

September 2016 Quarterly Report

21 October 2016

On the 19 October 2016, Royalco Resources Limited received an unsolicited On Market Takeover Offer from Fitzroy River Corporation Limited. Royalco shareholders are advised to take no action at this stage until a formal response has been issued by Royalco, which will include the Board's recommendation to shareholders about the Offer. This documentation is in the process of being prepared and is expected to be released to the ASX on 28 October 2016.

KEY POINTS FOR THE QUARTER

- Royalty payments received increased from \$129,047 to \$229,223 over the June quarter. The Weeks Royalty contributed \$181,073 and Mt Garnet \$48,150 as a first dividend from the liquidators of Kagara Zinc Limited.
- Weeks Royalty interest benefited from improved Bass Strait petroleum production along with record spot gas prices along the east coast of Australia.
- The upgrade of petroleum processing facilities at Longford and completion of the Tuna/Turrum/Kipper oil fields development should shortly reach fruition. These in turn have the potential to enhance future payments under the Weeks Royalty.
- The Bowdens silver project, where Royalco retains a sliding scale royalty interest, is being advanced by Silver Mines Limited.

CORPORATE DETAILS

ASX Code: RCO

Issued Capital: 52,714,183 shares

Share Price: 20 cents

Market Capitalisation: \$10.4 million

Cash/Liquids: \$2.845 million

Directors:

Peter Topham Executive Chairman & Managing Director

Bruce Pertzelt Director

Piers Reynolds Director

Substantial Shareholders:-

K. Topham, D. Ogg, Noontide Investments, Fitzroy River Corporation and High Peak Royalties.

The company's strategy is to expand a core royalty portfolio of income-producing base metals, 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 1% interest in the ***Weeks Petroleum Royalty*** (the equivalent of a 0.025% overriding royalty from the entire hydrocarbon production of the main Bass Strait fields).

Income received during the quarter (based on production in the June 2016 quarter) was \$181,073, compared with \$112,241 in the prior quarter. The outlook is for a continued improvement in returns as production increases and gas prices continue to rise.

Daily east coast gas prices, as published by the Australian Energy Market Operator, continue to be well beyond the historical norm. In addition, these record daily east coast gas prices should benefit the Exxon/BHPB joint venture in renegotiating long term contracts or delivering excess capacity into the spot market.

An announcement as to the status of the upgrade of the processing facilities at Longford is expected shortly (99% complete). This upgrade will enhance the ability to treat less pure gas resources and include the commissioning of the Kipper/Tuna/Turrum development.

The potential divestment of mature oil fields by the joint venture partners is ongoing. Such an outcome could see an acquirer seek to rejuvenate petroleum production as a priority – a course of action which does not appear of high import to the current operational plan for these areas.

In a recent investor briefing by BHP Billiton on 5 October 2016, other investment opportunities were highlighted for Bass Strait, including progressing the West Barracouta field and upgrading the Snapper field.

The ***Bowdens Project*** near Mudgee in New South Wales has been acquired by Silver Mines Limited (ASX code: SVL) for a consideration of \$25 million. The new operator has begun additional infill drilling with a view to completing pre-feasibility studies by the end of this year. The Environmental Impact Study is targeted to be lodged in the first half of 2017 at which time a Definitive Feasibility Study is also due for delivery.

This timetable suggests requisite mining leases could be advanced later in 2017 with a potential development timetable in 2018.

Royalco retains a sliding scale royalty over the project, starting at a 2% net smelter return until US\$5 million has been received, then a 1% net smelter return thereafter.

At ***Mt Garnet*** in far north Queensland, the operators, Snow Peak Mining Pty Ltd and Consolidated Tin Mines (ASX code: CSD), were placed in voluntary administration on 19 July 2016.

Outstanding invoices from Royalco for May and June total \$94,145. Future payments on existing concentrate movements amount to approximately \$200,000, post the appointment of the administrator, and are in the process of being invoiced.

On a brighter note for the ***Mt Garnet*** interest, the liquidators of Kagara Zinc Limited paid the first 'dividend' from this liquidation process of \$48,149.64, being 30 cents in the dollar. No guidance as to future dividends has been provided.

The ***Blackwater Project*** at Reefton in New Zealand, where Royalco retains a significant royalty interest, is one of the highest grade undeveloped gold resources in this current market. As previously mentioned, the operator, OceanaGold (ASX code: OGC), appears to have priorities elsewhere on other more pressing issues. It remains our understanding that the operator has received a number of inquiries from third parties interested in acquiring the project.

The operator at ***Sam's Creek*** (NZ), MOD Resources (ASX Code: MOD), announced during the March quarter that it had appointed PCF Capital to divest part, or all, of MOD's 80 per cent interest in the project. No further announcements in this regard have been observed.

No activities of substance have been reported during the quarter on the other royalty interests.

In regard to book values of the portfolio of royalty interests, the Weeks Royalty has a carrying value of \$7,154,167 as at 30 June, 2016, Bowdens \$23,695, and the rest, including Blackwater and Mt Garnet, have previously been written down to nil.

Exploration

No exploration was undertaken during the quarter and no commitments have been entered into. The review process remains ongoing.

Corporate

Malcolm McComas

Appointed as a director of Royalco on 1 January 2016, Mr McComas resigned from the board of directors with effect from 14 October 2016.

Finance

The company's cash balance at the end of June was \$2.845 million after the payment of a fully franked dividend of 0.5 cents per share.

Royalco continues to retain a solid balance sheet and remains debt free.

General

Royalco continues to review opportunities and any future investment will be made on an appropriate basis.

During the quarter a number of royalty opportunities were assessed in precious and base metals as well as in petroleum projects. One opportunity in particular is now the subject of additional due diligence and, if it proves suitable, should be completed by year end.



Peter J Topham
Executive Chairman & Managing Director

Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10, 01/05/13, 01/09/16

Name of entity

Royalco Resources Limited

ABN

53 096 321 532

Quarter ended ("current quarter")

30 September 2016

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	229	229
1.2 Payments for		
(a) exploration & evaluation	(11)	(11)
(b) development	-	-
(c) production	-	-
(d) staff costs	(154)	(154)
(e) administration and corporate costs	(106)	(106)
1.3 Dividends received (see note 3)	-	
1.4 Interest received	26	26
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Research and development refunds	-	-
1.8 Other (provide details if material)	(5)	(5)
1.9 Net cash from / (used in) operating activities	(21)	(21)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	-	-
(b) tenements (see item 10)	-	-
(c) investments	(18)	(18)
(d) other non-current assets	-	-

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
2.2 Proceeds from the disposal of:		
(a) property, plant and equipment	-	-
(b) tenements (see item 10)	-	-
(c) investments	-	-
(d) other non-current assets	-	-
2.3 Cash flows from loans to other entities	-	-
2.4 Dividends received (see note 3)	-	-
2.5 Other (provide details if material)	-	-
2.6 Net cash from / (used in) investing activities	(18)	(18)

3. Cash flows from financing activities		
3.1 Proceeds from issues of shares	-	-
3.2 Proceeds from issue of convertible notes	-	-
3.3 Proceeds from exercise of share options	-	-
3.4 Transaction costs related to issues of shares, convertible notes or options	-	-
3.5 Proceeds from borrowings	-	-
3.6 Repayment of borrowings	-	-
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid*	(264)	(264)
3.9 Other (provide details if material)	-	-
3.10 Net cash from / (used in) financing activities	(264)	(264)

*Dividend 0.5 cent per share fully franked paid 27/9/16

4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of period	3,148	3,148
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(21)	(21)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(18)	(18)
4.4 Net cash from / (used in) financing activities (item 3.10 above)	(264)	(264)
4.5 Effect of movement in exchange rates on cash held	-	-
4.6 Cash and cash equivalents at end of period	2,845	2,845

5. Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1 Bank balances	122	56
5.2 Call deposits	91	94
5.3 Bank overdrafts	-	-
5.4 Other (provide details) Term Deposits	2,632	2,998
5.5 Cash and cash equivalents at end of quarter (should equal item 4.6 above)	2,845	3,148

6. Payments to directors of the entity and their associates	Current quarter \$A'000
6.1 Aggregate amount of payments to these parties included in item 1.2	128
6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3	-
6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2	

7. Payments to related entities of the entity and their associates	Current quarter \$A'000
7.1 Aggregate amount of payments to these parties included in item 1.2	-
7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3	-
7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2	

Mining exploration entity and oil and gas exploration entity quarterly report

8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities	-	-
8.2 Credit standby arrangements	-	-
8.3 Other (please specify)	-	-
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

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9. Estimated cash outflows for next quarter	\$A'000
9.1 Exploration and evaluation	20
9.2 Development	-
9.3 Production	-
9.4 Staff costs	110
9.5 Administration and corporate costs	140
9.6 Other (provide details if material)	-
9.7 Total estimated cash outflows	270

10. Changes in tenements (items 2.1(b) and 2.2(b) above)	Tenement reference and location	Nature of interest	Interest at beginning of quarter	Interest at end of quarter
10.1 Interests in mining tenements and petroleum tenements lapsed, relinquished or reduced				
10.2 Interests in mining tenements and petroleum tenements acquired or increased				

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.



Sign here:

Date: 21 October 2016

Company secretary

Print name: Nick Boicos

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 that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, AASB 6: Exploration for and Evaluation of Mineral Resources and AASB 107: Statement of Cash Flows apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standards apply to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.