

# Royalco Resources Limited

## Target's Statement

The Directors of Royalco unanimously recommend that you

# REJECT

**the Anglo Pacific (Starmont) Offer**

THIS IS AN IMPORTANT DOCUMENT AND REQUIRES YOUR IMMEDIATE ATTENTION. IF YOU ARE IN ANY DOUBT AS TO HOW TO ACT, YOU SHOULD CONSULT YOUR FINANCIAL OR LEGAL ADVISER AS SOON AS POSSIBLE.

Legal Adviser

**BAKER & MCKENZIE**

## Important Information

This Target's Statement is issued by Royalco in response to the Bidder's Statement dated 13 May 2009 issued by Anglo Pacific (Starmont).

You should read this Target's Statement in its entirety.

This Target's Statement is dated 22 May 2009. A copy of this Target's Statement was lodged with ASIC on 22 May 2009. Neither ASIC nor any of its officers take any responsibility for the contents of this Target's Statement.

A number of defined terms are used in this Target's Statement. These terms are explained in the Definitions on page 29.

### No Account of Personal Circumstances

This Target's Statement does not take into account the investment objectives, financial situation or particular needs of individual Shareholders. Royalco encourages you to seek independent financial and taxation advice before making a decision whether or not to accept the Offer.

### Forward Looking Statements

This Target's Statement contains forward looking statements, which have not been based solely on historical facts, but are rather based on Royalco's current expectations about future events. Such statements are subject to inherent risks and uncertainties in that they may be affected by a variety of known and unknown risks, variables and other factors many of which are beyond the control of Royalco. Actual events or results may differ materially from the events or results expressed or implied in any forward looking statement.

None of Royalco, its officers or any person named in this Target's Statement with their consent or any person involved in the preparation of this Target's Statement make any representation or warranty (express or implied) as to the accuracy or likelihood of fulfilment of any forward looking statement, or any events or results expressed or implied in any forward looking statement, except to the extent required by law. You are cautioned not to place undue reliance on any such statement.

The forward looking statements in this Target's Statement reflect views held only as at the date of this Target's Statement.

### Further information

If Shareholders have any queries, they should contact Royalco on +61 3 9602 3626.

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## How to reject the Offer

Your Directors unanimously recommend that you

# REJECT

the Anglo Pacific (Starmont) Offer

To **REJECT** the Offer,  
simply do nothing!

If you have any questions, please call Royalco on +61 3 9602 3626

22 May 2009

Dear Shareholder,

**REJECT ANGLO PACIFIC (STARMONT)'S INADEQUATE OFFER**

You will have recently received an unsolicited on-market offer from Anglo Pacific (Starmont) to acquire all of your shares in Royalco for \$0.30 each.

Your Directors recommend that you REJECT the Offer for the same reasons that the Offer was made – namely that your Shares are undervalued.

It didn't take your Board long to unanimously and immediately reject the Offer following receipt. Your Directors presently intend to reject the Offer for all of the Shares which they hold.

Your Directors have considered the following key issues in forming their REJECT recommendation:

- **The Offer undervalues your Shares.** With cash, liquids and physical gold worth approximately \$8.5 million in total (16c per Share) and potential gross royalty income (after New Zealand withholding tax) from the Reefton royalty alone of some \$20 million over the next 3½ years (38c per Share), it seems clear that an offer of 30 cents per Share undervalues Royalco's worth.
- **Royalco has excellent future prospects.** Royalco has positive cash flows, significant cash assets and NO debt.
- **Accepting the Offer or selling your Shares will deprive you of any opportunity to share in Royalco's future growth and involvement with an innovative and successful royalty based business model.**

The Offer undervalues Royalco and only partially recognises the intrinsic value of Royalco. The Offer documentation doesn't focus on value. The Offer doesn't even come close to fair value for Royalco's assets. It represents an attempt to purchase Royalco on the cheap.

**Your Board is of the view that the Offer significantly undervalues Royalco. Accordingly your Directors unanimously recommend that you REJECT the Offer.**

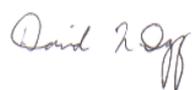
This Target's Statement, which we encourage you to read in its entirety, sets out the reasons for the recommendation of your Directors. To REJECT the Offer, you should simply do nothing with the documentation sent to you by Anglo Pacific (Starmont).

If you have any queries in relation to the Offer, please consult your own independent professional adviser or contact Royalco on 03 9602 3626.

Yours sincerely



**Peter Topham**  
Executive Chairman  
Royalco Resources Limited



**David Ogg**  
Executive Director, Finance  
Royalco Resources Limited

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# Section 1

## Why You Should Reject the Offer

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## Section 1: Why You Should Reject The Offer

1

The Offer undervalues your Shares

2

Royalco has excellent future prospects – positive cash flows, significant cash balance and NO debt

3

Accepting the Offer or selling your Shares will deprive you of any opportunity to share in Royalco's future growth and involvement with an innovative and successful royalty based business model

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## 1. The Offer undervalues your Shares

With cash, liquids and physical gold worth approximately \$8.5 million in total (16c per Share) and potential gross royalty income (after New Zealand withholding tax) from the Reefton royalty alone of some \$20 million over the next 3½ years (38c per Share), it seems clear that an offer of 30 cents per Share undervalues Royalco's worth.

Your directors consider that the 52.8 million Shares on issue are worth substantially more than the 30 cents offered.

### Royalco Value

Royalco has:

- cash and liquid assets including gold of approximately \$8.5m;
- ongoing royalty income from the Reefton Gold Project of some \$5m to \$5.5m per annum for each of the next 3 to 4 years (based on the current gold price), being approximately \$20 million in aggregate – see section 4.2 for details;
- ongoing royalties from the Mt Garnet operations of Kagara Limited and the Mt Kelly operations of Copperco/Cape Lambert; and
- Philippines exploration activities.

Over the last twelve months, Royalco's underlying business has achieved considerable success, with strong and established cash flows and capital management initiatives resulting in share buy-backs at historically low prices.

Royalco experienced and continues to experience a dramatically improved financial performance from its portfolio of royalty interests. In 2008, royalty income in the form of gold commenced from the Reefton Gold Project. Payments are significant and are received on a regular basis which should continue for several years.

More recently, income from the Mt Garnet royalty commenced and Royalco expects to make further positive announcements in regards to the Mt Kelly royalty in the near future. See section 4.3 for details.

### Offer Undervalued

Anglo Pacific (Starmont) purchased its current shareholding in Royalco at prices of up to at least 48 cents each, well above the current offer price of 30 cents.

As at 21 May 2009, your Shares closed at 33 cents.

Since Anglo Pacific (Starmont) announced the Offer on 13 May 2009, the volume weighted average price of the Shares has been 32.2 cents per share. Anglo Pacific (Starmont) is seeking to acquire your Shares at a discount to this price.

Since Anglo Pacific (Starmont) announced the Offer, it has received less than 1% in acceptances.

The chart below indicates how the Offer Price compares against the historical trading price of the Shares since Royalco listed on the ASX in June 2006.



### Shareholder aspects

The timing of the Offer is opportunistic. Since listing in June 2006 at 50 cents per Share, Royalco's shares have traded as high as \$1.19. The global financial crisis together with well publicised difficulties of several major shareholders and their financing arrangements have adversely impacted on the current share price, but the fundamental value of Royalco is unaffected.

The decline in Royalco's share price over the past year generally can be attributed to the following shareholder related issues:

- A substantial shareholder became embroiled in the Opes Prime controversy. Royalco took the opportunity to buy-back some of these Shares at 26.5 cents.
- Against the backdrop of the global financial crisis, then substantial shareholder Rio Tinto announced major asset sales which included the sale of its shareholding in Royalco.
- Current substantial shareholder OZ Minerals Limited has experienced financial difficulties which created a perception of a market overhang in Royalco's Shares. In its Explanatory Booklet released to ASX dated 8 May 2009 relating to the sale of assets to Minmetals, OZ Minerals Limited has stated that following that transaction it will retain its equity investments including its shareholding in Royalco.

**The Board considers the Offer significantly undervalues your investment in Royalco.**

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## 2. Royalco has excellent future prospects

Your Directors do not consider that the Offer adequately reflects Royalco's assets and future growth potential. Royalco has a number of attractive and strategically significant assets, including:

<b>Cash &amp; Liquid Assets</b>	Cash and liquid assets including gold of approximately \$8.5 million.
<b>Debt Free</b>	Royalco has zero debt meaning it has no risks associated with refinancing or borrowings.
<b>Reefton Gold Project</b>	Ongoing royalty income from the Reefton Gold Project of approximately \$5m to \$5.5m per annum for each of the next 3 to 4 years (based on the current gold price).
<b>Ongoing Royalties</b>	Ongoing royalties from the Mt Garnet operations of Kagara Limited and the Mt Kelly operations of Copperco/Cape Lambert as well as other royalty interests.
<b>Management</b>	Royalco possesses a well respected, highly experienced management team well versed in the intricacies of royalty analysis, evaluation and documentation and is well placed to pursue other royalty interest acquisitions.
<b>Strong Business Model</b>	Royalco has a strong business model that emphasises cash flow opportunities that do not "bet Royalco" on high risk/high return strategies, but which has considerable upside from some higher risk plays.
<b>Philippines Exploration Projects</b>	Exploration projects in the Philippines offer advanced gold and porphyry copper targets and are considered highly prospective.

Royalco is well placed to overcome the prevailing challenging market conditions and execute its defined strategy to enhance Royalco's asset base and unlock the significant upside value within Royalco. Consistent with the current market conditions and Royalco's ongoing operating philosophy, management is in strict cash conservation mode and will ensure that costs are actively monitored and reduced where possible. The global financial crisis represents an opportunity for Royalco to use its cash to potentially acquire royalty interests which might not otherwise be available for purchase.

As has been disclosed in various announcements, Royalco is endeavouring to enhance its royalty portfolio by using its cash for the selective acquisition of additional royalties offering long term sustainable cash flows. Royalco's internal data base of 400+ potential royalties provides a fertile hunting ground and Royalco is in early stage discussions on several opportunities which have been identified, although these discussions have not reached a stage where there are firm offers. The market will be kept informed in the event these eventuate. Royalco has excess cash for its current needs and accordingly is actively seeking to expand its royalty portfolio in a responsible manner.

Royalco expects to become a tax paying entity some time during the financial year ending 30 June 2010, and will thus accrue franking credits. Dependent upon cash requirements and the success of building the royalty portfolio, Royalco expects to then be in a position to consider paying dividends in due course.

**If you accept the Offer you will be losing your exposure to Royalco's value and future potential.**

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### ***3. Accepting the Offer or selling your Shares will deprive you of any opportunity to share in Royalco's future growth and involvement with an innovative and successful royalty based business model***

If you accept the Offer or sell your Shares you will lose any opportunity to obtain a higher price for your Shares if:

- the Offer Price is increased by Anglo Pacific (Starmont);
- any superior offer is made by another bidder for your Shares; or
- a higher price is available in due course on market.

If another takeover offer or other proposal relating to Royalco is announced during the Offer Period, Royalco will advise ASX accordingly.

**You risk forfeiting value in your Shares by selling your Shares.**

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# Section 2

## Frequently Asked Questions

## Section 2: Frequently Asked Questions

This section answers some frequently asked questions about the Offer. It is not intended to address all issues relevant to Shareholders. This section should be read together with all other parts of this Target's Statement.

Question	Answer	Further Information
<b>What is the Offer for my Shares?</b>	Anglo Pacific (Starmont) has made an on-market offer of \$0.30 for each of your Shares.	Section 5.1
<b>What choices do I have as a Shareholder?</b>	As a Shareholder you can: <ul style="list-style-type: none"> <li>- Reject the Offer by doing nothing. Your Directors recommend that you REJECT the Offer; or</li> <li>- Sell your Shares on market (recognising that the current market price exceeds that under the Offer).</li> </ul>	Sections 3.1, 3.2 and 5.1
<b>What are your Directors recommending?</b>	Your Directors unanimously recommend that you REJECT the Offer. If there is any change to this recommendation or any material development in relation to the Offer, Royalco will inform you.	Sections 1 and 6.1
<b>How do I reject the Offer?</b>	To REJECT the Offer, you should do nothing.	'How do I reject the Offer' and section 3.1
<b>What do your Directors intend to do with their Shares?</b>	Each Director intends to REJECT the Offer in relation to Shares held by him.	Section 6.1
<b>Is there a requirement for Royalco to appoint an independent expert?</b>	No. Your Directors do not consider that the benefits of doing so would outweigh the costs, having regard to the strong reasons why they consider you ought to REJECT the Offer as well as the costs involved in commissioning an independent expert report which would be necessary. It is also not timely to appoint an independent expert in circumstances of an on-market offer.	
<b>What happens if the Offer Price is increased or a superior offer is made by a third party or the price for the Shares on the ASX increases?</b>	You will <b>not</b> benefit if the Offer Price is increased after you have accepted the Offer, nor will you benefit if a superior offer is made by a third party or the price for the Shares on the ASX increases after you have accepted the Offer.	Sections 1, 3.2 and 5.1
<b>What are the consequences of accepting the Offer now?</b>	If you accept the Offer you will not be able to accept a superior offer from Anglo Pacific (Starmont) or any other bidder if such an offer is made, or benefit from any higher price in the market.	Sections 1, 3.2 and 5.1
<b>If I accept the Offer now, can I withdraw my acceptance?</b>	No, once you have accepted the Offer, you will be legally bound to sell those Shares and you cannot later withdraw your acceptance.	Section 5.1
<b>Can Anglo Pacific (Starmont) vary the Offer?</b>	Yes. Anglo Pacific (Starmont) can vary the Offer by extending the Offer Period or increasing the Offer Price (although any increase in the Offer Price will not apply to you if you have accepted the Offer).	Section 5.1
<b>Can I be forced to sell my Shares?</b>	You cannot be forced to sell your Shares unless Anglo Pacific (Starmont) acquires a relevant interest in at least 90% of all the Shares by the end of the Offer Period, and proceeds to compulsory acquisition of your Shares. If that happens, you will be provided the last consideration offered by Anglo Pacific (Starmont) for the Shares before compulsory acquisition commences.  You should note the present intention of Royalco's Directors, who collectively control an 18% interest in Royalco, to reject the Offer.	Section 5.2

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<b>Will there be any costs associated with accepting the Offer?</b>	As the Offer is an on market offer, Royalco Shareholders may only accept the Offer through brokers who are members of ASX. If you decide to accept the Offer, any brokerage charged by such broker will be your sole responsibility.	Section 3.2
<b>When does the Offer close?</b>	The Offer is presently scheduled to close at 5.00pm (Perth time) on 29 June 2009, but the Offer Period can be extended in certain circumstances. See section 5.1 for details of the circumstances in which the Offer Period can be extended.	Section 5.1
<b>What are the tax implications of accepting the Offer?</b>	A general outline of the tax implications for certain Australian resident Shareholders of accepting the Offer is set out in section 7 of the Bidder's Statement. You should not rely on that outline as advice on your own affairs. It does not deal with the position of certain Shareholders. You should therefore seek your own personal, independent financial and taxation advice before making a decision as to whether or not to accept the Offer for your Shares. You may for example be liable for capital gains tax.	Sections 3.2 and 6.6
<b>Is there a phone number that I can call if I have further queries in relation to the Offer?</b>	If you have any further queries in relation to the Offer, please call Royalco on +61 3 9602 3626.	

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# Section 3

## Your Choices

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## Section 3: Your Choices

As a Shareholder you currently have two choices available to you.

### 3.1. CHOICE 1: Take No Action

If you do not wish to sell your Shares on market and do not wish to accept the Offer, you should take no action. **This is the approach recommended by your Directors.**

You should note that:

- if Anglo Pacific (Starmont) acquires less than 90% of the Shares, and you continue to hold Shares, you will be exposed to the risks associated with being a continuing Shareholder of Royalco. Some of these risks are explained in section 5.3; and
- if you choose not to accept the Offer, Anglo Pacific (Starmont) will not be able to acquire your Shares unless it holds 90% of the Shares at the end of the Offer Period. In this event, Anglo Pacific (Starmont) will become entitled to compulsorily acquire those Shares that it does not already own (see section 5.2 for further information regarding compulsory acquisition).

### 3.2. CHOICE 2: Sell Your Shares On Market

Immediately prior to the date of this Target's Statement, the price of the Shares on the ASX exceeded that of the Offer. The latest price for Shares may be obtained from the ASX website [www.asx.com.au](http://www.asx.com.au).

If you choose to sell your Shares during the currency of the Offer (whether by way of accepting the Offer or otherwise) you should be aware that you:

- will lose the ability to accept the Offer and receive payment of the Offer Price (and any subsequent increase in the Offer Price from Anglo Pacific (Starmont) or an offer from another bidder) in relation to those Shares (which may or may not eventuate);
- will lose the opportunity to receive any future benefits from being a Shareholder;
- may be liable for capital gains tax or income tax on the sale of those Shares; and
- may incur a brokerage charge.

You should contact your broker for information on how to sell your Shares on the ASX and your tax adviser to determine your tax implications from such a sale.

**Royalco encourages you to consider your personal risk profile, investment strategy, tax position and financial circumstances before making any decision in relation to your Shares.**

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# Section 4

## Profile of Royalco

## Section 4: Profile of Royalco

### 4.1. Royalco's History

Following its incorporation in 2001, Royalco's initial operations centred on the acquisition of royalty interests to access potential mining cash flows. Royalco has established itself within a niche category in the mining sector where there are a limited number of other listed companies with asset portfolios comprising predominantly royalty interests. Royalco has a portfolio of twelve royalty interests of which two (the Reefton Gold Project and Mt Garnet) are in production with Mt Kelly hopefully resuming production shortly.

Royalco possesses a highly experienced management team well versed in the intricacies of royalty analysis, evaluation and documentation.

Royalco has extended its asset base by pursuing advanced exploration opportunities to complement cash flows from royalty rights. In 2004 Royalco identified the Philippines as having outstanding opportunities with advanced exploration potential at low entry cost. Royalco has since invested in a number of gold and copper tenements in that country.

Royalco was listed on the ASX in June 2006.

**Royalco's strategy is building a core royalty portfolio of base and precious metals interests, combined with developing potential future royalties through various initiatives including exploration.**

### 4.2. Reefton Gold Project Royalty Interests

The Reefton Gold Project royalty agreement which Royalco has with Oceana Gold Limited is Royalco's prime royalty, and is producing strong cash flows.

Based on the factors set out below, the **Globe Progress tenement** within the Reefton Gold Project is expected to produce the following revenue stream amounting to some \$20 million in revenue to Royalco based on current gold prices as set out in the table below.

Globe Progress Quarterly Payment Period	Royalty Ounces (Gross)	Royalty Ounces (Net of 15% NZ withholding tax)	Assumed A\$ gold price	A\$ Net Revenue (Post NZ withholding tax)
Note 1	Note 2	Note 3	Note 4	Note 5
June 2009	1,314	1,116	\$1,250	\$1,395,000
Sept 2009	1,314	1,116	\$1,250	\$1,395,000
Dec 2009	1,314	1,116	\$1,250	\$1,395,000
Mar 2010	1,250	1,062	\$1,250	\$1,327,000
June 2010	1,250	1,062	\$1,250	\$1,327,000
Sept 2010	1,250	1,062	\$1,250	\$1,327,000
Dec 2010	1,250	1,062	\$1,250	\$1,327,000
Mar 2011	1,250	1,062	\$1,250	\$1,327,000
June 2011	1,250	1,062	\$1,250	\$1,327,000
Sept 2011	1,250	1,062	\$1,250	\$1,327,000
Dec 2011	1,250	1,062	\$1,250	\$1,327,000
Mar 2012	1,250	1,062	\$1,250	\$1,327,000
June 2012	1,250	1,062	\$1,250	\$1,327,000

Sept 2012	1,750	1,487	\$1,250	\$1,858,000
Dec 2012	1,250	1,062	\$1,250	\$1,327,000
<b>Total</b>				<b>\$20,640,000</b>

**Note 1.** The Globe Progress royalty remains payable until a total of 400,000 ounces have been produced from the Globe Progress tenement. This totalled 131,700 ounces to 31st March 2009 (Oceana Gold's 2008 Annual Report and 2009 First Quarter Management Discussion and Analysis report). These reports also indicate that the royalty should continue until at least the remaining 268,300 ounces of gold the subject of the royalty are produced, and anticipates an average production rate of approximately 70,000 ounces per annum over the balance of mine life based on current reserves. This table assumes that the Oceana Gold stated production rate is met. In the unlikely circumstance that a total of 1 million ounces of gold are produced from the Globe Progress tenement then a 1.5% royalty on that production becomes receivable by Royalco as described in more detail below, but this has not been taken into account in the table above.

**Note 2.** These amounts of the Globe Progress royalty ounces upon which the royalty is based are fixed by the terms of the contractual royalty agreement between Royalco and Oceana Gold Limited. These amounts are subject to the following:

- The actual production rates are not within Royalco's control. If the actual production rate is faster than that contemplated by Oceana Gold as stated in Note 1, then not all of the quarterly royalties are receivable by Royalco. Conversely if the actual production rate is slower than that contemplated by Oceana Gold as stated in Note 1, then additional subsequent quarterly royalties are receivable by Royalco. This arises due to the royalty under the royalty agreement being based on a maximum of 400,000 ounces being produced, and a typical royalty per quarter of production under the royalty agreement of 1,250 gross ounces.
- These royalty gross ounce amounts assume that the gold price exceeds NZ\$900 per ounce for the relevant quarter, otherwise these amounts reduce. As at 21 May 2009 this was approximately NZ\$1,540 per ounce.
- These royalty gross ounce amounts assume that the actual production for the relevant quarter exceeds the royalty gross ounce amount, otherwise these amounts reduce. Oceana Gold in its 2008 Annual Report predicts an average quarterly production rate of 17,500 ounces over the remaining mine life based on current reserves.

**Note 3.** New Zealand applies a 15% withholding tax on royalties received by Royalco.

**Note 4.** This assumes an A\$ gold price of \$1,250 for the entire period. As at 21 May 2009 this was approximately A\$1,215.

**Note 5.** Globe Progress royalties are receivable by Royalco under the royalty agreement in the form of gold.

In addition to the Globe Progress royalty described above, there are **several other Oceana Gold tenements** forming part of the Reefion Gold Project which are contiguous with the Globe Progress tenement. These are at the exploration stage with potential gold resources, and Royalco is hopeful that these may produce royalty production revenue in due course by virtue of their potential as well as their proximity to the Globe Progress tenement, although this can not be guaranteed. Such tenements are the subject of separate royalty arrangements in favour of Royalco. These are initially based on a sliding 1% to 3% royalty rate. If gold production from a combination of these tenements excluding the Sam's Creek tenement but including the Globe Progress tenement exceeds 1 million ounces of production then a flat 1.5% royalty applies.

In addition to the above, **the Sam's Creek tenement** loosely forming part of the Reefion Gold Project is the subject of a separate royalty arrangement. Sam's Creek is not close to the Globe Progress tenement. It has inferred resources of some 770,000 ounces as at 31<sup>st</sup> December 2008 (Oceana Gold Annual Report 2008), however Oceana Gold production is not imminent in the short to medium term. A 1% flat royalty applies in favour of Royalco.

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### 4.3. Other Royalty Interests

At **Mt Garnet** in Queensland, Royalco holds the benefit of a 3% Net Smelter Return from Kagara Limited on production of base and precious metals from the original Mt Garnet tenements in perpetuity without any caps or limits. The first royalty was received during the first quarter of 2009 amounting to \$99,000, representing \$22,000 due from the September 2008 quarter and \$77,000 (preliminary payment) for the December 2008 quarter. During May 2009 Royalco received a preliminary payment for the March 2009 quarter of \$136,000. The amount payable under this royalty interest fluctuates with commodity prices and is also irregular as the Mt Garnet operations are conducted on a campaign basis. Ore requirements are sourced from several separate deposits, including those from which Royalco has no royalty interest.

Royalco holds the benefit of copper royalty interests at **Mt Kelly** in Queensland by way of a 1% Net Smelter Return capped at \$1,000,000 in total from two separate royalty areas. Payment of the royalty was subject to production exceeding 25 million pounds of copper - a benchmark that was exceeded in the second half of last year. Initial payments from production are now the subject of discussion with the receiver for the previous operator Copperco Limited, whilst it is anticipated that the new operator Cape Lambert Iron Ore Limited will resume mining at Mt Kelly in the near future.

Royalco holds the benefit of a royalty interest on the **Dagworth & Huonfels** tenements in Queensland. The royalty obligation is in the process of being assigned from the Plentex Limited group of companies to a private German controlled 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, although this cannot be guaranteed. 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% overriding royalty on production thereafter.

Royalco holds **8 other royalty interests** whose underlying projects are at various stages of exploration and feasibility assessment.

### 4.4. Philippines Exploration

The primary basis for Royalco's exploration initiatives is to generate royalties and free carried interests in a portfolio of attractive projects. It is not Royalco's primary intention to be the operator of mining projects, and third parties are expected to be introduced to develop/mine any discovery made in the Philippines. In the meantime costs are being tightly controlled with staff instructed to concentrate on achieving this. Royalco has two wholly owned exploration projects in the Philippines:

#### **Pao / Yabbe (Gold)**

The main prospect on the Pao tenement is Manidyo, 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. Subject to suitable access arrangements, drilling of this prospect is scheduled early in the second half of 2009. Various community support programs have been initiated in the meantime.

The Yabbe tenement application is being progressed and adjoins Pao on the south side. A few stream sediment samples with anomalous assays up to 30 g/t gold have been recorded from this region during exploration in the 1980's.

#### **Gambang (Copper)**

Following encouraging drill results at the Tokla Prospect last quarter, a detailed soil sampling program has been completed on the first phase of this tenement approval. Approvals to proceed with the second phase, (including the Manga Prospect) and the third phase, (which includes the highly prospective Cableway target), are awaiting indigenous people's consent and processing by the NCIP Central Office although no

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definitive timetable is available. This tenement package is considered suitable for the introduction of third parties as its prospectivity is considered excellent. Royalco's objective would be to retain a free carried interest/royalty on any future production from this tenement.

#### **4.5. Board of Directors**

The Directors of Royalco and a brief description of their qualifications and other directorships are set out below:

##### **Peter Topham – Executive Chairman & Managing Director**

Peter has been a board member since 26 March 2001. Peter is a non-executive director of Copper Strike Ltd, a listed public company which specialises in exploration and development of base and precious metal projects. 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 that Peter worked in stockbroking and corporate finance with various companies including D&D Tolhurst, ANZ Capital Markets and HSBC. Peter is a Barrister and Solicitor of the Supreme Court of Victoria but does not practice as such.

##### **David Ogg – Executive Director, Finance & Company Secretary**

David has been a board member since 26 March 2001. David is the principal of David Ogg & Associates Pty Ltd which was the holder of a Financial Services Licence and provided corporate financial services. Prior to then, 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. He is also Company Secretary of Copper Strike Ltd and Syrah Resources Ltd.

##### **Tom Eadie – Non-Executive Director**

Tom has been a board member since 19 October 2005. Tom has been Executive Chairman of Copper Strike Ltd since its inception in 2004 and he is Chairman of Syrah Resources Ltd. 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 Limited, Aberfoyle Resources and Cominco. At Pasminco, he was Executive General Manager – Exploration & 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 also a past board member of the Australasian Institute of Mining and Metallurgy and the Australian Mineral Industry Research Association.

##### **Bruce Pertzel – Non-Executive Director**

Bruce is the principal of the long established geological consulting firm Pertzel Tahan & 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. Bruce has had widespread experience in exploration activities in the Asia/Pacific region, and is currently the principal geologist for Vital Metals Ltd.

#### **4.6. Royalco's Capital Structure**

As at the date of this Target's Statement, there are 52,714,183 Shares on issue. In addition, there are currently 3,610,000 Options to subscribe for Shares as explained in more detail in section 6.5.

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#### 4.7. Other Information about Royalco

Royalco is a "disclosing entity" under the Corporations Act and is subject to regular reporting and disclosure obligations under the Corporations Act and the Listing Rules. Shareholders seeking further information on Royalco are directed to the list of publicly available announcements listed on the ASX ([www.asx.com.au](http://www.asx.com.au), company code "RCO") or on Royalco's website ([www.royalco.com.au](http://www.royalco.com.au)).

#### 4.8. Risk Factors Relating to Royalco

The price of Shares and the future performance of Royalco is influenced by a range of factors and risks. Whilst some of these risks can be mitigated by the use of safeguards and appropriate systems and actions, some are outside the control of Royalco and cannot be mitigated. The principal risks include, but are not limited to, those detailed below. Royalco does not give any form of guarantee of future dividends or the price at which the Shares might trade in the future on the ASX. These risks are not necessarily exhaustive. Any company with resource-based operations is subject to a wide range of risks which may not be foreseeable.

##### **Risks related to Royalty Interests**

Royalty interests are contractual interests in nature. Accordingly, there are risks associated with the performance of third parties' obligations as to production, payment, performance, technical capacity and time frames in which operations are carried out. As a royalty holder, Royalco neither serves as an operator nor does Royalco have input into how the operations are conducted. This makes it difficult for Royalco to control the operations of the tenements in which it has a royalty interest.

Potential litigation may arise from time to time on a property on which Royalco has a royalty interest (for example litigation involving joint venture partners or original property owners). As a royalty holder, Royalco will not generally have any influence on this, and is dependent on its contractual position to enforce its rights.

##### **Regulatory Risks**

Mining operations require approvals from regulatory authorities from time to time. While Royalco has no reason to believe that any material approvals will not be forthcoming, Royalco cannot guarantee that all requisite approvals will always be obtained. A failure to obtain any approvals would mean that the ability of Royalco to benefit from any project may be restricted.

Royalco's interests in tenements in the Philippines are governed by legislation and are evidenced by the granting of tenements through the issuing of a lease or license. Each lease or license is granted for a specific term and is subject to various conditions. Royalco may lose title or its interest in tenements if the relevant conditions are not met.

##### **Exploration and Production Risks**

Exploration and production is a high-risk activity. There can be no guarantee that planned exploration programs will lead to positive exploration results and the discovery of a commercial deposit or a commercial mining operation. Exploration is a speculative endeavour and can be hampered by the unpredictable nature of mineral deposits. Resource estimates themselves are necessarily imprecise and depend upon interpretations that can prove to be inaccurate.

##### **Third Party Activity Risks**

Activities by non-government organizations and other third parties can adversely impact or disrupt exploration programs or mining operations.

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### **Risks Relating to Commodity Prices**

Royalties are based on mine life and a drop in metal prices or a change in metallurgy can have a negative effect on royalty revenue. Commodities are subject to high levels of volatility in price and demand. As Royalco's potential earnings are derived from the sale of base and precious metals these earnings will be closely related to the price of these commodities. The sale of these commodities will expose Royalco to commodity price and in some instances exchange rate risks.

### **Unsuccessful Offer Risk**

If the Offer lapses without all Shares accepting into it, there is a risk that the market price of the Shares may drop with a reduced level of trading liquidity.

### **Share Market Risks**

There are general risks associated with any investment and the share market. The price of Royalco's shares quoted on ASX may rise and fall depending on a range of factors beyond Royalco's control and which are unrelated to Royalco's performance. These factors may also include movements on international stock markets, interest rates and exchange rates, together with domestic and international economic conditions, inflation rates, commodity supply and demand, government taxation and royalties, war, global hostilities and acts of terrorism. The financing difficulties of some large Royalco Shareholders is considered to be part of the reason for the fall in the Royalco Share price over the last 12 months.

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# Section 5

## The Offer Information

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## Section 5: The Offer Information

### 5.1. Offer Information Details

On 13 May 2009, Anglo Pacific (Starmont) announced its intention to make the Offer. On the same day, Anglo Pacific (Starmont) announced its Bidder's Statement which contains the Offer and which was subsequently sent to Shareholders.

The consideration being offered to you under the Offer is 30 cents for each Share you hold. The Offer is to acquire all Shares on issue during the Offer Period, including any rights attaching to those Shares. The Offer extends to Shares that are issued during the Offer Period as a result of the exercise of Options but does not extend to unexercised Options. You may only accept the Offer for all of your Shares. You cannot accept the Offer for only some of your Shares.

The Offer is scheduled to close at 5.00pm (Perth time) on 29 June 2009 unless Anglo Pacific (Starmont) extends the Offer Period. The Offer is not subject to any conditions. Anglo Pacific (Starmont) may only withdraw its Offer in exceptional circumstances. Anglo Pacific (Starmont) may extend the Offer Period at any time before the end of the Offer Period. In addition, there will be an automatic extension of the Offer Period if, within the last seven days of the Offer Period:

- Anglo Pacific (Starmont) improves the consideration under the Offer; or
- Anglo Pacific (Starmont)'s voting power in Royalco increases to more than 50%.

If either of these two events occurs within the last seven days of the Offer Period, the Offer Period is automatically extended so that it ends 14 days after the relevant event occurs.

Accepting the Offer would prevent you from accepting any higher takeover bid that may be made by Anglo Pacific (Starmont) or a third party, any alternative proposal that may be recommended by the Directors or the potential longer term benefits of being a Royalco shareholder.

### 5.2. Compulsory Acquisition

Anglo Pacific (Starmont) may compulsorily acquire all remaining Shares under Part 6A.1 of the Corporations Act if, by the end of the Offer Period, Anglo Pacific (Starmont) acquires a relevant interest in least 90% or more of the Shares and has acquired 75% of the Shares which Anglo Pacific (Starmont) offered to acquire under the Offer. You should note the present intention of the Directors, who collectively control an 18% interest in Royalco, to **reject the Offer**.

Anglo Pacific (Starmont) has stated in section 5.5 of its Bidder's Statement that it intends to compulsorily acquire the remaining Shares on issue as during the Offer Period if it becomes entitled to do so. It has also stated that if it becomes entitled to exercise general compulsory acquisition rights under Part 6A.2 of the Corporations Act by acquiring 90% of Shares in Royalco, Anglo Pacific (Starmont) intends to exercise those rights should they become available.

Compulsory acquisition is commenced by lodging a compulsory acquisition notice with ASIC and sending the notice to ASX and all remaining Shareholders who did not accept the Offer. Shareholders have statutory rights to challenge compulsory acquisition, but if Anglo Pacific (Starmont) establishes to the satisfaction of a court that the consideration being offered for the securities represents fair value, the court must approve the compulsory acquisition on those terms. Shareholders should be aware that if their Shares are compulsorily acquired, they are not likely to receive payment until at least one month after the compulsory acquisition notice is issued by Anglo Pacific (Starmont).

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### 5.3. Implications if Anglo Pacific (Starmont) Acquires Less than 90% of the Shares

If Anglo Pacific (Starmont) obtains a majority shareholding in Royalco of less than 90%, those Shareholders who do not accept the Offer will become minority shareholders in Royalco. This has a number of possible implications, including:

- Anglo Pacific (Starmont) will be in a position to cast the majority of votes at a general meeting of Royalco. This will enable it to control the composition of the Board and senior management and control the strategic direction of the businesses of Royalco and its subsidiaries;
- Anglo Pacific (Starmont) has stated in section 5.4 of its Bidder's Statement that, subject to the Corporations Act and Royalco's constitution, it intends to appoint nominees to the Board so that the number of Anglo Pacific (Starmont) directors will be approximately proportionate to its holding of Shares;
- Anglo Pacific (Starmont) has also indicated that in the event it does not acquire 100% of the issued Shares in Royalco, it will propose, through its nominees on the Board, a review of Royalco's corporate structure, assets, business, personnel, financing, capital structure and operations to measure performance and areas of improvement. Anglo Pacific (Starmont) has also indicated that it intends to utilise Royalco's cash reserves to continue Royalco's focus on acquiring new royalties; and
- On 21 March 2009, Royalco announced that it intended to buyback up to 4,810,000 Shares between 21 April 2009 and 20 April 2010. Anglo Pacific (Starmont) announced its intention that in the event it is not entitled to proceed to compulsory acquisition in accordance with Part 6A.1, it intends to procure that the Board reconsider proceeding with the buy-back of Shares.

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# Section 6

## Additional Information

## Section 6: Additional Information

### 6.1 Directors' Recommendation and Intentions

In assessing the Offer, your Directors have had regard to a number of considerations, including the information set out in the Bidder's Statement. Based on this assessment, and for the reasons set out in this Target's Statement, your Directors current recommendation to Shareholders is to REJECT the Offer. Each Director who holds or has a relevant interest in any Shares currently intends to reject the Offer in relation to those Shares.

### 6.2 Interests of the Board

As at the date of this Target's Statement, Royalco has 52,714,183 Shares and 3,610,000 Options on issue, all of which are vested and expire on 31 March 2011. The number, description and amount of securities of Royalco in which each of the Directors has an interest are as follows:

Name	Shares Held	Options Held	Exercise Price
Peter Topham	5,180,400	1,400,000	\$0.50
David Ogg	3,860,400*	980,000	\$0.50
Tom Eadie	48,000	150,000	\$0.50
Bruce Pertzell	-	30,000	\$0.50
		150,000	\$0.80

\* In addition, interests associated with Mr Ogg hold a further 1,200,000 shares.

In the four months immediately preceding 13 May 2009 being the date of the Offer, no Director provided or agreed to provide, or received or agreed to receive, consideration for any marketable securities of Royalco under a sale, purchase or agreement for sale or purchase of such securities.

No Director has any relevant interest in any marketable securities of Anglo Pacific (Starmont). In the four months immediately preceding 13 May 2009, being the date of the Offer, no Director provided or agreed to provide, or received or agreed to receive, consideration for any marketable securities of Anglo Pacific (Starmont) under a sale, purchase or agreement for sale or purchase of such securities.

Other than as set out in this Target's Statement, no Director is party to any agreement or arrangement with any other person in connection with or conditional on the outcome of the Offer. No Director has any interest in any contract entered into by Anglo Pacific (Starmont). Except as set out in this Target's Statement, no benefit (other than a benefit permitted by section 200F or 200G of the Corporations Act) will or may be given to a Director:

- in connection with their retirement from office in Royalco or a related body corporate of Royalco; or
- in connection with the transfer of the whole or any part of the undertaking or property of Royalco.

### 6.3 Potential Impact of the Offer on Royalco's Agreements

Royalco is not aware of any contract that has been entered into by Royalco that contains a change of control provision which will be triggered if Anglo Pacific (Starmont) acquires more than 50.1% of Shares as a result of the Offer.

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## 6.4 Litigation

There is no current material litigation involving Royalco.

## 6.5 Options

Royalco has the following Options on issue all of which are vested and expire on 31 March 2011:

Exercise Price	Number
50 cents	2,950,000
52 cents	510,000
80 cents	150,000
<b>Total</b>	<b>3,610,000</b>

The Options do not lapse early even if Anglo Pacific (Starmont) becomes the holder of all of the Shares.

## 6.6 Taxation Considerations for Shareholders

Acceptance of the Offer by you is likely to have tax consequences. The tax consequences for you will depend on your individual circumstances. Section 7 of the Bidder's Statement sets out a general overview of the Australian tax implications of a Shareholder accepting the Offer, and disposing of their Shares to Anglo Pacific (Starmont). You should not rely on it as advice on your own affairs. It does not deal with the position of all Shareholders. You should seek your own independent financial and taxation advice, which takes into account your personal circumstances, before making a decision as to whether or not to accept the Offer for your Shares.

## 6.7 Change in Financial Position of Royalco Since Last Financial Report

Royalco's last published financial statements are for the six months ended 31 December 2008, as set out in its Half Yearly Report lodged with the ASX on 13 March 2009. Except as disclosed in this Target's Statement and in any announcement made by Royalco to the ASX since 13 March 2009, your Directors are not aware of any material change to the financial position of Royalco since 31 December 2008.

## 6.8 Consent to Inclusion of Statements

Baker & McKenzie has given and has not, before the date of this Target's Statement withdrawn its consent to the inclusion of its name in the form and context in which it is included and to all references in this Target's Statement to its name in the form and context in which it appears.

## 6.9 Disclaimers Regarding Responsibility

Each person or organisation named above as having given consent to the inclusion of a statement in this Target's Statement (or who is otherwise named in this Target's Statement as acting in a professional capacity for Royalco in relation to the Offer):

- does not make, or purport to make, any statement in this Target's Statement or any statement on which a statement in this Target's Statement is based other than, in the case of a person referred to above as having given their consent to the inclusion of a statement, a statement included in this Target's Statement with the consent of that person; and
- to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Target's Statement, other than, in the case of a person referred to above as having given their

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consent to the inclusion of a statement, any statement or report which has been included in this Target's Statement with the consent of that party.

## 6.10 No other Material Information

This Target's Statement is required to include all the information that Shareholders and their professional advisers would reasonably require to make an informed assessment whether to accept the Offer, but:

- only to the extent to which it is reasonable for Shareholders and their professional advisers to expect to find such information in this Target's Statement; and
- only if the information is known to any of the Directors.

The Directors are of the opinion that the information that Shareholders and their professional advisers would reasonably require to make an informed assessment whether to accept the Offer is:

- the information contained in the Bidder's Statement;
- the information contained in Royalco's releases to the ASX prior to the date of this Target's Statement; and
- the information contained or referred to in this Target's Statement.

## 6.11 Class Order Relief – reference to statements

ASIC has published various "Class Order" instruments providing for modifications and exemptions that apply generally to all persons, including Royalco, in relation to the operation of Chapter 6 of the Corporations Act. Royalco may rely on this class order relief.

Royalco has relied on the modification to section 636(3) of the Act set out in paragraph 11 of ASIC Class Order 01/1543 "Takeover Bids" to include references to certain statements by Anglo Pacific (Starmont) and other persons in this Target's Statement without obtaining the consent of Anglo Pacific (Starmont) or those other persons.

The relevant statements were respectively taken from:

- the Bidder's Statement and Anglo Pacific (Starmont)'s announcement to the ASX on 13 May 2009 in which it publicly announced details of its intention to make the Offer;
- Oceana Gold Limited's 2008 Annual Report and March 2009 Quarterly Statement; and
- Oz Mineral Limited's Explanatory Statement to its shareholders dated 8 May 2009.

As required by ASIC Class Order CO 01/1543, Royalco will make available a copy of these documents (or of relevant extracts from these documents), free of charge, to Shareholders who request them during the Offer Period. To obtain a copy of these documents (or the relevant extracts), Shareholders may telephone Royalco on + 61 3 9602 3626.

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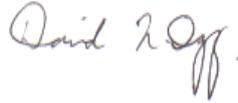
## 6.12 Approval of this Target's Statement

This Target's Statement has been approved by a resolution of the Directors.

Signed by each of the Directors of Royalco, in accordance with the Corporations Act.



Peter Topham



David Ogg



Tom Eadie



Bruce Pertzelt

Dated 22 May 2009

# Definitions

In this Target's Statement the following words have these meanings unless the contrary intention appears or the context otherwise requires:

<b>\$ or dollar</b>	Australian dollars unless otherwise stated and excludes GST
<b>Anglo Pacific</b>	Anglo Pacific Group PLC
<b>Anglo Pacific (Starmont)</b>	Starmont Ventures Pty Ltd, a subsidiary of Anglo Pacific
<b>ASIC</b>	Australian Securities and Investments Commission
<b>ASX</b>	ASX Limited or the financial market which it operates, as the context requires
<b>Bidder's Statement</b>	The bidder's statement dated 13 May 2009 relating to the Offer prepared by Anglo Pacific (Starmont)
<b>Board</b>	The board of directors of Royalco
<b>Corporations Act</b>	Corporations Act 2001 (Cth)
<b>Directors</b>	The members of the Board
<b>NZ\$</b>	New Zealand dollars
<b>Offer</b>	The offer by Anglo Pacific (Starmont) for Shares under the Bidder's Statement
<b>Offer Period</b>	The period during which the Offer remains open for acceptance in accordance with the Bidder's Statement
<b>Offer Price</b>	\$0.30 for each Royalco Share
<b>Options</b>	Options to subscribe for Shares
<b>Reefton Gold Project</b>	The Reefton gold project located in the South Island of New Zealand operated by Oceana Gold Limited.
<b>Royalco</b>	Royalco Resources Limited
<b>Shareholder</b>	Person registered in the register of members of Royalco as a holder of one or more Shares
<b>Shares</b>	Fully paid ordinary shares in the capital of Royalco
<b>Target's Statement</b>	This document, being the statement of Royalco pursuant to the Corporations Act relating to the Offer

# Corporate Directory

## **Directors**

Peter Topham (Executive Chairman)  
David Ogg (Executive Director, Finance)  
Tom Eadie (Non-Executive Director)  
Bruce Pertzelt (Non-Executive Director)

## **Company Secretary**

David Ogg

## **Principal and Registered Office**

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## **Website**

[www.royalco.com.au](http://www.royalco.com.au)

## **ASX Code**

RCO

## **Legal Adviser**

Baker & McKenzie  
Level 19, 181 William Street  
Melbourne VIC 3000