

June 2014 Quarterly Report

29th July 2014

The cornerstone interest in the Weeks Petroleum Royalty continues to underpin cash flow for Royalco Resources and should do so for many years to come.

KEY POINTS

ROYALTIES: The payment from the interest in the Weeks Petroleum Royalty was \$191,661 for the production quarter ending June 2014. This royalty offers long life and provides commercially significant returns- the only true ‘Tier 1’ petroleum royalty in the Australian market and Royalco is the only Australian listed entity that offers exposure to this interest.

On the base metals front Consolidated Tin Mines Limited has announced a proposed merger that could result in production recommencing at Mount Garnet. Royalco holds a 3% net smelter return on production from this project.

Progress continues on the Blackwater Project in New Zealand, and Bowdens in New South Wales.

EXPLORATION: The vigorous review process of fresh opportunities, both onshore and offshore, continued through the quarter.

CORPORATE DETAILS

ASX Code: RCO

Issued Capital: 52,714,183 shares

Share Price: 25 cents

Market Capitalisation: \$13.2 million

Cash/Liquids: \$4.71 million

Major Shareholders

Acorn 14.89%

Directors 19.01%

Anglo Pacific 29.37%

Directors

Peter Topham Executive Chairman

David Ogg Director

Bruce Pertzelt Director

Piers Reynolds Director

The company’s strategy is to expand a core royalty portfolio of income-producing base, precious metals and energy interests. This may be achieved by direct acquisition, exploration initiatives, or as a result of mezzanine/project financing activities. In addition, successful exploration activities will be maximised to the benefit of shareholders in whatever corporate format deemed appropriate.

Royalty Interests

Royalco owns a 1% interest in the ***Weeks Petroleum Royalty***, (the equivalent of a 0.025% over-riding royalty from the entire hydrocarbon production of the main Bass Strait fields). Income received during the quarter was \$ 191,661 representing payment for the three- month period ending 31st March 2014.

As anticipated, the annualised rate of income from this interest has lifted from the range of \$750,000 to \$800,000 to over \$800,000 during the quarter. The forecast rise in gas prices for the east coast of Australia appears to be coming slowly into play as long term contracts roll into fresh contracts at higher prices.

The Weeks Petroleum Royalty covers approximately 20 oil and/or gas fields in the Offshore Gippsland Basin. The Exxon/BHP facilities covered by this royalty have been in production for over 40 years with the prospect of production for many decades to come. Unlike the limited number of other Australian hydrocarbon royalties, it can be classified as a “Tier 1” royalty as the underlying project area continues to offer both long life and commercially significant returns.

An announcement has been made to the ASX by Consolidated Tin Mines Limited (“CSD”) on a proposed merger with Snow Peak Mining Pty Ltd. Subject to shareholder approval CSD has indicated that it wishes to re-open the ***Mount Garnet*** zinc mine with production due to commence this financial year.

Production guidance is for 80,000 tonnes at 9.6% zinc, 0.3% copper and 21 grams per tonne silver. Based on the existing 3% net smelter return applicable to production and prevailing commodity prices a return of approximately \$200,000 is anticipated.

No announcement as to development of the ***Blackwater Project*** at Reefion in New Zealand has been made as yet. The project operator, Oceana Gold, has provided historical guidance from the scoping studies for ***Blackwater*** suggesting an annual production rate of 50,000 to 60,000 ounces. If achieved, and using the current spot price for gold, this would result in the receipt of 1500-1800 ounces annually, or approximately \$2.1-\$2.5 million a year, payable to Royalco.

On the ***Bowdens Project*** in NSW, where Kingsgate Consolidated Limited is the operator, the ASX has been advised that along with an Environmental Impact Statement, a definitive feasibility study is due for completion later this calendar year. The Royalco royalty interest in this project starts at a 2% net smelter return until \$US5 million has been received, then reverts to a 1% net smelter return for the life of the mine.

No activities of substance have been reported during the quarter on the royalty interests held at ***Sam’s Creek, LFB, Lyndhurst, Red Dam, and Stanton***. In ***Uganda***, the DGSM transfer of tenements remains protracted.

Exploration

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

In the Philippines exploration activities are on hold pending Phase 3 renewal. This Phase covers the Cableway Prospect which is the highest priority target in the Gambang tenements. Unfortunately the MGB has effectively shut down the processing of tenement renewals despite verbal assurances to the contrary. No indication has been provided as to when this informal moratorium can be expected to be lifted. Of note, only one exploration permit has been advanced by the MGB in the past two years.

Corporate

Income from the Weeks Petroleum Royalty interest broadly matches anticipated head office and exploration costs. Royalco remains well placed to take advantage of opportunities that prevailing market conditions may present. The cash position as at 30th June 2014 was \$4.7 million.

The downturn in most commodity prices coupled with a depressed sharemarket for junior explorers has had the effect of filtering out second ranked projects and allowing for the potential participation in better quality exploration targets. A large number of opportunities, both in Australia and overseas, have been the subject of review over recent months. Two proposals concerning hard rock opportunities have been made during the quarter but unfortunately were rejected by the project managers in each instance.

The review process is continuing and is selective observing the following parameters:-

- (a) a strong preference for non ferrous metals listed on the London Metal Exchange or LBMA and conventional hydrocarbon plays,
- (b) located in resource development 'friendly' regions,
- (c) at an advanced stage of identifying acceptable commercial potential, and
- (d) with a readily identifiable exit strategy, i.e. sale for capital profit and/or royalty creation.

Streaming finance is not considered a satisfactory methodology for involvement at this point in time as the capital risks for most projects are considered too great in the prevailing market place for the potential returns offered.



Peter J Topham
Executive Chairman

Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10, 01/05/2013

Name of entity

Royalco Resources Limited

ABN

53 096 321 532

Quarter ended ("current quarter")

June, 2014

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (12months) \$A'000
1.1 Receipts from product sales and related debtors*	192	738
1.2 Payments for (a) exploration & evaluation	(89)	(1,266)
(b) development	-	-
(c) production	-	-
(d) administration	(183)	(1,158)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	40	222
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	9
1.7 Other (provide details if material)	-	(16)
Net Operating Cash Flows	(40)	(1,471)
Cash flows related to investing activities		
1.8 Payment for purchases of: (a) prospects	-	-
(b) equity investments	-	(48)
(c) other fixed assets	-	-
1.9 Proceeds from sale of: (a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other (provide details if material)	-	-
Net investing cash flows	-	(48)
1.13 Total operating and investing cash flows (carried forward)	(40)	(1,519)

* Royalties received

Appendix 5B
Mining exploration entity and oil and gas exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(40)	(1,519)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	-	-
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	(1,054)
1.19	Other (provide details if material)	-	-
	Net financing cash flows	-	(1,054)
	Net increase (decrease) in cash held	(40)	(2,573)
1.20	Cash at beginning of quarter/year to date	4,751	7,284
1.21	Exchange rate adjustments to item 1.20		
1.22	Cash at end of quarter	4,711	4,711

Payments to directors of the entity, associates of the directors, 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	123
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

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

+ 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	150
4.2 Development	
4.3 Production	
4.4 Administration	200
Total	

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	161	181
5.2 Deposits at call	337	293
5.3 Bank overdraft		-
5.4 Other (provide details) Term Deposits	4,213	4,277
Total: cash at end of quarter (item 1.22)	4,711	4,751

+ See chapter 19 for defined terms.

Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

Changes in interests in mining tenements and petroleum tenements

	Tenement reference and location	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter	
6.1	Interests in mining tenements and petroleum tenements relinquished, reduced or lapsed	EL0962 EL1077 EL1082 EL1109	Exploration Licence Uganda Exploration Licence Uganda Exploration Licence Uganda Exploration Licence Uganda	100% 100% 100% 100%	Nil Nil Nil Nil
6.2	Interests in mining tenements and petroleum tenements acquired or increased				

Issued and quoted securities at end of current quarter

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

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)	
7.1	Preference securities (description)	-			
7.2	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions	-			
7.3	+Ordinary securities	52,714,183	52,714,183	40 cents	40 cents
7.4	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	-			
7.5	+Convertible debt securities (description)	-			

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity and oil and gas exploration entity quarterly report

7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted	- -			
7.7	Options (description and conversion factor)	-		<i>Exercise price</i>	<i>Expiry date</i>
7.8	Issued during quarter	-			
7.9	Exercised during quarter	-			
7.10	Expired during quarter	-			
7.11	Debentures (totals only)	-			
7.12	Unsecured notes (totals only)	-			

Pursuant to Listing Rule 5.3.3 a schedule of Company tenements and interests therein is provided as follows:

Tenement Status for Quarter ending 30 June 2014

Tenement Reference	Country	Tenement Holder	Acquired Interest during the Quarter	Disposed Interest during the Quarter	Interest held (%)	NOTE
EP-001A-CAR	Philippines	Royalco Philippines Inc			100%	
EP-005A-2008 CAR	Philippines	Royalco Philippines Inc			100%	
EP-005B-2008 CAR	Philippines	Royalco Philippines Inc			100%	
EL 0962	Uganda	Royalco Resources Ltd		100%	nil	Tenements transferred to Blackstone Ichiban Limited (Notified 27/8/2013)
EL 1077	Uganda	Royalco Resources Ltd		100%	nil	
EL 1082	Uganda	Royalco Resources Ltd		100%	nil	
EL 1109	Uganda	Royalco Resources Ltd		100%	nil	

+ See chapter 19 for defined terms.

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 5).
- 2 This statement does give a true and fair view of the matters disclosed.



29th July, 2014

Sign here: Date:
(Company Secretary)

Print name: Nick Boicos

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 and petroleum 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 or petroleum 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 6: Exploration for and Evaluation of Mineral Resources* and *AASB 107: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Financial Reporting 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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