

September 2007 Quarterly Report

30th September 2007

Corporate Details

ASX Code: RCO

Issued Capital:

56,411,200 Shares

2,950,000 Options @50c, 31/3/2011 (Unlisted)
510,000 Options @52c, 31/3/2011 (Unlisted)

Share Price: 71c

Market Capitalisation:
\$40 million

Cash Balance: \$8.5 million

Major Shareholders:

Oxiana Ltd	17.7%
Directors	14.9%
ANZ Noms	9.4%
Riomin Gold	6.4%

Directors:

Peter Topham – Executive Chairman

David Ogg – Executive Director

Tom Eadie – Non executive Director

Adam Boyd – Non executive Director

Highlights

Royalty Interests

Royalco should begin income generation this quarter from the royalty on the Reefton Gold Project accruing gold at the rate of 1,250 ounces per quarter, based on prevailing gold prices.

Further positive announcements by Kagara Zinc Limited (Mt Garnet royalty interest) and Copperco Limited (Mt Kelly royalty interest) suggest income from these two royalties could commence in 2008.

The transaction with Syrah Resources was settled during the quarter and has added a further five royalty interests to Royalco's portfolio.

Exploration Programmes

Royalco's exploration focus is on highly prospective tenements in the Philippines:-

- (i) **Pao**-drilling will commence shortly, following minor delays to access, with a substantial programme targeting numerous epithermal gold and porphyry copper prospects;
- (ii) **Malangza**- petrological studies confirm the significant size of the system with potential to hold porphyry copper/gold at depth;
- (iii) **Gambang**-being advanced through NCIP process with a view to be drilling at the end of the first quarter 2008.

Royalco's cash position remains strong-\$8.5 million cash on deposit, a further \$500,000 in listed investments and substantial royalty income set to accrue commencing this current quarter.

Philippines Exploration

(i) One of Royalco's two principal tenements, **Pao**, has now received National Commission on Indigenous Peoples, ("NCIP"), certification.

A small number of Non Government Organisations, unrepresentative of the relevant local community, implemented a roadblock on a previous route into the exploration area. Rather than progress legal remedies to the full extent, (unfortunately a very time consuming exercise in the Philippines), a superior quality alternate route was subsequently progressed though this action has resulted in a temporary delay to our drilling programme. Alternate roadworks to the site should be completed later this week.

A suitable camp has been established at the exploration site for what is anticipated to be a two year drilling programme on numerous epithermal gold and porphyry copper targets within the district.

Royalco retains the strong support of the tribal community in the **Pao** tenement area and on this preferred new access route.

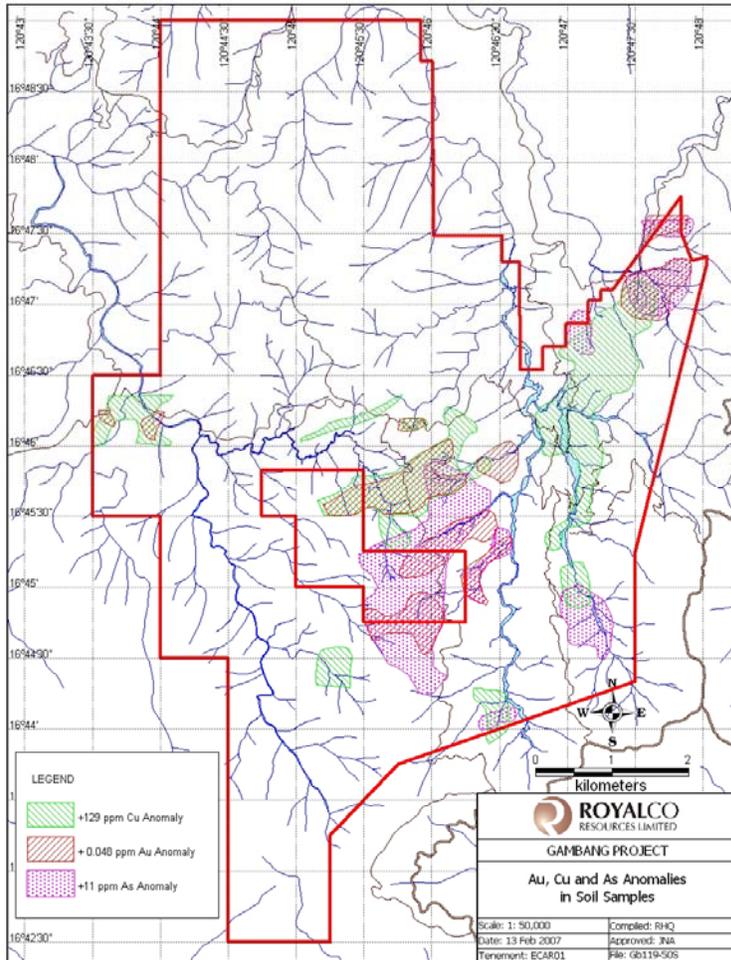
To recover lost time a second rig, subject to availability, will be mobilised once operations by the first rig have been bedded down.

Initial drilling will focus on the Manidyo prospect for both copper porphyry and epithermal gold veins. A sample of a vein in this area recorded 49.42 g/t Au, 348 g/t Ag and 3.94% Cu.



Figure 1 Pao Enargite Vein-Manidyo

(ii) A revised application has been lodged on the **Gambang** tenement to comply with recent amendments to NCIP guidelines. Local communities are being briefed on the company's exploration plans with favourable responses received to date.



(iii) At **Malangza**, ridge/spur sampling is ongoing with a north-south corridor of anomalous gold mineralization already identified.

Petrological work on select specimens from the northern third of the mapped project area strongly indicates **Malangza** is a hydrothermally altered high-level sub-volcanic to shallow-buried porphyry system with gold and copper mineralisation present. Advanced argillic to phyllic and propylitic alteration has been positively identified and potassic alteration may also be present. Altered porphyritic volcanic rocks have been positively identified and shallow-level altered intrusive rocks are most-likely also present. The positive identification of porphyritic intrusives in intensely altered hydrothermal systems such as **Malangza**, which have been subsequently subjected to widespread oxidation, is always problematic in the initial stages of project development in tropical terranes of the Southwest Pacific region.

Further detailed identification of clay and phyllosilicate alteration products from the **Malangza** project area is required and the application of alteration mapping using PIMA™ is being undertaken with initial results suggesting the area has advanced argillic alteration from shallow (alunite) to deep seated (pyrophyllite).



Figure 2 Malangza Alteration

High-level, sulphidic, hydrothermally-generated gold-bearing quartz veins occur at **Malangza** and it is reasonable to assume a buried porphyry system occurs at depth. Possible potassic alteration associated (manifest as specular hematite), supergene enriched (manifest as malachite) copper mineralisation occurs some 3000 metres distant (to the northwest and associated with a propylitically altered fine-medium grained porphyritic diorite) from the epithermal-style gold-bearing quartz veined altered volcanics recognised in the northern third of the **Malangza** project area.

Subject to rig availability, the initial drilling campaign will be undertaken early 2008.

(iv) A review of data has been completed at **Surigao**. Obvious porphyry targets have been identified however it is unlikely they will meet our immediate corporate objectives. A joint venture partner will now be sought over coming months as the targets may appeal more to larger companies with different criteria.

(v) Confidentiality arrangements concerning farm- in opportunities have been entered into on additional tenement packages. Due diligence is progressing in each instance.

Royalties

Based on prevailing gold prices, the **Reefton Gold Project** royalty interest will generate 5,000 ounces of gold per annum (approximately \$A4 million) over a project mine life of approximately seven years.

Under the terms of Royalco's royalty agreement over the **Reefton Gold Project**, royalty payments are payable quarterly commencing six months after the first gold is recovered from the successful commissioning of the plant. The operator, Oceana Gold Corporation (ASX Code:OGC), has previously announced that the Reefton plant has been successfully commissioned and that gold was first produced in March of this year. On the information available we consider that the royalty therefore commenced from 1st October 2007. Oceana appear to have a different interpretation and discussions have commenced to clarify this issue. Payment of the royalty is due within 30 days from each 'payment date', with 'payment dates' being the 15th day of the last month in each quarter following the commencement of the royalty.

The rate of the royalty payment is a sliding scale reflecting the \$NZ gold price through each quarterly period, with adjustments made on an annualised basis utilising the average gold price over set payment dates in each twelve month period.

Any gold recovered from deposits identified outside the Globe Progress tenement in the **Reefton Gold Project** area is subject to an additional royalty calculated on a percentage basis of 1-3 per cent dependent on the \$NZ gold price. This would include the Crushington discovery as an example.

Royalties at both **Mt Kelly** (CopperCo is operator – ASX:CUO) and **Mt Garnet** (Kagara Zinc is operator – ASX:KZL) are also subject to royalty holidays. In each instance approx 11,000t of contained metal has to be recovered prior to the royalties becoming payable.

According to recent ASX releases, **Mt Kelly** has now been commissioned and based on public comments as to plant capacity, and actual pit locations, could be generating income in the second half of 2008. The royalty at **Mt Kelly** is a 1% Net Smelter Return on two separate royalty areas, capped at \$619,000 on each area.

At **Mt Garnet** there is a 3% Net Smelter Return on the original deposit. In a recent ASX release, Kagara Zinc indicated operations have recommenced at Mt Garnet with ore being stockpiled for processing through the wet season.

Based on Royalco's assessment of the potential effects of this campaign methodology, a small portion of the royalty could be receivable during the second quarter of 2008 on completion of the applicable royalty holiday. Further payments would reflect the nature and extent of ongoing campaigns.

Following the completion of the Initial Public Offering by Syrah Resources Limited the debt funding provided by Royalco has been converted to shares with Royalco retaining five separate royalty interests.

Summary of Existing Mineral Royalty Interests

PROJECT	OPERATOR	ROYALTY	COMMODITY
Reefton	Oceana Gold Limited	1-3% ORR	Gold
Mt Garnet	Kagara Zinc Ltd	3% NSR	Zinc, lead, silver
Mt Kelly	CopperCo Limited	1% NSR	Copper, gold
Bowden's	Silver Standard Resources Inc	1-2% NSR	Silver
Stanton	Hydromet Corp Ltd	1% NSR	Nickel, cobalt
Dagworth/Huonfels	Georgetown Mining Limited	1.5% ORR	Gold
Heathcote	Perseverance Corporation Limited	2.5% ORR	Gold
Xanadu	Pelican Resources Limited	4% ORR	Gold
LFB	Alkane Exploration Ltd	3% NSR	Gold, copper
Lake Margaret	Copper Strike Limited	1% NSR	Copper
Mt Lyndhurst	Syrah Resources Ltd	1.5% NSR	Copper, uranium
Mackenzie/Archie	Syrah Resources Ltd	1.5% NSR	Zinc
Levuka	Syrah Resources Ltd	1.5% NSR	Copper
Munna	Syrah Resources Ltd	1.5% NSR	Gold
Norfolk	Syrah Resources Ltd	1.5% NSR	Zinc

ORR: Overriding Royalty
NSR: Net Smelter Return

A significant royalty package is currently under review as part of a tender process. An expression of interest will be lodged in November at which time a short list will be selected. If successful a final settlement could occur in the first quarter 2008.

Corporate

Cash on deposit at the end of the quarter was \$8.5 million. Investments in Copper Strike Limited and Syrah Resources Limited had a market value at 29th October 2007 of \$ 420,000.

At Royalco's forthcoming Annual General Meeting (Friday 16th November) one of the company's non-executive directors, Adam Boyd, will retire due to the pressure of work commitments elsewhere. Shareholders will be asked to approve the appointment of Bruce Pertzelt as a replacement. Bruce is a senior geologist who has previously assisted Royalco with various due diligence assessments of Royalco's exploration interests in the Philippines. More recently Peter Lester also retired from the board, once again due to the pressure of work commitments elsewhere.

The Royalco board will then comprise two executive directors and two non-executive directors assuming shareholders approve Bruce Pertzelt's appointment. There are no plans at this stage to increase the board composition back to five directors.



Peter J Topham
Executive Chairman

The information in this report as it relates to geology, geochemical, geophysical and exploration results was compiled by Mr Joey Ayson, MAusIMM, who is a Competent Person and has in excess of 5 years experience in the minerals industry and the activities being reported on. Mr Ayson consents to the inclusion of this information in the form and context in which it appears in this report.

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")

September 2007

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	-	-
1.2 Payments for (a) exploration and evaluation	(245)	(245)
(b) development	-	-
(c) production	-	-
(d) administration	(212)	(212)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	139	139
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other (provide details if material)	(135)	(135)
Net Operating Cash Flows	(453)	(453)
Cash flows related to investing activities		
1.8 Payment for purchases of: (a)prospects	-	-
(b)equity investments	(106)	(106)
(c) other fixed assets	-	-
1.9 Proceeds from sale of: (a)prospects	-	-
(b)equity investments	88	88
(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	(18)	(18)
1.13 Total operating and investing cash flows (carried forward)	(471)	(471)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(471)	(471)
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	0	0
	Net increase (decrease) in cash held	(471)	(471)
1.20	Cash at beginning of quarter/year to date	9,041	9,041
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	8,570	8,570

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	93
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

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	450
4.2 Development	-
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	570	570
5.2 Deposits at call	-	-
5.3 Bank overdraft	-	-
5.4 Other (provide details) Bank Term Deposits	8,000	8,000
Total: cash at end of quarter (item 1.22)	8,570	8,570

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.

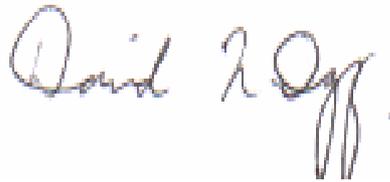
	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 Preference +securities <i>(description)</i>	-	-		
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 +Ordinary securities	56,411,200	47,172,444		
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>	2950,000 510,000	- -	Exercise price 50 cents 52 cents	Expiry date 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>	-	-		

+ See chapter 19 for defined terms.

7.12	Unsecured notes (<i>totals only</i>)		
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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 /does not* (*delete one*) give a true and fair view of the matters disclosed.



30th October 2007

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.
- 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.

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