

December 2009 Quarterly Report

28th January 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: 35 cents

Market Capitalisation: \$18.5 million

Cash Balance: \$11.1 million

Gold Balance: 616.9 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

HIGHLIGHTS

Cash flow from royalty interests continues to outperform.

Physical gold (1116.9 ounces post New Zealand withholding tax) was received during the quarter from the Reefion gold project in New Zealand. In addition, a record cash payment for a quarterly period was received from Mt Garnet.

Gold sales for the quarter generated \$4,644,383. A total of 3,850.7 ounces were sold at an average price of \$1206 per ounce.

Present gold position is 616.9 ounces on deposit against a spot A\$ gold price of \$1215 per ounce.

Additional royalty opportunities over a range of commodities are being reviewed on an ongoing basis.

Royalco's cash/liquids position is represented by \$11.1 million cash on deposit, the gold position of 616.9 ounces with a spot value of \$750,000 and a small listed equities position of approximately \$250,000. This equates to \$12.1 million.

EXPLORATION

Letter of Intent signed with a major mining house on the Gambang Tenement. Formal documentation proceeding.

Pao drilling put on hold following protestor intervention.

The Company's strategy is the building of a core royalty portfolio of income producing base and precious metals interests. This will be achieved by either 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 two produced income during the quarter. Using prevailing spot prices for gold, income for the quarter from these interests was \$1.43 million.

The rate of income for the quarter exceeds the underlying assumptions made by DMR Corporate Pty Ltd when a valuation was completed on Royalco's key royalty interests in September 2009. The range of valuations at that time was \$15.88 million to \$16.96 million based on appropriate commodity price assumptions and after tax discount rates without adjusting for royalties received since the date that valuation was prepared.

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 1116.9 ounces post New Zealand withholding tax. Subject to the spot price remaining above NZ\$900 (currently NZ\$1500+), royalty receipts should now adjust back to the original rate of 1065 ounces per quarter. At prevailing prices and exchange rates this equates to approximately \$5 million per annum in royalty income.

At ***Mt Garnet*** there is a 3% Net Smelter Return on production from the original Mt Garnet tenements. A total of \$176,000 was received during the quarter. A further \$397,000 has been accrued and is payable in the current quarter- ***a figure of more than double 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.

In June the ***Mt Kelly*** operations were acquired by Cape Lambert Iron Ore Limited. The current project owner has indicated that the project is included in the current IPO for Q Copper 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 early this calendar year. (see www.rohstoff.de).

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% over riding royalty on production thereafter.

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

The majority of management time is currently being spent on evaluating several royalty situations in the precious metals, base metals and energy sectors. A number of tenders were entered into during the quarter however none of these tenders proceeded for a variety of reasons.

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 are being considered subject to a sovereign risk assessment and other relevant issues.*

*During the quarter management has been to **Cambodia**. Having been initially satisfied as to prospectivity within the country, the possibility of undertaking exploration in a timely fashion and sovereign risk factors, a subsidiary to advance exploration opportunities in that country is now in the process of incorporation.*

(i) Gambang (Copper)

A Letter of Intent has now been executed with a major mining house for ongoing exploration at Gambang. The terms of the proposed agreement are to remain confidential until formal documentation has been completed. Finalisation of this process is expected in February.

Once completed, a separate announcement will be to the ASX as part of continuous disclosure requirements.

(ii) Pao / Yabbe (Gold)

Non representative protestors unfortunately resumed their disruptive barricades on the day prior to drill rig mobilisation to the exploration site.

Royalco has no current intention to force the barricade and has placed the tenement back into suspension. All community support programs, (including road rehabilitation, educational supplements, employment and medical missions), have been curtailed and local staff relating to Pao have been dismissed.

The situation at Pao will be reviewed later this calendar 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.

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

Corporate

Royalco has previously announced guidelines to a dividend policy. As part of those guidelines is the requirement for full franking implementation. Taxation advice is currently being sought as to the effects of New Zealand tax credits on the royalty receipts from the Reefton project, the company's cash royalty income, the level of deductibility for other costs and how they interrelate to the franking position.

The company is of the opinion that the current cash/liquids position is of a level the more than covers any identified capital requirement in the immediate future and that amounts in excess of this approximate level should involve returns to its shareholders in the most tax effective way possible.

Should tax advice limit the potential amount by way of fully franked dividends then consideration may be given to capital returns, or a combination of both.

Once the taxation advice has been clarified, shareholders will be advised as to which choice of action will be recommended by the Board of Directors.



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")

December 2009

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (3 months) \$A'000
1.1 Receipts from product sales and related debtors *	174	333
1.2 Payments for (a) exploration and evaluation	(296)	(518)
(b) development	-	-
(c) production	-	-
(d) administration	(269)	(505)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	50	103
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other (provide details if material)	2	(16)
Net Operating Cash Flows	(339)	(603)
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	21	21
(c)other fixed assets	-	-
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other (provide details if material) #	4645	4645
Net investing cash flows	4666	4666
1.13 Total operating and investing cash flows (carried forward)	4327	4063

* Royalties received

Item represents sale of gold received directly as royalty income.

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	4327	4063
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		4327	4063
1.20	Cash at beginning of quarter/year to date	6797	7061
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	11124	11124

* RCO shares purchased pursuant to buy back

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	165
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	325
4.2 Development	-
Total	325

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	1841	2719
5.2 Deposits at call	-	-
5.3 Bank overdraft	-	-
5.4 Other (provide details) Bank Term Deposits	9283	4078
Total: cash at end of quarter (item 1.22)	11124	6797

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	-			
6.2 Interests in mining tenements acquired or increased	-			

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

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 +Ordinary securities	52,714,183	52,714,183	50 cents	50 cents
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 Options <i>(description and conversion factor)</i>	2,950,000 510,000 150,000	- - -	Exercise price 50 cents 52 cents 80 cents	Expiry date 31st Mar 2011 31st Mar 2011 31st Mar 2011
7.8 Issued during quarter	-	-		
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>	-	-		

+ 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 4).
- 2 This statement does give a true and fair view of the matters disclosed.



Sign here: Date: 29 January 2010
(Company secretary)

Print name: David L Ogg
.....

Notes

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

== == == == ==

+ See chapter 19 for defined terms.