

## September 2010 Quarterly Report

25th October 2010

### Corporate Details

ASX Code: RCO

Issued Capital: 52,714,183 Shares

2,950,000 Options @ 40c, 31/3/2011 (Unlisted)

510,000 Options @ 42c, 31/3/2011 (Unlisted)

150,000 Options @ 70c, 31/3/2011 (Unlisted)

Share Price: 41.5 cents

Market Capitalisation: \$21.9 million

Cash Balance: \$8.74 million

Gold on Deposit: 2562.5 ounces

### Major Shareholders:

Oz Minerals 18.97%

Directors 19.01%

Anglo Pacific 31.11%

### Directors:

Peter Topham – Executive Chairman

David Ogg – Executive Director

Tom Eadie – Non executive Director

Bruce Pertzelt - Non executive Director

Chris Orchard- Non executive Director

### KEY POINTS

#### 1. Strong cash flow continues

Physical gold (1062.5 ounces post New Zealand withholding tax) was received during the quarter from the Reefton gold project in New Zealand.

Additional payments were received from Mt Garnet whilst contributions from Mt Kelly and Dagworth are anticipated in coming months.

Royalco's cash/liquids position remains strong at approximately \$12.2 million. This includes cash on deposit and the gold holding at a spot price of \$1350 per ounce.

#### 2. Dividend Implementation

*As per previous guidance, Royalco will commence payment of dividends once such payments can be deemed fully franked. This status should be achieved this quarter with dividends to commence first quarter 2011. The indicative return is 2 cents per share, distributed on a six monthly basis, i.e 4 cents per annum. Further announcements on these details and relevant dates will be provided to the ASX in due course.*

#### 3. Exploration to accelerate in coming months

*At the Yabbe tenement located in Nueva Viscaya, the Philippines, a detailed soil sampling programme is underway whilst diamond drill rigs are being mobilised to the Manga Prospect within the Gambang tenement (Benguet Province). The drilling is being undertaken by Vale under the terms of the previously announced agreement.*

***The Company's strategy is to build a core royalty portfolio of income producing base and precious metals interests. This will be achieved by direct acquisition, exploration initiatives, or as a result of mezzanine/project financing activities.***

### ***Royalty Interests***

Royalco currently holds a total of ten royalty interests of which two produced income during the quarter. 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 September quarter was 1250 ounces pre New Zealand withholding tax (1062.5 ounces post the withholding tax). At prevailing gold prices and exchange rates this equates to approximately \$5.5 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 \$258,000 was received during the quarter.

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.

Subsequent to the acquisition by the Hong Kong based company, CST Mining Group, the ***Mt Kelly*** operations are in redevelopment with ore being stockpiled on the leach pads. Subject to satisfactory irrigation and copper recovery, royalty payments are expected to recommence next quarter.

The royalty interest on the ***Dagworth & Huonfels*** tenements, (where the operator is a privately owned German group, Deutsche Rohstoff Australia Pty Ltd) and the project is more commonly known as Red Dam. Commissioning is scheduled to be completed in December. A milestone payment on first production of \$100,000 is applicable on this interest as well as \$10 per ounce on the first 10,000 ounces of gold produced and a 1.5% over riding royalty on production thereafter.

No activities of substance have been advised on the Company's other royalty interests whilst the review of other royalty opportunities remains an ongoing priority.

### ***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 and mine any discovery made.*

*Exploration activities to date have concentrated in the **Philippines**. Prospects in other countries are now being advanced. A review of opportunities in **Cambodia** has been completed and whilst there are some areas of interest there are no immediate opportunities at this point in time.*

(i) ***Gambang (Copper) Philippines***

Vale has advised that diamond drilling is scheduled to commence once minor ground access issues have been rectified following the recent typhoon occurrence.

(ii) ***Yabbe (Gold) Philippines***

The **Yabbe** tenement application has now been approved with geochemical sampling due to commence this month. The immediate objective is to generate prospects to drill ready status by first quarter 2011.

***Corporate***

The Board of Royalco Resources has declared a maiden dividend of 2 cents per share to be paid in the first quarter of 2011. Specific books closing and payment dates will be advised to the ASX in due course. Further payments of dividends are anticipated to be paid on a bi-annual basis, subject to underlying profitability and other relevant financial considerations.

The Board also wishes to advise the retirement from the Board of Mr Tom Eadie. This resignation takes effect from the forthcoming Annual General meeting. The Board acknowledges Mr Eadie's contribution to the company since his original appointment in 2006.

A return of 10 cents per share was completed by the end of the June quarter. A ruling from the ATO as to the tax status of this return is overdue.



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 2010

### Consolidated statement of cash flows

<b>Cash flows related to operating activities</b>	Current quarter \$A'000	Year to date (3 months) \$A'000
1.1 Receipts from product sales and related debtors *	1,683 #	1,683
1.2 Payments for (a) exploration & evaluation	(73)	(73)
(b) development	-	-
(c) production	-	-
(d) administration	(263)	(263)
1.3 Dividends received		
1.4 Interest and other items of a similar nature received	92	92
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other (provide details if material)	(34)	(34)
<b>Net Operating Cash Flows</b>	<b>1,405</b>	<b>1,405</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	20	20
(c) other fixed assets	-	-
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other (provide details if material)	(1,448) #	(1,448)
<b>Net investing cash flows</b>	<b>(1,428)</b>	<b>(1,428)</b>
1.13 Total operating and investing cash flows (carried forward)	(23)	(23)

\* Royalties received.

# Item includes gold received directly as royalty income valued at \$1.448 million on date of receipt, shown also as "other" under investing activities as this gold is still on hand at the end of the quarter. Total gold on hand at the end of the quarter was 2562.5 ounces, with a value at that date of \$3.464 million.

+ See chapter 19 for defined terms.

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

1.13	Total operating and investing cash flows (brought forward)	(23)	(23)
	<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	-	-
1.19	Other (provide details if material) *	-	-
	<b>Net financing cash flows</b>	-	-
	<b>Net increase (decrease) in cash held</b>	(23)	(23)
1.20	Cash at beginning of quarter/year to date	8,764	8,764
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	<b>Cash at end of quarter</b>	<b>8,741</b>	<b>8,741</b>

\* capital return of 10c per share paid 28/06/2010.

**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	159
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	145
4.2 Development	-
4.3 Production	-
4.4 Administration	240
<b>Total</b>	<b>385</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	233	214
5.2 Deposits at call	368	1,689
5.3 Bank overdraft	-	-
5.4 Other (provide details) Bank term deposits	8,140	4,971
Receivable (Perth Mint) due 2/7/2010	-	1,890
<b>Total: cash at end of quarter</b> (item 1.22)	<b>8,741</b>	<b>8,764</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>	2,950,000 510,000 150,000	- - -	<i>Exercise price</i> 40 cents 42 cents 70 cents	<i>Expiry date</i> 31 march 2011 31 march 2011 31 march 2011
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 /does not\* (*delete one*) give a true and fair view of the matters disclosed.



26 October 2010

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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