

## December 2010 Quarterly Report

14th January 2011

### Corporate Details

ASX Code: RCO

Issued Capital: 52,714,183 Shares

2,950,000 Options @ 40c, 31/3/2011 (Unlisted)

510,000 Options @ 42c, 31/3/2011 (Unlisted)

150,000 Options @ 70c, 31/3/2011 (Unlisted)

Share Price: 42 cents

Market Capitalisation: \$22 million

Cash Balance: \$12.1 million

Gold on Deposit: 1062.5 ounces

### Major Shareholders:

Oz Minerals 18.97%

Directors 19.01%

Anglo Pacific 31.11%

### Directors:

Peter Topham – Executive Chairman

David Ogg – Executive Director

Bruce Pertzelt - Non executive Director

Chris Orchard- Non executive Director

### KEY POINTS

**1. Strong cash flow continues from royalty interests with additional royalties scheduled to come onstream during this current quarter.**

**2. Exploration to accelerate in coming months**

*-Diamond drilling has recommenced at the Gambang tenement in the Philippines*

*-Preparation for drilling at the Yabbe tenement, also in the Philippines, is being advanced with additional geochemical soil sampling and mapping underway.*

*-Negotiations are being accelerated this quarter on advanced projects identified in countries other than the Philippines following extensive research conducted in 2010.*

**3. The Company will pay its maiden dividend this quarter.**

*The Company's strategy is to expand a core royalty portfolio of income producing base and precious metals interests. This may be achieved by direct acquisition, exploration initiatives, or as a result of mezzanine/project financing activities. In*

**addition, successful exploration activities will be maximised to the benefit of shareholders in whatever corporate format deemed appropriate.**

## ***Exploration***

*The basis for Royalco's exploration initiatives is to generate royalties and free carried interests in a portfolio of projects. It is not necessarily the Company's ultimate intention to be the operator of any mining project. Third parties would probably be introduced to develop and mine any discovery made.*

*Exploration activities to date have concentrated in the **Philippines**. Prospects identified in other countries are now being actively negotiated.*

### **(i) Gambang (Copper) Philippines**

Vale has mobilised two rigs and have advised that diamond drilling has commenced on both the Manga Prospect and extensions to the Eastern Brecchia region. This will be followed with drilling at Cableway and further extensions to the Tokla Prospect. The programmes involve approximately 12,000 metres of drilling.

### **(ii) Yabbe (Gold) Philippines**

Final mapping is underway on the first phase at Yabbe where geochemical soil sampling has identified anomalous gold grades. Approvals are now being sought for the second phase exploration area in the tenement.

The potential to enter the Pao tenement, where drill targets have previously been identified, will be reviewed over coming months and progressed where possible.

## ***Royalty Interests***

Royalco currently holds a total of ten royalty interests of which two produced income during the quarter. The number of producing royalties is anticipated to increase to four over coming months.

The delivery of physical gold into the Company's account at AGR Matthey continues under the **Reefton** royalty agreement with Oceana Gold Limited. The royalty payment for the December quarter was 1250 ounces pre New Zealand withholding tax (1062.5 ounces post the withholding tax). At prevailing gold prices and exchange rates this equates to approximately \$5.9 million per annum in net royalty income.

At **Mt Garnet** there is a 3% Net Smelter Return on production from the original Mt Garnet tenements. A total of \$282,000 was received during the quarter.

The royalty at *Mt Kelly* is a 1% Net Smelter Return, capped at \$1,000,000 in total from two separate royalty areas. Total royalties paid to date are less than \$400,000.

The first copper production from *Mt Kelly*, since redevelopment, is currently being sold with revenue and royalty payments expected this quarter. The new operator is the Hong Kong based company, CST Mining Group.

The royalty interest on the *Dagworth & Huonfels* tenements, (where the operator is a privately owned German group, Deutsche Rohstoff Australia Pty Ltd) and the project is more commonly known as Red Dam. Ore is currently being stockpiled prior to despatch to a central processing facility. Weather conditions in the Georgetown region will dictate when the first gold will be recovered. The royalty is calculated at \$10 per ounce on the first 10,000 ounces of gold produced and a 1.5% over riding royalty on production thereafter. Production is scheduled at comparatively minor levels at this stage.

No activities of substance have been advised on the Company's other royalty interests whilst the review of other royalty opportunities remains an ongoing priority.

## ***Corporate***

The Board of Royalco Resources has declared a maiden dividend of 2 cents per share to be paid on the 25th February. The dividend will be fully franked, with a record date of the 21<sup>st</sup> February. It is anticipated that further payments of dividends will be made on a bi-annual basis, subject to underlying profitability and other relevant financial considerations.

Mr Nick Boicos has joined Royalco as joint company secretary and manager business development. Nick has over 25 years commercial experience including senior positions at the HSBC, CIBC and Macquarie Bank.



Peter J Topham  
Executive Chairman

# Appendix 5B

## Mining exploration entity quarterly report

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

Name of entity

Royalco Resources Ltd

ABN

53 096 321 532

Quarter ended ("current quarter")

December 2010

### Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (6months) \$A'000
1.1 Receipts from product sales and related debtors *	1,785 #	3,468
1.2 Payments for (a) exploration & evaluation (b) development (c) production (d) administration	(265) - - (260)	(338) - - (523)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	127	219
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	(82)	(82)
1.7 Other (provide details if material)	2	(32)
<b>Net Operating Cash Flows</b>	<b>1,307</b>	<b>2,712</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of: (a) prospects (b) equity investments (c) other fixed assets	- - (1)	- - (1)
1.9 Proceeds from sale of: (a) prospects (b) equity investments (c) other fixed assets	- 3,555 (1) -	- 3,575 -
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other (provide details if material)	(1,503) #	(2,951)
<b>Net investing cash flows</b>	<b>2,051</b>	<b>623</b>
1.13 Total operating and investing cash flows (carried forward)	<b>3,358</b>	<b>3,335</b>

\* Royalties received.

# Item includes gold received directly as royalty income valued at \$1.503 million on date of receipt, shown also as "other" under investing activities as this gold is still on hand at the end of the quarter.

(1) Includes sale of gold on hand of \$3.555million

+ See chapter 19 for defined terms.

**Appendix 5B**  
**Mining exploration entity quarterly report**

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1.13	Total operating and investing cash flows (brought forward)	3,358	3,335
	<b>Cash flows related to financing activities</b>		
1.14	Proceeds from issues of shares, options, etc.	-	-
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other (provide details if material) *	-	-
	<b>Net financing cash flows</b>	-	-
	<b>Net increase (decrease) in cash held</b>	3,358	3,335
1.20	Cash at beginning of quarter/year to date	8,741	8,764
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	<b>Cash at end of quarter</b>	12,099	12,099

\* capital return of 10c per share paid 28/06/2010.

**Payments to directors of the entity and associates of the directors**  
**Payments to related entities of the entity and associates of the related entities**

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	164
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

**Non-cash financing and investing activities**

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

Nil

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

Nil

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+ See chapter 19 for defined terms.

### Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	-	-
3.2 Credit standby arrangements	-	-

### Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	243
4.2 Development	-
4.3 Production	-
4.4 Administration	348
<b>Total</b>	<b>591</b>

### Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	1,268	233
5.2 Deposits at call	49	368
5.3 Bank overdraft	-	-
5.4 Other (provide details) Bank term deposits	10,782	8,140
<b>Total: cash at end of quarter (item 1.22)</b>	<b>12,099</b>	<b>8,741</b>

### Changes in interests in mining tenements

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

+ See chapter 19 for defined terms.

**Appendix 5B**  
**Mining exploration entity quarterly report**

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6.2 Interests in mining  
tenements acquired or  
increased

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+ See chapter 19 for defined terms.

### Issued and quoted securities at end of current quarter

*Description includes rate of interest and any redemption or conversion rights together with prices and dates.*

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 <b>Preference +securities</b> <i>(description)</i>				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 <b>+Ordinary securities</b>	52,714,183	52,714,183	40 cents	40 cents
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	- -	- -	- -	- -
7.5 <b>+Convertible debt securities</b> <i>(description)</i>	-	-	-	-
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 <b>Options</b> <i>(description and conversion factor)</i>	2,950,000 510,000 150,000	- - -	<i>Exercise price</i> 40 cents 42 cents 70 cents	<i>Expiry date</i> 31 march 2011 31 march 2011 31 march 2011
7.8 Issued during quarter	-	-	-	-
7.9 Exercised during quarter	-	-	-	-
7.10 Expired during quarter	-	-	-	-
7.11 <b>Debentures</b> <i>(totals only)</i>				

+ See chapter 19 for defined terms.



Appendix 5B  
Mining exploration entity quarterly report

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7.12	Unsecured notes (totals only)		
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## Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement does /does not\* (*delete one*) give a true and fair view of the matters disclosed.

*David L Ogg*

17 January 2011

Sign here: ..... Date: .....  
(Director/Company secretary)

Print name: David L Ogg.....

## Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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+ See chapter 19 for defined terms.

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