets	2,136,515	326,512	5,049,474	4,608,330	8,894,915	8,852,028	16,080,904	13,786,870
<b>Liabilities</b>								
Segment Liabilities	-	-	-	6,424	283,535	202,473	283,535	208,897
<b>Other</b>								
Acquisition of Segment Assets (including exploration assets)	-	-	1,834,429	1,407,897	2,908	-	1,837,337	1,407,897
Depreciation of Segment Assets	-	-	10,062	32,775	18,229	-	28,291	32,775
Amortisation of Royalty Rights	78,594	10,185	-	-	-	-	78,594	10,185

**b) Geographical Segments**

The consolidated entity's operations are located in Australia and Philippines.

**Secondary Reporting – Geographical Segments**

Location	Segment Revenues from External Customers		Carrying amounts of Segment Assets		Acquisition of Non-current Segment Assets	
	2009	2008	2009	2008	2009	2008
	\$	\$	\$	\$	\$	\$
Australia	8,263,173	1,562,817	11,031,430	9,718,440	2,908	-
Philippines	629	3,069	5,049,474	4,068,330	1,834,429	1,407,987
	<b>8,263,802</b>	<b>1,565,886</b>	<b>16,080,904</b>	<b>13,786,770</b>	<b>1,837,337</b>	<b>1,407,987</b>

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONT'D)**

**21. RELATED PARTY DISCLOSURES**

**Transactions with Directors and Director Related Entities**

During the year the following transactions took place between the Company and Director related entities:

- David Ogg & Associates Pty Ltd, a Company associated with Mr D Ogg, received consulting fees of \$61,700 (2008: \$75,212) for the provision of management and company secretarial services. (These consulting fees are included in total remuneration in the Remuneration Report)
- Copper Strike Limited, a Company associated with and Mr P Topham and Mr T Eadie, received rent from Royalco Resources Limited of \$25,358 (2008: \$21,420) during the year.
- Alpha Unicorn Company Pty Ltd, a Company associated with Mr B Pertzel, received fees of \$35,525 (2008: 21,875) for the provision of Director's services (These fees are included in total remuneration in the Remuneration Report), and a further \$4,331 for the provision of geological consulting services (2008: Nil)
- Pertzel Tahan & Associates Pty Ltd, a Company associated with Mr B Pertzel, received fees of \$23,203 (2008: 15,144) for the provision of geological consulting services.

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONT'D)**

	<b>Consolidated 2009 \$</b>	<b>Consolidated 2008 \$</b>	<b>Parent 2009 \$</b>	<b>Parent 2008 \$</b>
<b>22. NOTES TO THE STATEMENT OF CASH FLOWS</b>				
<b>(a) Reconciliation of Cash and Cash Equivalents</b>				
For the purposes of the statement of cash flows, cash includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:				
Cash and cash equivalents	<b>7,311,056</b>	<b>5,939,036</b>	<b>7,064,341</b>	<b>5,755,164</b>
<b>(b) Reconciliation of Operating Profit / (Loss) After Income Tax to Net Cash Flows From Operating Activities:</b>				
Operating Profit / (Loss) after income tax	2,692,951	(390,797)	8,327	283,329
<i>Non-Cash Activities</i>				
Amortisation of Royalty Rights	78,594	10,185	78,594	10,185
Profit on sale of investments	(559,656)	(2,148)	(559,656)	(2,148)
Depreciation	28,291	32,775	18,229	14,464
Other Non Cash Income	(70)	-	(70)	-
Impairment of Investments	-	-	4,151,119	-
Non cash royalty income net of withholding tax	(6,251,250)	(987,139)	(6,251,250)	(987,139)
Share based payments	-	81,271	-	81,271
Employee entitlements	13,845	27,578	13,845	27,578
Fair value gains	491,619	218,535	491,619	206,787
Exploration expenses written off	1,607,299	557,040	-	-
<i>Changes in net assets:</i>				
(Increase)/Decrease in deferred tax	1,112,934	(9,977)	1,509,426	(9,977)
(Increase)/Decrease in receivables	20,784	(28,492)	42,839	(23,394)
(Increase)/Decrease in royalties receivable	(150,894)	-	(150,894)	-
(Increase)/Decrease in other current assets	(7,384)	3,510	-	11,748
Increase/(Decrease) in income tax payable	-	-	-	-
Increase/(Decrease) in deferred tax liabilities	-	-	-	-
(Increase)/Decrease in sundry creditors and accruals	60,792	5,470	(142,646)	154,640
Net Cash used in operating activities	<b>(862,145)</b>	<b>(482,189)</b>	<b>(790,518)</b>	<b>(232,656)</b>

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONT'D)

NOTE 22 : NOTES TO THE CASH FLOW STATEMENT (CONT'D)

c) Non cash financing and Investing Activities

During the year the company has received royalties of \$8,263,802. Of the total royalties received \$8,089,908 were paid or payable in gold bullion, including withholding tax, with the remainder being in cash. During the year, the company has converted gold into cash of \$4,565,779, which has been recognised as a cash flow from investing activities. In addition to this the Company is holding gold valued at \$1,303,277 and is owed royalties receivable in gold of \$1,737,703 at 30 June 2009.

**23. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The consolidated entity's principal financial instruments comprise cash and cash equivalents, trade and other receivables, investments in listed corporations, gold assets and trade and other payables.

The main purpose of these financial instruments is to finance the consolidated entity's operations. The consolidated entity has various other financial assets and liabilities such as receivables and trade payables, which arise directly from its operations.

The main risks arising from the consolidated entity's financial instruments are market risk. Other risks are summarised below. The Board reviews and agrees policies for managing each of these risks.

**Market Risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, commodity prices and equity prices will effect the entity's income or the value of its holdings of financial instruments.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimising the return.

**(a) Cash flow interest rate risk**

The consolidated entity's exposure to the risks of changes in market interest rates relates primarily to the consolidated entity's short-term deposits with a floating interest rate. These financial assets with variable rates expose the consolidated entity to cash flow interest rate risk. All other financial assets and liabilities in the form of receivables and payables are non-interest bearing. The consolidated entity does not engage in any hedging or derivative transactions to manage interest rate risk. In regard to its interest rate risk, the consolidated entity continuously analyses its exposure. Within this analysis consideration is given to potential renewals of existing positions, alternative investments and the mix of fixed and variable interest rates.

The following tables set out the carrying amount by maturity of the parent entity and consolidated entity's exposure to interest rate risk and the effective weighted average interest rate for each class of these financial instruments. Also included is the effect on profit and equity after tax if interest rates at that date had been 40% higher or lower with all other variables held constant as a sensitivity analysis.

The consolidated entity has not entered into any hedging activities to cover interest rate risk. In regard to its interest rate risk, the consolidated entity continuously analyses its exposure. Within this analysis consideration is given to potential renewals of existing positions, alternative investments and the mix of fixed and variable interest rates.

A sensitivity of 40% has been selected as this is considered reasonable given the current level of both short term and long term Australian dollar interest rates. A 40% sensitivity would move short term interest rates at 30 June 2009 from 4.40% to 6.16% representing a 176 basis points shift. This would represent two to three increases which is reasonably possible in the current environment with the bias coming from the Reserve Bank of Australia and confirmed by market expectations that interest rates in Australia are more likely to move up than down in the coming period.

Based on the sensitivity analysis only interest revenue from variable rate deposits and cash balances is impacted resulting in a decrease or increase in overall income.

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONT'D)**

**23. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)**

**Consolidated Entity**

	Note	Float Interest Rate		Non-Interest Bearing		Total Carrying Amount		Interest Rate Risk Sensitivity			
		2009 \$	2008 \$	2009 \$	2008 \$	2009 \$	2008 \$	-40% 2009 \$	-10% 2008 \$	+40% 2009 \$	+10% 2008 \$
<b>Financial Assets</b>											
Cash at bank	20	7,311,050	5,939,030	6	6	7,311,056	5,939,036	(128,674)	(39,910)	128,674	39,910
Trade and other Receivables	6	-	-	1,943,803	75,990	1,943,803	75,990	-	-	-	-
Other financial assets at fair value through p&l	7		-	1,430,277	1,391,402	1,430,277	1,391,402	-	-	-	-
<b>Total</b>		<b>7,311,050</b>	<b>5,939,030</b>	<b>3,374,086</b>	<b>1,467,398</b>	<b>10,685,136</b>	<b>7,406,428</b>	<b>(128,674)</b>	<b>(39,910)</b>	<b>128,674</b>	<b>39,910</b>
Weighted average interest rate		4.40%	6.72%								
<b>Financial Liabilities</b>											
Trade and other payables	13	-	-	108,592	47,800	108,592	47,800	-	-	-	-
<b>Total</b>		<b>-</b>	<b>-</b>	<b>108,592</b>	<b>47,800</b>	<b>108,592</b>	<b>47,800</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Weighted average interest rate		-	-								
<b>Net Financial assets (liabilities)</b>		<b>7,311,050</b>	<b>5,939,030</b>	<b>3,265,494</b>	<b>1,419,598</b>	<b>10,576,544</b>	<b>7,358,628</b>	<b>(128,674)</b>	<b>(39,910)</b>	<b>128,674</b>	<b>39,910</b>

**ROYALCO RESOURCES LIMITED**  
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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONT'D)**

**23. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)**

**Parent Entity**

	Note	Float Interest Rate		Non-Interest Bearing		Total Carrying Amount		Interest Rate Risk Sensitivity			
		2009 \$	2008 \$	2009 \$	2008 \$	2009 \$	2008 \$	-40% 2009 \$	-10% 2008 \$	+40% 2009 \$	+10% 2008 \$
<b>Financial Assets</b>											
Cash at bank	23	7,064,335	5,755,158	6	6	7,064,341	5,755,164	(124,332)	(38,675)	124,332	38,675
Trade and other Receivables	6	-	-	1,913,940	68,182	1,913,940	68,182	-	-	-	-
Investment in subsidiary at fair value	7	-	-	4,911,936	6,702,279	4,911,936	6,702,279	-	-	-	-
Other financial assets at fair value through p&l	7	-	-	1,430,277	8,093,681	1,430,277	8,093,681	-	-	-	-
<b>Total</b>		<b>7,064,335</b>	<b>5,755,158</b>	<b>8,256,159</b>	<b>14,864,148</b>	<b>15,320,494</b>	<b>20,619,306</b>	<b>(124,332)</b>	<b>(38,675)</b>	<b>124,332</b>	<b>38,675</b>
Weighted average interest rate		4.40%	6.72%								
<b>Financial Liabilities</b>											
Trade and other payables	15	-	-	105,128	247,774	105,128	247,774	-	-	-	-
<b>Total</b>		<b>-</b>	<b>-</b>	<b>105,128</b>	<b>247,774</b>	<b>105,128</b>	<b>247,774</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Weighted average interest rate		-	-								
<b>Net Financial assets (liabilities)</b>		<b>7,064,335</b>	<b>5,755,158</b>	<b>8,151,031</b>	<b>14,616,374</b>	<b>15,215,366</b>	<b>20,371,532</b>	<b>(124,332)</b>	<b>(38,675)</b>	<b>124,332</b>	<b>38,675</b>

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONT'D)**

**(b) Price risk**

The Group is exposed to equity securities price risk. This arises from investments held and classified on the balance sheet at fair value through profit and loss. The following table sets out the carrying amount of the consolidated and parent entity's exposure to equity securities price risk on fair value through profit and loss investments. Also included is the effect on profit and equity before tax if these prices at that date had been 50% higher or lower with all other variables held constant as a sensitivity analysis.

A sensitivity of 50% has been selected as this is considered reasonable given the current and recent trending and volatilities of both Australian and International stock markets and the trading history of the investment held by the Company.

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Listed Securities - Equities</b>	<b>107,000</b>	<b>344,245</b>	<b>107,000</b>	<b>344,245</b>
Market Price +50%				
- Profit	53,500	172,123	53,500	172,123
- Equity	53,500	172,123	53,500	172,123
Market Price -50%				
- Profit	(53,500)	(172,123)	(53,500)	(172,123)
- Equity	(53,500)	(172,123)	(53,500)	(172,123)

**(c) Liquidity risk**

Prudent liquidity risk management implies maintaining sufficient cash and financial resources to ensure an ability to meet ongoing financial requirements in a timely manner, and allow a buffer for unforeseen contingencies. The Company manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The Company aims at maintaining flexibility in funding by having in place operational plans to source further capital as required.

Liquidity risk is measured using liquidity ratios such as working capital as follows:

	<b>Consolidated</b>	<b>Consolidated</b>
	<b>30 June 2009</b>	<b>30 June 2008</b>
Current Assets	10,692,520	7,406,428
Current Liabilities	223,795	167,074
<b>Surplus/(Deficit)</b>	<b>10,468,725</b>	<b>7,239,354</b>

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONT'D)**

**Financial Liabilities**

The following tables the Company's and the Group's remaining contractual maturity for its non-derivative financial liabilities.

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Contracted maturities of payables year ended 30 June 2009:				
Payable:				
- less than 6 months	108,592	47,800	105,128	247,774
- 6 to 12 months	-	-	-	-
- 1 to 5 years	-	-	-	-
- later than 5 years	-	-	-	-
<b>Total</b>	<b>108,592</b>	<b>47,800</b>	<b>105,128</b>	<b>247,774</b>

**(d) Commodity Price Risk**

The entity is exposed to commodity price risk. This risk because the Company receives the majority of its royalty income in form of gold bullion. This gold is held by the company as a financial asset and is realised as required.

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Gold Assets	1,303,277	1,027,157	1,303,277	1,027,157
Royalties Receivable <sup>(1)</sup>	1,737,703	-	1,737,707	-
	<u>3,040,980</u>	<u>1,027,157</u>	<u>3,040,984</u>	<u>1,027,157</u>
Increase in gold price +20%				
- Profit	608,196	205,431	608,197	205,431
- Equity	608,196	205,431	608,197	205,431
Decrease in gold price -20%				
- Profit	(608,196)	(205,431)	(608,197)	(205,431)
- Equity	(608,196)	(205,431)	(608,197)	(205,431)

A sensitivity of 20% has been selected as this is considered reasonable given the current and recent trending and volatilities of both Australian and International mineral markets.

(1): The majority of royalties receivable will be received as gold. This receivable is therefore appropriate to include as part of the sensitivity analysis for the movement in the gold price.

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONT'D)**

**(e) Foreign Exchange Risk**

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. The consolidated entity manages foreign currency risk by minimising the amounts of foreign currency required and buying foreign currency only at the time it is required. Cash at bank, prepayments and trade creditors are held in Philippine Peso.

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Cash and cash equivalent	246,715	183,872	-	-
Trade and other receivables	29,863	7,807	-	-
Trade and other payables	(3,464)	(6,424)	-	-
<b>Net Exposure</b>	<b>273,114</b>	<b>185,255</b>	<b>-</b>	<b>-</b>

A sensitivity of 20% has been selected as this is considered reasonable given the current level of both short term and long term exchange rate movement for this currency and the above analysis assumes all other variables remain constant.

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Net Exposure</b>	<b>273,114</b>	<b>185,255</b>	<b>-</b>	<b>-</b>
Increase in exchange rate +20%				
- Profit	54,623	37,051	-	-
- Equity	54,623	37,051	-	-
Decrease in exchange rate -20%				
- Profit	(54,623)	(37,051)	-	-
- Equity	(54,623)	(37,051)	-	-

**(f) Net Fair Values**

For financial assets and liabilities, the net fair value approximates their carrying value. No financial assets and financial liabilities are readily traded on organised markets in standardised form. The Company has no financial assets where carrying amount exceeds net fair values at balance date.

The Company's receivables at balance date are detailed in Note 6 and comprise primarily royalties receivable, interest receivable and GST input tax credits refundable by the ATO.

The credit risk on financial assets of the Company which have been recognised on the Balance Sheet is generally the carrying amount.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONT'D)**

**(g) Capital Risk Management**

When managing capital, management's objectives is to ensure the Company continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also maintain a capital structure that ensures the lowest cost of capital available to the Company.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholder, issue new shares, enter into joint ventures or sell shares.

The Company has a defined share buy-back plan in place however it has currently been suspended. Share buy backs have been detailed in Note 17.

No dividends were paid in 2009, however given the inherent and likely long-term profitability of Royalco's business model the board of Directors have endorsed an indicative dividend policy. This policy allows dividends to commence once they can be classified as fully franked. They will be paid biannually and up to 60% of after tax profits will be paid as dividends. The board retains the right to alter the formula in the event of unforeseen circumstances.

There is no current intention to incur debt funding on behalf of the Company.

The consolidated Company is not subject to any externally imposed capital requirements.

Management reviews management accounts on a monthly basis and reviews actual expenditure against budget on a quarterly basis.

**24. EARNINGS PER SHARE**

	<b>2009 Cents Per Share</b>	<b>2008 Cents Per Share</b>
<b>Basic earnings / (loss) per share</b>	<u>5.08</u>	<u>(0.70)</u>
<b>Diluted earnings / (loss) per share</b>	<u>4.75</u>	<u>(0.66)</u>
Earnings used in the calculation of basic and diluted earnings per share	2,692,951	(390,747)
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic earnings / (loss) per share	<u>53,028,513</u>	<u>56,194,214</u>
Weighted average number of ordinary shares and options outstanding during the year used in the calculation of diluted earnings / (loss) per share	<u>56,638,513</u>	<u>59,655,858</u>

**25. AUDITORS REMUNERATION**

Auditing or reviewing the financial report:

	<b>Consolidated 2009 \$</b>	<b>Consolidated 2008 \$</b>	<b>Parent 2009 \$</b>	<b>Parent 2008 \$</b>
- Leydin Freyer Audit Pty Ltd	28,000	28,000	28,000	28,000
- Alas, Oplas & Co	4,509	3,900	-	-
	<u><b>32,509</b></u>	<u><b>31,900</b></u>	<u><b>28,000</b></u>	<u><b>28,000</b></u>

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONT'D)**

**26 SHARE BASED PAYMENTS**

**Share Based Payment – Options**

There were no share based payments during the 2009 financial year.

During the previous year the entity 150,000 options to a Director, exercisable at \$0.80 and expiring 31 March 2011. The options having been valued using the Black Scholes methodology at \$0.2086. The following variables were used in this calculation:

Grant Date	19/11/2007
Vesting Date	28/6/2008
Share Price	50 cents
Exercise Price	80 cents
Volatility	30%
Time to maturity	3.5 Years
Risk free interest rate	5.5%

**27 SUBSEQUENT EVENTS**

There has been no matter or circumstance that has arisen since the end of the financial year, that has significantly affected, or may significantly affect, the operations of the Company, the results of those operations or the state of affairs of the Company in future financial years.

On 11<sup>th</sup> September 2009, the Company announced that the board had endorsed an indicative dividend policy. Dividends are to commence once they can be classified as fully franked, will be paid biannually and only up to 60 % of after tax profits. The board retains the right to alter the formula in the event of unforeseen circumstances.

In the same announcement the company reported a net tangible asset backing per share of between 48 and 50 cents - excluding any value for the company's advanced exploration activities, principally in the Philippines.

An independent valuation by DMR Corporate Pty Ltd, commissioned by Royalco, shows the company's key royalty interests are worth between \$15.88 million to \$16.96 million.

**28 SCHEDULE OF MINING AND EXPLORATION TENEMENTS AS AT 30 JUNE 2009**

**Philippine tenements**

<u>Project</u>	<u>Locality</u>	<u>Tenement No.</u>	<u>Licence Type</u>	<u>Equity</u>
Gambang	Bankun Benguet	005-2008-CAR	Exploration Permit	100%
Pao	Kasibu, Nueva Vizcaya	EP-II-000014	Exploration Permit	100%
Yabbe	Nueva Vizcaya		Exploration Permit Application	100%

**DIRECTORS' DECLARATION**

The Directors declare that:

- a) in the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;
- b) in the Directors' opinion, the remuneration report, the attached financial statements and notes thereto, are in accordance with the *Corporations Act 2001*, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated Company; and
- c) the Directors have been given the declarations required by s.295A of the *Corporations Act 2001*.

Signed in accordance with a resolution of the Directors made pursuant to s.295(5) of the *Corporations Act 2001*.

On behalf of the Directors



Peter J Topham  
Director  
25 September 2009

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

We have audited the accompanying financial report of Royalco Resources Limited (the Company) and its controlled entities (the consolidated entity), which comprises the balance sheet as at 30 June 2009, and the income statement, statement of changes in equity and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes and the directors declaration of the entity.

### ***Directors Responsibility for the Financial Report***

The Directors are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations). This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the 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. In Note 1, the Directors also state, in accordance with Accounting Standard AASB101: Presentation of Financial Statements, that compliance with Australian equivalents to International Financial Reporting Standards (IFRS) ensures that the financial report, comprising the financial statements and notes, complies with IFRS.

### **Auditors Responsibility**

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the consolidated entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Independence***

In conducting our audit, we followed applicable independence requirements of Australian accounting ethical pronouncements and the *Corporations Act 2001*.

*Audit opinion*

In our opinion:

- (a) the financial report of Royalco Resources Limited and its controlled entities is in accordance with the Corporations Act 2001, including:
  - (i) gives a true and fair view of the consolidated entity's financial position as at 30 June 2009 and of their performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Yours faithfully



**MELANIE J LEYDIN**  
Registered Company Auditor  
Registration: 212298

25 September 2009

**ADDITIONAL ASX INFORMATION  
SHAREHOLDER INFORMATION**

The shareholder information set out below was applicable as at 4 September 2009

**1. Distribution of Shareholders**

(a) Analysis of number of shareholders by size of holding.

Category of holding	Holders	Number of Shares	% of Capital
1 - 1,000	22	14,532	0.03%
1,001 - 5,000	180	645,750	1.23%
5,001 - 10,000	114	993,110	1.88%
10,001 - 100,000	200	6,648,086	12.61%
100,001 and over	34	44,412,705	84.25%
<b>Total</b>	<b>550</b>	<b>52,714,183</b>	<b>100.00%</b>

(b) There are 36 shareholders holding 33,577 shares with less than a marketable parcel of ordinary shares.

**2. Twenty Largest Shareholders**

The names of the twenty largest holders by account holding of ordinary shares are listed below:

SHAREHOLDER	HOLDING	%
Merrill Lynch Australia Nominees Pty Ltd	14,320,682	27.17%
Oxiana Ltd	10,000,000	18.97%
Keryn Anne Topham	4,530,000	8.59%
Bell Potter Nominees Ltd	2,591,568	4.92%
Meballa Pty Ltd	2,400,000	4.55%
JP Morgan Nominees Australia Ltd	1,400,000	2.66%
DL Ogg and Patricia Daly	1,200,000	2.28%
HSBC Custody Nominees Pty Ltd	886,579	1.68%
Mianer Pty Ltd	719,000	1.36%
David Ogg and Associates Pty Ltd	690,000	1.31%
Gasmere Pty Ltd	638,547	1.21%
Porthill Resources Pty Ltd	530,400	1.01%
Finance Associates Pty Ltd	442,562	0.84%
AB & KP Campbell	400,000	0.76%
Neville Miles	300,000	0.57%
Hubertine Jessop	288,000	0.55%
Whorouly Pty Ltd	270,000	0.51%
Lindley Investments Pte Ltd	250,000	0.47%
David Lindsay Ogg	240,000	0.46%
Rock Forest Pty Ltd	210,000	0.40%
<b>TOTAL</b>	<b>42,307,338</b>	<b>80.26%</b>

**3. Substantial Shareholders**

As at 4 September 2009 the substantial shareholders were as follows:

Name of Shareholder	No of Shares	% of Issued Capital
Anglo Pacific Group PLC	16,412,250	31.13%
OZ Minerals Ltd	10,000,000	18.97%
Keryn Anne Topham & associates	5,180,400	9.83%
David Lindsay Ogg & associates	3,960,400	7.51%

**4. Voting Rights**

At a general meeting of shareholders:

- (a) On a show of hands, each person who is a member or sole proxy has one vote.
- (b) On a poll, each shareholder is entitled to one vote for each fully paid share.

## CORPORATE GOVERNANCE STATEMENT

The Board of Directors (“the Board”) of Royalco Resources Limited (“the Company”) supports the establishment and ongoing development of good corporate governance policies, that are compatible with the Company’s size and which ensure an appropriate level of accountability to shareholders and other stakeholders.

A description of the Company’s main corporate governance practices is set out below. It is also accessible at the Company’s website – [www.royalco.com.au](http://www.royalco.com.au) under the “Corporate” tag which has a sub heading for corporate governance. In August 2007, the ASX issued a revised set of corporate governance principles and recommendations intended to take effect from 1 January 2008.

The recommendations are not prescriptions and are intended as guidelines only. The Board has sought to apply the revised recommendations to the extent relevant to the Company’s size and scale of operations.

### **Recommendation 1.1: Establish the functions reserved to the Board and those delegated to senior executives and disclose those functions.**

The Company’s activities are currently not of a sufficient size nor are its affairs of such complexity to justify the employment of full-time management personnel. Accordingly most of the functions of management are undertaken by consultants under the supervision of the Executive Chairman who is responsible for management activities under delegated authority of the Board. The functions specifically reserved for the full Board are as follows:

- a) Setting and monitoring of objectives, goals and strategic direction with a view to maximising shareholder value, consistent with ethical behaviour and acceptable risk parameters;
- b) Approving budgets and monitoring financial performance;
- c) Identifying significant business risks and ensuring that these are appropriately managed;
- d) Approval of any significant asset acquisitions or disposals;
- e) Selection and appointment of new Directors; and
- f) Appointment and removal of the Executive Chairman.

### **Recommendation 1.2: Disclose the process for evaluating the performance of senior executives.**

The performance of all Directors, and senior executives is reviewed at least annually. The Board evaluates the performance of the Executive Chairman and any other senior executives having regard to such things as:

- a) The responsibilities of the executive;
- b) Performance against budget;
- c) Any communicated key performance indicators; and
- d) Qualitative as well as quantitative measures.

No Director or senior executive is involved with his or her own evaluation, and the remainder of the Board evaluates such parties without such parties being present.

A review of the performance of the Board, its Directors and senior executives was carried out in August 2008, and was undertaken in accordance with the above policy.

### **Recommendation 2.1: A majority of the Board should be independent Directors.**

The Company does not currently have a majority of non-executive independent Directors.

Due to the Company’s size and its specialised operations, the Board considers that a majority of independent Directors is not currently warranted. As the Company’s activities expand, this policy will be reviewed, with a view to aligning the Company’s policies to conformity with this recommendation. The Board recognises that Directors remain in office for the benefit of and are accountable to shareholders and that shareholders have the voting power to elect members to the Board regardless of their standing, independent or otherwise.

The effectiveness of the Board is achieved through the Directors’ knowledge and experience specific to the business and the industry in which the Company operates. Any Director may seek their own independent advice at the Company’s expense to assist them in the performance of their duties to the Company and the shareholders.

**CORPORATE GOVERNANCE STATEMENT (CONT'D)**

**Recommendation 2.2: The Chairperson should be an independent director.**

Mr Peter Topham, the Executive Chairman, is not an independent Director. Whilst the Board recognises that it is desirable for the Chairman to be an independent director, the Company's current early stage of development and size dictate that this is the most efficient mode of operation at the current time. The Board will review the appointment of an independent Chairperson should the Company's size and growth warrant this.

**Recommendation 2.3: The roles of chair and Chief Executive Officer should not be exercised by the same individual.**

As noted, Mr Peter Topham is the Executive Chairman of the Company. For similar reasons expressed in relation to recommendation 2.2, the existing arrangement is the most efficient mode of operation at the current time for the Company's early stage of development and size. The Board will review the appointment of a separate Chairperson should the Company's size and growth warrant this.

**Recommendation 2.4: The Board should establish a nomination committee.**

The Board considers that the Company is not currently of a size to justify the formation of a nomination committee. The Board as a whole undertakes the process of reviewing the skill base and experience of existing Directors and the identification of attributes required in new Directors. The Board as a whole also reviews Board succession plans, appointment and re-election of Directors and the process for evaluation of the performance of the Board, its Members and Senior Executives (as outlined under recommendation 1.2). Where appropriate, independent consultants will be engaged to identify possible new candidates for the Board.

Should the Company's activities increase in size, scope and nature, the appointment of a nomination committee will be reviewed by the Board and implemented if appropriate.

**Recommendation 2.5: Disclose the process for evaluating the performance of the board, its committees and individual directors.**

See the comments under recommendation 1.2 above.

**Recommendation 3.1: Establish a code of conduct and disclose the code or a summary of the code as to:**

- **the practises necessary to maintain confidence in the Company's integrity;**
- **the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders;**
- **the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.**

The Company has adopted a Corporate Code of Conduct, and a Code of Conduct for executives, which can be accessed at the Company's website at [www.royalco.com.au](http://www.royalco.com.au) under the "Corporate" tag which has the appropriate sub headings.

**Recommendation 3.2: Establish a policy concerning trading in Company securities by Directors, senior executives and employees, and disclose the policy or a summary of that policy.**

The Company has adopted a Trading Policy which can be assessed at [www.royalco.com.au](http://www.royalco.com.au) under the "Corporate" tag which has the appropriate sub heading.

**CORPORATE GOVERNANCE STATEMENT (CONT'D)**

**Recommendation 4.1: The Board should establish an audit committee.**

The Board considers that the Company is not currently of a size to justify the formation of an Audit Committee and instead these functions are performed by the whole Board. All items that would normally be dealt with by an Audit Committee are dealt with at Board meetings. Such matters include:

- a) Establishment and review of internal control frameworks within the Company;
- b) Review of the financial statements, annual report and any other financial information distributed to shareholders or other external stakeholders;
- c) Review of audit reports and any correspondence from auditors, including comments on the Company's internal controls;
- d) Nomination of the external auditor and reviewing the adequacy of the scope and quality of the annual audit and half year review; and
- e) Monitoring compliance with the Corporations Act, ASX listing Rules and any other regulatory requirements.

**Recommendation 4.2: The audit committee should be structured so that it consists only of non-executive Directors;**

- **consists of a majority of independent Directors;**
- **is chaired by an independent Chairperson, who is not Chairperson of the Board;**
- **has at least three members**

See comments under recommendation 4.1 above.

**Recommendation 4.3: The audit committee should have a formal charter.**

See comments under recommendation 4.1 above

**Recommendation 5.1: Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.**

The Company has adopted a continuous disclosure policy that requires all Directors, Officers and executives to inform the Chairman, or in his absence the Company Secretary, of any potentially material information as soon as practicable after they become aware of that information. The Company does not currently have a formal written policy in place, but instead relies on the extensive experience of the Board and senior management to ensure ongoing compliance.

**Recommendation 6.1: Design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose that policy or a summary of that policy.**

The Company has a disclosed policy for effective communication with shareholders which is available at the corporate governance statement on the Company's website at [www.royalco.com.au](http://www.royalco.com.au) under the "Corporate" tag which has the appropriate sub heading.

**Recommendation 7.1: Establish policies for the oversight and management of material business risk and disclose a summary of those policies.**

The Company has established policies for the oversight and management of material business risks which is available at the corporate governance statement on the Company's website at [www.royalco.com.au](http://www.royalco.com.au) under the "Corporate" tag which has the appropriate sub heading.

**Recommendation 7.2: The Board should require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks.**

Management has not formally reported to the Board as to the effectiveness of the company's management of its material business risks. All business risks are the responsibility of the Board, and the Board believes the risk management and internal control systems designed and implemented by the Directors and the Chief Financial Officer are adequate given the size and nature of the Company's activities. The Board requests management to report informally on risk management and internal control, and to highlight any additional risks that may have been identified, as well as reporting on matters that may have arisen from the Company's internal control procedures. The Company intends to develop the risk reporting framework into a detailed policy as its operations continue to grow.

**CORPORATE GOVERNANCE STATEMENT (CONT'D)**

**Recommendation 7.3: The Board should disclose whether it has received assurance from the Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.**

The Board receives such assurances prior to the release of the Company's full year and half year accounts.

**Recommendation 8.1: The Board should establish a remuneration committee.**

The Board considers that, based on the Company's stage of development, no benefits or efficiencies are to be gained by delegating this function to a separate committee. The process for evaluating both executives and directors remuneration is explained under recommendation 1.2 above. There are no schemes for retirement benefits, other than superannuation for non executive directors.

**Recommendation 8.2: Companies should clearly distinguish the structure of Non-Executive Directors' remuneration from that of Executive Directors.**

The structure of Executive and Non-Executive Directors' remuneration is detailed in the remuneration report, which forms part of the Directors' report in the annual report.

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