

Royalco Resources Ltd
ABN 53 096 321 532

Financial Report
for the year ended

30 June 2003

CORPORATE DIRECTORY

Board of Directors

Harry A Hill (Chairman)

Peter J Topham

David L Ogg

Company Secretary

David L Ogg

Registered Office

Level 9

356 Collins Street

Melbourne Victoria 3000

Auditor

Leydin Partners

Chartered Accountants

10 Park Avenue

Sandringham Victoria 3191

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DIRECTORS REPORT

The directors of Royalco Resources Ltd submit herewith the annual financial report for the financial year ended 30 June 2003. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

The names of the directors of the company at the date of this report are:

Peter John Topham
David Lindsay Ogg
Harry Arthur Hill

Principal Activities

The company's principal activity in the course of the financial year was the sourcing of royalty rights. During the financial year there was no significant change in that activity.

Review of Operations

The operating loss after income tax for the financial year ended 30 June 2003 was \$330,582 (2002 : \$281,400)

Changes in State of Affairs

During the financial year there was no significant change in the state of affairs of the company other than that referred to in the financial statements or notes thereto.

Subsequent Events

There has been no matter or circumstance, other than that referred to Note 17, that has arisen since the end of the financial year, that has significantly affected, or may significantly affect, the operations of the company, the results of those operations or the state of affairs of the company in future financial years.

Future Developments

Disclosure of information regarding likely developments in the operation of the company in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the company. Accordingly, this information has not been disclosed in this report.

Dividends


No dividends have been paid or declared since the start of the financial year and the directors do not recommend the payment of a dividend in respect of the financial year.

Indemnification of Officers and Auditors

The company has not during or since the financial year, in respect of any person who is or has been an officer or auditor of the company indemnified or made any relevant agreement for indemnifying against a liability, including costs or expenses in successfully defending legal proceedings or paid or agreed to pay a premium in respect of a contract insuring against a liability for the costs or expenses to defend legal proceedings.

Signed in accordance with a resolution of the directors made pursuant to s.298(2) of the Corporations Act 2001.

On behalf of the Directors


Peter J Topham
Director
MELBOURNE, 6th November 2003

ROYALCO RESOURCES LTD
ABN 53 096 321 532

Statement of Financial Performance
For the Year Ended 30 June 2003

	Note	2003 \$	2002 \$
Revenue from Ordinary Activities	2	<u>3,851</u>	<u>843</u>
Administrative costs		(36,334)	(20,606)
Employment costs		(273,400)	(237,600)
Occupancy costs		<u>(24,699)</u>	<u>(24,037)</u>
Operating loss from ordinary activities before income tax	3	(330,582)	(281,400)
Income tax attributable to operating loss	4	<u>-</u>	<u>-</u>
Operating loss from ordinary activities after income tax		<u>(330,582)</u>	<u>(281,400)</u>
Total changes in equity other than those relating from transactions with owners as owners	10	<u>(330,582)</u>	<u>(281,400)</u>
		Cents per share	Cents per share
Earnings per Share			
Basic Earnings per share	18	(5.00)	(12.99)

This statement should be read in conjunction with the accompanying notes which form part of this financial report.

ROYALCO RESOURCES LTD
ABN 53 096 321 532

Statement of Financial Position
As at 30 June 2003

	Note	2003 \$	2002 \$
Current Assets			
Cash assets	5	16,285	35,395
Receivables	6	603	2,500
Total Current Assets		<u>16,888</u>	<u>37,895</u>
Non-Current Assets			
Royalty Rights – at cost		425,696	423,158
Intangible assets	7	1,082	1,082
Total Non-Current Assets		<u>426,778</u>	<u>424,240</u>
Total Assets		<u>443,666</u>	<u>462,135</u>
Current Liabilities			
Payables	8	123,662	59,549
Total Current Liabilities		<u>123,662</u>	<u>59,549</u>
Total Liabilities		<u>123,662</u>	<u>59,549</u>
Net Assets		<u>320,004</u>	<u>402,586</u>
Equity			
Contributed Equity	9	990,826	742,826
Retained earnings/(Accumulated losses)	10	(670,822)	(340,240)
Total Equity		<u>320,004</u>	<u>402,586</u>

This statement should be read in conjunction with the accompanying notes which form part of this financial report.

ROYALCO RESOURCES LTD
ABN 53 096 321 532

Statement of Cash Flows
For the year ended 30 June 2003

	Note	2003 \$	2002 \$
Cash Flows From Operating Activities			
Receipts from customers		2,000	-
Interest received		1,851	238
Payments to suppliers and employees		<u>(259,090)</u>	<u>(214,448)</u>
Net cash used in operating activities	11	<u>(255,239)</u>	<u>(214,210)</u>
Cash Flows From Investing Activities			
Payment for royalty rights		(2,538)	(223,158)
Payment for investments		-	(6,324)
Proceeds from investments		<u>-</u>	<u>6,929</u>
Net cash used in investing activities		<u>(2,538)</u>	<u>(222,553)</u>
Cash Flows From Financing Activities			
Proceeds from the issue of shares		248,000	527,820
Repayments to directors and director related entities		<u>(9,333)</u>	<u>(55,718)</u>
Net cash provided by financing activities		<u>238,667</u>	<u>472,102</u>
Net Increase (Decrease) in Cash Held		(19,110)	35,339
Cash at the Beginning of the Financial Year		<u>35,395</u>	<u>56</u>
Cash at the End of the Financial Year	5	<u>16,285</u>	<u>35,395</u>

This statement should be read in conjunction with the accompanying notes which form part of this financial report.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Framework

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Urgent Issues Group Consensus Views, and complies with other requirements of the law.

The financial report covers the entity of Royalco Resources Limited. Royalco Resources Limited is an unlisted public company, registered and domiciled in Australia.

The financial report has been prepared on an accrual basis and is based on historical costs and does not take into account, except where stated, current valuations of non-current assets.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

(a) Royalty Rights

Royalty Rights are recorded at initial cost and are amortised over the expected life of the respective projects and/or royalty entitlements, commencing once royalty revenue is earned, but not exceeding twenty (20) years. The carrying values of the Rights are reviewed regularly by the directors and adjustments made where appropriate.

(b) Cash and Cash Equivalents

Cash on hand and in banks and short term deposits are stated at the lower of cost and net realisable value.

For the purposes of the Statement of Cash Flows, cash includes cash on hand and in banks, and money market investments readily convertible into cash within 2 working days, net of outstanding bank overdrafts.

(c) Trade and other receivables

Royalties and other receivables represent the principal amounts due at balance date plus accrued interest and less, where applicable, any unearned income and provisions for doubtful debts.

(d) Investments

Investments are valued at cost except where, in the opinion of the Directors, there has been a permanent diminution in the value of the investment and a provision for diminution has been made.

(e) Non-current assets

Non-current assets are not carried at an amount above their recoverable amount, and where carrying values exceed their recoverable amount assets are written down. In determining recoverable amount, the expected net cash flows have been discounted to their present value.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(g) Property, plant and equipment

Assets acquired are recorded at the cost of acquisition, being the purchase consideration determined as at the date of acquisition plus costs incidental to the acquisition.

Where assets have been revalued, the potential effect of the capital gains tax on disposal has not been taken into account in the determination of the revalued carrying amount.

Depreciation is provided on a straight line basis on all property, plant and equipment.

(h) Employee Entitlements

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave where it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of wages and salaries, annual leave and other employee entitlements expected to be settled within 12 months, are measured at their nominal values.

Provisions made in respect of other employee entitlements which are not expected to be settled within 12 months are measured at the present value of the estimated future cash outflows to be made by the company in respect of services provided by employees up to the reporting date.

(i) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- i) where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- ii) for receivables and payables which are recognised inclusive of GST

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

(j) Income Tax

Tax-effect accounting principles are adopted whereby income tax expense is calculated on pre-tax accounting profits after adjustment for permanent differences. The tax-effect of timing differences, which occur when items are included or allowed for income tax purposes in a period different to that for accounting, is shown at current taxation rates in provision for deferred income tax and future income tax benefit, as applicable.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future Income Tax Benefits in relation to tax losses are not brought to account unless there is virtual certainty or realisation of the benefit.

The amount of these benefits is based on the assumption that no adverse change will occur in income tax legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

(k) Intangibles

Intangibles are recorded at cost.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(l) Revenue Recognition

Royalty income is recognised on an accruals basis based on the amounts earned pursuant to the relevant Royalty Sales Agreement.

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract.

Interest revenue is recognised on an accrual basis.

Dividend revenue is recognised on a receivable basis.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

	2003 \$	2002 \$
2. REVENUE		
Non-Operating Revenue		
Interest revenue – other entities	1,851	238
Sundry income	<u>2,000</u>	<u>-</u>
Total Revenue	<u>3,851</u>	<u>238</u>
3. LOSS FROM ORDINARY ACTIVITIES		
Superannuation		
Superannuation contributions	<u>23,400</u>	<u>17,600</u>
Total Superannuation costs	<u>23,400</u>	<u>17,600</u>
4. INCOME TAX		
(a) Income tax expense		
The aggregate amount of income tax attributable to the financial year differs by more than 15% from the amount calculated on the operating loss. The differences are reconciled as follows:		
Operating loss before income tax	<u>330,582</u>	<u>281,400</u>
Prima facie income tax benefit at 30% on operating loss	99,175	84,420
Timing differences	(1,740)	-
Non-deductible items	(927)	(1,277)
Income tax losses carried forward not taken up as a benefit	<u>(96,508)</u>	<u>(83,143)</u>
Income tax benefit attributable to operating loss	<u>-</u>	<u>-</u>

The benefit for the above tax losses will only be obtained if:

- (i) the consolidated entity derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised;
- (ii) the consolidated entity continues to comply with the conditions for deductibility imposed by the law; and
- (iii) no changes in tax legislation adversely affect the consolidated entity in realising the benefit from the deductions for the losses.

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

	2003 \$	2002 \$
5. CASH		
Cash on hand and at bank	<u>16,285</u>	<u>35,395</u>
6. OTHER		
GST receivable	<u>603</u>	<u>2,500</u>
7. INTANGIBLES		
Formation costs – at cost	<u>1,082</u>	<u>1,082</u>
8. PAYABLES – CURRENT		
Amounts payable to directors and director related entities	<u>85,334</u>	9,333
Sundry creditors and accruals	<u>38,328</u>	<u>50,216</u>
	<u>123,662</u>	<u>59,549</u>
9. CONTRIBUTED EQUITY		
(a) 6,730,000 (2002 : 6,170,000) fully paid ordinary shares	<u>990,826</u>	<u>742,826</u>
(b) Movements in ordinary share capital of the company were as follows:		

Date	Details	Number of shares	\$
1.7.2001	Opening Balance	24	6
	Issues to Subscriber shareholders	6,169,976	742,820
30-6-2002	Closing Balance	6,170,000	742,826
	Issues to shareholders	560,000	248,000
30-6-2003	Closing Balance	6,730,000	990,826

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

	2003 \$	2002 \$
10. ACCUMULATED LOSSES		
Opening Balance	340,240	58,840
Current year loss	<u>330,582</u>	<u>281,400</u>
Closing Balance	<u>670,822</u>	<u>340,240</u>

11. NOTES TO THE STATEMENT OF CASH FLOWS

Reconciliation of Operating Loss After Income Tax to Net Cash Flows From Operating Activities:

Operating Loss after income tax	(330,582)	(281,400)
Non-Cash Activities		
Operating expenses settled through issue of capital	-	15,000
Profit on sale of investments	-	(605)
Changes in net assets:		
(Increase)/Decrease in other current assets	1,897	5,579
Increase in sundry creditors and accruals	<u>73,446</u>	<u>47,216</u>
Net Cash used in operating activities	<u>(255,239)</u>	<u>(214,210)</u>

12. FINANCIAL INSTRUMENTS

(a) The following table details the company's exposure to interest rate risk at 30 June 2003

2003	Average Interest Rate (%)	Variable Interest Rate (\$)	Fixed Interest Rate (\$)	Non-Interest Bearing (\$)	Total (\$)
Financial Assets					
Cash	4	11,086	-	5,199	16,285
Financial Liabilities					
Sundry creditors and accruals	-	-	-	38,328	38,328
Amounts owing to directors and director related entities	-	-	-	85,334	85,334

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

12. FINANCIAL INSTRUMENTS (cont)

2002	Average Interest Rate (%)	Variable Interest Rate (\$)	Fixed Interest Rate (\$)	Non-Interest Bearing (\$)	Total (\$)
Financial Assets					
Cash	4	32,162	-	3,223	35,395
Financial Liabilities					
Sundry creditors and accruals	-	-	-	50,216	50,216
Amounts owing to directors and director related entities	-	-	-	9,333	9,333

(b) Net Fair Values

The aggregate net fair values of financial assets and liabilities are the same as the carrying amounts.

2003 2002
 \$ \$

13. RELATED PARTY DISCLOSURES

(a) Directors

The names of persons who were Directors of Royalco Resources Ltd at any time during the financial year are as follows:

Peter John Topham
 David Lindsay Ogg
 Ian Anthony Johns (resigned 3.9.2002)
 Harry Arthur Hill (appointed 3.9.2002)

(b) Directors' Remuneration and Retirement Benefits

Amounts received or due and receivable by the Directors of the company

283,400 237,600

Number of directors of Royalco Resources Ltd whose remuneration falls within the following bands:

\$0 - \$9,999	-	-	1
\$100,000 - \$109,999	-	-	1
\$120,000 - \$129,999	-	1	1
\$140,000 - \$149,999	-	1	-

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

	2003 \$	2002 \$
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13. RELATED PARTY DISCLOSURES (Cont)

(c) Transactions with related parties

During the year the following transactions took place between the Company and director related entities:

- i) David Ogg & Associates Pty Ltd, a company associated with Mr D Ogg, received consultancy fees of \$10,000 (2002 : \$50,000) for the provision of management services. This amount is included in total Directors' Remuneration referred to in Note 13 (b). The company also received commissions of \$122.85 during the year in relation to funds on deposit.
- ii) Mr P J Topham and Mr D Ogg were repaid loans of \$9,333 during the year.

All transactions with related parties were made on normal commercial terms and conditions

(d) Directors' Equity Holdings

Ordinary fully paid shares:

Issued during the year to directors and director related entities

No. No.

- 3,499,976

	2003 \$	2002 \$
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14. AUDITORS REMUNERATION

Auditing the financial report

6,000 6,000

Other services

2,000 4,000

Closing Balance

8,000 10,000

15. SEGMENT REPORTING

The company operated predominately in the sourcing of royalty rights in Australia

	2003 \$	2002 \$
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16. EMPLOYEES

Number of employees at end of financial year

2 2

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

17. SUBSEQUENT EVENTS

The company has entered into discussions with several parties concerning the acquisition of additional mineral royalty rights. These discussions have not been concluded, and their effect, if any, on the company cannot currently be ascertained. Shareholders will be advised of appropriate developments when, and if, these discussions are consummated successfully.

On 30 July 2003 the company raised \$1,000,000 through the issue of 2,000,000 shares at an issue price of 50 cents

	2003 Cents Per Share	2002 Cents Per Share
18. (LOSS) PER SHARE		
Basic (loss) per share	<u>(5.00)</u>	<u>(12.99)</u>
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic (loss) per share	<u>6,417,891</u>	<u>2,167,032</u>


Directors' Declaration

The directors declare that:

1. The financial statements and notes, as set out on pages 3 to 15:
 - (a) comply with accounting standards and are in accordance with the Corporations Act 2001, and
 - (b) give a true and fair view of the financial position as at 30 June 2003 and performance for the year ended on that date of the company; and
2. In the directors' opinion, 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 the directors made pursuant to s.295(5) of the Corporations Act 2001.

On behalf of the Directors



Peter J Topham
Director

MELBOURNE, 6th November 2003



ROYALCO RESOURCES LTD
ABN 53 096 321 532

LEYDIN PARTNERS
chartered accountants
ABN: 72 131 505 306
Partners: Melanie J. Leydin

Independent audit report to members of Royalco Resources Limited

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Royalco Resources Limited (the Company) for the year ended 30 June 2003.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing and Assurance Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included;

- Examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report; and
- Assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

ROYALCO RESOURCES LTD
ABN 53 096 321 532

Independence

In conducting our audit, we followed applicable independence requirements of Australian accounting ethical pronouncements and the *Corporations Act 2001*.

Audit opinion

In our opinion, the financial report of Royalco Resources Limited is in accordance with:

- (a) the Corporations Act 2001, including:
 - (i) gives a true and fair view of the Royalco Resources Limited's financial position as at 30 June 2003 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia.



LEYDIN PARTNERS
Chartered Accountants



MELANIE J LEYDIN
Partner

6th November 2003

Corporate Governance Statement

Board of Directors

Composition of the Board

The Directors in office at the date of this statement are:

PJ Topham	Managing Director
D Ogg	Director and Company Secretary
H A Hill	Chairman

Because of the size of the entity there are no separate committees to cover the following matters:

- Membership of the governing body;
- Remuneration of the governing body;
- Nomination of external auditors and
- Review of internal control.

The Board consults on a regular basis both formally and informally when the matters detailed above would be discussed as required.

As the Board acts on behalf of the shareholders and is accountable to the shareholders, the Board seeks to identify the expectations of the shareholders, as well as other regulatory and ethical expectations and obligations. In addition, the Board is responsible for identifying areas of significant business risk and ensuring arrangements are in place to adequately manage those risks.

The Board of Directors aims to ensure that the shareholders, on behalf of whom they act, are informed of all information necessary to assess the performance of the Directors. Information is communicated to the shareholders through:

- The annual report which is distributed to all shareholders;
- Quarterly reports to the shareholders and other announcements; and
- The annual general meeting and other meetings so called to obtain approval for Board action as appropriate.

Audit Committee

The Company does not have an audit committee as the Board of Directors feels that such a committee is not necessary given the size and nature of its operations.

Independent Professional Advice

Directors have the right in connection with their duties and responsibilities as Directors to seek independent professional advice at the Company's expense.

Ethical Standards

Employees and Directors are expected to act with the utmost integrity and objectivity at all times in their dealings with each other, competitors, customers, suppliers, the company and the community.

ROYALCO RESOURCES LTD
ABN 53 096 321 532

SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 27 October 2003.

1. Distribution of Shareholders

(a) Analysis of number of shareholders by size of holding.

Category of holding	Number	Number of Shares
1 - 1,000	-	-
1,001 - 5,000	-	-
5,001 - 10,000	-	-
10,001 - 100,000	5	380,000
100,001 shares and over	9	8,350,000

(b) There are no shareholders with less than a marketable parcel of ordinary shares.

2. Twenty Largest Shareholders

The names of the twenty largest holders of ordinary shares are listed below:

SHAREHOLDER		HOLDING	%
Meat Industry Employees Superannuation Fund		2,000,000	22.91
Keryn Anne Topham	*	1,600,000	18.33
Riomin Australia Gold Pty Ltd		1,510,000	17.30
Meballa Pty Ltd	#	1,000,000	11.45
Porthill Resources Pty Ltd	*#	800,000	9.16
Commonwealth Custodial Services Pty Ltd		620,000	7.10
Tower Trust Ltd A/C P E Daly Private ADF		500,000	5.73
Tamily Pty Ltd		200,000	2.29
Hubertine Jessop		120,000	1.37
Kim Bernard McDonald		100,000	1.15
David Lindsay Ogg	#	100,000	1.15
Sixth Vizcor Pty Ltd		100,000	1.15
Leo Reichert		40,000	0.46
Yavern Creek Holdings Pty Ltd		40,000	0.46
TOTAL		8,730,000	100.00

* Shareholder associated with a director, Peter John Topham
Shareholder associated with a director, David Lindsay Ogg

3. Restricted Securities

As at 27 October 2003 there were 3,500,000 ordinary shares subject to a voluntary escrow agreement that requires that these shares not be sold prior to listing of the company's securities on the ASX, unless an offer is made on the same terms and conditions to all shareholders. The shareholdings subject to this agreement are those associated with two directors of the company, Peter John Topham and David Lindsay Ogg, and are as noted in item 2 above.

4. Voting Rights

At a general meeting of shareholders:

- (a) On a show of hands, each person who is a member or sole proxy has one vote.
- (b) On a poll, each shareholder is entitled to one vote for each fully paid share.