



ROYALCO
RESOURCES LIMITED

ANNUAL REPORT 2006

CORPORATE DIRECTORY

ASX Code:

RCO (Listed 29 June 2006)

Issued Capital:

56,411,200 ordinary shares
2,800,000 options exercisable at 50c each,
Expiring 31/3/2011 (unlisted).
510,000 options exercisable at 52c each,
Expiring 31/3/2011

Substantial Shareholders:

Oxiana Limited	17.7%
Keryn Anne Topham	10.2%
David Lindsay Ogg	8.4%
Commonwealth Bank of Australia	7.9%
Riomin Australia Gold Pty Ltd	6.4%

Registered and Principal Office:

Level 9, 356 Collins Street
Melbourne Victoria 3000

Phone: 61 3 9602 3626

Fax: 61 3 9670 4479

Directors & Management:

Mr Peter Topham
Executive Chairman, CEO

Mr David Ogg
Executive Director, CFO

Mr Adam Boyd
Non Executive Director

Mr Tom Eadie
Non Executive Director

Mr Peter Lester
Non Executive Director

Company Secretary:

Mr David Ogg

Auditor:

Leydin Freyer Corporate Pty Ltd
Chartered Accountants
Suite 304
22 St Kilda Road
St Kilda, Victoria 3182

Share Registry:

Security Transfer Registrars Pty Ltd
770 Canning Highway
Applecross WA 6153

Ph: 08 9315 2333

Bankers:

ANZ Banking Group
388 Collins Street
Melbourne Victoria 3000

Website:

www.royalco.com.au

Email:

info@royalco.com.au

29 September 2006

Dear Shareholder

I am pleased to be writing this forward to you, as it reflects the culmination of the successful listing of your Company on the Australian Stock Exchange in June of this year.

The benefits of listing are already being felt-the increased public profile has already generated a number of enquiries both in regards to royalty activities as well as exploration opportunities.

Our balance sheet is now 'visible', with over \$10 million on deposit, and the probability of early cashflow from royalty interests is now being recognised. This strong financial capacity is augmented by our attractive exploration portfolio in the Philippines where our technical teams have already been expanded.

Royalco has the objectives of both cash flow generation through royalty interests and asset creation through attractive exploration initiatives. The potential to receive comparatively early cash flow from existing royalties has the benefit of mitigating the need for future capital raisings.

Royalco has a number of attributes that will assist in achieving these objectives including:

- an experienced board of directors who have successfully demonstrated their expertise in royalty acquisition and creation, coupled with a solid grounding in mineral economics. In addition they have significant collective experience in managing exploration activities;
- an established suite of royalty interests with the in-house development of a data base of over a further approximate 500 mining royalty interests in the Australasian region;
- an advanced exploration portfolio in the Philippines, acquired from Oxiana Limited (Oxiana Philippines Inc) and farmed into with Phelps Dodge Corp, offering numerous drill-ready prospects on gold and copper/gold anomalies; and
- a proven and established business model with a clear strategic direction aimed at shareholder value enhancement.

Royalco's corporate strategy is to build shareholder wealth through strategic investments in the resources sector which retain significant upside potential – but without the hazards associated with a pure exploration company or small project operator. This is being accomplished by the development of royalty interests over a range of commodities and the establishment of a specialist exploration function.

Present commodity exposures through royalties comprise gold, zinc, silver and copper. Additional commodities may also be considered in due course.

We retain a geographic diversity of interests which includes Australia, New Zealand and the Philippines and we will continue to assess opportunities in the South East Asian region.

The Filipino tenement package, in our opinion represents one of the most attractive porphyry copper targets available globally, with our particular interests being associated with high grade epithermal gold systems. These areas have been accumulated over a substantial period of time and represent advanced exploration plays.

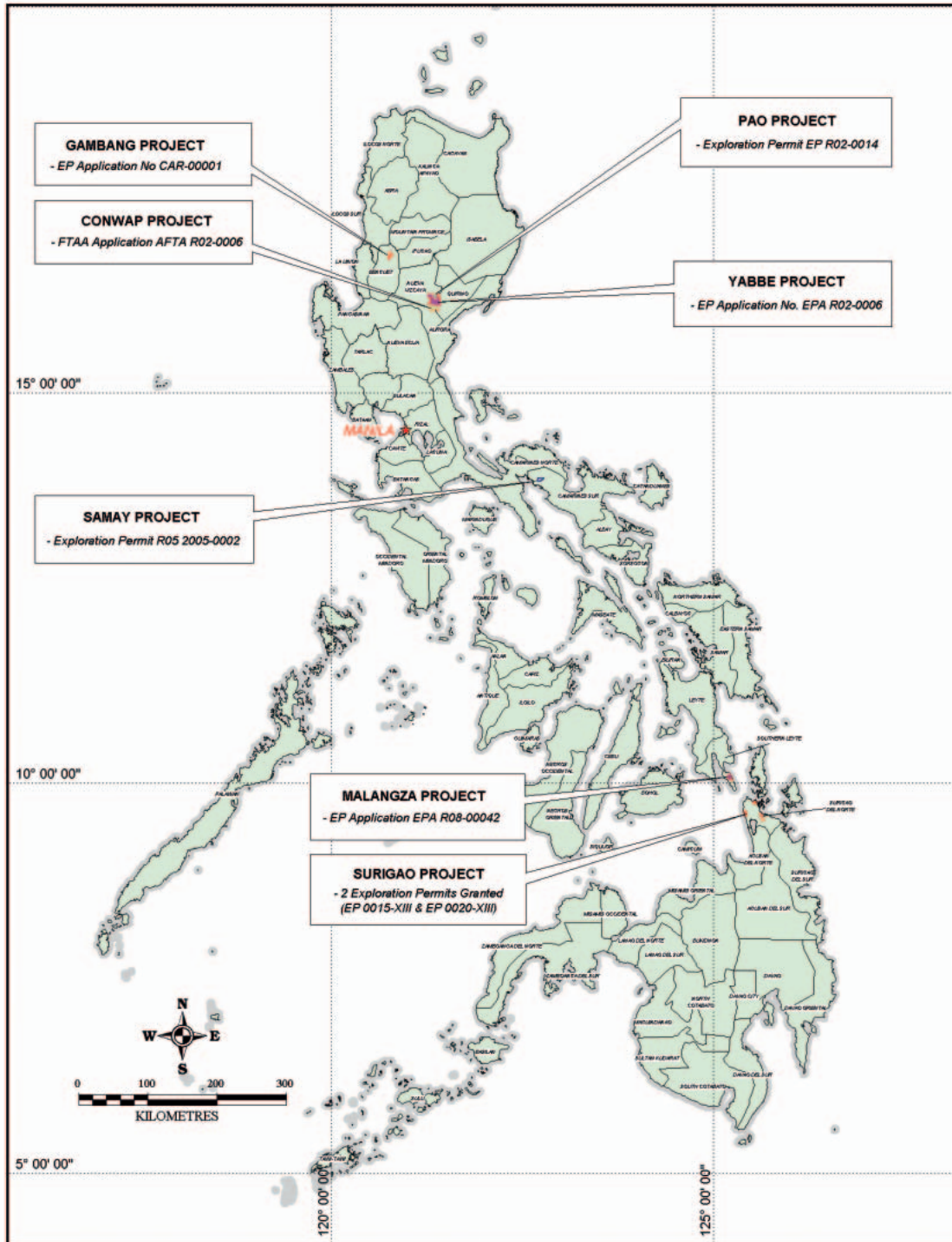
Royalco has drill-ready targets on three of its six exploration regions, with all three regions planned to be drilled in this current financial year.

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

P J Topham
Executive Chairman

OPERATIONS

(a) The Philippines Projects



GAMBANG PROJECT

EPA CAR-00001:

The Gambang project area application is strategically situated within the Central Cordillera of Northern Luzon in the geological terrane known as the Philippine Mobile Belt. The mineral endowment of the belt is high due to its tectonic setting, offering world class prospectivity.

Deposits immediately north of this tenement include Far Southeast, Lepanto, Victoria, Guinaoang and Suyoc. To the south of the tenement lies the old goldfields of Baguio and the porphyries at St Tomas/Santo Ni-o, a belt stretching approximately 50 kilometres, with Gambang covering the strategic and under-explored central portion.

Oxiana Limited through its former subsidiary, Oxiana Philippines Inc, has been active in the Gambang area since 1995 and has conducted exploration comprising stream sediment and soil geochemical sampling, geological mapping, and geophysical surveys. This exploration has delineated seven target areas with porphyry copper-gold style mineralisation.

The Hermans Find prospect consists of a 200m long exposure of porphyry copper-gold style mineralised intrusive which has been exposed by relatively recent rapid erosion of colluvium/alluvium in the Gambang River. There is not only spectacular malachite staining but also stockwork vein zones with oxidized copper sulphide minerals and disseminated chalcopyrite, bornite and pyrite in the highly fractured and altered intrusive rocks exposed.

Channel sampling along the mineralized outcrops at Herman's Find generated copper rich intersections which included 42m@ 2.35% Cu, 0.20g/t Au and 45m@ 2.82% Cu, 0.17g/t Au and 54m@ 1.32% Cu, 0.12g/t Au.

Approval for drilling at Heman's Find is believed to be imminent. Depending on results obtained from the Samay drilling and final access requirements being satisfied in a timely manner, the rig from Samay will be mobilised to Gambang by early in the new calendar year.

PAO YABBE PROJECT

EP-0014-II, EPA R02-00006:

The Pao Yabbe project area is situated in the Southern Sierra Madre Ranges of Northern Luzon and adjoins the Didipio copper gold project of Climax Mining Limited (reserves of 23.7MT @ 0.65% Cu and 1.8g/t Au)

The regional geology of the area is dominated by a sequence of early Tertiary age volcanics of alkaline composition. This sequence was intruded by suites of intrusives of both calc-alkaline and alkaline compositions in the mid-Tertiary. Base and precious metal mineralisation is associated with these intrusives. Modern mineral exploration commenced in the area in the 1980s and exploration by Oxiana Limited commenced in 1998. Geochemical, geological and geophysical exploration programs have resulted in the delineation of three main prospect areas in the north of the project area, Ambedbed, Manidyo and Digyan, and one in the south, Yabbe.

There is good exploration potential for high-sulphidation style Cu-Au mineralization and deeper porphyry Cu-Au mineralisation within the Pao-Yabbe tenement areas.

Drilling has been conducted at Ambedbed where a best intercept of 2.5 metres of 11.98g/t Au was reported. Drilling at Manidyo returned a best intercept of 32 metres of 0.51g/t Au. This mineralisation is considered to be high-level epithermal vein and stockwork-style gold mineralisation. A chip sample from the Manidyo vein assayed 49.42g/t Au, 348g/t Ag, 3.94% Cu, 1.7% As.

No drilling has been conducted at the Digyan prospect,(a sample of the vein at Digyan assayed 95g/t Au, 272g/t Ag, 13.6% Cu, 6.7% As and 0.10% Pb), and this area, along with Manidyo, is scheduled for a 16 hole diamond drilling programme commencing in the final quarter of this calendar year.

SAMAY PROJECT

EP V-2002-002

The Samay prospect was identified by Phelps Dodge exploration geologists through reconnaissance mapping and stream sediment sampling in 2001 where the presence of mineralized vuggy silica floats in the Samay River led to the pegging of the EPA.

Based on the results of the mapping, geochemical and geophysical surveys, four prospects were selected for diamond drilling, two of which have been drilled – Padua and Bakahan - where seven diamond drill holes were completed by Phelps Dodge.

The significant silicification and quartz veins intersected in drilling along with elevated Au and As values are indicative of a high-sulphidation/epithermal vein system.

Diamond drilling at Samay is scheduled to commence in October with a four to five hole programme focussing on this potential vein system.

MALANGZA PROJECT

EPA 00040-VIII

The Malangza tenement application, situated on Panaon Island in Southern Leyte, is an historic gold mining area and is considered to be highly prospective for further discoveries. The island is cross-cut by splays of the Philippines Fault, the most important structural element in respect of localizing mineralization within the Philippines. Throughout the tenement large continuous zones of silica-clay-pyrite alteration were observed for approximately five kilometres of coastline, which provide further encouragement that this area is highly prospective for copper-gold deposits.

The intense alteration extends for several kilometres along the coast between Catig and Bahay, and comprises widespread clay-silica-pyrite alteration, intense ferruginisation of surface outcrops, hydrothermal brecciation and silicification. Given the multiple-kilometre-scale extent of the hydrothermal alteration along the coastline, the distance which this alteration system extends inland is likely to be significant. The Malangza alteration system is likely to be part of a high-sulphidation epithermal Au system with high potential for underlying porphyry Cu mineralization below the district-scale alteration lithocap.

Our objective at Malangza is to complete geochemical and geophysical studies in the first half of 2007 with a view to commence drilling in the second half of the year.

SURIGAO PROJECT

EP 0015-XIII, EP 0020-XII:

Surigao del Norte is part of the Eastern Mindanao Gold Province and hosts a number of historic gold mines. The recent discovery of the buried copper-gold Boyongan deposit and the adjacent Bayugo deposit of Anglo-American, as well as new porphyry targets to the south of the old Siana mine of Red 5 Limited at Madja have further contributed to the enhanced prospectivity of the province, not just for high level gold only systems, but also for large scale copper gold porphyry targets.

The Malimono Block has been subjected to some reconnaissance exploration by Oxiana Limited. Three prospects have been delineated: a copper occurrence in Tinago Creek; a zone containing porphyry copper mineralisation at Hanagdong and a zone containing gold mineralisation at Gis-Aw. This latter prospect will be the subject of additional studies in the first quarter of 2007.

SUMMARY

The above areas justify substantial exploration programs budgeted at A\$6.6million spread over a two-year period. Priorities for drilling have been established and we envisage drilling to be conducted in a simultaneous manner at two sites for most of 2007. Initial drilling commences at Samay, followed by the Pao prospects with concurrent drilling then at Gambang. Drilling at Malangza should also occur in the second half of next year.

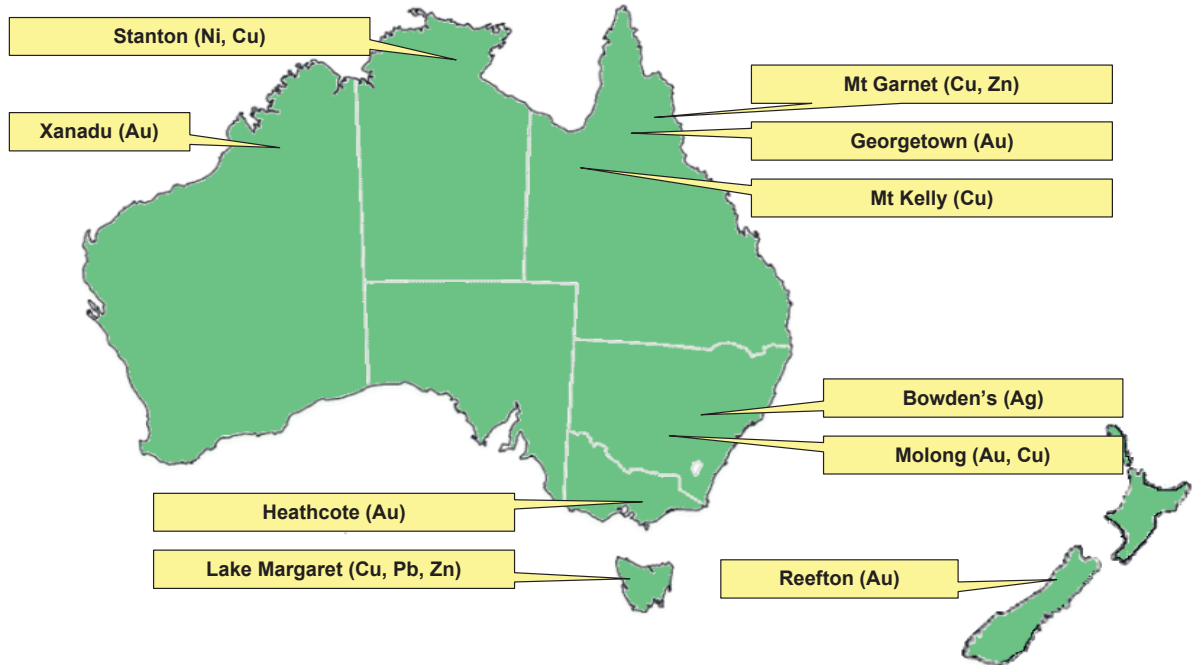
Mineralisation of porphyry copper-gold style has already been delineated at Gambang and in the Suriago del Norte tenements. Epithermal gold mineralisation has been delineated in the Pao/Yabbe and Samay group of tenements and its presence is indicated in the Panoan Island tenement, (Malangza).

Interpretation of existing aeromagnetic survey data and induced polarization/resistivity data has been completed and fresh targets have been generated in the Gambang and Pao tenements. These prospects will be subjected to further exploration and ultimately drill testing, if justified.

We have expanded our technical team based in the Philippines to meet these substantial exploration initiatives.

(b) Existing Royalty Portfolio

Royalco's Australian and New Zealand Royalty Interests



Our Company holds a portfolio of 10 royalty interests.

Reefton Goldfield (Gold)

The Reefton Goldfield is located in the South Island of New Zealand and the Company understands from the operator, Oceana Gold Limited, (ASX Code: OGD, website www.oceanagold.com.au) that any ore won from the mine will be concentrated on site and finally treated at the operator's facility at the Macraes Gold Project (located approximately 60km north of Dunedin). The Reefton royalty covers the Globe Progress deposit and numerous separate deposits including Sam's Creek.

In summary, the royalty arrangement is as follows:

1. Production From Globe Progress

From the expiration of six months after the commencement of the month following the first gold production from the Globe Progress plant ("Commencement Date") until the end of the quarter (quarters being measured from the Commencement Date) in which gold production from Globe Progress reaches 400,000ozs or from Reefton (including Globe Progress) reaches 1,000,000ozs, whichever occurs first, ("Termination Date") a royalty is payable by delivery of a quantity of gold to Royalco out of gold produced from Globe Progress.

The quantity of gold to be delivered in respect of each quarter is:

250ozs if the gold price is NZ\$700 or less on the 15th day of the last month of the relevant quarter ("Pricing Date");

or

250ozs plus a further 50ozs for every whole NZ\$10 by which the gold price exceeds NZ\$700 on the Pricing Date, limited to an aggregate maximum of 1,250ozs per quarter.

Deliveries of gold must be made, in respect of a quarter, within 30 days of the relevant Pricing Date. The gold price is determined by reference to the London pm fix price per troy oz of gold converted from US\$ to NZ\$.

Within 30 days of each anniversary of the Commencement Date occurring prior to the Termination Date, the average gold price for the year immediately preceding the anniversary is determined (being the average of the prices on the four relevant Pricing Dates) and a reconciliation effected so as to ensure that the quantity of gold delivered under (a) above, was either:

1,000ozs if the average gold price for the relevant year was NZ\$700 or less; or

1,000ozs plus a further 200ozs for every whole NZ\$10 by which the average gold price exceeded NZ\$700, limited to an aggregate maximum of 5,000ozs.

2. In respect of Reefton gold production other than from Globe Progress, until an aggregate of 1,000,000ozs of gold has been produced from the Reefton Goldfield (including Globe Progress), there must be delivered to Royalco in respect of each quarter in which there is gold produced from Reefton (excluding Globe Progress) a quantity of gold determined in accordance with the following table:

Gold Price per oz at Relevant Pricing Date NZ\$	% Gross Royalty
<NZ\$700	1% of gold produced from Reefton (excluding Globe) in the relevant quarter
NZ\$700 - NZ\$900	2% of gold produced from Reefton (excluding Globe) in the relevant quarter
> NZ\$900	3% of gold produced from Reefton (excluding Globe) in the relevant quarter

Again gold must be delivered within 30 days of the relevant Pricing Date.

The Company understands that the probable life of the Globe Progress mine will be at least 7 years, with production scheduled to commence by January 2007 (with royalties commencing six months thereafter).

When cumulative production from Reefton (including Globe Progress) exceeds 1,000,000ozs the royalty calculations above will not apply and Oceana will thereafter deliver a gross production royalty of 1.5% of gold produced from all tenements each quarter. (The interest at Sam's Creek is a flat 1% overriding royalty).

Mt Garnet (zinc, copper, silver)

Kagara Zinc Ltd (ASX: KZL, website: www.kagara.com.au) is the operator of the project located 150 kilometres west of Cairns in North Queensland.

Kagara's initial zinc production commenced from the Mt Garnet open pit in early 2003, before switching production to the Surveyor open pit later that year. Kagara has a number of zinc deposits within its portfolio and is not scheduled to return to the Mt Garnet orebody until

2009/10. Since commissioning in 2003 the central plant, located at Mt Garnet, has undergone a number of upgrades with a current stated capacity of 137,000 tonnes of concentrate per annum.

The royalty from Mt Garnet commences once 24,000 tonnes of contained zinc has been produced. Total zinc production to date from Mt Garnet stands at 12,300 tonnes. The royalty rate is based on a 3% net smelter return.

The company has indicated in recent publications that production from Mt Garnet is scheduled to resume in 2009. Favourable exploration results announced earlier this year may accelerate this timetable. (Over 1.2 million tonnes of ore have been categorised in the reserve category).

Bowden's (silver)

The operator, Silver Standard Resources Australia Pty Limited, is a wholly owned subsidiary of Silver Standard Resources Inc, based in North America,(TSX code:SSO, website www.silverstandard.com)

Located near Mudgee, New South Wales, the project is now in the feasibility stage and completing additional infill drilling according to the Silver Standard website. Investors are referred to the website for results of the company's prefeasibility studies.

The royalty is a 2% net smelter return up to US\$5million, and 1% net smelter return thereafter.

Mt Kelly (copper)

Copperco Limited (ASX:CUO, website www.copperco.com.au) is the operator over this historic copper mine located north of Mt Isa in Queensland.

Mining at the nearby Lady Annie Deposit is stated to commence in the second quarter of 2007 however we are not aware of the timetable as to when operations would commence at Mt Kelly.

The 1% net smelter return is capped at \$619,000 on each of two separate tenement packages and becomes payable after the first 25 million pounds (11345 tonnes) of copper has been produced.

Xanadu/Neerambah (gold)

The project operator is Pelican Resources Limited (ASX:PEL) in joint venture with Newcrest Operations Ltd.

Located in the Ashburton region of Western Australia this royalty has generated modest income in the past but is currently inactive due to depletion of a small historic operation.

The royalty is payable at the rate of 7% gross smelter return for the first 22,000 ounces, and 4% thereafter up to a maximum of \$529,000.

Molong (gold, copper)

Located near Wyalong/Orange in New South Wales the operations here are held by a subsidiary of Alkane Exploration Ltd (ASX: ALK) in joint venture with Newcrest Operations Ltd.

The area is still at an early stage of exploration with no resource identified to date. Recent nearby discoveries (Wyoming) and general proximity to Cadia/Ridgeway may enhance the potential of this area.

The royalty is based on a 3% net smelter return after the first 100,000 ounces of gold, or gold equivalent, has been produced.

Stanton (nickel, cobalt)

Located in the Northern Territory the operator for this project is a subsidiary of Hydromet Corporation Ltd.(ASX: HMC)

Hydromet are seeking a joint venture partner with appropriate complimentary mining expertise to advance the project.

The royalty is a 1% net smelter return.

Dagworth and Huonfels (gold, copper)

The operator is Georgetown Mining Limited, an unlisted public company.

The project areas are based in the Georgetown region of far North Queensland, with the royalty based on \$10 per ounce for the first 10,000 ounces of gold produced and 1.5% of production thereafter. We have been advised that a drilling programme has been designed to commence this calendar year.

Heathcote (gold)

The operator is a subsidiary of Perseverance Corporation Limited (ASX: PSV). The project covers an exploration licences near the township of Heathcote in Victoria with a royalty of 2.5% of gross proceeds.

We are not aware of any significant exploration activities on the property in recent times.

Lake Margaret (copper)

Copper Strike Limited (ASX:CSE) is the operator of this strategically located tenement immediately adjacent to the northern end of the Mt Lyell workings in Tasmania. The royalty is a 1% NSR.

A favourable geophysical survey has been completed with drilling contemplated for the final quarter of this year.

DIRECTORS' REPORT

The Directors of Royalco Resources Limited submit herewith the annual financial report for the financial year ended 30 June 2006. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

Details of the Directors of the Company in office at any time during or since the end of the financial year and at the date of this report are:

DIRECTORS

Mr Peter Topham	Executive Chairman
Qualifications	B.Ec., LLB, M.AusIMM
Experience	Board member since 26 March 2001. Peter Topham is a non-executive Director of Copper Strike Limited, a listed public company which specializes in exploration of copper prospects. From 1989 to 2000, Peter was Executive Chairman and Managing Director of Mineral Commodities Limited. Prior to becoming involved with Mineral Commodities, Peter worked in stockbroking and corporate finance with various companies. Peter is a Barrister and Solicitor of the Supreme Court of Victoria but does not carry on practice as such.
Directorships in listed entities	Copper Strike Limited (since 30 March 2004)
Interests in Shares and options	5,750,400 shares (5,351,956 escrowed until 29 June 2008) 1,400,000 options exercisable at 50 cents by 31 March 2011 (escrowed until 29 June 2008)
Mr David Ogg	Executive Director and Company Secretary
Qualifications	B.Ec. M.AusIMM
Experience	Board member since 26 March 2001. David Ogg is a principal of David Ogg & Associates Pty Ltd which is involved in the provision of corporate financial advice. David is Company Secretary of Copper Strike Limited, a listed public company. David was an executive director of Mineral Commodities Ltd from 1994 to 2000.
Directorships in listed entities	Nil
Interests in Shares and options	4,550,440 shares (4,151,956 esrowed until 29 June 2008) 980,000 options exercisable at 50 cents by 31 March 2011 (escrowed until 29 June 2008)

Mr Tom Eadie	Non-Executive Director
Qualifications	M.Sc., F.AusIMM , SA Fin
Experience	Board member since 19 October 2005. Tom Eadie has significant experience within the junior resources sector, as well as technical and senior executive levels with major mining companies Pasminco, Aberfoyle Resources and Cominco. He is a past director of the AusIMM.
Directorships in listed entities	Copper Strike Limited (since 30 March 2004) Discovery Nickel Limited (since 19 October 2005)
Interests in Shares and options	48,000 shares (18,000 escrowed until 29 June 2008) 150,000 options exercisable at 50 cents by 31 March 2011 (escrowed until 29 June 2008)
Mr Adam Boyd	Non Executive Director
Qualifications	B.Com
Experience	Board member since 19 October 2005. Adam Boyd is a Chartered Accountant with over 15 years experience in resource and infrastructure project development. He is currently Managing Director of Pacific Energy Ltd, a company developing renewable energy projects.
Directorships in listed entities	Pacific Energy Limited (since 23 June 2006)
Interests in Shares and options	76,800 shares (28,800 escrowed until 29 June 2008) 150,000 options exercisable at 50 cents by 31 March 2011 (escrowed until 29 June 2008)
Mr Peter Lester	Non Executive Director
Qualifications	B. Eng (Hons)
Experience	Board member since 11 April 2006. Peter is a mining engineer with extensive experience in senior operating, development and corporate roles with Newcrest, Norths, CRA, and MIM. He is currently Executive General Manager - Corporate Development, for Oxiana Limited, a role he has held since 2002.
Directorships in listed entities	Nil
Interests in Shares and options	Nil shares Nil options
Mr Harry Hill	Non Executive Director
	Resigned 19 October 2005

MEETING OF DIRECTORS

The following table sets out the number of meetings of the Company's Directors during the year ended 30 June 2006 and the number of meetings attended by each Director. During the financial year 4 board meetings were held.

Director	Full Meetings of Directors	
	Held	Attended
Mr Peter Topham	4	4
Mr David Ogg	4	3
Mr Tom Eadie (appointed 19 October 2005)	4	4
Mr Adam Boyd (appointed 19 October 2005)	4	4
Mr Peter Lester (appointed 19 October 2005)	1	1
Mr Harry Hill (Resigned 19 October 2005)	-	-

MANAGEMENT

Steven Tambanis B.Sc. B.Ec. MAusIMM – General Manager Project Development

Steven is a geologist with over nineteen years of technical and financial experience in the mining industry. He has worked as an exploration manager and mine manager before spending seven years with WMC Resources in business development. Steven has also worked in the resources broking and banking sectors prior to joining Royalco in late 2005.

Joey Ayson (BS Geology) – Country Manager

Joey is an exploration geologist with over 23 years experience in the Philippines and South East Asian region. Joey has worked for Oxiana Philippines Inc ("OPI") for nine years, initially in a technical capacity, progressing to management of tenement administration, project evaluation, community relations and Government liaison.

Ruben Quitarano (BS Mining Engineering) - Senior Mining Engineer

Ruben has worked as a mining engineer for over 19 years in the Philippines and South East Asia. Ruben has worked for OPI for the past nine years, managing GIS data. Additional roles include supervising the Baguio regional office, tenement administration and community relations.

Mario Aco (BS Geology) – Senior Geologist

Mario has 30 years experience as a mine and exploration geologist, having worked predominantly in the Philippines and Indonesia on epithermal gold and porphyry copper mineralisation. Mario joined OPI in 2004 and has worked mainly on the delineation of copper porphyry mineralisation within the OPI tenements.

PRINCIPAL ACTIVITIES

The Company's principal activity in the course of the financial year was the acquisition and management of the resource based royalties and the exploration of mineral tenements located in the Philippines.

FINANCIAL POSITION

The consolidated operating loss after income tax for the financial year ended 30 June 2006 was \$1,652,373 (2005 – loss of \$237,895).

During the year the Company successfully raised \$12,000,000 (before costs) by way of an Initial Public Offering of 24,000,000 shares at an issue price of \$0.50.

The company issued a further 10,000,000 shares as consideration for the purchase of 100% of the issued capital of Oxiana Philippines Inc.

The net assets of the consolidated entity have increased by \$15,395,396 from 30 June 2005 to \$16,365,613. The major movements were:

- (i) Capital raisings – as detailed above
- (ii) Capitalisation of exploration expenditure
- (iii) Operating costs

The consolidated entity's working capital, being current assets less current liabilities was \$10,756,836 in 2006 compared with \$153,644 in 2005.

The Directors believe the Company is in a very sound position to expand and grow its current operations.

REVIEW OF OPERATIONS

Refer to the Review of Operations preceding this Directors Report.

DIVIDENDS

No dividends were paid or declared during the year and the Directors do not recommend the payment of a dividend.

EMPLOYEES

As at the date of this report the consolidated entity engaged 10 (2005:2) full-time employees.

CHANGES IN STATE OF AFFAIRS

During the financial year there were the following significant changes in the state of affairs of the Company:

- i. The company raised \$456,000 through the issue of 608,000 shares at \$0.75 (pre-capital reconstruction).
- ii. The company issued 2,800,000 options, exercisable at \$0.50 on or before 31st March 2011 to directors and executives.
- iii. The capital of the company was reconstructed on the basis of consolidating 10 ordinary shares in the capital of the company into one ordinary share and by subdividing each such resultant share into 24 ordinary shares.
- iv. The company raised \$12,000,000 by way of an Initial Public Offering of 24,000,000 shares at an issue price of \$0.50.
- v. The company issued 10,000,000 shares to Oxiana Limited in consideration for the purchase of 100% of the issued capital of Oxiana Philippines Inc.

AFTER BALANCE DATE EVENTS

There has been no matter or circumstance, other than that referred to in Note 26, 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 of 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.

INDEMNIFICATION OF OFFICERS AND AUDITORS

The company has during or since the financial year, in respect of each of the directors and the Company secretary agreed to indemnify against a liability, including costs or expenses in successfully defending legal proceedings. The company has not, however, agreed to pay a premium in respect of a contract insuring against a liability for the costs or expenses to defend legal proceedings.

ENVIRONMENTAL REGULATIONS

The economic entity holds participating interests in a number of mining and exploration tenements. The various authorities granting such tenements require the tenement holder to comply with the terms of the grant of the tenement and all directions given to it under those terms of the tenement. There have been no known breaches of the entity's tenement conditions, and no such breaches have been notified by any government agencies during the year ended 30 June 2006.

REMUNERATION POLICY

The board policy for determining the nature and amount of remuneration of directors and executives is agreed by the board of directors as a whole. The board obtains professional advice where necessary to ensure that the company attracts and retains talented and motivated directors and employees who can enhance company performance through their contributions and leadership.

Executive Director Remuneration

In determining the level and make-up of executive remuneration, the Board negotiates a remuneration to reflect the market salary for a position and individual of comparable responsibility and experience. Due to the limited size of the Company and of its operations and financial affairs, the use of a separate remuneration committee is not considered appropriate. Remuneration is regularly compared with the external market by participation in industry salary surveys and during recruitment activities generally. If required, the Board may engage an external consultant to provide independent advice in the form of a written report detailing market levels of remuneration for comparable executive roles.

Remuneration consists of a fixed remuneration and a long term incentive portion as considered appropriate.

Non-Executive Director Remuneration

Non-executive directors' fees are paid within an aggregate limit which is approved by the shareholders from time to time. Retirement payments, if any, are agreed to be determined in accordance with the rules set out in the Corporations Act at the time of the Directors retirement or termination. Non-Executive Directors remuneration may include an incentive portion consisting of bonuses and/or options, as considered appropriate by the Board, which may be subject to shareholder approval in accordance with the ASX Listing Rules.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst directors is reviewed annually. The Board considers the amount of director fees being paid by comparable companies with similar responsibilities and the experience of the non-executive directors when undertaking the annual review process.

The Company determines the maximum amount for remuneration, including thresholds for share-based remuneration, for directors by resolution. Further details regarding components of director and executive remuneration are provided in the notes to the financial statements.

The names and positions of each person who held the position of director at any time during the financial year is provided above.

Details of Remuneration for Year Ended 30 June 2006

The remuneration for each director and each of the five executive officers of the consolidated entity receiving the highest remuneration during the year was as follows:

	Salary, Fees and Commissions \$	Superannuation Contribution \$	Non-cash Benefits \$	Options \$	Total \$
Directors					
Mr P J Topham	270,000	27,000	-	258,734	555,734
Mr D Ogg	110,000	55,000	-	181,114	346,114
Mr T Eadie	17,500	1,575	-	27,722	46,797
Mr A Boyd	19,075	-	-	27,722	46,797
Mr P Lester	-	-	-	-	-
Mr H Hill ⁽¹⁾	-	-	-	22,178	22,178
	416,575	83,575	-	517,470	1,017,620

(1) Mr Hill resigned as a director on 19 October 2005

Options Issued as Part of Remuneration for the Year Ended 30 June 2006

Options are issued to directors and executives as part of their remuneration. The options are not issued based on performance criteria, but are issued to the majority of directors and executives of Royalco Resources Limited to increase goal congruence between executives, directors and shareholders.

	Number of Options granted	Value of Options Granted at grant date \$	Total Remuneration Represented by Options %	Exercise Price of Options \$	Expiry Date of Options
Directors					
Mr P J Topham	1,400,000	258,734	46.56	0.50	31-3-2011
Mr D Ogg	980,000	181,114	52.33	0.50	31-3-2011
Mr T Eadie	150,000	27,722	59.24	0.50	31-3-2011
Mr A Boyd	150,000	27,722	59.24	0.50	31-3-2011
Mr P Lester	-	-	-	-	-
Mr H Hill	120,000	22,178	100.00	0.50	31-3-2011
	2,800,000	517,470			

(1) Mr Hill resigned as a director on 19 October 2005

Options granted as part of remuneration have been valued using a Black Scholes option pricing model, which takes account various factors including the option exercise price, the current level and volatility of the underlying share price, the risk-free interest rate, expected dividends on the underlying share, current market price of the underlying share and the expected life of the option. The value of the options at grant date was calculated at 18.48 cents per option.

Details of Remuneration for Year Ended 30 June 2005

The remuneration for each director and each of the five executive officers of the consolidated entity receiving the highest remuneration during the year was as follows:

	Salary, Fees and Commissions \$	Superannuation Contribution \$	Non-cash Benefits \$	Options \$	Total \$
Directors					
Mr P J Topham	150,000	13,500	-	-	163,500
Mr D Ogg	120,000	10,800	-	-	130,800
	270,000	24,300			294,300

Options Issued as Part of Remuneration for the Year Ended 30 June 2005

There were no options issued as part of remuneration for the year ended 30 June 2005

Employment contracts

The Executive Chairman, Mr.P Topham is employed under contract. The employment contract commenced on 1 July 2005. Under the terms of the present contract:

- Mr Topham may resign from his positions and thus terminate this contract by giving 3 months written notice.
- The Company may terminate this employment agreement following 24 months from the date of the Agreement by providing 12 months written notice.
- The Company may terminate the contact at any time without notice if serious misconduct has occurred. Where termination with cause occurs the Managing Director is only entitled to that portion of remuneration which is fixed, and only up to the date of termination.
- On termination of the agreement Mr Topham will be entitled to be paid those outstanding amounts owing to him up until the Termination Date.

An Executive Director, Mr D Ogg, is employed under contract. The employment contract commenced on 1 July 2005 under the terms of the present contract.

- Mr Ogg may resign from his position and thus terminate this contract by giving 3 months written notice.
- The Company may terminate this employment agreement following 24 months from the date of the Agreement by providing 12 months written notice.
- The Company may terminate the contact at any time without notice if serious misconduct has occurred. Where termination with cause occurs Mr Ogg is only entitled to that portion of remuneration which is fixed, and only up to the date of termination.
- On termination of the agreement Mr Ogg will be entitled to be paid those outstanding amounts owing to him up until the Termination Date.

SHARES UNDER OPTION

Unissued ordinary shares of the Company under option at the date of this report are as follows:

Item	Number	Exercise Price	Expiry Date
Unlisted Options	2,800,000	50 cents	31 March 2011

During the year 2,800,000 options were issued, and no options were exercised. Refer to the notes to the financial statements for details of options granted.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied for leave of the Court under Section 327 of the Corporations Act 2001 to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not a party to any proceedings during the year.

AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

The lead auditors independence declaration for the year ended 30 June 2006 has been received and is presented on page 21 of the Annual Report.

Non-Audit Services

The following non-audit services were provided by the entity's auditor, Leydin Freyer Corporate Pty Ltd. The directors are satisfied that the provision on non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act. The nature and scope of each type of non-audit services provided means that auditor independence was not compromised.

Leydin Freyer & Associates received or are due to receive the following amounts for the provision of non-audit services:

Independent Accountants Report	\$10,000
--------------------------------	----------

CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behavior and accountability, the Directors of Royalco Resources Limited support the principles of Corporate Governance. The Company's Corporate Governance statement is contained in the additional ASX information section of this annual report.

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

MELBOURNE,
29 September 2006

AUDITOR'S INDEPENDENCE DECLARATION FOR THE YEAR ENDED 30 JUNE 2006

As lead auditor for the audit of Royalco Resources Limited for the year ended 30 June 2006, I declare that, to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Royalco Resources Limited and the entities it controlled during the year.

LEYDIN FREYER CORPORATE PTY LTD
Chartered Accountants



M J LEYDIN
Director

29 September 2006

Income Statement
For the Year Ended 30 June 2006

	Note	Consolidated 2006 \$	Consolidated 2005 \$	Parent 2006 \$	Parent 2005 \$
Revenue	3	119,832	99,147	119,832	99,147
Administrative costs		(339,768)	(119,508)	(339,769)	(119,508)
Employment costs		(575,454)	(326,849)	(575,454)	(326,849)
Impairment of assets		(22,216)	(9,392)	(22,216)	(9,392)
Share based payments		(517,468)	-	(517,468)	-
Exploration costs written off		(809,929)	-	-	-
Provision for diminution in investments		-	-	(1,253,770)	-
Operating loss before income tax	4	(2,145,003)	(356,602)	(2,588,845)	(356,602)
Income tax benefit attributable to operating loss	5	492,630	118,707	889,124	118,707
Operating loss after income tax benefit		(1,652,373)	(237,895)	(1,699,721)	(237,895)
Loss attributable to members of the parent entity		(1,652,373)	(237,895)	(1,699,721)	(237,895)
		Cents per share	Cents per share		
Earnings per Share					
Basic Earnings/(Loss) per share	24	(7.49)	(3.78)*		
Diluted Earnings/(Loss) per share	24	(6.94)	(3.78)*		

*: Adjusted for capital reconstruction in 2006

ROYALCO RESOURCES LTD
ABN 53 096 321 532

Balance Sheet
For the Year Ended 30 June 2006

	Note	Consolidated 2006 \$	Consolidated 2005 \$	Parent 2006 \$	Parent 2005 \$
Current Assets					
Cash and cash equivalents	6	10,827,559	196,770	10,688,892	196,770
Trade and other receivables	7	113,552	8,366	106,242	8,366
Other financial assets	8	119,970	-	119,970	-
Other	9	14,561	22,056	-	22,056
Total Current Assets		11,075,642	227,192	10,915,104	227,192
Non-Current Assets					
Deferred tax assets	10	918,256	425,626	1,314,750	425,626
Other financial assets	8	-	25,000	4,062,563	25,000
Plant and Equipment	11	4,230	376	4,230	376
Royalty Rights	12	336,697	358,913	336,697	358,913
Intangible assets	13	418,035	-	-	-
Other	14	3,983,703	6,658	74,921	6,658
Total Non-Current Assets		5,660,921	816,573	5,793,161	816,573
Total Assets		16,736,563	1,043,765	16,708,265	1,043,765
Current Liabilities					
Trade and other payables	15	182,597	17,074	175,840	17,074
Provisions	16	136,209	56,474	136,209	56,474
Total Current Liabilities		318,806	73,548	312,049	73,548
Non-Current Liabilities					
Provision	16	52,144	-	52,144	-
Total Non-Current Liabilities		52,144	-	52,144	-
Total Liabilities		370,950	73,548	364,193	73,548
Net Assets		16,365,613	970,217	16,344,072	970,217
Equity					
Contributed Equity	17	18,546,934	1,990,826	18,546,934	1,990,826
Reserves	18	491,661	-	517,468	-
Accumulated losses		(2,672,982)	(1,020,609)	(2,720,330)	(1,020,609)
Total Equity		16,365,613	970,217	16,344,072	970,217

The accompanying notes form part of these financial statements.

Statement of Cash Flows
For the year ended 30 June 2006

	Note	Consolidated 2006 \$	Consolidated 2005 \$	Parent 2006 \$	Parent 2005 \$
Cash Flows From Operating Activities					
Receipts from customers		-	41,000	-	41,000
Interest received		11,053	17,247	11,053	17,247
Income Tax		864	-	864	-
Payments to suppliers and employees		(712,935)	(421,012)	(712,935)	(421,012)
Net cash used in operating activities	19(a)	(701,018)	(362,765)	(701,018)	(362,765)
Cash Flows From Investing Activities					
Payment for investment in subsidiary		(294,277)	-	(294,277)	-
Payment for exploration expenditure		(68,263)	-	(68,263)	-
Proceeds from sale of financial assets		24,900	128,854	24,900	128,854
Payment for financial assets		(19,500)	(19,689)	(19,500)	(19,689)
Payment for plant and equipment		(5,828)	-	(5,828)	-
Net cash provided by/(used in) investing activities		(362,968)	109,165	(362,968)	109,165
Cash Flows From Financing Activities					
Proceeds from the issue of shares		12,456,000	-	12,456,000	-
Cost of capital raising		(899,892)	-	(899,892)	-
Net cash provided by financing activities		11,556,108	-	11,556,108	-
Net Increase (Decrease) in Cash Held		10,492,122	(253,600)	10,492,122	(253,600)
Cash and cash equivalents at the Beginning of the Financial Year		196,770	450,370	196,770	450,370
Cash acquired on acquisition of subsidiary		138,667	-	-	-
Cash and cash equivalents at the End of the Financial Year	6	10,827,559	196,770	10,688,892	196,770

The accompanying notes form part of these financial statements.

**Statement of Changes in Equity
For the year ended 30 June 2006**

CONSOLIDATED	Attributable to equity holders of the parent				
	Issued Capital	Retained Earnings	Option Reserve(s)	Foreign Currency Transaction Reserve	Total
Equity as at 1 July 2004	1,990,826	(782,714)	-	-	1,208,112
Loss for the period		(237,895)	-	-	(237,895)
Issue of Shares	-	-	-	-	-
Equity as at 30 June 2005	1,990,826	(1,020,609)	-	-	970,217

Equity as at 1 July 2005	1,990,826	(1,020,609)	-	-	970,217
Share based on payments	-	-	517,468	-	517,468
Currency translation differences	-	-	-	(25,807)	(25,807)
Loss for the period	-	(1,652,373)	-	-	(1,652,373)
Issues of shares	17,456,000	-	-	-	17,456,000
Cost of capital raising	(899,892)	-	-	-	(899,892)
Equity as at 30 June 2006	18,546,934	(2,672,982)	517,468	(25,807)	16,365,613

PARENT	Attributable to equity holders of the parent				
	Issued Capital	Retained Earnings	Option Reserve(s)	Foreign Currency Transaction Reserve	Total
Equity as at 1 July 2004	1,990,826	(782,714)	-	-	1,208,112
Loss for the period		(237,895)	-	-	(237,895)
Issue of Shares	-	-	-	-	-
Equity as at 30 June 2005	1,990,826	(1,020,609)	-	-	970,217

Equity as at 1 July 2005	1,990,826	(1,020,609)	-	-	970,217
Share based on payments	-	-	517,468	-	517,468
Loss for the period	-	(1,699,721)	-	-	(1,699,721)
Issues of shares	17,456,000	-	-	-	17,456,000
Cost of capital raising	(899,892)	-	-	-	(899,892)
Equity as at 30 June 2006	18,546,934	(2,720,330)	517,468	-	16,344,072

The accompanying notes form part of these financial statements.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards, Urgent Issues Group Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

The financial report covers the economic entity of Royalco Resources Limited and its controlled entities, and Royalco Resources Ltd as an individual parent entity. Royalco Resources Limited is a listed public company, incorporated and domiciled in Australia.

The financial report of Royalco Resources Limited and controlled entities, and Royalco Resources Limited as an individual parent entity comply with all Australian equivalents to International Financial Reporting Standards (AIFRS) in their entirety.

The following is a summary of the material accounting policies adopted by the economic entity in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

The financial statements were authorized for issue by the Directors on 29 September 2006.

Basis of Preparation

First-time Adoption of Australian Equivalents to International Financial Reporting Standards

Royalco Resources Limited and controlled entities, and Royalco Resources Limited as an individual parent entity have prepared financial statements in accordance with the Australian equivalents to International Financial Reporting Standards (AIFRS) from 1 July 2005.

In accordance with the requirements of AASB 1: First-time Adoption of Australian Equivalents to International Financial Reporting Standards, adjustments to the parent entity and consolidated entity accounts resulting from the introduction of AIFRS have been applied retrospectively to 2005 comparative figures excluding cases where optional exemptions available under AASB 1 have been applied. These consolidated accounts are the first financial statements of Royalco Resources Limited to be prepared in accordance with Australian equivalents to IFRS.

The accounting policies set out below have been consistently applied to all years presented.

Reconciliations of the transition from previous Australian GAAP to AIFRS have been included in Note 2 to this report.

Reporting Basis and Conventions

The financial report has been prepared on a accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

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

Accounting Policies

(a) Principle of consolidation

A controlled entity is any entity Royalco Resources Limited has the power to control the financial and operation policies of so as to obtain benefits from its activities.

A list of controlled entities is contained in Note 8 to the financial statements.

All inter-company balances and transactions between entities in the economic entity, including and unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the parent entity.

Where controlled entities have entered or left the economic entity during the year, their operation results have been included/excluded from the date control was obtained or until the date control ceased.

Minority equity interests in the equity and results of the entities that are controlled are shown as a separate item in the consolidated financial report.

(b) Income Tax

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognized from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realized or liability is settled. Deferred tax is credited in the income statement except where it related to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognized to the extent that it is probable that future tax profits will be available against which deductible temporary difference can be utilised.

The amount of benefits brought to account or which may be realized in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realized and comply with the conditions of deductibility imposed by the law.

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

(c) Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

Property

Plant and equipment

Plant and equipment are measured on the cost basis.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

The cost of fixed assets constructed within the economic entity includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation

The depreciable amount of all fixed assets including building and capitalized lease assets, but excluding freehold land, is depreciated on a straight-line basis over their useful lives to the economic entity commencing from the time the asset is held for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	Depreciation
Plant and equipment	40%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

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

(d) Exploration and Development Expenditure

Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward cost in relation to that area of interest.

Costs of site restoration are provided over the life of the facility from when exploration commences and are included in the cost of that stage. Site restoration costs include the dismantling and removal of mining plant, equipment and building structures, waste removal, and rehabilitation of the site in accordance with clauses of the mining permits. Such costs have been determined using estimates of future costs, current legal requirements and technology on an undiscounted basis.

Any changes in the estimates for the costs are accounted on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly the costs have been determined on the basis that the restoration will be completed within one year of abandoning the site.

(e) Royalty Rights

Under AASB 138 Intangible Assets, Royalty Rights can only be recognised when it is probable that future economic benefits will flow to the entity and the cost of the asset can be measured reliably. On initial recognition, all Royalty Rights must be measured at cost. Subsequently, these Rights can be measured at fair value by reference to an active market. These carrying values must be assessed regularly to ensure the carrying amount does not materially differ from the fair value at reporting date.

Amortisation of these rights will commence once the asset is income producing. The amortization method and useful life will be assessed at the end of each reporting period.

An active market does not exist for Royalty Rights therefore they have been recorded at cost. This will be reassessed at the end of each reporting period.

(f) Leases

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognized as a liability and amortised on a straight-line basis over the life of the lease term.

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

(g) Impairment of Assets

At each reporting date, the group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

(h) Employee Benefits

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

Equity-settled compensation

Equity-settled share-based payments granted after 7 November 2002 that were unvested as of 1 January 2005, are measured at fair value at the date of grant. Fair value is measured by the use of the Black Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioral considerations.

The fair value determined at the grant date of the equity-settled share-based payment is expensed on a straight-line basis over the vesting period, based on the consolidated entity's estimate of shares that will eventually vest.

For cash-settled share-based payments, a liability equal to the portion of the goods or services received is recognised at the current fair value determined at each reporting date.

(i) Provisions

Provisions are recognised when the group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

(j) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

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

(k) Revenue

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Revenue for the rendering of a service is recognized upon the delivery of the service to the customers.

All revenue is stated net of the amount of goods and services tax (GST).

(l) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(m) Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

2. IMPACT OF ADOPTION OF AIFRS

The impacts of adopting AIFRS on the total equity and profit after tax as reported under Australian Accounting Standards applicable before 1 January 2005 ('AGAAP') are illustrated below.

Reconciliation of total equity as presented under AGAAP to that under AIFRS

		30 June 2005 \$	1 July 2004 \$
Total Equity under AGAAP		601,065	901,193
Recognition of future income tax benefit	(A)	425,626	306,919
Recognition of employee entitlements	(B)	(56,474)	-
Total Equity under AIFRS		970,217	1,208,112

(A) AASB112 – Income Taxes, requires future income tax benefits to be recognised as an asset if it is probable that they will be utilized against future taxable profits. Under AGAAP the company did not recognise tax assets as it was not virtually certain that they will be utilized in the future.

(B) AASB119 – Employee Benefits, requires that provisions be recognised in respect of annual leave and long service leave for all employees of the company. The company did not previously adopt this standard under special purpose reporting and accordingly had no employee entitlement provisions booked.

Reconciliation of profit after tax under AGAAP to that under AIFRS

		Year Ended 30 June 2005 \$
Profit after tax as previously reported		(300,128)
Future income tax benefit	(A)	118,707
Provisions for employee entitlements	(B)	(56,474)
Profit after tax under AIFRS		(237,895)

(A) AASB112 – Income Taxes, requires future income tax benefits to be recognised as an asset if it is probable that they will be utilized against future taxable profits. Under AGAAP the company did not recognize tax assets as it was not virtually certain that they will be utilized in the future.

(B) AASB119 – Employee Benefits, requires that provisions be recognised in respect of annual leave and long service leave for all employees of the company. The company did not previously adopt this standard under special purpose reporting and accordingly had no employee entitlement provisions booked.

Explanation of material adjustment to cash flow statements

There are no material differences between the cash flow statements presented under AIFRS and those presented under AGAAP.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (Cont)

	Consolidated 2006 \$	Consolidated 2005 \$	Parent 2006 \$	Parent 2005 \$
3. REVENUE				
Non-Operating Revenue				
Fair value gains	66,671	-	66,671	-
Consulting Fees - related party (Note 22)	-	41,000	-	41,000
Interest revenue – other entities	39,949	19,348	39,949	19,348
Profit on sale of investments	4,912	38,799	4,912	38,799
Other Income	8,300	-	8,300	-
Total Revenue	119,832	99,147	119,832	99,147
 4. LOSS FOR THE YEAR				
Loss before income tax has been arrived at after crediting/ (charging) the following gains and losses from continuing operations				
Write off of formation expenses	-	1,082	-	1,082
Impairment of royalty rights	22,216	9,391	22,216	9,391
Rental expense on operating lease	20,060	17,195	20,050	17,195
Depreciation expenses	1,974	95	1,974	95
Employee Benefit Expense				
Superannuation Contributions	83,575	30,375	83,575	30,375
Employee entitlements	131,879	56,474	131,879	56,474
Equity settled share based payments	517,468	-	517,468	-
Total Employee Benefit Expense	732,922	86,849	732,922	86,849

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (Cont)

	Consolidated 2006 \$	Consolidated 2005 \$	Parent 2006 \$	Parent 2005 \$
5. INCOME TAX EXPENSE				
(a) The Components of Tax Expense comprise:				
Current Tax	-	-	-	-
Deferred Tax	918,255	425,626	1,314,750	425,626
	<u>918,255</u>	<u>425,626</u>	<u>1,314,750</u>	<u>425,626</u>
(b) The prima facie tax from ordinary activities before income tax is reconciled to the income tax expense as follows:				
Loss from Ordinary Activities	<u>2,145,003</u>	<u>356,602</u>	<u>2,588,845</u>	<u>356,602</u>
Income tax benefit calculated at 30%	643,501	106,981	776,654	106,981
Less:				
Tax Effect of:				
- Share Based Payments	155,240	-	155,240	-
- Accrued Expenses	21,757	4,170	1,394	4,170
- Other Temporary Differences	-	-	-	-
- Write off Exploration	242,978	-	-	-
	<u>223,526</u>	<u>102,811</u>	<u>620,020</u>	<u>102,811</u>
Add:				
Tax Effect of:				
- Capitalised Deductible Exploration Expenditure	-	-	-	-
- Deductible Black Hole Expenditure	269,104	15,896	269,104	15,896
	<u>492,630</u>	<u>118,707</u>	<u>889,124</u>	<u>118,707</u>
Add: Deferred Tax Asset at start of the period	425,626	306,919	425,626	306,919
	<u>918,255</u>	<u>425,626</u>	<u>1,314,750</u>	<u>425,626</u>

6. CASH AND CASH EQUIVALENTS

Cash on hand and at bank	2,827,559	196,770	2,688,892	196,770
Short term bank deposits	8,000,000	-	8,000,000	-
	<u>10,827,559</u>	<u>196,770</u>	<u>10,688,892</u>	<u>196,770</u>

The effective interest rate on short term bank deposits was 5.97%; these deposits have an average maturity date of 75 days

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (Cont)

	Consolidated 2006 \$	Consolidated 2005 \$	Parent 2006 \$	Parent 2005 \$
7. TRADE AND OTHER RECEIVABLES				
Trade Receivables	7,310	-	-	-
GST receivable	74,846	6,265	74,846	6,265
Interest receivable	31,396	2,101	31,396	2,101
	<u>113,552</u>	<u>8,366</u>	<u>106,242</u>	<u>8,366</u>

8. OTHER FINANCIAL ASSETS

CURRENT

Available for sale financial assets ^(a)	119,970	-	119,970	-
--	---------	---	---------	---

NON-CURRENT

Available for sale financial assets	-	25,000	4,062,563	25,000
	<u>119,970</u>	<u>25,000</u>	<u>4,182,533</u>	<u>25,000</u>

(a) Available for sale financial assets comprise:

Listed investments at fair value

- shares in listed corporations	7,470	-	7,470	-
- shares in related corporations	92,500	25,000	92,500	25,000
	<u>99,970</u>	<u>25,000</u>	<u>99,970</u>	<u>25,000</u>

Unlisted investments at cost

- shares in controlled entities	-	-	5,316,333	-
- shares in other corporations	20,000	-	20,000	-
- less provision for impairment	-	-	(1,253,770)	-
	<u>20,000</u>	<u>-</u>	<u>4,082,563</u>	<u>-</u>

Total available-for-sale financial assets	<u>119,970</u>	<u>25,000</u>	<u>4,182,533</u>	<u>25,000</u>
---	----------------	---------------	------------------	---------------

The fair value of unlisted available-for-sale financial assets cannot be reliably measured as variability in the range of reasonable fair value estimates is significant. As a result, all unlisted investments are reflected at cost. Unlisted available for sale financial assets exist with active markets and could be disposed of if required.

Details of the investments in the controlled entities are:

Name of Entity	Country of Incorporation	% Held 2006	% Held 2005
Oxiana Philippines Inc (subsequently renamed Royalco Philippines Inc)	Philippines	100%	-
Ginto Minerals Pty Ltd	Australia	100%	-
Royalco Resources (No1) Pty Ltd	Australia	100%	-

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (Cont)

	Consolidated 2006 \$	Consolidated 2005 \$	Parent 2006 \$	Parent 2005 \$
9. OTHER				
Prepayments	14,561	22,056	-	22,056
10. DEFERRED TAX ASSETS				
Deferred tax assets comprise:				
Share based payments	155,240	-	155,240	-
Tax losses carried forward	763,015	425,626	1,159,510	425,626
	<u>918,255</u>	<u>425,626</u>	<u>1,314,750</u>	<u>425,626</u>
11. PLANT AND EQUIPMENT				
Plant and equipment – at cost	6,299	471	6,299	471
Less: accumulated depreciation	(2,069)	(95)	(2,069)	95
	<u>4,230</u>	<u>376</u>	<u>4,230</u>	<u>376</u>
<i>Reconciliation of plant and equipment</i>				
Carrying amount at beginning of the year	376	471	376	471
Additions	5,828	-	5,828	-
Depreciation expense	(1,974)	(95)	(1,974)	(95)
Carrying amount at end of the year	<u>4,230</u>	<u>376</u>	<u>4,230</u>	<u>376</u>
12. ROYALTY RIGHTS				
Royalty Rights – at cost	<u>336,697</u>	<u>358,913</u>	<u>336,697</u>	<u>358,913</u>
13. INTANGIBLES				
Goodwill on consolidation	<u>418,035</u>	-	-	-

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (Cont)

	Consolidated 2006 \$	Consolidated 2005 \$	Parent 2006 \$	Parent 2005 \$
14. OTHER NON-CURRENT ASSETS				
Costs carried forward in respect of areas of interest in exploration and evaluation phase ⁽ⁱ⁾	3,977,045	-	68,263	-
Security Deposits paid	6,658	6,658	6,658	6,658
	3,983,703	6,658	74,921	6,658
⁽ⁱ⁾ Recoverability of the carrying amount of exploration assets is dependent upon the successful exploration and sale of resources.				
These exploration and evaluation costs were acquired as part of the Oxiana Philippines Inc acquisition.				
15. TRADE AND OTHER PAYABLES				
Trade creditors and accruals	182,597	17,074	175,840	17,074
16. PROVISIONS				
CURRENT				
Provision for employee entitlements	136,209	56,474	136,209	56,474
NON-CURRENT				
Provision for employee entitlements	52,144	-	52,144	-
	188,353	56,474	188,353	56,474

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (Cont)

	Consolidated 2006 \$	Consolidated 2005 \$	Parent 2006 \$	Parent 2005 \$
17. CONTRIBUTED EQUITY				
(a) 56,411,200 (2005 : 8,730,000) fully paid ordinary shares	18,546,934	1,990,826	18,546,934	1,990,826
(b) Movements in ordinary share capital of the company were as follows:				
Date	Details	Number of shares	\$	
01-07-2004	Opening Balance	6,730,000	990,826	
	Issues to shareholders	2,000,000	1,000,000	
30-06-2005	Closing Balance	8,730,000	1,990,826	
Date	Details	Number of shares	\$	
01-07-2005	Opening Balance	8,730,000	1,990,826	
18-10-2005 to 07-02-2006	Seed Capital Issues	608,000	456,000	
		9,338,000	2,446,826	
07-04-2006	Capital Reconstruction (2.4:1 basis)	22,411,200	2,446,826	
27-06-2006	IPO and Oxiana Ltd Issues	34,000,000	17,000,000	
	Less: Cost of capital raising		(899,892)	
30-06-2006	Closing Balance	56,411,200	18,546,934	
			Consolidated 2006 \$	Consolidated 2005 \$
			Parent 2006 \$	Parent 2005 \$
18. RESERVES				
Option reserve	517,468	-	517,468	-
Foreign currency translation reserve	(25,807)	-	-	-
	491,661	-	517,468	-

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (Cont)

	Consolidated 2006 \$	Consolidated 2005 \$	Parent 2006 \$	Parent 2005 \$
19. NOTES TO THE STATEMENT OF CASH FLOWS				
a) Reconciliation of Operating Loss After Income Tax to Net Cash Flows From Operating Activities:				
Operating Loss after income tax	(1,652,373)	(237,895)	(1,699,721)	(237,895)
Non-Cash Activities				
Write down of Royalty Rights	22,216	9,391	22,216	9,381
Profit on sale of investments	(4,912)	(38,799)	(4,912)	(38,799)
Depreciation	1,974	95	1,974	95
Write off of formation expenses	-	1,082	-	1,082
Provision for diminution in investments	-	-	1,253,770	-
Share based payments	517,468	-	517,468	-
Employee entitlements	131,879	56,474	131,879	56,474
Fair value gains	(66,671)	-	(66,671)	-
Exploration expenses written off	809,929	-	-	-
Changes in net assets:				
(Increase)/Decrease in deferred tax	(492,630)	(118,707)	(889,124)	(118,707)
(Increase)/Decrease in receivables	(97,876)	(8,349)	(97,876)	(8,349)
(Increase)/Decrease in other current assets	(28,787)	(22,056)	(28,787)	(22,056)
Increase/(Decrease) in sundry creditors and accruals	158,765	(4,001)	158,766	(4,001)
Net Cash used in operating activities	(701,018)	(362,765)	(701,018)	(362,765)
b) Acquisition of Entities:				
On 27 June 2006 100% of the controlled entity Oxiana Philippines Inc was acquired. Details of this transaction are:				
Purchase consideration				
- Costs incurred – cost paid	294,277	-	294,277	-
- Costs incurred	22,056	-	22,056	-
- Equity settled consideration	5,000,000	-	5,000,000	-
	5,316,333	-	5,316,333	-
Assets & Liabilities held at acquisition date				
Cash	138,667	-	-	-
Receivables	21,872	-	-	-
Exploration Expenditure	4,744,515	-	-	-
Payables	(6,757)	-	-	-
	4,898,298	-	-	-
Goodwill on consolidation	418,035	-	-	-
	5,316,333	-	-	-
The goodwill is attributable to the potential successful exploration and sale of resources				

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (Cont)

20. FINANCIAL INSTRUMENTS

(a) The following table details the company's exposure to interest rate risk as at the 30 June 2006:

2006	Average Interest Rate (%)	Variable Interest Rate (\$)	Fixed Interest Rate (\$)	Non- Interest Bearing (\$)	Total (\$)
Financial Assets					
Cash	5.0	10,827,559	-	-	10,827,559
Receivables	-	-	-	113,552	113,552
Other financial assets	-	-	-	119,970	119,970
Other	-	-	-	114,561	14,561
Financial Liabilities					
Payables	-	-	-	182,597	182,597

2005	Average Interest Rate (%)	Variable Interest Rate (\$)	Fixed Interest Rate (\$)	Non- Interest Bearing (\$)	Total (\$)
Financial Assets					
Cash	3.0	196,770	-	-	196,770
Receivables	-	-	-	8,366	8,366
Financial Liabilities					
Payables	-	-	-	17,074	17,074

(b) Net Fair Values

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (Cont)

21. KEY MANAGEMENT PERSONNEL COMPENSATIONS

a) Names and positions held of economic and parent entity key management personnel in office at any time during the financial year:

Mr P Topham	Chairman – Executive
Mr D Ogg	Director – Executive
Mr T Eadie	Director – Non Executive
Mr A Boyd	Director – Non Executive
Mr P Lester	Director – Non Executive
Mr H Hill (resigned 19 October 2006)	Director – Non Executive

b) Compensation Practices

The board policy for determining the nature and amount of remuneration of directors and executives is agreed by the board of directors as a whole. The board obtains professional advice where necessary to ensure that the company attracts and retains talented and motivated directors and employees who can enhance company performance through their contributions and leadership.

Executive Director Remuneration

In determining the level and make-up of executive remuneration, the Board negotiates a remuneration to reflect the market salary for a position and individual of comparable responsibility and experience. Due to the limited size of the Company and of its operations and financial affairs, the use of a separate remuneration committee is not considered appropriate. Remuneration is regularly compared with the external market by participation in industry salary surveys and during recruitment activities generally. If required, the Board may engage an external consultant to provide independent advice in the form of a written report detailing market levels of remuneration for comparable executive roles.

Remuneration consists of a fixed remuneration and a long term incentive portion as considered appropriate.

Non-Executive Director Remuneration

Non-executive directors' fees are paid within an aggregate limit which is approved by the shareholders from time to time. Retirement payments, if any, are agreed to be determined in accordance with the rules set out in the Corporations Act at the time of the Directors retirement or termination. Non-Executive Directors remuneration may include an incentive portion consisting of bonuses and/or options, as considered appropriate by the Board, which may be subject to shareholder approval in accordance with the ASX Listing Rules.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst directors is reviewed annually. The Board considers the amount of director fees being paid by comparable companies with similar responsibilities and the experience of the non-executive directors when undertaking the annual review process.

The Company determines the maximum amount for remuneration, including thresholds for share-based remuneration, for directors by resolution. Further details regarding components of director and executive remuneration are provided in the notes to the financial statements

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (Cont)

21. KEY MANAGEMENT PERSONNEL COMPENSATIONS (Cont)

c) Details of Remuneration for Year Ended 30 June 2006

The remuneration for each director and each of the five executive officers of the consolidated entity receiving the highest remuneration during the year was as follows:

	Salary, Fees and Commissions \$	Superannuation Contribution \$	Non-cash Benefits \$	Options \$	Total \$
Directors					
Mr P J Topham	270,000	27,000	-	258,734	555,734
Mr D Ogg	110,000	55,000	-	181,114	346,114
Mr T Eadie	17,500	1,575	-	27,722	46,797
Mr A Boyd	19,075	-	-	27,722	46,797
Mr P Lester	-	-	-	-	-
Mr H Hill ⁽¹⁾	-	-	-	22,178	22,178
	416,575	83,575	-	517,470	1,017,620

(1) Mr Hill resigned as a director on 19 October 2005

d) Options Issued as Part of Remuneration for Year Ended 30 June 2006

Options are issued to directors and executives as part of their remuneration. The options are not issued based on performance criteria, but are issued to the majority of directors and executives of Royalco Resources Limited to increase goal congruence between executives, directors and shareholders.

	Number of Options granted	Value of Options Granted at grant date \$	Total Remuneration Represented by Options %	Exercise Price of Options \$	Expiry Date of Options
Directors					
Mr P J Topham	1,400,000	258,734	46.56	0.50	31-3-2011
Mr D Ogg	980,000	181,114	52.33	0.50	31-3-2011
Mr T Eadie	150,000	27,722	59.24	0.50	31-3-2011
Mr A Boyd	150,000	27,722	59.24	0.50	31-3-2011
Mr P Lester	-	-	-	-	-
Mr H Hill	120,000	22,178	100.00	0.50	31-3-2011
	2,800,000	517,470			

(1) Mr Hill resigned as a director in 19 October 2005

Share options have been valued using the Black-Scholes valuation formula. The value of the option was assessed at 18.48 cents per option based on the following assumptions:

Share Price	50 cents
Exercise Price	50 cents
Volatility	30%
Time to maturity	5 Years
Risk free interest rate	5.5%

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (Cont)

21. KEY MANAGEMENT PERSONNEL COMPENSATIONS (Cont)

e) Details of Remuneration for Year Ended 30 June 2005

The remuneration for key management personnel of the consolidated entity receiving the highest remuneration during the year was as follows:

	Salary, Fees and Commissions \$	Superannuation Contribution \$	Non-cash Benefits \$	Options \$	Total \$
Directors					
Mr P J Topham	150,000	13,500	-	-	163,500
Mr D Ogg	120,000	10,800	-	-	130,800
	270,000	24,300			294,300

f) Options Issued as Part of Remuneration for the Year Ended 30 June 2005

There were no options issued as part of remuneration for the year ended 30 June 2005.

g) Options holdings by Key Management Personnel

	Balance 1/07/2005	Granted as compensation	Net Change Other ⁽²⁾	Balance 30/06/2006
Mr P J Topham	-	1,400,000 ⁽¹⁾	-	1,400,000
Mr D Ogg	-	980,000 ⁽¹⁾	-	980,000
Mr T Eadie	-	150,000 ⁽¹⁾	-	150,000
Mr A Boyd	-	150,000 ⁽¹⁾	-	150,000
Mr P Lester	-	-	-	-
Mr H Hill ⁽³⁾	-	120,000 ⁽¹⁾	(120,000)	-
	-	2,800,000	(120,000)	2,680,000

⁽¹⁾ These options are subject to escrow until 29 June 2008

⁽²⁾ Net change other refers to options purchased during the year or directors no longer requiring disclosure.

⁽³⁾ Mr Hill resigned as a director on 19 October 2005

h) Share holdings by Key Management Personnel

	Balance 1/07/2005 ⁽⁵⁾	Received as Compensation	Options Exercised	Net Change Other ⁽⁶⁾	Balance 30/06/2006
Mr P J Topham	5,750,400	-	-	-	5,750,400 ⁽¹⁾
Mr D Ogg	4,550,400	-	-	-	4,550,400 ⁽²⁾
Mr T Eadie	-	-	-	48,000	48,000 ⁽³⁾
Mr A Boyd	-	-	-	76,800	76,800 ⁽⁴⁾
Mr P Lester	-	-	-	-	-
	10,300,800	-	-	126,800	10,427,600

⁽¹⁾ 5,351,956 shares are escrowed until 29 June 2008.

⁽²⁾ 4,151,956 shares are escrowed until 29 June 2008.

⁽³⁾ 18,000 shares are escrowed until 29 June 2008.

⁽⁴⁾ 28,800 shares are escrowed until 29 June 2008.

⁽⁵⁾ Restated as post-reconstruction holdings on a 2.4:1 basis.

⁽⁶⁾ Net change other refers to share purchased during the year.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (Cont)

22. RELATED PARTY DISCLOSURES

Transactions between related parties are on normal commercial terms and conditions no more favorable than those available to other parties unless otherwise stated.

a) Key Management Compensation

Details of key management compensation are disclosed in Note 21 to the financial statements.

b) Transactions with Key Management Personnel

David Ogg & Associates Pty Ltd, a company associated with Mr D Ogg, received commission for deposit placements of \$544 (2005: \$885) during the year.

c) Transactions with Directors and Director Related Entities

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 consulting fees of \$20,000 (2005: \$30,000) for the provision of management services. (These consulting fees are included in total remuneration at Note 21)
- (ii) Copper Strike Limited, a company associated with Mr D Ogg and Mr P Topham and Mr T Eadie:
 - paid consulting fees to Royalco Resources Limited of \$Nil (2005: \$41,000) during the year.
 - In 2004 Copper Strike Limited entered into an agreement with Royalco Resources Limited whereby Royalco Resources Limited will receive a Net Smelter Return royalty of 1% of production from the Lake Margaret tenement.
 - received rent from the Royalco Resources Limited of \$20,060 (2005: Nil) during the year.

d) Transactions with Controlled Entities

During the year Royalco Resources Limited, in the normal course of business, entered into transactions with its controlled entity Oxiana Philippines Inc.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (Cont)

	Consolidated 2006 \$	Consolidated 2005 \$	Parent 2006 \$	Parent 2005 \$
23. AUDITORS REMUNERATION				
Auditing or reviewing the financial report	10,000	6,000	10,000	6,000
Independent Accountants Report	10,000	-	10,000	-
Closing Balance	20,000	6,000	20,000	6,000

24. SEGMENT REPORTING

a) Industry Segments

The economic entity has the following two business segments:

Royalty Rights is the primary business segment and the Company is also involved in the exploration of mineral deposits throughout the Philippines.

Exploration of the mineral deposits is predominately carried out in the Philippines through the company's subsidiary Oxiana Philippines Inc. The parent entity has minor activity in the exploration segment.

	ROYALTY RIGHTS		EXPLORATION		CORPORATE OVERHEAD		CONSOLIDATED	
	2006	2005	2006	2005	2006	2005	2006	2005
Revenue								
External Sales	-	-	-	-	119,832	99,147	119,832	99,147
Result								
Segment Result	(842,444)	(237,895)	(809,929)	-	-	-	(1,652,373)	(237,895)
Assets								
Segment Assets	336,697	358,913	3,977,045	-	12,422,821	684,852	16,736,563	1,043,765
Liabilites								
Segment Liabilites	4,501	-	74,380	-	292,069	73,548	370,950	73,548
Other								
Acquisition of Segment Assets	5,828	-	68,263	-	-	-	74,091	-
Depreciation of Segment Assets	1,974	95	-	-	-	-	1,974	95
Other non cash segment expenses	22,216	9,391	809,929		517,468	-	1,349,613	9,391

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (Cont)

24. SEGMENT REPORTING (Cont)

b) Geographical Segments

The consolidated entity's operations are located in Australian and Philippines. The entity commenced operations in the Philippines upon the purchases of its subsidiary on 27 June 2006.

Secondary Reporting – Geographical Segments

Location	Segment Revenues from External Customers		Carried amounts of Segment Assets		Acquisition of Non-current Segment Assets	
	2006	2005	2006	2005	2006	2005
	\$	\$	\$	\$	\$	\$
Australia	119,832	99,147	11,895,116	1,020,837	74,091	-
Philippines	-	-	4,137,583	-	-	-
	119,832	99,147	16,032,699	1,020,837	74,091	-

	2006	2005
	\$	\$
25. EMPLOYEES		
Number of employees at end of financial year	10	2

26. SUBSEQUENT EVENTS

On 22nd August 2006 the company announced an exploration and drilling programme to commence shortly on its tenements in the Philippines

On 30th August 2006 the company announced that it had issued 510,000 options under the Employee Incentive Option Scheme

	2006	2005
	Cents	Cents
	Per Share	Per Share
27. (LOSS) PER SHARE		
Basic (loss) per share	(7.49)	(3.78)*
Diluted (loss) per share	<u>(6.94)</u>	<u>(3.78)*</u>
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic (loss) per share	<u>22,058,915</u>	<u>20,952,000*</u>
Weighted average number of ordinary shares and options outstanding during the year used in the calculation of (loss) per share	<u>23,807,956</u>	<u>20,952,000</u>

* Adjusted to reflect post capital reconstruction on a 2.4:1 basis

	CONSOLIDATED ENTITY		PARENT ENTITY	
	2006	2005	2006	2005
	\$	\$	\$	\$
28. COMMITMENTS FOR EXPENDITURE				
Exploration Tenements –				
Commitments for Expenditure				
In order to maintain current rights of tenure to exploration tenements, the Company and economic entity is required to outlay rentals and to meet the minimum expenditure requirements of the Mines Departments. Minimum expenditure commitments may be subject to renegotiation and with approval may otherwise be avoided by sale, farm out or relinquishment. These obligations are not provided in the accounts and are payable:				
Not later than one year	319,334	-	-	-
Later than one year but not later than five	584,044	-	-	-
Later than five years	-	-	-	-
	903,378	-	-	-

Directors' Declaration

The directors declare that:

1. The financial statements and notes, as set out on pages 22 to 47:
 - (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 2006 and performance for the year ended on that date of the company; and
2. The Chief Executive Officer and Chief Finance Officer have each declared that:
 - (a) the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
 - (b) the financial statements and notes for the financial year comply with the Accounting Standards; and
 - (c) the financial statements and notes for the financial year give a true and fair view.
3. 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

29 September 2006

Independent audit report to members of Royalco Resources Limited

Scope

The financial report and directors' responsibility

The financial report comprises the consolidated balance sheet, income statement, statement of cash flows, statement of changes in equity, accompanying notes to the financial statements, and the director's declaration for Royalco Resources Limited (the Company) and Royalco Resources Limited (the consolidated entity) for the year ended 30 June 2006. The consolidated entity comprises both the company and the entities that it controlled during that year.

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.

Independence

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

In accordance with ASIC Class Order 05/83, we declare to the best of our knowledge and belief that the auditor's independence declaration has not changed as at the date of providing our audit opinion.

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 2006 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.

Inherent Uncertainty Regarding Deferred Expenditure

Without qualification to the opinion expressed above, attention is drawn to the following matter. As explained in Note 1(d) to the financial statements, in accordance with the groups accounting policy, deferred expenditure of the Consolidated Entity \$3,977,045 (2005: Nil) and Parent Entity \$68,263 (2005: Nil) has been included in the financial statements in respect of areas of interest in exploration, evaluation and development phases. The ultimate recovery of the group's deferred expenditure is dependent on the successful development and commercial exploitation or alternatively, the sale of the respective areas of interest.

Inherent Uncertainty Regarding Royalty Rights

Without qualification to the opinion expressed above, attention is drawn to the following matter. As explained in Note 1(e) to the financial statements, in accordance with the groups accounting policy, royalty rights carried forward in the Consolidated Entity of \$336,697 (2005: \$358,913) and Parent Entity \$336,697 (2005: \$358,913) has been included in the financial statements. The ultimate recovery of the group's royalty rights is dependent on the successful development and commercial exploitation of the areas of interest by the parties holding tenure rights to the area.

LEYDIN FREYER CORPORATE PTY LTD Chartered Accountants



M J LEYDIN
Director

29 September 2006

ADDITIONAL ASX INFORMATION

Corporate Governance Statement

This statement outlines the main Corporate Governance practices that were in place since the last quarter of the 2006 financial year. These Corporate Governance practices comply with the ASX Corporate Governance Council recommendations unless otherwise stated.

ROLE OF THE BOARD

The Board is responsible for ensuring that the Company is managed in a manner which protects and enhances the interests of its shareholders and takes into account the interests of all stakeholders. To fulfill this role, the Board is responsible for setting the strategic directions for the Company, establishing goals for management and monitoring the achievement of these goals.

Because of the limited size of the Company and its financial affairs and operations, the use of a separate remuneration and nomination committee is not considered generally appropriate. All matters that might properly be dealt with by such committees are currently dealt with by the full Board of Directors. Decisions of the Board are, to the extent practicable, unanimous. There were no occasions during the year when decisions were not unanimous.

The company acknowledges that the ASX guidelines for corporate governance require that the Chairman be an independent non executive director, and that at any rate the Chairman and Managing Director roles should not be performed by the same person. Because of the limited size and nature of the Company's activities, this is not considered to be practical or appropriate at the current time. As the Company's activities expand, this policy will be reviewed, with a view to aligning the Company's policies to best practice guidelines.

The Board operates in accordance with the broad principles set out in its charter, which is available from the Corporate Governance section of the company's website at www.royalco.com.au.

COMPOSITION OF THE BOARD

The names and details of the Directors of the Company in office at the date of this Statement are set out in the Director's Report.

The composition of the Board is determined using the following principles:

- Persons nominated as Non-Executive Directors shall be expected to have qualifications, experience and expertise of benefit to the Company and to bring an independent view to the Board's deliberations. Persons nominated as Executive Directors must be of sufficient stature and security of employment to express independent views on any matter.
- All Non-Executive Directors are expected voluntarily to review their membership of the Board from time-to-time taking into account length of service, age, qualifications and expertise relevant to the Company's then current policy and program, together with the other criteria considered desirable for composition of a balanced board and the overall interests of the Company.
- Under the Company's Constitution, the minimum number of Directors is three. At each Annual General Meeting one third of the Directors (excluding the Managing Director) must resign, with Directors resigning by rotation based on the date of their appointment. Directors resigning by rotation may offer themselves for re-election.
- The Company considers that the Board should have at least three Directors (minimum required under the Company's Constitution) and strives to have a majority of independent Directors but acknowledges that this may not be possible at all times due to the size of the Company. Currently the Board has five Directors, of which three are independent. The number of Directors is maintained at a level which will enable effective spreading of workload and efficient decision making.

The composition of the Board is reviewed on an annual basis to ensure the Board has the appropriate mix of expertise and experience. Where a vacancy exists, through whatever cause, or where it is considered that the Board would benefit from the services of a new Director with particular skills, the Board determines the selection criteria for the position based on the skills deemed necessary for the Board to best carry out its responsibilities and then appoints the most suitable candidate who must stand for election at the next general meeting of shareholders.

PERFORMANCE OF DIRECTORS AND MANAGING DIRECTOR

The performance of all Directors, the Board as a whole and the Managing Director is reviewed at least annually in accordance with the Company's Corporate Governance guidelines.

A review was undertaken during the year ended 30 June 2006. The Company appointed Mr Peter Topham as Managing Director on 26 March 2001.

CONFLICT OF INTEREST

In accordance with the Corporations Act 2001 and the Company's constitution, Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. Where the Board believes a significant conflict exists, the Director concerned does not receive the relevant Board papers and is not present at the Board meeting whilst the item is considered. Details of Directors related entity transactions with the Company and Consolidated Entity are set out in the related parties note in the financial statements.

INDEPENDENT PROFESSIONAL ADVICE AND ACCESS TO COMPANY INFORMATION

Each Director has the right of access to all relevant Company information and to the Company's executives and, subject to prior consultation with the Chairman, may seek independent professional advice at the Company's expense. A copy of advice received by the Director is made available to all other members of the Board.

REMUNERATION

The Company's ASX Principles of Good Corporate Governance as adopted is to Remunerate Fairly and Responsibly and part of the remuneration is to be incentive based as considered appropriate by the Board. The Board of Directors maintains remuneration policies which are aimed at attracting and retaining a motivated workforce and management team. The intention is to match the outcomes from the remuneration system with the performance of the Company and ultimately the value received by shareholders on a long-term basis.

As an overall policy, the Company will remunerate in such a way that it:

- motivates Directors and management to pursue the long-term growth and success of the Company within an appropriate control framework; and
- demonstrates a clear relationship between key executive performance and remuneration.

Due to the limited size of the Company and of its operations and financial affairs, the use of a separate remuneration committee is not considered appropriate. The Board has adopted the following policies of Directors and executives remuneration:

A full discussion of the Company's remuneration philosophy and framework and the remuneration received by Directors and executives in the current period is included in the remuneration report, which is contained within the Report of the Directors.

AUDIT COMMITTEE

The Company's Audit Committee comprises of David Ogg, Tom Eadie and Adam Boyd and the Committee considers matters relating to financial affairs of the Company, compliance with statutory requirements, ASX Listing Rules and issues relating to internal and external audit.

COMPANY WEBSITE

Royalco Resources Limited has made available details of all its Corporate Governance principles, which can be found in the Corporate Governance information section of the Company website at www.royalco.com.au

ROYALCO RESOURCES LTD
ABN 53 096 321 532

SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 19 September 2006.

1. Distribution of Shareholders

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

Category of holding	Number	Number of Shares
1 - 1,000	17	13,214
1,001 - 5,000	225	885,284
5,001 - 10,000	161	1,490,011
10,001 - 100,000	275	9,577,181
100,001 shares and over	41	44,445,510
Total	719	56,411,200

(b) There are 9 shareholders holding 5,321 shares 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	%
Oxiana Limited	10,000,000	17.73
HSBS Custody Nominees (Australia) Ltd – GSI ESCA A/C	3,873,769	6.87
Kerry Anne Topham,	3,840,000	6.81
Riomin Australia Gold Pty Ltd	3,624,000	6.42
National Nominees Limited	3,209,475	5.69
Melballa Pty Ltd	2,400,000	4.25
JP Morgan Nominees Australia Ltd	2,400,000	4.25
Gasmere Pty Ltd	2,380,000	4.22
Porthill Resources Pty Ltd	1,910,400	3.39
Invia Custodian Pty Ltd White A/C	1,300,000	2.30
D Ogg & P Daly ATF (Tara Super Fund)	1,200,000	2.13
Link Traders (Australia) Pty Ltd	1,000,000	1.77
Feta Nominees Pty Ltd	826,500	1.47
HSBC Custody Nominees (Australia) Ltd GSI EDA Account	560,969	0.99
Ashabia Pty Ltd	500,000	0.89
Melbard Nominees Pty Ltd	454,565	0.81
Chiodo Carlo	431,000	0.76
Mianer Pty Ltd	319,300	0.53
Cost Nominees Limited	300,000	0.53
Herbertine Jessop	288,000	0.51
TOTAL	40,817,978	72.36

3. Restricted Securities

As at 19 September 2006 the following shares were subject to escrow arrangements:

Date escrowed to	Number of shares
18-10-2006	338,400
29-11-2006	108,000
16-01-2007	27,000
28-02-2007	27,000
20-06-2007	10,000,000
29-06-2008	9,238,756
TOTAL	19,739,156

ROYALCO RESOURCES LTD
ABN 53 096 321 532

In addition there were 2,800,000 options exercisable at 50 cents and maturing on 31 March 2011 that were subject to escrow arrangements until 29 June 2008.

4. Substantial Shareholders

As at 19 September 2006 the substantial shareholders were as follows:

Name of Shareholder	No of Shares	% of Issued Capital
Oxiana Limited	10,000,000	17.73
Keryn Anne Topham	5,750,400	10.19
David Lindsay Ogg	4,710,400	8.35
Commonwealth Bank of Australia	4,433,400	7.86
Riomin Australia Gold Pty Ltd	3,624,000	6.42

5. 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.