

## September 2011 Quarterly Report

26th October 2011

### Corporate Details

ASX Code: RCO

Issued Capital: 52,714,183 shares

Share Price: 52 cents

Market Capitalisation: \$27.4 million

Cash/Liquids: \$15.8 million

### Major Shareholders:

Acorn	14.89%
Directors	19.01%
Anglo Pacific	32.98%

### Directors:

**Peter Topham** – Executive Chairman  
**David Ogg** – Executive Director  
**Bruce Pertzelt** - Director  
**Chris Orchard**- Director

Royalco Resources continues to benefit from its impressive list of producing royalty interests whilst recent developments bode well for future income from other interests within the portfolio.

### KEY POINTS

1. Royalty interest receipts continuing at approximately \$2 million per quarter.
2. The potential to create significant new royalty income with Kingsgate acquiring the Bowden's silver deposit with the intention of rapid development and the positive implications of Oceana extending its exploration efforts at Reefion.
3. A number of proposals for exploration participation in East Africa are under review.

*The Company's strategy is to expand a core royalty portfolio of income producing base and precious metals interests. This may be achieved by direct acquisition, exploration initiatives, or as a result of mezzanine/project financing activities. In addition, successful exploration activities will be maximised to the benefit of shareholders in whatever corporate format deemed appropriate.*

## ***Royalty Interests***

Royalco currently holds a total of ten royalty interests of which four produced income during the quarter. The portfolio has been the subject of considerable activity over the past few months, with the net effect being very positive for future cashflows for the Company.

The primary source of royalty income remains the ***Reefton*** royalty interest where 1250 ounces of gold was received pre New Zealand withholding tax -1062.5 ounces post the withholding tax. At prevailing gold prices and exchange rates this equates to in excess of \$6 million per annum in net royalty income.

The price at delivery for the quarter was \$1,874,250. This physical position was sold a few days later for \$1,898,794. The physical position of 1062.5 ounces from the previous quarter was also sold during the quarter realising a profit of \$21,388 over the value at the then delivery date.

Royalco is currently selling the physical gold upon receipt and is not taking any speculative positions.

The operator, Oceana Gold, has advised that substantial drilling/development programs have been commissioned on additional targets in the Reefton region. These include the Blackwater and Big River Prospects which will yield additional royalty payments to Royalco if brought into production.

Subsequent to the end of the quarter, Oceana Gold farmed out the ***Sam's Creek*** project to MOD Resources Limited. Royalco retains a royalty of 1% on this project.

A total of \$184,857 was received during the quarter from the ***Mt Garnet*** royalty interest where there is a 3% Net Smelter Return on production. The operator, Kagara Limited, has announced that despite higher grades than expected grades the Mt Garnet operations have been put on care and maintenance. Receipts from the royalty in the current quarter should be relatively unaffected (subject to spot prices and currency movements) and a further payment for the processing of residual stockpiles could be expected in the first quarter 2012. There remains significant reserves/resources at Mt Garnet and operations could be quickly reactivated at the operator's discretion given the proximity to the processing plant.

The royalty at ***Mt Kelly***, where the Hong Kong based CST Mining Group is the operator, is a 1% Net Smelter Return, capped at \$1,000,000 in total from two separate royalty areas. Income for the quarter was \$98,801.

The royalty interest on the ***Red Dam*** tenements, (where the operator is a privately owned German group, Deutsche Rohstoff Australia Pty Ltd) generated income of \$36,049 to Royalco for the period. The royalty interest is calculated at \$10 per ounce on the first 10,000 ounces of gold produced and a 1.5% overriding royalty on production thereafter. Overall production is scheduled at comparatively minor levels at this stage.

The **Bowden's** royalty interest came into focus during the quarter with the sale of the underlying tenements to Kingsgate Consolidated Limited for a consideration of \$75 million. In various presentations subsequent to the announcement of the acquisition Kingsgate has expressed a desire to commence production by 2014.

Once achieved this royalty interest, (which commences at a 2% net smelter return until US\$5 million has been received then reverts to a 1% net smelter return for the life of the mine), has the ability to underpin Royalco's royalty income for many years to come.

## ***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 any discovery made.*

*Exploration activities to date have concentrated in the **Philippines**. Prospects identified in **Ethiopia** and other countries in East Africa are now being evaluated.*

### **Philippines Projects:-**

#### **Yabbi (Gold/Copper) 100%**

Trenching in the Phase 1 area is ongoing at various sites within the Lintukan region on a number of auriferous quartz veined breccias. No results have been generated as yet which merit drilling on any one specific vein target identified.

Approvals for exploration on Phase 3 are being advanced. This region is to the east of Phase 1 and potentially lies on structural trends with the potential for the generation of more substantial targets.

#### **Pao (Gold/Copper) 100%**

The project remains on care and maintenance status with ongoing discussions underway with the Mines & Geosciences Bureau (MGB) regional office over plans to restart the project.

#### **Conwap (Gold/Copper) 100%**

Administrative requirements to convert the existing FTA application licence to an Exploration Permit are ongoing.

Once completed Royalco will hold a dominant and strategic tenement position on major interpreted structures in a corridor south east of Oceana Gold's Didipio Project.

#### **Gambang (Copper) Subject to Vale Option to Purchase**

Assay results are still awaited from Vale on the most recent drilling program.

Interference from non resident protestors has delayed access to drilling on the main Cableway Prospect in the near term.

East Africa:-

Royalco has established a presence in East Africa, based in Ethiopia.

Royalco has executed a Memorandum of Understanding, with a local Ethiopian entity, encompassing exploration licence applications and prospecting licence applications located in Western Ethiopia, in the Kilaj region. The expenditure commitment in this instance is for US\$750,000 to earn an 80% interest.

The merit of this area is under evaluation as are other regional opportunities.

## *Corporate*

A fully franked dividend of 2 cents per share was paid in September.



Peter J Topham  
Executive Chairman



**Typhoon Damage At Bridge Crossing Into Yabbi Tenement**

# Appendix 5B

## Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001, 01/06/10.

Name of entity

Royalco Resources Ltd

ABN

53 096 321 532

Quarter ended ("current quarter")

September 2011

### Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (3months) \$A'000
1.1 Receipts from product sales and related debtors *	2,194 #	2,194
1.2 Payments for (a) exploration & evaluation	(254)	(254)
(b) development	-	-
(c) production	-	-
(d) administration	(283)	(283)
1.3 Dividends received		
1.4 Interest and other items of a similar nature received	271	271
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	(271)	(271)
1.7 Other (provide details if material)	(27)	(27)
<b>Net Operating Cash Flows</b>	<b>1,630</b>	<b>1,630</b>
<b>Cash flows related to investing activities</b>		
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	1,589 (1)	1,589
(c) other fixed assets	-	-
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other (provide details if material)	-	-
<b>Net investing cash flows</b>	<b>1,589</b>	<b>1,589</b>
1.13 Total operating and investing cash flows (carried forward)	3,219	3,219

\* Royalties received.

# Item includes gold received directly as royalty income valued at \$1.874 million on date of receipt and subsequently sold during the quarter.

(1) Includes sale of gold on hand of \$1.544million.

**Appendix 5B**  
**Mining exploration entity quarterly report**

1.13	Total operating and investing cash flows (brought forward)	3,219	3,219
	<b>Cash flows related to financing activities</b>		
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 *	(1,054)	(1,054)
1.19	Other (provide details if material)	-	-
	<b>Net financing cash flows</b>	(1,054)	(1,054)
	<b>Net increase (decrease) in cash held</b>	2,165	2,165
1.20	Cash at beginning of quarter/year to date	13,663	13,663
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	<b>Cash at end of quarter</b>	15,828	15,828

\* Dividend of 2c per share (fully franked) paid 05/09/2011.

**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	172
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

**Financing facilities available**

*Add notes as necessary for an understanding of the position.*

+ See chapter 19 for defined terms.

**Appendix 5B**  
**Mining exploration entity quarterly report**

	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	293
4.2 Development	-
4.3 Production	-
4.4 Administration	248
<b>Total</b>	<b>541</b>

**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	644	686
5.2 Deposits at call	10,177	296
5.3 Bank overdraft	-	-
5.4 Other (provide details) Bank term deposits	5,007	12,681
<b>Total: cash at end of quarter</b> (item 1.22)	<b>15,828</b>	<b>13,663</b>

**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 <b>Preference +securities</b> <i>(description)</i>				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 <b>+Ordinary securities</b>	52,714,183	52,714,183	40 cents	40 cents
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	-	-	-	-
7.5 <b>+Convertible debt securities</b> <i>(description)</i>	-	-	-	-
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 <b>Options</b> <i>(description and conversion factor)</i>	-	-	<i>Exercise price</i> -	<i>Expiry date</i> -
7.8 Issued during quarter	-	-	-	-
7.9 Exercised during quarter	-	-	-	-
7.10 Expired during quarter	-	-	-	-
7.11 <b>Debentures</b> <i>(totals only)</i>				
7.12 <b>Unsecured notes</b> <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.



October, 2011

Sign here: ..... Date: .....  
(Director/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.

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