

June 2016 Quarterly Report

27th July 2016

KEY POINTS

- The Bowdens silver project is being reinvigorated following acquisition by Silver Mines Limited. Royalco retains a sliding scale royalty interest over the project.
- The improved petroleum production outlook from Bass Strait continues to benefit the Weeks Royalty interest, along with record spot gas prices along the east coast of Australia.
- Upgraded petroleum processing facilities at Longford, completion of the Tuna/Turrum/Kipper oil fields development this half year and the announced sale of older Bass Strait fields have the potential to enhance future payments under the Weeks Royalty.

CORPORATE DETAILS

| | |
|------------------------|-------------------|
| ASX Code: | RCO |
| Issued Capital: | 52,714,183 shares |
| Share Price: | 21 cents |
| Market Capitalisation: | \$11 million |
| Cash/Liquids: | \$3.148 million |

Directors:

| | |
|-----------------|--------------------|
| Peter Topham | Executive Chairman |
| Bruce Pertzell | Director |
| Piers Reynolds | Director |
| Malcolm McComas | Director |

Substantial Shareholders:

K.Topham, D.Ogg, Acorn Capital, Noontide Investments, Fitzroy River Corporation and High Peak Royalties.

- The appointment of voluntary administrators to the Mt Garnet Project, while unfortunate, has no material impact on Royalco's ongoing financial capacity. The Company intends to lodge a claim with the Administrator for unpaid royalties.
- Royalty payments received during the quarter totalled just under \$130,000 – \$112,241 from the Weeks Royalty and \$16,806 from Mt Garnet.

The company's strategy is to expand a core royalty portfolio of income-producing base metals, 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

The ***Bowdens Project*** near Mudgee in New South Wales has been acquired by Silver Mines Limited (ASX code: SVL) for a consideration of \$25 million. The new operator is beginning additional drilling this quarter with a view to completing pre-feasibility studies by the end of this year. The Environmental Impact Study is targeted to be lodged in the first half of 2017.

This timetable suggests requisite mining leases could be advanced later in 2017 with a potential development timetable in 2018.

Royalco retains a sliding scale royalty over the project, starting at a 2% net smelter return until US\$5 million has been received, then a 1% net smelter return thereafter.

The operator told the ASX on 15 July 2016: “***Bowdens Silver is the largest undeveloped silver deposit in Australia with substantial resources and with a considerable body of high quality technical work already completed. The Project boasts outstanding logistics for future mine development.***”

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 (based on production in the March 2016 quarter) was \$112,241, compared with \$91,427 in the preceding quarter. The outlook is for improving returns as production increases and gas prices continue to rise.

Production results for the June 2016 period (with royalties paid at the end of August) showed total output of petroleum products was 19.3% higher than in the previous quarter.

BHP Billiton, the joint venture partner in the fields covered by the Weeks Petroleum Royalty, disclosed production in its quarterly operations review filed with the ASX on 20 July 2016 that suggests seasonal gas output continues to surge at record levels.

Daily east coast gas prices, as published by the Australian Energy Market Operator, continue to be well beyond the historical norm. In addition, these record daily east coast gas prices should benefit the joint venture where they are renegotiating long term contracts or delivering excess capacity into the spot market.

The upgrade of the processing facilities at Longford appears on track for commissioning in the second half of this calendar year. This, in turn, should have positive implications for the Kipper/Tuna/Turrum development scheduled to come on stream later this year.

The potential sale of old oil fields by the joint venture partners (Exxon and BHP) could see an acquirer seek to rejuvenate petroleum production as a priority. Such a course of action does not appear of high import to the current operational plan for these areas.

Mt Garnet, operated by Consolidated Tin Mines (ASX code: CSD), in far north Queensland delivered a royalty payment of \$16,806 for the month of April.

At a meeting with CSD’ s management in early June, Royalco was told funding discussions under way with a number of parties would lead to refinancing by 30 June with a view to continuing production through to September at which time the operations would cease. This confidence was obviously misplaced and CSD has now appointed voluntary administrators.

Outstanding invoices for May and June total \$94,145. Future payments on existing concentrate movements would amount to approximately \$149,000 plus those for any subsequent concentrate sales post late June. These amounts will now be sought from the administrators.

It is worth noting that Royalco has received \$500,000 in royalties from Mt Garnet, a project that restarted operations only in the December quarter of 2014 after being shut down for a considerable period. Royalco directors said in January 2015 they expected the company to receive more than \$200,000 from Mt Garnet in the near term. The unpaid invoices will bring the total to more than \$743,000 in less than 18 months assuming the outstanding invoices are paid in full. The expected further payments will be something of a bonus, plus the company retains a royalty interest should the project re-open once again.

The ***Blackwater Project*** at Reefton in New Zealand, where Royalco retains a significant royalty interest, is one of the highest grade undeveloped gold resources in this current market. The operator, OceanaGold (ASX code: OGC), appears to have priorities elsewhere on comparatively larger gold projects. It is our understanding that the operator has received a number of inquiries from third parties interested in acquiring the project.

The operator at ***Sam's Creek*** (NZ), MOD Resources (ASX Code: MOD), announced during the March quarter that it had appointed PCF Capital to divest part, or all, of MOD's 80 per cent interest in the project. No further announcements in this regard have been observed.

No activities of substance have been reported during the quarter on the other royalty interests.

Exploration

No exploration was undertaken during the quarter and no commitments have been entered into. The review process remains ongoing.

The rationale for Royalco's exploration initiatives is to generate royalties and free-carried interests in a portfolio of projects. As previously indicated, management time continues to be focused on opportunities offering a strong bias in favour of base and precious metals.

Corporate

David Ogg

A founding director of Royalco in 2001, David retired from the board of directors with effect from 30 June 2016.

David's input over this substantial body of time has been of enormous benefit to fellow directors and the company as a whole. His analytical skills are of the highest level and we will continue to seek his input when the need arises.

Our board collectively wishes him well in retirement.

Finance

The company's cash balance at the end of June was \$3.15 million, compared with \$3.16 million at the end of March.

Royalco continues to retain a solid balance sheet and remains debt free.

General

Royalco continues to review opportunities and any future investment will be made on an appropriate basis.

During the quarter 10 royalty opportunities were assessed in precious and base metals as well as in petroleum projects. Unfortunately vendor requirements remain non-competitive or the opportunities were not material in nature.

A handwritten signature in black ink, appearing to read "P. J. Topham", with a long horizontal flourish extending to the right.

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, 2016

Consolidated statement of cash flows

| Cash flows related to operating activities | Current quarter \$A'000 | Year to date (12 months) \$A'000 |
|---|----------------------------|--|
| 1.1 Receipts from product sales and related debtors* | 130 | 721 |
| 1.2 Payments for (a) exploration & evaluation | (8) | (68) |
| (b) development | - | - |
| (c) production | - | - |
| (d) administration | (198) | (865) |
| 1.3 Dividends received | - | - |
| 1.4 Interest and other items of a similar nature received | 21 | 93 |
| 1.5 Interest and other costs of finance paid | - | - |
| 1.6 Income taxes paid | - | - |
| 1.7 Other (provide details if material) | (5) | (12) |
| Net Operating Cash Flows | (60) | (131) |
| Cash flows related to investing activities | | |
| 1.8 Payment for purchases of: (a) prospects | - | - |
| (b) equity investments | - | (36) |
| (c) other fixed assets | - | - |
| 1.9 Proceeds from sale of: (a) prospects | - | - |
| (b) equity investments | 45 | 45 |
| (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 | 45 | 9 |
| 1.13 Total operating and investing cash flows (carried forward) | (15) | (122) |

* 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) | (15) | (122) |
| | 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 | - | (528) |
| 1.19 | Other (provide details if material) | - | - |
| | Net financing cash flows | - | (528) |
| | Net increase (decrease) in cash held | (15) | (650) |
| 1.20 | Cash at beginning of quarter/year to date | 3,163 | 3,798 |
| 1.21 | Exchange rate adjustments to item 1.20 | | |
| 1.22 | Cash at end of quarter | 3,148 | 3,148 |

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 | 121 |
| 1.24 | Aggregate amount of loans to the parties included in item 1.10 | |

1.25 Explanation necessary for an understanding of the transactions

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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

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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

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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 | 30 |
| 4.2 Development | |
| 4.3 Production | |
| 4.4 Administration | 240 |
| 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 | 56 | 109 |
| 5.2 Deposits at call | 94 | 44 |
| 5.3 Bank overdraft | - | - |
| 5.4 Other (provide details) Term Deposits | 2,998 | 3,010 |
| Total: cash at end of quarter (item 1.22) | 3,148 | 3,163 |

+ 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 | | | |
| 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 |
| 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 2016

| Tenement Reference | Country | Tenement Holder | Acquired Interest during the Quarter | Disposed Interest during the Quarter | Interest held (%) | NOTE |
|--------------------|---------|-----------------|--------------------------------------|--------------------------------------|-------------------|------|
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+ 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.



27th July, 2016

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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+ See chapter 19 for defined terms.