

March 2010 Quarterly Report

28th April 2010

Corporate Details

ASX Code: RCO

Issued Capital: 52,714,183 Shares

2,950,000 Options @ 50c, 31/3/2011 (Unlisted)

510,000 Options @ 52c, 31/3/2011 (Unlisted)

150,000 Options @ 80c, 31/3/2011 (Unlisted)

Share Price: 47.5 cents

Market Capitalisation: \$25 million

Cash Balance: \$11.3 million

Gold Balance: 1733.8 ounces

Major Shareholders:

Oz Minerals 18.97%

Directors 19.01%

Anglo Pacific 31.11%

Directors:

Peter Topham – Executive Chairman

David Ogg – Executive Director

Tom Eadie – Non executive Director

Bruce Pertzelt - Non executive Director

Chris Orchard- Non executive Director

KEY POINTS

1. Strong cash flow continues

Physical gold (1116.9 ounces post New Zealand withholding tax) was received during the quarter from the Reefion gold project in New Zealand.

Record cash payment for a quarterly period received from the Mt Garnet royalty interest.

2. Vale farms into Gambang

The Vale option agreement includes significant cash payments plus a future royalty on production.

3. Excellent financial position to support returns to shareholders

Royalco's cash/liquids position is represented by \$11.3 million cash on deposit, the gold position of 1733.8 ounces with a spot value of \$2.16 million and a small listed equities position of approximately \$225,000. This equates to \$13.7 million.

Subsequent to the end of the quarter a further US\$530,000 has been received from Vale taking the cash/liquids position, as at 28th April 2010, to approximately \$14.2 million.

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

Royalty Interests

Royalco currently holds a total of ten royalty interests of which three produced income during the quarter. Using prevailing spot prices for gold, income for the quarter from these interests was \$1.8 million.

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 1314 ounces pre New Zealand withholding tax. Subject to the spot price remaining above NZ\$900 (currently NZ\$1500+), royalty receipts should adjust back to the original rate of 1250 ounces per quarter pre withholding tax. At prevailing prices and exchange rates this equates to approximately \$5 million per annum in net royalty income.

On 12th April Oceana Gold Limited announced to the ASX an update on extensions to mineralisation at ***Reefton*** as well as fresh targets identified in the region. Any successful exploration results from the programmes proposed in that release should have positive implications for Royalco's royalty interests in this field.

At ***Mt Garnet*** there is a 3% Net Smelter Return on production from the original Mt Garnet tenements. A total of \$397,000 was received during the quarter. A further \$569,000 has been accrued and is payable in the current quarter- ***a figure significantly above Royalco's internal budget!*** The amount receivable under this royalty interest will not only fluctuate with commodity prices but will also be irregular as the ***Mt Garnet*** operations are conducted on a campaign basis - ore requirements being sourced from several separate deposits, including those on which Royalco has no royalty interest.

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 with only a nominal amount receivable for the March quarter.

The ***Mt Kelly*** operations have been placed on care and maintenance pending the sale by the operator, Cape Lambert Limited. No indication has been provided as to when operations may resume.

The royalty interest on the ***Dagworth & Huonfels*** tenements, (where the operator is a privately owned German group, Deutsche Rohstoff Australia Pty Ltd), is being advanced with a view to production commencing in the last quarter of this calendar year. (See www.rohstoff.de).

A milestone payment on first production of \$100,000 is applicable on this interest as well as \$10 per ounce on the first 10,000 ounces of gold produced and a 1.5% over riding royalty on production thereafter.

No activities of substance have been advised on the Company's other royalty interests.

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**; however other locations in South East Asia are being considered subject to a sovereign risk assessment and other relevant issues. As part of this initiative a separate subsidiary is in the process of incorporation in **Cambodia**.*

(i) Gambang (Copper) Philippines

As announced to the Australian Stock Exchange on the 26th February 2010, an Option Agreement has been executed between Royalco Resources Limited, Royalco Philippines Inc., Vale International S.A. and Vale Exploration Philippines Inc., (both wholly owned subsidiaries of Vale S.A.), concerning Royalco's Gambang tenement in the Philippines.

The key terms of the Option Agreement include:-

- (i) payments to Royalco of US\$530,000 on completion of conditions precedent, a further payment of US\$500,000 twelve months later subject to standard administrative conditions,
- (ii) an option to acquire the tenement after the expenditure of up to US\$3.5 million within 3 years once all documentation has been appropriately registered by the Philippines authorities,
- (iii) a minimum expenditure of US\$1.5 million including drilling on the highly prospective Cableway prospect,
- (iv) a payment of US\$5,000,000 on exercise of the option,
- (v) and a royalty on production varying between 1.31 % and 1.5% NSR.

Royalco Philippines Inc., Royalco's operating subsidiary in the Philippines, will retain administrative responsibility for the tenement until the exercise of the option.

Conditions precedent have been satisfied and the first US\$530,000 has been received post the end of the quarter.

(ii) *Pao / Yabbe (Gold) Philippines*

The *Pao* tenement remains under suspension whilst protestors from nonrepresentative NGOs maintain their disruptive activities. The situation at *Pao* will be reviewed later in the year.

The *Yabbe* tenement application has now received all prerequisite approvals and final approval from the Mines & Geosciences Bureau is now awaited. Such approval is believed to be imminent and once achieved soil sampling programmes will be implemented.

The *Yabbe* tenement lies to the south of Pao and involves a different set of communities who have demonstrated a more pro exploration stance.

Corporate

The company has been reviewing its cash and capital management needs since the December half year result and the formal cessation of the buy back programme, which was truncated by the takeover bid from Anglo Pacific in May last year. The Directors are currently seeking professional advice on the implications of various alternatives available to return some funds to shareholders. It is anticipated that guidance on this matter will be provided in a release to the Australian Stock Exchange within the next 2-3 weeks



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.

Name of entity

Royalco Resources Ltd

ABN

53 096 321 532

Quarter ended ("current quarter")

March 2010

Consolidated statement of cash flows

| Cash flows related to operating activities | Current quarter \$A'000 | Year to date (9 months) \$A'000 |
|---|----------------------------|---------------------------------------|
| 1.1 Receipts from product sales and related debtors * | 1812 # | 2145 |
| 1.2 Payments for | | |
| (a) exploration and evaluation | (213) | (731) |
| (b) development | - | - |
| (c) production | - | - |
| (d) administration | (202) | (707) |
| 1.3 Dividends received | - | - |
| 1.4 Interest and other items of a similar nature received | 102 | 205 |
| 1.5 Interest and other costs of finance paid | - | - |
| 1.6 Income taxes paid | - | - |
| 1.7 Other (provide details if material) | 37 | 21 |
| Net Operating Cash Flows | 1536 | 933 |
| Cash flows related to investing activities | | |
| 1.8 Payment for purchases of: | | |
| (a)prospects | - | - |
| (b)equity investments | - | - |
| (c) other fixed assets | - | - |
| 1.9 Proceeds from sale of: | | |
| (a)prospects | - | - |
| (b)equity investments | 44 | 65 |
| (c)other fixed assets | - | - |
| 1.10 Loans to other entities | - | - |
| 1.11 Loans repaid by other entities | - | - |
| 1.12 Other (provide details if material) | (1357) # | 3288 |
| Net investing cash flows | (1313) | 3353 |
| 1.13 Total operating and investing cash flows (carried forward) | 223 | 4286 |

* Royalties received

Item includes gold received directly as royalty income valued at \$1.357 million on date of receipt, shown also as "other" under investing activities as this gold is still on hand at end of the quarter.

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

| | | | |
|------|--|-------|-------|
| 1.13 | Total operating and investing cash flows (brought forward) | 223 | 4286 |
| | 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 | - | - |
| 1.19 | Other (provide details if material)* | - | - |
| | Net financing cash flows | - | - |
| | Net increase (decrease) in cash held | 223 | 4286 |
| 1.20 | Cash at beginning of quarter/year to date | 11124 | 7061 |
| 1.21 | Exchange rate adjustments to item 1.20 | - | - |
| 1.22 | Cash at end of quarter | 11347 | 11347 |

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 | 138 |
| 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 | |
|-----|--|

+ 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 | 180 |
| 4.2 Development | - |
| Total | 180 |

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 | 1268 | 1841 |
| 5.2 Deposits at call | 7099 | - |
| 5.3 Bank overdraft | - | - |
| 5.4 Other (provide details) Bank Term Deposits | 2980 | 9283 |
| Total: cash at end of quarter (item 1.22) | 11347 | 11124 |

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 | - | | | |
|-----|---|---|--|--|--|

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.

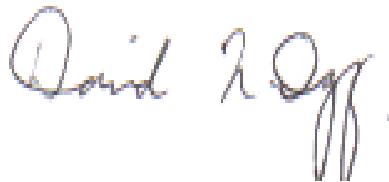
| | Total number | Number quoted | Issue price per security (see note 3) (cents) | Amount paid up per security (see note 3) (cents) |
|--|--------------|---------------|---|--|
| 7.1 | - | - | | |
| Preference securities <i>(description)</i> | | | | |
| 7.2 | | | | |
| Changes during quarter | | | | |
| (a) Increases through issues | | | | |
| (b) Decreases through returns of capital, buy-backs, redemptions | | | | |
| 7.3 | 52,714,183 | 52,714,183 | 50 cents | 50 cents |
| +Ordinary securities | | | | |
| 7.4 | | | | |
| Changes during quarter | | | | |
| (a) Increases through issues | | | | |
| (b) Decreases through returns of capital, buy-backs | | | | |
| 7.5 | - | - | | |
| +Convertible debt securities <i>(description)</i> | | | | |
| 7.6 | | | | |
| Changes during quarter | | | | |
| (a) Increases through issues | | | | |
| (b) Decreases through securities matured, converted | | | | |
| 7.7 | | | Exercise price | Expiry date |
| <i>(description and conversion factor)</i> | | | | |
| | 2,950,000 | - | 50 cents | 31st Mar 2011 |
| | 510,000 | - | 52 cents | 31st Mar 2011 |
| | 150,000 | - | 80 cents | 31st Mar 2011 |
| 7.8 | - | - | | |
| Issued during quarter | | | | |

+ See chapter 19 for defined terms.

| | | | | | |
|------|---|---|---|--|--|
| 7.9 | Exercised during quarter | - | - | | |
| 7.10 | Expired during quarter | - | - | | |
| 7.11 | Debentures <i>(totals only)</i> | - | - | | |
| 7.12 | Unsecured notes <i>(totals only)</i> | - | - | | |

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 give a true and fair view of the matters disclosed.



27 April 2010

Sign here: Date:
(Company secretary)

Print name: David L Ogg
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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.

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly 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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