

## March 2013 Quarterly Report

24 April 2013

Royalco Resources is continuing to emphasise exploration initiatives in the medium term while anticipated revenue from the royalty portfolio comes to fruition in subsequent periods.

### KEY POINTS

- ROYALTIES:** An interest in what is more commonly known as the Weeks Petroleum Royalty was acquired during the quarter with final settlement scheduled for 30 April, 2013.

Encouraging progress has been announced on the Blackwater and the Sam's Creek Projects in New Zealand.

A definitive feasibility study for the Bowden's Project in New South Wales is due in the second half of 2013.

- EXPLORATION:** Drilling will begin shortly on the Pao Project in the Philippines.

Three additional tenements have been granted in Uganda.

### CORPORATE DETAILS

ASX Code: RCO

Issued Capital: 52,714,183 shares

Share Price: 46 cents

Market Capitalisation: \$24.2 million

Cash/Liquids: \$16.6 million

#### Major Shareholders

Acorn 14.89%

Directors 19.01%

Anglo Pacific 31.14%

#### 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***

As announced to the ASX on 27 March, the company has entered into a binding Heads of Agreement to acquire an interest in what is commonly known as the Weeks Petroleum Royalty. Settlement of this acquisition will be completed by 30 April, 2013.

The existing royalty is administered by Oil Basins Limited (an American entity based in Bermuda) and represents a 2.5% over-riding royalty from the main production fields located in Bass Strait as operated by ExxonMobil/BHP.

Royalco has acquired a one per cent interest in this royalty, i.e. the equivalent of a 0.025% over-riding royalty from the entire hydrocarbon production of the main Bass Strait fields.

Acquisition consideration is \$8.5 million plus transaction costs.

Income from the interest has averaged \$750,000 to \$800,000 a year over the past three years.

Looking forward, the ***Weeks Royalty*** should benefit in the near term from the positive projections as to the gas price outlook and the Kipper/Tuna/Turrum development being commissioned by ExxonMobil in joint venture with BHP Billiton and Santos. In the medium term, benefits should accrue from the upgrading of the Longford Gas Conditioning Plant due in 2016.

***It is anticipated that the Weeks Royalty will generate income for more than 20 years and is considered the premium hydrocarbon royalty in Australia.***

***The acquisition of an interest in this royalty is consistent with Royalco's stated intention to spread its portfolio of interests to the energy sector when the right opportunity presents itself – and this is the right opportunity.***

The operator at ***Reefton***, 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 equate to approximately \$A2.5 million a year payable to Royalco.

On the ***Bowden's Project*** in NSW, where Kingsgate Consolidated Limited is the operator, positive news continues. The resource base of 182 million ounces of silver equivalent is currently the subject of a definitive feasibility study which is due by mid-2013.

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.

At the ***Sam's Creek Project*** in New Zealand, where Royalco holds a 1% royalty interest, MOD Resources Limited has reported a resource of 1.024 million ounces of gold. Drilling is now being planned to lift this resource target base to 1.5 million ounces.

At ***Mount Garnet*** the Administrator of the then operator, Kagara Limited, sold the tenement to a private concern, Snow Creek Mining Pty Ltd. Royalco retains a 3% net smelter return on the project. Royalco remains a creditor of Kagara for the amount of approximately \$145,000.

## ***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%**

Trenching has continued at the Manidyo Prospect while a limited geophysical program of IP and ground magnetics was conducted in the broader region.

The surveys complemented historic studies undertaken in the 1990s with results generated confirming previously identified targets worthy of drilling.

Interpretation of these results has assisted with the design of a diamond drill program of approximately 2500 metres which will shortly be implemented once ground access has been concluded.

### **Yabbe (gold/copper) 100%**

Exploration of Phase 3 will begin once NCIP approvals are in place. Priority in the short term is being given to activities on the adjoining Pao tenement.

### **Conwap (gold/copper) 100%**

Administrative requirements to convert the existing FTA application licence to an Exploration Permit are ongoing and will be advanced once Phase 3 approval at Yabbe has been finalised.

*The above three tenements in Nueva Viscaya will provide Royalco Resources with a dominant and strategic tenement position on major interpreted structures in a corridor south-west of Oceana Gold's Didipio Project.*

### **Gambang (copper) 100%**

Discussions with third parties interested in potential joint ventures on this region have been suspended until renewal of the various exploration phases has been confirmed by the Mines and Geosciences Bureau.

## ***Uganda***

Royalco has received approval for three additional tenements in Uganda while a further three are pending.

Geochemical sampling is in progress on these additional areas. Despite unseasonal rain this program should be completed by the end of June.

These tenement areas encompass prospective Nyanzian Greenstones in south-east Uganda, flanked in part by younger intrusives. This terrain is considered prospective for Archean orogenic-style gold mineralisation similar to that found in Kenya, to the east, and at operating mines in the Lake Victoria Goldfields in Tanzania on the south-western side of Lake Victoria.

## ***Corporate***

A fully franked dividend of 2 cents per share was paid to shareholders in February.

The company retains a healthy franking credit balance and further fully franked dividends are anticipated. The amount may vary according to the company's prevailing financial commitments.

The strength of the company's financial position leaves it well placed to take advantage of any opportunities presented in the current market conditions. The cash position as at 31 March was \$16.6 million. Settlement of the Weeks Petroleum interest will entail outgoings of \$8.5 million plus transaction costs.

***The information in this report as it relates to geology, geochemical, geophysical and exploration results was compiled by Mr. Bruce Pertzelt 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. Pertzelt 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")

March, 2013

### Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (9months) \$A'000
1.1 Receipts from product sales and related debtors *	43	2,559
1.2 Payments for (a) exploration & evaluation	(507)	(1,324)
(b) development	-	-
(c) production	-	-
(d) administration	(313)	(824)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	220	503
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	(296)	(544)
1.7 Other (provide details if material)	-	(10)
<b>Net Operating Cash Flows</b>	<b>(853)</b>	<b>360</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of: (a) prospects	-	-
(b) equity investments	-	(412)
(c) other fixed assets	-	-
1.9 Proceeds from sale of: (a) prospects	-	-
(b) equity investments	598	948
(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>598</b>	<b>536</b>
1.13 Total operating and investing cash flows (carried forward)	(255)	896

\* Royalties received..

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

1.13	Total operating and investing cash flows (brought forward)	(255)	896
	<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)	(2,108)
1.19	Other (provide details if material)	-	-
	<b>Net financing cash flows</b>	(1,054)	(2,108)
	<b>Net increase (decrease) in cash held</b>	(1,309)	(1,212)
1.20	Cash at beginning of quarter/year to date	17,913	17,816
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	<b>Cash at end of quarter</b>	16,604	16,604

\* Dividend of 2c per share (fully franked) paid 05/03/2013.

**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	176
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	700
4.2	Development	-
4.3	Production	-
4.4	Administration	248
<b>Total</b>		<b>948</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	236	395
5.2 Deposits at call	1,462	6,117
5.3 Bank overdraft	-	-
5.4 Other (provide details) Bank term deposits	14,906	11,401
<b>Total: cash at end of quarter</b> (item 1.22)	<b>16,604</b>	<b>17,913</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	EL1077 EL1082 EL1109	Republic of Uganda Exploration Licences Nil Nil Nil	100% 100% 100%

+ 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.



Sign here: ..... Date: 24, April, 2013  
(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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