

September 2013 Quarterly Report

25 October 2013

The timely acquisition of an interest in the Weeks Petroleum Royalty should underpin cash flow for Royalco Resources for many years to come while other activities are progressed.

KEY POINTS

- ROYALTIES:** The first payment from the recently acquired interest in the Weeks Petroleum Royalty was received during the quarter. The outlook looks extremely positive for this interest with rising gas prices and the exceptionally long projected life of production.

Good progress continues on the Blackwater and the Sam's Creek Projects in New Zealand.

- EXPLORATION:** Despite encouraging visual observations, assay results from Pao failed to generate any commercial intercepts.

Exploration interests in Uganda have now been converted to a royalty interest.

CORPORATE DETAILS

ASX Code: RCO

Issued Capital: 52,714,183 shares

Share Price: 32 cents

Market Capitalisation: \$16.8 million

Cash/Liquids: \$5.93 million

Major Shareholders

Acorn 14.89%

Directors 19.01%

Anglo Pacific 29.37%

Directors

Peter Topham Executive Chairman

David Ogg Executive Director

Bruce Pertzelt Director

Piers Reynolds Director

The company's strategy is to expand a core royalty portfolio of income-producing base, precious metals and energy 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 owns a one per cent interest in the ***Weeks Petroleum Royalty***, (the equivalent of a 0.025% over-riding royalty from the entire hydrocarbon production of the main Bass Strait fields). Income received during the quarter was \$153,000, representing payment for the two-month period post-acquisition on 30 April 2013.

In its operational review for the quarter ended 30 September 2013 and announced to the ASX on 22 October 2013, BHP Billiton indicated production from Bass Strait was marginally higher for the quarter than for the previous corresponding quarter. Production also included initial production from the Turrum facilities, albeit low carbon dioxide (CO₂) gas. “Additional high CO₂ gas production from the Turrum reservoir will come online with the completion of the Longford Gas Conditioning Plant in the 2016 calendar year,” the report said.

On 19 September 2013, Origin Energy Limited announced the signing of a long term agreement with the Bass Strait partners, Esso and BHP Billiton, to buy gas over nine years starting in 2014.

The interest in Australia’s premium hydrocarbon royalty, with a potential long life coupled with rising East Coast gas prices, should underpin Royalco’s income for many years to come.

At the ***Bowdens Project*** in NSW, where Kingsgate Consolidated Limited is the operator, a definitive feasibility study is now due for completion in the first half of 2014. The published resource base is 182 million ounces silver equivalent (announced to the ASX on 19 December 2012).

The Royalco royalty interest on this project starts at a 2% net smelter return until \$US5 million has been received, then reverts to a 1% net smelter return for the life of the mine.

The operator at ***Reefton*** in New Zealand, Oceana Gold, has provided an upgraded Inferred Resource estimate for the ***Blackwater Deposit*** of 600,000 high grade ounces of gold, with a prefeasibility study to be completed later in 2013. Guidance from the scoping studies for ***Blackwater*** suggested an annual production rate of 50,000 to 60,000 ounces. If achieved, and using the current spot price for gold, this would result in the receipt of 1500-1800 ounces annually, or approximately \$2.1-\$2.5 million a year payable to Royalco.

At the ***Sam’s Creek Project*** in New Zealand, where Royalco holds a 1% royalty interest, MOD Resources Limited reported on 25 June 2012 a resource of 1.02 million ounces of gold following initial drilling. MOD is earning up to an 80% interest in this project from Oceana Gold. Stage 3 drilling to infill and extend the resource base is currently under way.

Royalco has recently assigned its exploration tenement package in south-east ***Uganda*** to a member of a privately held Danish mining house, Blackstone Ichiban. Consideration for this assignment includes a 1.55% ORRI on any future metal production. No resource exists on these tenements as yet.

Regis Resources Limited is now the operator for the tenement area in New South Wales encompassing the ***LFB*** royalty interest. No activities of substance have been reported on this project, nor on the royalty interests held at ***Lyndhurst, Red Dam, Mt Garnet*** or ***Stanton***.

Exploration

The rationale 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 intention to be the operator of any mining project. Third parties would probably be introduced to develop any discovery made.

Philippines

Pao (gold/copper) 100%

Diamond drilling has recently been completed without encountering any significant mineralisation. Of the five holes in the program, the first was aimed at the copper potential of the Digyan vein system at depth, holes two and three targeted the gold potential of these veins, and the fourth and fifth holes attempted to identify the copper porphyry potential of the Manidyo prospect.

The Pao Project drilling program has demonstrated that the high-sulphidation mineralised vein system that exists at surface and in historic shallow drill holes persists at depth but is poorly (weakly) developed – vein widths are narrow and the tenor of mineralisation is low.

No economic intercepts of mineralisation have been recorded to date.

Alteration zones typical of the outer limits of mineralised porphyry copper-gold systems (propylitic and argillic) developed pervasively in high level intrusive (hypabyssal) and plutonic rocks – manifested as Andesite Porphyry and Quartz Diorite respectively – have been intersected at depth in all deep holes (PDH-04 and PDH-05 – Digyan; and PDH-07 and PDH-08 – Manidyo) and are accompanied by significant volumes of sulphides (dominated by fine grained pyrite). Magnetite, accompanied by discrete but sparsely distributed zones of hematite and goethite, also occurs in abundance within these intercepts and it remains an enigma that no specific targets have been outlined by the ground magnetic survey conducted over parts of the grid.

The 3D Inversion modelling of the IP-Resistivity data (especially chargeability) is not supported by the diamond drill hole intercepts in the Manidyo deep holes (PDH-07 and PDH-08).

It is likely a mineralised porphyry copper-gold system exists at depths greater than the company's drilling has penetrated. However, a drilling campaign to test this inference cannot be justified at this time.

Gambang (copper) 100%

Phase 1 has recently been renewed; Phase 3 renewal is awaited. Exploration activities are effectively on hold pending Phase 3 renewal.

Geohazard studies, as authorised by the MGB, are being implemented. Results from these studies may affect future exploration initiatives.

In the meantime, an assessment is being made by Pertzel Tahan & Associates as to whether an inferred resource could reasonably be estimated for the Tokla Diatreme area contained in Phase 1.

Corporate

Income from the Weeks Petroleum Royalty interest broadly matches anticipated head office and exploration costs. Royalco remains well placed to take advantage of opportunities that prevailing market conditions may present. The cash position as at 30 June was \$5.932 million.

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



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, 01/06/10.

Name of entity

Royalco Resources Ltd

ABN

53 096 321 532

Quarter ended ("current quarter")

September, 2013

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 *	154	154
1.2 Payments for (a) exploration & evaluation	(735)	(735)
(b) development	-	-
(c) production	-	-
(d) administration	(294)	(294)
1.3 Dividends received		
1.4 Interest and other items of a similar nature received	73	73
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	(23)	(23)
1.7 Other (provide details if material)	-	-
	(825)	(825)
Net Operating Cash Flows		
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	-	-
(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		
1.13 Total operating and investing cash flows (carried forward)	(825)	(825)

* Royalties received.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(825)	(825)
	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 *	(527)	(527)
1.19	Other (provide details if material)	-	-
	Net financing cash flows	(527)	(527)
	Net increase (decrease) in cash held	(1,352)	(1,352)
1.20	Cash at beginning of quarter/year to date	7,284	7,284
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	5,932	5,932

* Dividend of 1c per share (fully franked) paid 02/09/2013.

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	182
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.

Amount available \$A'000	Amount used \$A'000

+ See chapter 19 for defined terms.

3.1	Loan facilities	-	-
3.2	Credit standby arrangements	-	-

Estimated cash outflows for next quarter

		\$A'000
4.1	Exploration and evaluation	300
4.2	Development	-
4.3	Production	-
4.4	Administration	280
Total		580

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	261	581
5.2 Deposits at call	318	283
5.3 Bank overdraft	-	-
5.4 Other (provide details) Bank term deposits	5,355	6,420
Total: cash at end of quarter (item 1.22)	5,934	7,284

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	EL0963 Republic of Uganda Exploration Licences	100%	Nil
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	40 cents	40 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>	-	-	<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 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.



25th October, 2013

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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