

Royalco Resources Limited

ABN 53 096 321 532

Half-year Financial Report - 31 December 2010

Royalco Resources Limited
Corporate directory
31 December 2010

Directors	Mr Peter Topham Mr David Ogg Mr Tom Eadie (resigned 23rd November 2010) Mr Bruce Pertzelt Mr Chris Orchard
Company secretary	Mr David Ogg
Registered office	Level 9 356 Collins Street Melbourne Victoria 3000
Share register	Security Transfer Registrars Pty Ltd 770 Canning Highway Applecross Western Australia 6133
Auditor	Melanie Leydin Leydin Freyer Audit Pty Ltd Chartered Accountants Suite 304 22 St Kilda Road St Kilda Victoria 3182
Stock exchange listing	Royalco Resources Limited shares are listed on the Australian Securities Exchange (ASX code: RCO)
Website address	www.royalco.com.au

Royalco Resources Limited
Directors' report
31 December 2010

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of Royalco Resources Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled for the half-year ended 31 December 2010.

Directors

The following persons were directors of Royalco Resources Limited during the whole of the financial half-year and up to the date of this report, unless otherwise stated:

Mr Peter Topham (Executive Chairman)
Mr David Ogg (Executive Director)
Mr Tom Eadie (Non Executive Director) (resigned on 23rd November 2010)
Mr Bruce Pertzelt (Non Executive Director)
Mr Chris Orchard (Non Executive Director)

Principal activities

During the financial half-year the principal continuing activities of the consolidated entity consisted of:

- management of resource based royalties
- exploration of mineral tenements in the Philippines

Review of operations

The profit for the consolidated entity after providing for income tax amounted to \$3,493,619 (31 December 2009: \$2,976,772).

Refer to the separate technical review of operations that follows this Director's report.

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the consolidated entity during the financial half-year.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on the following page.

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors



P J Topham
Executive Chairman

16 March 2011
Melbourne

Technical Review of Operations

Royalco Resources Limited has recorded a profit of \$3,493,619 (\$2,976,772 same period 2009) on revenue of \$5,144,601 (\$4,738,561 same period 2009) for the six months period ending 31st December 2010.

During the latest half year the Company expanded its exploration exposure in the Philippines whilst reviewing opportunities in other regions.

- Diamond drilling has recommenced at the Gambang tenement in the Philippines
- Preparation for drilling at the Yabbe tenement, also in the Philippines, is being advanced with additional geochemical soil sampling and trenching underway.

At Gambang, Vale has mobilised two rigs and have advised that diamond drilling has been completed on the low priority Manga Prospect and with potential extensions to the Eastern Brecchia mineralized zone currently being targeted. This is scheduled to be followed by drilling at the Cableway Prospect. Further extensions to the Tokla Prospect may also be investigated. The current programme involves approximately 12,000 metres of drilling.

At Yabbe, trenching has now commenced in the first phase area following detailed geochemical soil sampling which identified anomalous gold grades. Approvals are now being sought for the second phase exploration area in the tenement.

The core business of Royalco remains its core portfolio of royalty interests of which two produced income during the half year. The number of producing royalties is anticipated to increase to four over coming months.

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 half year continued at 2500 ounces pre New Zealand withholding tax (2125 ounces post the withholding tax). At prevailing gold prices and exchange rates this equates to approximately \$5.9 million per annum in net royalty income.

At **Mt Garnet** there is a 3% Net Smelter Return on production from the original Mt Garnet tenements. A total of \$708,604 accrued during the half year.

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. The first copper production from **Mt Kelly**, since redevelopment, has been being sold with revenue and royalty payments expected this quarter. The new operator is the Hong Kong based company, CST Mining Group.

On the royalty interest on the **Dagworth & Huonfels** tenements, (where the operator is a privately owned German group, Deutsche Rohstoff Australia Pty Ltd), ore is currently being stockpiled prior to transfer to a central processing facility. Dverse weather conditions in the Georgetown region have delayed when the first gold will be recovered. The royalty is calculated at \$10 per ounce on the first 10,000 ounces of gold produced and a 1.5% over riding royalty on production thereafter. Production is scheduled at comparatively minor levels at this stage.

The review of other royalty interests is a continuous process though none are at an advanced level of negotiation at this point in time.

A maiden dividend, 2 cents per share fully franked, was paid subsequent to the end of the half year. It is anticipated that further payments of dividends will be made on a bi-annual basis, subject to underlying profitability and other relevant financial considerations.

AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

To the Directors of Royalco Resources Limited:

I declare that to the best of my knowledge and belief, in relation to the Independent Half-year Auditor's Review for the half-year ending 31 December 2010, there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the review.



MELANIE J LEYDIN
Registered Company Auditor
Registration: 212298

Dated: 16 March 2011

Royalco Resources Limited
Financial report
For the half-year ended 31 December 2010

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General information

The financial report covers Royalco Resources Limited as a consolidated entity consisting of Royalco Resources Limited and the entities it controlled. The financial report is presented in Australian dollars, which is Royalco Resources Limited's functional and presentation currency.

The financial report consists of the financial statements, notes to the financial statements and the directors' declaration.

Royalco Resources Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 9
356 Collins Street
Melbourne
Victoria 3000

A description of the nature of the consolidated entity's operations and its principal activities are included in the directors' report, which is not part of the financial report.

The financial report was authorised for issue, in accordance with a resolution of directors, on 16 March 2011. The directors have the power to amend and reissue the financial report.

Royalco Resources Limited
Statement of comprehensive income
For the half-year ended 31 December 2010

	Note	Consolidated	
		31/12/10	31/12/09
		\$	\$
Revenue	3	5,144,601	4,738,561
Expenses			
Cost of royalty		(35,474)	(33,573)
Administrative expenses		(367,225)	(293,225)
Employee benefits expense		(302,734)	(280,236)
Depreciation and amortisation expense		(20,333)	(6,273)
Exploration expenditure written off		<u>(17,973)</u>	<u>(3,920)</u>
Profit before income tax expense		4,400,862	4,121,334
Income tax expense		<u>(907,243)</u>	<u>(1,144,562)</u>
Profit after income tax expense for the half-year attributable to the owners of Royalco Resources Limited		3,493,619	2,976,772
Other comprehensive income			
Foreign currency translation		<u>473,978</u>	<u>(375,809)</u>
Other comprehensive income for the half-year, net of tax		<u>473,978</u>	<u>(375,809)</u>
Total comprehensive income for the half-year attributable to the owners of Royalco Resources Limited		<u><u>3,967,597</u></u>	<u><u>2,600,963</u></u>
		Cents	Cents
Basic earnings per share		6.63	5.65
Diluted earnings per share		6.21	5.29

The above statement of comprehensive income should be read in conjunction with the accompanying notes

Royalco Resources Limited
Statement of financial position
As at 31 December 2010

	Consolidated	
	31/12/10	30/06/10
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	12,160,878	7,112,774
Trade and other receivables	1,383,357	980,084
Other financial assets	1,618,283	4,228,567
Other	1,815	4,803
Total current assets	<u>15,164,333</u>	<u>12,326,228</u>
Non-current assets		
Receivables	390,370	316,713
Property, plant and equipment	19,924	37,414
Intangibles	548,552	583,738
Exploration and evaluation	3,687,938	2,840,605
Deferred tax	85,120	69,235
Other	76,121	76,121
Total non-current assets	<u>4,808,025</u>	<u>3,923,826</u>
Total assets	<u>19,972,358</u>	<u>16,250,054</u>
Liabilities		
Current liabilities		
Trade and other payables	25,356	655,936
Income tax	1,325,666	960,107
Employee benefits	159,023	142,070
Total current liabilities	<u>1,510,045</u>	<u>1,758,113</u>
Non-current liabilities		
Deferred tax	607,870	648,178
Employee benefits	236,716	196,633
Total non-current liabilities	<u>844,586</u>	<u>844,811</u>
Total liabilities	<u>2,354,631</u>	<u>2,602,924</u>
Net assets	<u>17,617,727</u>	<u>13,647,130</u>
Equity		
Contributed equity	12,321,611	12,321,611
Reserves	723,247	246,269
Retained profits	4,572,869	1,079,250
Total equity	<u>17,617,727</u>	<u>13,647,130</u>

The above statement of financial position should be read in conjunction with the accompanying notes

Royalco Resources Limited
Statement of changes in equity
For the half-year ended 31 December 2010

	Contributed equity \$	Reserves \$	Retained profits \$	Total equity \$
Consolidated				
Balance at 1 July 2009	17,593,031	45,054	(1,840,716)	15,797,369
Other comprehensive income for the half-year, net of tax	-	(375,809)	-	(375,809)
Profit after income tax expense for the half-year	-	-	<u>2,976,772</u>	<u>2,976,772</u>
Total comprehensive income for the half-year	<u>-</u>	<u>(375,809)</u>	<u>2,976,772</u>	<u>2,600,963</u>
Balance at 31 December 2009	<u>17,593,031</u>	<u>(330,755)</u>	<u>1,136,056</u>	<u>18,398,332</u>
	Contributed equity \$	Reserves \$	Retained profits \$	Total equity \$
Consolidated				
Balance at 1 July 2010	12,321,611	249,269	1,079,250	13,650,130
Other comprehensive income for the half-year, net of tax	-	473,978	-	473,978
Profit after income tax expense for the half-year	-	-	<u>3,493,619</u>	<u>3,493,619</u>
Total comprehensive income for the half-year	<u>-</u>	<u>473,978</u>	<u>3,493,619</u>	<u>3,967,597</u>
Balance at 31 December 2010	<u>12,321,611</u>	<u>723,247</u>	<u>4,572,869</u>	<u>17,617,727</u>

The above statement of changes in equity should be read in conjunction with the accompanying notes

Royalco Resources Limited
Statement of cash flows
For the half-year ended 31 December 2010

	Note	Consolidated	
		31/12/10 \$	31/12/09 \$
Cash flows from operating activities			
Payments to suppliers (inclusive of GST)		(576,806)	(600,339)
Interest received		218,678	106,702
Royalty received		516,247	215,796
Income taxes paid		<u>(597,976)</u>	<u>-</u>
Net cash used in operating activities		<u>(439,857)</u>	<u>(277,841)</u>
Cash flows from investing activities			
Payments for exploration and evaluation		(375,553)	(533,644)
Proceeds from sale of financial assets		<u>5,863,514</u>	<u>4,782,369</u>
Net cash from investing activities		<u>5,487,961</u>	<u>4,248,725</u>
Cash flows from financing activities			
Net cash from financing activities		<u>-</u>	<u>-</u>
Net increase in cash and cash equivalents		5,048,104	3,970,884
Cash and cash equivalents at the beginning of the financial half-year		<u>7,112,774</u>	<u>7,311,056</u>
Cash and cash equivalents at the end of the financial half-year		<u><u>12,160,878</u></u>	<u><u>11,281,940</u></u>

The above statement of cash flows should be read in conjunction with the accompanying notes

Royalco Resources Limited
Notes to the financial statements
31 December 2010

Note 1. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 31 December 2010 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2010 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

New, revised or amending Accounting Standards and Interpretations adopted

The consolidated entity has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Any significant impact on the accounting policies of the consolidated entity from the adoption of these Accounting Standards and Interpretations are disclosed in the relevant accounting policy.

Note 2. Operating segments

Identification of reportable operating segments

The consolidated entity is organised into two operating segments: royalty and exploration. These operating segments are based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources. There is no aggregation of operating segments.

The CODM reviews both adjusted earnings before interest, tax, depreciation and amortisation (segment result) and profit before income tax.

The information reported to the CODM is on at least a monthly basis.

Types of products and services

The principal products and services of each of the two operating segments are as follows:

Royalty	Management of resource based royalties
Exploration	exploration of mineral tenements in the Philippines

Royalco Resources Limited
Notes to the financial statements
31 December 2010

Note 2. Operating segments (continued)

Operating segment information

	Royalties	Exploration	Intersegment eliminations/ unallocated	Consolidated
31/12/10	\$	\$	\$	\$
Revenue				
Sales to external customers	4,791,903	-	-	4,791,903
Total sales revenue	4,791,903	-	-	4,791,903
Other income	-	-	352,698	352,698
Total revenue	4,791,903	-	352,698	5,144,601
Segment result				
Depreciation and amortisation	4,791,903	(78,761)	(483,712)	4,229,430
Interest revenue	-	(19,073)	(1,260)	(20,333)
Exploration expenditure written off	-	-	245,212	245,212
Cost of royalty	-	(17,973)	-	(17,973)
Profit/(loss) before income tax expense	(35,474)	-	-	(35,474)
Income tax expense	4,756,429	(115,807)	(239,760)	4,400,862
Profit after income tax expense				3,493,619
Assets				
Segment assets	15,679,699	4,292,659	-	19,972,358
Total assets				19,972,358
Liabilities				
Segment liabilities	-	-	2,354,631	2,354,631
Total liabilities				2,354,631

Royalco Resources Limited
Notes to the financial statements
31 December 2010

Note 2. Operating segments (continued)

	Royalty	Exploration	Intersegment eliminations/ unallocated	Consolidated
31/12/09	\$	\$	\$	\$
Revenue				
Sales to external customers	4,265,251	-	-	4,265,251
Total sales revenue	4,265,251	-	-	4,265,251
Other income	-	-	473,310	473,310
Total revenue	4,265,251	-	473,310	4,738,561
Segment result				
Depreciation and amortisation	-	(6,273)	-	(6,273)
Interest revenue	-	-	98,265	98,265
Exploration expenditure written off	-	(3,920)	-	(3,920)
Cost of royalty	(33,474)	-	-	(33,474)
Profit/(loss) before income tax expense	4,231,777	(69,051)	(41,392)	4,121,334
Income tax expense				(1,144,562)
Profit after income tax expense				2,976,772
30/06/10				
Assets				
Segment assets	12,957,881	3,292,173	-	16,250,054
Total assets				16,250,054
Liabilities				
Segment liabilities	-	572,421	2,030,503	2,602,924
Total liabilities				2,602,924

Note 3. Revenue

	Consolidated	
	31/12/10	31/12/09
	\$	\$
<i>Sales revenue</i>		
Royalty	4,203,864	4,265,251
<i>Other revenue</i>		
Interest	245,212	98,265
Joint venture option fee	588,039	-
Net fair value gain (loss) on available-for-sale assets	(45,368)	-
Profit on sale of financial assets	152,854	375,045
	940,737	473,310
Revenue	5,144,601	4,738,561

Royalco Resources Limited
Notes to the financial statements
31 December 2010

Note 4. Equity - dividends

There were no dividends paid during the current or previous financial half-year.

Note 5. Contingent liabilities

There were no contingent liabilities in existence at 31 December 2010.

Note 6. Commitments for expenditure

There has been no material change in the Group's commitments since the last reporting period.

Note 7. Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1:

Name of entity	Country of incorporation	Equity holding	
		31/12/10 %	30/06/10 %
Royalco Philippines Inc	Philippines	100.00	100.00
Ginto Minerals Pty Ltd	Australia	100.00	100.00
Royalco Resources (No1) Pty Ltd	Australia	100.00	100.00
Royalco Resources Cambodia Ltd	Cambodia	100.00	100.00

Note 8. Events occurring after the reporting date

No matter or circumstance has arisen since 31 December 2010 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Royalco Resources Limited
Directors' declaration

In the directors' opinion:

- the attached financial statements and notes thereto comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes thereto give a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the financial half-year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 303(5) of the Corporations Act 2001.

On behalf of the directors



P J Topham
Executive Chairman

16 March 2011
Melbourne

INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF ROYALCO RESOURCES LIMITED

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Royalco Resources Limited, which comprises the statement of financial position as at 31 December 2010, and the statement of comprehensive income, statement of changes in equity, statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration of the company at the end of the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matters that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Royalco Resources Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express audit opinion.

Auditor's Independence Declaration

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Royalco Resources Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Yours faithfully,



MELANIE J LEYDIN
Registered Company Auditor
Registration: 212298

Dated: 16 March 2011