

Wednesday, 13 December 2006

## Royalco Resources (RCO)

## In Brief

### Well funded international gold and copper exploration company – Notes from field visit, December 2006

- Royalco purchased a number of early stage Philippines exploration projects from Oxiana in return for shares this year. The company floated in July 2006 after an IPO raised A\$12m by the issue of 24m shares at 50c each.
- It is fair to say that Royalco has achieved more in six months than Oxiana did in the 10 years Oxiana owned these tenements. This is the result of a better current environment for mining exploration in the Philippines, substantially higher metal prices and a greater focus on a small group of projects. The Philippines was a small poor cousin to Oxiana's bigger gold copper developments in Laos and Australia in that time.
- Royalco has inherited two exploration offices to service four major exploration areas and several minor projects. The northern projects are located about three hours drive from Baguio in the vicinity of the Lepanto operating gold/copper mine, a world-class resource. These permits need local and central mines departmental approval, which can be a tortuous process. However, my site visit showed a good deal of local support for the project which would bring much needed job opportunities to the locals, some of whom are involved in artisanal mining around the site, called Gambang.
- Royalco has also picked up the services of experienced local geologists and has a team of about 6 professionals in place to work the northern and southern tenements.
- We visited the Samay project about two hours drive from the regional major city of Naga, which was hit hard by the recent super typhoon. Samay is a joint venture with Phelps Dodge. We visited a drill site and core farm. The progress at Samay is highly significant for Royalco as an operating explorer in the Philippines. By running this program, regardless of the limited success in the two holes to date, Royalco has demonstrated it can mobilise a geological team, engage a drill contractor, successfully manage a project in sympathy with local village people and can meet all the regulatory hurdles a foreign company must face when operating in the Philippines. Royalco engaged the experienced drill contractor, Australian-owned UDP, to drill at Samay. UDP has 26 rigs and teams operating in the Philippines as I write. It is a major operation and the most reliable contractor in the game.
- The experience gained at Samay will stand the company in good stead when negotiating for permissions to explore in its more prospective ground in Gambang and on Panaon Island.
- **FINANCE**  
Royalco had \$10m in the bank at end-September and should start to receive cash flow from its royalty over Oceana Gold's Reefton gold project in New Zealand, set to come on stream mid-2007. This royalty should provide around A\$4m a year in cash flow at today's gold price. Royalco has further royalty interests over projects in developments such as Kagara Zinc's Mt Garnet project, Copperco's Mt Kelly and Silver Standard's Bowdens.

### Recommendations

Short Term:	Speculative Buy
Risk:	High
Price:	<b>\$0.52</b>

### Snapshot

Monthly Turnover (m)	0.8
Market Cap (m)	\$29.3
Shares Issued (m)	56.4
52 Week high	\$0.65
52 Week Low	\$0.49
Sector	Metals & Mining

### Business Description

Royalco Resources holds royalties over various gold and base metal projects in Australia and New Zealand. The company also explores for gold and copper in the Philippines.

### CONCLUSION

Royalco is one of a number of Australian juniors to launch in the Philippines, a highly prospective exploration region for gold and copper. Indophil (IRN) is the biggest of the Aussies. It is currently working WMC's old Tampakan project, a massive copper deposit in the southern island of Mindanao. Lafayette (LAF) has been dogged by bad luck in developing the RapuRapu poly metal deposit to mining stage. Others exploring include Oceana (OGD) which recently merged with Climax Mining, owner of the Dipidio Cu/Au project; Red5 (RED) at Siana; Anvil (ANV) which has been aggressively chasing geologists in the Philippines; Metals Exploration (MEX); and Medusa (MML), to name a few.

Royalco has substantial backing from shareholders in Oxiana (OXR) 17.7%, Rio Tinto (6.4%) and institutional investors such as Commonwealth Bank. Directors hold around 20%.

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