

September 2012 Quarterly Report

30 October 2012

Activities for the September quarter were again cash flow positive, as the company stepped up exploration initiatives with a view to expanding the royalty portfolio in the medium term.

KEY POINTS

1. Royalty income for the quarter was \$2.516 million.
2. Although royalty income from existing royalty agreements has ceased for the balance of the current financial year, significant future royalty income should be derived from extensions to the Reefton Project in New Zealand and the development of the Bowdens Project in New South Wales, based on recent reports from the operators of those projects.
3. Exploration – East Africa: Six additional tenements have been applied for in Uganda.
4. Exploration – Philippines: Trenching and soil sampling is ongoing at the Pao Project. Ground geophysics to be conducted shortly.

CORPORATE DETAILS

ASX Code: RCO

Issued Capital: 52,714,183 shares

Share Price: 50 cents

Market Capitalisation: \$26.3 million

Cash/Liquids: \$18.592 million

Major Shareholders

Acorn 14.89%

Directors 19.01%

Anglo Pacific 34.11%

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 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 is deemed appropriate.

Royalty Interests

Two of the 10 royalty interests held produced income during the quarter – Reefton in New Zealand and Mt Kelly in NSW.

Reefton remains the primary source of royalty income. 1750 ounces of gold were received before New Zealand withholding tax, or 1487.5 ounces after withholding tax. This quantity reflects the royalty for the quarter plus an additional 500 ounces in settlement of historic legal agreements.

The price at delivery for the quarter was \$A1652 per ounce for a total of \$2.458 million.

All physical gold holdings were liquidated during the period.

The first portion of this three-part royalty agreement should have been reached during the September quarter (initial production of 400,000 ounces from Globe Progress Mining Title). Royalco is looking forward to receiving significant royalties under the second portion of the agreement.

The operator at Reefton, Oceana Gold, continues to provide encouraging updates to exploration activities on additional prospects in the Reefton region which cover the second portion of the royalty agreement. These include the Blackwater prospect which will yield additional royalty payments to Royalco once brought into production.

Scoping studies for Blackwater suggest an annual production rate of 50,000 to 60,000 ounces a year. If achieved, and using the current spot price for gold, this would equate to approximately \$A2.5 to 3 million a year payable to Royalco.

Oceana Gold made an announcement to the ASX on 25 October 2012 highlighting recent drill results from Blackwater and the current status of the project.

At **Mt Kelly**, where the Hong Kong based CST Mining Group is the operator, the royalty is a 1% net smelter return, capped at \$1,000,000 in total from two separate royalty areas. Income for the quarter was \$58,000 and the royalty ceiling has now been satisfied with no future royalties payable.

On the **Bowdens** Project in NSW, Kingsgate Consolidated Limited has provided further positive information to the ASX. A bankable feasibility study is due for release in the December quarter.

The Royalco royalty interest on this project starts 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.

As the operator announced to the ASX on 16 October 2012, the resource for this project currently stands at 58.2 million tonnes at 52.9g/t silver, 0.3 per cent lead and 0.4 per cent zinc. An updated resource estimate is due this current quarter following 11,000 metres of drilling.

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 1.024 million ounces of

gold following the first stage of drilling. A second stage is under way. MOD is earning up to an 80% interest in this project.

In summary Royalco anticipates no further royalty receipts of significance in the current financial year, but expects royalty receipts to recommence in the following financial year.

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.

Exploration activities are now being undertaken in both the ***Philippines*** and ***East Africa***. Both regions offer significant prospectivity and satisfactory risk/reward scenarios versus sovereign risk assessments. The Philippines is more mature in terms of the quantity of exploration and, given its recognised high potential for fresh discoveries, remains of strong commercial interest. East Africa on the other hand has had little modern exploration but, despite this lack of technical support, has generated a number of substantial discoveries in the past few decades.

Philippines

Pao (gold/copper) 100%

Access was re-established to the Manidyo-Digyan region of the concession during the quarter and exploration recommenced with additional soil sampling and trenching. A total of 420 metres of contour trenching has been completed (Trench 1) and another 400 metres is planned in a separate (higher elevation) contour trench (Trench 2). The trenching is investigating bedrock in a north-easterly trending structural corridor between the Manidyo and Digyan mineralised enargite vein occurrences with a view to planning a drilling program.

Three anomalous gold (Au) mineralised zones have been encountered in Trench 1. A zone of altered volcanics averages 0.15g/t Au over 18 metres* and another zone – 36 metres further south – averages 0.43g/t Au over 90 metres*. A further 57 metres south, a third zone, of altered breccia, averages 0.31g/t Au over 21 metres*. Mapping and sampling of this trench have been completed but not all assay results received. The presence of additional anomalous gold mineralisation within this structural corridor is encouraging.

Exploration in the early 1990s generated broad anomalous gold mineralised zones from trench sampling (38 metres – estimated true width 25 metres – at 3.48g/t Au, as a best result at Manidyo) and diamond drilling (62 metres* from 38m at 0.37g/t Au and 32 metres* from 8m at 0.50g/t Au and 1.38 metres* from 101.5m at 2.69g/t Au at Manidyo; 0.8 metres* at 6.36g/t Au in the Digyan Vein at depth). Grab rock-chip sampling of the Digyan Vein at surface – where it is reported to be up to 4 metres wide – returned 95g/t Au, 720 ppm Te (tellurium) and 13.6% Cu (copper) from a high sulphide portion. Only six historic drill holes

exist in a 1500 metre trend within the corridor between the Digyan Vein occurrence (one hole) and the Manidyo Vein occurrence (five holes).

Recent artisanal workings elsewhere within this corridor have been mapped and sampled during the quarter. Results confirm the presence of gold mineralisation in altered and brecciated rocks. Assay values from grab samples of centimetric vein material range up to 62.3g/t Au in the Digyan area and up to 11.17g/t Au north of Manidyo. Regional mapping and rock-chip sampling is ongoing.

Historic geophysical surveys (airborne magnetics and ground Induced Polarisation-Resistivity [IP-Res]) have been conducted at Pao. A follow-up modern IP-Res survey will be run in the December quarter using a closer grid spacing to investigate further the coincident IP and resistivity anomalies generated within the Manidyo-Digyan structural corridor. A ground magnetic survey will also be run over the same grid to define better the discrete magnetic highs generated by the historic airborne survey. Planning for a drilling program is well advanced.

* metres are measured as lineal metres at bedrock levels in the contour trench. Individual samples were collected over three metre intervals in continuous channels. In diamond drill intercepts metres are measured down hole. True widths of mineralised zones are not known.

Yabbe (gold/copper) 100%

Exploration in the Phase 1 area at Yabbe was completed during the quarter. Areas of anomalous gold-in-soil values were followed up with trenching of narrow discontinuous epithermal vein systems. Trenches were mapped and sampled but no significant drill targets could be generated. No further activities will be conducted on Phase 1. Exploration of the Phase 3 will begin once National Commission on Indigenous Peoples (NCIP) approvals are in place.

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-east of Oceana Gold's Didipio Project.

Gambang (copper) – subject to Vale option to purchase

The renewal process for Phases 2 and 3 has been delayed by several months, given recent Government inactivity. Approvals for the renewal of these phases may take several more months, though once completed it is anticipated Vale should be in a position to undertake drilling programs on the most advanced targets such as Cableway.

Upon exercise of the option to purchase Royalco Resources will receive \$US5 million and be entitled to a royalty ranging from 1.3 to 1.5% net smelter return.

East Africa

Royalco has continued to build up its presence in East Africa. Initial activity is focussed on Uganda.

Uganda

The company's tenement acquisition program within prospective Nyanzian Greenstones in south-east Uganda, on the north-western side of Lake Victoria, continued during the quarter with an additional area of 96 square kilometres being selected for application. Lodgement of the formal Exploration Licence application (Namayengi) occurred in October. This brings the total number of applications lodged for ground in this prospective region of Uganda to six, covering an aggregate area of 559 square kilometres.

An initial orientation program of regional geochemical sampling was completed within Royalco's granted Exploration Licence (EL) Number 0692 (Busesa) during the quarter and results have been received.

A total of 19 BLEG (Bulk Leach Extractable Gold) samples and 19 silt samples were collected in this program from 19 of the 36 sites initially selected. Excavation at three of the non-sampled sites failed to encounter active sediment and the other 14 sites were not suitable for sampling because of either the presence of swamps or rice fields. No anomalous precious metal or base metal values were reported.

The company awaits the processing of its six EL applications by the Ugandan Government, expected to be completed during the December quarter. All areas encompass Nyanzian Greenstones flanked in part by younger intrusives and are considered prospective for orogenic-style gold mineralisation similar to that found in Kenya to the east and at operating mines in the Lake Victoria Goldfield in Tanzania on the south-eastern side of Lake Victoria.

Ethiopia

The company continues to monitor exploration activities in Ethiopia but active ground acquisition remains hampered by the continuing moratorium on the acceptance of new applications for exploration concessions.

Corporate

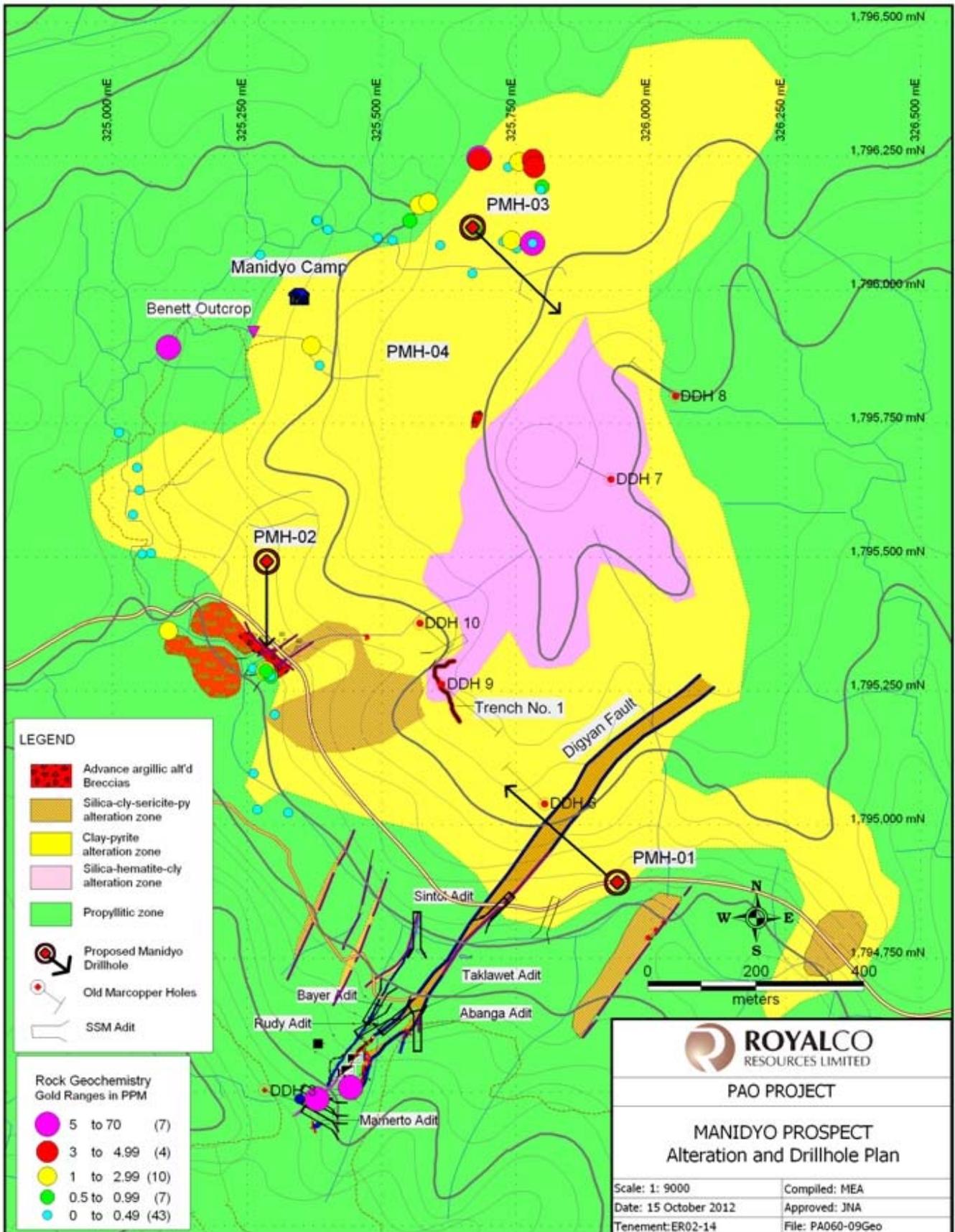
A fully franked dividend of 2 cents a share was paid in August 2012. The company retains a healthy franking credit balance and a further fully franked dividend of 2 cents a share is anticipated to be declared in the first quarter of calendar 2013.

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 information in this report as it relates to geology, geochemical, geophysical and exploration results was compiled by Mr. Bruce Pertzal 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. Pertzal 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.

A handwritten signature in black ink, appearing to read 'P. J. Topham', with a long horizontal flourish extending to the right.

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 2012

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 *	2,516 #	2,516
1.2 Payments for (a) exploration & evaluation	(383)	(383)
(b) development	-	-
(c) production	-	-
(d) administration	(249)	(249)
1.3 Dividends received		
1.4 Interest and other items of a similar nature received	188	188
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	(242)	(242)
1.7 Other (provide details if material)		
Net Operating Cash Flows	1,830	1,830
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)	1,830	1,830

* Royalties received.

Item includes gold received directly as royalty income valued at \$2.458 million and sold on date of receipt.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	1,830	1,830
	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 *	(1,054)	(1,054)
1.19	Other (provide details if material)	-	-
	Net financing cash flows	(1,054)	(1,054)
	Net increase (decrease) in cash held	776	776
1.20	Cash at beginning of quarter/year to date	17,816	17,816
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	18,592	18,592

* Dividend of 2c per share (fully franked) paid 20/08/2012.

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	191
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
Total		948

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	487	1,045
5.2 Deposits at call	12,319	15,749
5.3 Bank overdraft	-	-
5.4 Other (provide details) Bank term deposits	5,786	1,022
Total: cash at end of quarter (item 1.22)	18,592	17,816

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 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.



30 October, 2012

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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