

**Royalco Resources Ltd**  
**ABN 53 096 321 532**

**Financial Report**  
**for the 6 months ended**

**31 December 2005**

ROYALCO RESOURCES LTD  
ABN 53 096 321 532

**CORPORATE DIRECTORY**

**Board of Directors**

Peter J Topham (Chairman)

David L Ogg

Adam Boyd

Tom Eadie

**Company Secretary**

David L Ogg

**Registered Office**

Level 9

356 Collins Street

Melbourne Victoria 3000

**Auditor**

Leydin Freyer Corporate Pty Ltd

Chartered Accountants

Suite 304, 22 St Kilda Road

St Kilda Victoria 3182

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## DIRECTORS' REPORT

Your directors submit their report for the half-year ended 31 December 2005.

### Directors

The names of the company's directors in office during the half-year and until the date of this report are as below. Directors were in office for the entire period unless otherwise stated.

Peter John Topham	(Chairman)
David Lindsay Ogg	
Harry Arthur Hill	(resigned 28 September 2005)
Adam Hume Boyd	(appointed 28 September 2005)
Ernest Thomas Eadie	(appointed 28 September 2005)

### Review and Results of Operations

The half year has been a very active one for your company, with considerable due diligence proceeding on the Oxiana Philippines Inc tenements that your company will acquire once the proposed acquisition of that company is completed, as well as acquisition of an attractive Philippine gold exploration property from Phelps Dodge Exploration Inc. In addition, work continuing apace on preparations for the company's forthcoming IPO, and I am pleased to advise shareholders that subsequent to the end of the half year, Shaw Corporate Finance Pty Ltd has been appointed as Underwriter and Advisor for a \$10 million IPO.

The results for the half year ended 31<sup>st</sup> December 2005 of a loss from continuing operations after income tax of \$158,979 (2004: loss \$64,374) should be seen in the context of considerable time and expenditure spent on the above activities, in conjunction with the fact that our royalty portfolio is not currently producing a positive cash flow. This situation is, however, expected to change in the 2007 year, when royalties are anticipated from the Reefton/Globe Progress gold project currently being developed by Oceana Gold Ltd., and possibly from the Mt Kelly copper project being developed by Copperco Ltd. Royalties from the Mt Garnet zinc and copper deposit are expected in 2009 when the operator, Kagara Zinc Ltd expects to return to this deposit.

The cash flow anticipated from the Reefton/Globe Progress royalty is potentially of some significance, as the "escalator" component of the royalty will become applicable if the \$NZ gold price remains above \$NZ 700. As a point of reference, at 31<sup>st</sup> December 2005 the gold price was \$NZ 757, which if maintained would entitle us to some 2000 ounces of gold pa. At the time of writing (1st March 2006) the gold price was \$NZ 848, and our entitlement at this price would become 3800 ounces pa, worth some \$A 2.87 million pa at the current exchange rate (\$A=\$NZ 1.12126).

The above analysis has been provided to highlight what directors believe to be a significant anomaly in the current accounting rules. Our current understanding is that royalties are considered an intangible asset, and must initially be measured at cost, less any impairment in value. Consequently, when one or more of our portfolio of royalties declines in value (perhaps because of a downgrading of the exploration potential of the relevant tenement), this decline in value must be reflected in the company's accounts. However, the accounting rules do not appear to allow us to **increase** the value of other royalties (i.e Reefton etc) on the same basis. The relevant accounting standard states that:

**DIRECTORS' REPORT continued**

The revaluation model can only be selected if fair values can be determined in an active market\*, which is defined as a market in which all of the following conditions exist:

- the items traded in the market are **homogeneous**
- willing buyers and sellers can normally be found at any time
- prices are available to the public

It is obvious that a "market" as defined does not exist for royalties, so we are unable to revalue these to reflect our current estimates of a "market" value, despite the obvious accretion to value of some of our royalties over this period.

Nevertheless, it is obvious from the above that, despite a minor write-down of some parts of the royalty portfolio, the overall commercial value of the portfolio has been significantly enhanced during the half year to 31<sup>st</sup> December 2005 – and indeed subsequently, as metal prices, and in particular the \$NZ gold price, have continued to increase.

To assist shareholders in recognizing the potential of their company, the directors have, as an example, prepared a DCF valuation of the Reefton royalty as at 31<sup>st</sup> December 2005 and also at the date of this report, 1<sup>st</sup> March 2006. The results of this analysis are as follows:

Reefton royalty – NPV Valuation		
Assumptions/Inputs:	31/12/2005	1/3/2006
- Start date of project *	1/1/2007	1/1/2007
- Annual production – Oz Au	70,000	70,000
- Annual royalty entitlement – Oz Au #	2,000	3,600
- Gold price \$US	520	550
- \$A:\$US Exchange rate	0.75	0.75
- \$US:\$NZ Exchange rate	1.45	1.51
- Tax Rate	30%	30%
- After Tax Discount Rate	8%	8%
NPV	\$A 4.8 Million	\$A 8.2 Million
Book Value	\$A 204,000	\$A 204,000
* Oceana Gold Ltd has stated in ASX releases that they expect production to commence in the last quarter of this calendar year. However, to allow for plant commissioning, we have assumed that production does not commence until 1/1/2007, with our first royalty receipts received 6 months thereafter.		
# Royalty entitlement is based on actual ounces in accordance with the agreement, escalated in accordance with the \$NZ gold price, until 400,000 ounces have been produced from the relevant tenement, and thereafter we have allowed a percentage of the gold produced, also escalated in accordance with the \$NZ gold price, as per the agreement.		

The above analysis makes no allowance for the value of the escalator beyond that amount that is already "in the money" due to the \$NZ gold price exceeding \$700, which could be valued using option valuation theory and would further enhance the value of this royalty.

Also, please note that whilst we have not formally valued the other royalties, we believe that the book values for the Mt Garnet and Mt Kelly royalties in particular are likely to prove very conservative (at \$79,000 and \$5,000 respectively), given our assessment of the likelihood of significant cash flows from these royalties in the medium term.

ROYALCO RESOURCES LTD  
ABN 53 096 321 532

## DIRECTORS' REPORT continued

We look forward to the completion of our IPO in the short term, and the commencement of an exciting exploration programme in the Philippines. If achieved as expected, our royalty income from mid 2007 on will ensure we remain well funded with minimum dilution from capital raisings in the medium term once the IPO is completed. We shall forward all shareholders a copy of the Prospectus once lodgement formalities have been completed.

### Auditor's Declaration

A copy of the auditor's declaration in relation to the review for the half-year is provided with this report.

Signed in accordance with a resolution of the directors

On behalf of the Directors



Peter J Topham  
Director

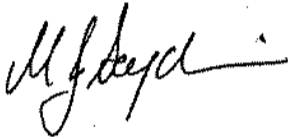
2 March 2006

**AUDITOR'S INDEPENDENCE DECLARATION  
TO THE DIRECTORS OF ROYALCO RESOURCES LIMITED**

As lead auditor for the audit of Royalco Resources Limited for the half-year ended 31 December 2005, 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.

**LEYDIN FREYER CORPORATE PTY LTD**  
**Chartered Accountants**



**M J LEYDIN**  
**Director**

2 March 2006

Leydin Freyer Corporate Pty Ltd  
Chartered Accountants  
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**Condensed Income Statement  
For the Half-Year Ended 31 December 2005**

	Note	31 December 2005 \$	30 June 2005 \$
<b>Continuing Operations</b>			
Revenue	3	13,021	75,547
Administrative costs		(58,659)	(23,393)
Employment costs		(179,187)	(137,150)
Occupancy costs		(11,428)	(12,565)
Other expenses		(62,345)	-
Other income		65,688	-
<b>Loss from continuing operations before tax</b>	3	(232,910)	(97,561)
Income tax benefit		73,931	33,187
Loss from continuing operations after income tax		(158,979)	(64,374)
<b>Net loss attributable to members of parent</b>		(158,979)	(64,374)

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

**Condensed Balance Sheet  
As at 31 December 2005**

	Note	31 December 2005 \$	30 June 2005 \$
<b>Current Assets</b>			
Cash and cash equivalents		306,470	196,770
Trade and other receivables		10,090	8,366
Prepayments		25,181	22,056
Other financial assets		138,702	-
<b>Total Current Assets</b>		<u>480,443</u>	<u>227,192</u>
<b>Non-Current Assets</b>			
Deposits paid		6,658	6,658
Other financial assets		-	25,000
Deferred income tax asset		476,629	402,698
Plant and Equipment		4,595	376
Intangible assets		336,697	358,913
<b>Total Non-Current Assets</b>		<u>824,579</u>	<u>793,645</u>
<b>Total Assets</b>		<u>1,305,022</u>	<u>1,020,837</u>
<b>Current Liabilities</b>			
Trade and other payables		8,700	17,074
Provisions		98,512	56,474
<b>Total Current Liabilities</b>		<u>107,212</u>	<u>73,548</u>
<b>Total Liabilities</b>		<u>107,212</u>	<u>73,548</u>
<b>Net Assets</b>		<u>1,197,810</u>	<u>947,289</u>
<b>Equity</b>			
Contributed Equity	4	2,400,326	1,990,826
Accumulated losses		<u>(1,202,516)</u>	<u>(1,043,537)</u>
<b>Total Equity</b>		<u>1,197,810</u>	<u>947,289</u>

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



**Condensed Cash Flows Statement  
 For the half-year ended 31 December 2005**

	Note	31 December 2005 \$	31 December 2004 \$
<b>Cash Flows From Operating Activities</b>			
Receipts from customers		-	41,000
Interest received		4,721	9,305
Payments to suppliers and employees		(259,700)	(163,308)
Net cash used in operating activities		<u>(254,979)</u>	<u>(113,003)</u>
<b>Cash Flows From Investing Activities</b>			
Proceeds from sale of investments		-	83,854
Payment for investments		(39,500)	18,563
Payment for plant and equipment		(5,321)	-
Net cash provided by/(used in) investing activities		<u>(44,821)</u>	<u>65,291</u>
<b>Cash Flows From Financing Activities</b>			
Proceeds from the issue of shares		409,500	-
Net cash provided by financing activities		<u>409,500</u>	<u>-</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents Held</b>		109,700	(47,712)
Cash and cash equivalents at the Beginning of the Half-Year		<u>196,770</u>	<u>450,369</u>
<b>Cash and Cash Equivalents at the End of the Half-Year</b>		<u>306,470</u>	<u>402,657</u>

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

**Condensed Statement of Changes in Equity  
 For The Half-Year Ended 31 December 2005**

*Attributable to equity holders of the parent*

	<i>Issued Capital</i>	<i>Retained Earnings</i>	<i>Other Reserves</i>	<i>Total</i>
At 1 July 2004	1,990,826	(783,578)	-	1,207,248
Currency translation differences	-	-	-	-
Total income and expense for the period recognised directly in equity	1,990,826	(783,578)	-	1,207,248
Profit for the period	-	(64,374)	-	(64,374)
Total income/expense for the period	1,990,826	(874,952)	-	1,142,874
Exercise of options	-	-	-	-
<b>At 31 December 2004</b>	<b>1,990,826</b>	<b>(847,952)</b>	<b>-</b>	<b>1,142,874</b>

*Attributable to equity holders of the parent*

	<i>Issued Capital</i>	<i>Retained Earnings</i>	<i>Other Reserves</i>	<i>Total</i>
At 1 July 2005	1,990,826	(1,043,537)	-	947,289
Net gains on available for sale assets	-	-	-	-
Currency translation differences	-	-	-	-
Total income and expense for the period recognised directly in equity	1,990,826	(1,043,537)	-	947,289
Profit for the period	-	(158,979)	-	(158,979)
Total income/expense for the period	1,990,826	(1,202,516)	-	788,310
Exercise of options	-	-	-	-
Issue of shares	409,500	-	-	409,500
<b>At 31 December 2005</b>	<b>2,400,326</b>	<b>(1,202,516)</b>	<b>-</b>	<b>1,197,810</b>

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the entity as the full financial year.

The half-year financial report should be read in conjunction with the Annual Financial Report of Royalco Resources Limited as at 30 June 2005 which was prepared based on Australian Accounting standards applicable before 1 January 2005 ('AGAAP').

#### (a) Basis of Accounting

The half-year financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporation Act 2001, applicable Accounting Standards including AASB134 'Interim Financial Reporting' and other mandatory professional reporting requirements .

For the purpose of preparing the half-year financial report, the half-year has been treated as a discrete reporting period.

#### (b) Statement of compliance

The half-year financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards ('AIFRS'). Compliance with AIFRS ensures that the half -year financial report, comprising the financial statements and notes thereto, complies with International Financial Standards ('IFRS').

This is the first half-year financial report prepared based on AIFRS and comparatives for the half-year ended 31 December 2005 and full-year ended 30 June 2005 have been restated accordingly. A summary of the significant accounting policies of the Group under AIFRS are disclosed in Note 2 below.

Reconciliations of:

- AIFRS equity as at 1 July 2004, and 30 June 2005; and
- AIFRS profit for the full year 30 June 2005,

to the balances reported 30 June 2005 full-year financial report prepared under AGAAP are detailed in Note 2 below.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (i) Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

Depreciation is calculated on a straight line basis over the estimated useful life of the asset except for motor vehicles which is on a diminishing value as follows:

Plant and equipment - over 7 years

#### *Impairment*

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

#### *Revaluations*

Fair value is determined by reference to market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date.

Any revaluation surplus is credited to the asset revaluation reserve included in the equity section of the balance sheet unless it reverses a revaluation decrease of the same asset previously recognised in the income statement.

Any revaluation deficit is recognised in the income statement unless it directly offsets a previous surplus of the same asset in the asset revaluation reserve.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the period the item is derecognised.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (vi) Employee Benefits

Liabilities arising in respect of wages and salaries, annual leave, sick leave and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date.

#### (vii) Leases

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

#### (viii) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

##### *Sale of goods*

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be measured reliably. Risks and rewards are considered passed to the buyer at the time of delivery of the goods to the customer.

##### *Interest*

Revenue is recognised as the interest accrues to the net carrying amount of the financial asset.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (ix) Income Tax

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

- except where the deferred income tax liability arises from the initial recognition of an asset or liability in transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised:

- except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

#### (x) Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

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

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (xi) Other taxes (continued)

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

#### (xii) Intangible Assets – 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, but 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.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

**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 \$
<b>Total Equity under AGAAP</b>		601,065	901,193
Recognition of future income tax benefit	(A)	402,698	306,055
Recognition of employee entitlements	(B)	56,474	-
<b>Total Equity under AIFRS</b>		<u>947,289</u>	<u>1,207,248</u>

(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 \$
<b>Profit after tax as previously reported</b>		(300,128)
Future income tax benefit	(A)	96,643
Provisions for employee entitlements	(B)	(56,474)
<b>Profit after tax under AIFRS</b>		<u>(259,959)</u>

(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

	31 December 2005 \$	31 December 2004 \$
<b>3. REVENUE AND EXPENSES</b>		
Loss before income tax benefit includes the following revenues and expenses whose disclosure is relevant in explaining the performance of the entity:		
<b>(i) Revenue</b>		
Consulting Fees	8,300	41,000
Interest received	4,721	9,306
Profit on sale of investments	-	25,241
	13,021	75,547
<b>(ii) Other income</b>		
Change in fair value of investments	65,688	-
<b>(iii) Expenses</b>		
Depreciation	1,102	-
Impairment of royalty rights	22,216	-
Employee benefits	54,188	-

	31 December 2005 \$	30 June 2005 \$
<b>4. CONTRIBUTED EQUITY</b>		
(a) 9,276,000 (2005 : 8,730,000) fully paid ordinary shares	2,440,326	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	8,730,000	1,990,826
	Issues to shareholders	-	-
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
	Issues to shareholders	546,000	409,500
31-12-2005	Closing Balance	9,276,000	2,400,326

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

	31 December 2005 \$	30 June 2005 \$
<b>5. ACCUMULATED LOSSES</b>		
Opening Balance	1389,761	1,089,633
Current year loss	246,921	300,128
Closing Balance	<u>1,633,682</u>	<u>1,389,761</u>

**6. SUBSEQUENT EVENTS**

Subsequent to the end of the half year, The Company has entered into an Agreement with Shaw Corporate Services Pty Ltd to advise on and underwrite the IPO of the company, which is expected to occur in the current half year.

The rise in the \$NZ gold price since 31<sup>st</sup> December 2005 has enhanced the value of the Reefion royalty, as outlined in the "Report on Activities" on page 3.

**7. SEGMENT REPORTING**

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

**8. CONTINGENT ASSETS AND LIABILITIES**

Since the last annual reporting date, there has been no material change of any contingent liabilities or contingent assets.

**ROYALCO RESOURCES LTD**  
**ABN 53 096 321 532**

**Directors' Declaration**

1. The financial statements and notes of the entity, as set out on pages 7 to 18:
  - (a) comply with Accounting Standard AASB134 "Interim Financial Reporting", the Corporations Regulations, 2001.
  - (b) give a true and fair view of the financial position as at 31 December 2005 and of its performance as represented by the results of its operations and its cash flows, for the half-year ended on that date, and;
2. In the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors

On behalf of the Directors



Peter J Topham  
Director

2<sup>nd</sup> March 2006

## **Independent review report to members of Royalco Resources Limited**

### **Scope**

#### *The financial report and directors' responsibility*

The financial report comprises the balance sheet, income statement, cash flow statement, statement of changes in equity and accompanying notes to the financial statements for the company and the directors' declaration for the company, for the half-year ended 31 December 2005.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the consolidated entity, and that complies with Accounting Standard AASB 134 "Interim Financial Reporting", 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.

#### *Review approach*

We conducted an independent review of the financial report in order to make a statement about it to the members of the company.

Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements, in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with the *Corporations Act 2001*, Accounting Standard AASB 134 "Interim Financial Reporting" and other mandatory financial reporting requirements in Australia, so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and of its performance as represented by the results of its operation and cash flows.

A review is limited primarily to inquiries of company personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than that given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

### **Independence**

We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.

**Statement**

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the financial report of Royalco Resources Limited is not in accordance with:

- (a) the *Corporations Act 2001*, including:
  - i) giving a true and fair view of the financial position of the entity at 31 December 2005 and of its performance for the half-year ended on that date; and
  - ii) complying with Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia.

**LEYDIN FREYER CORPORATE PTY LTD**  
**Chartered Accountants**



**M J LEYDIN**  
**Director**

2<sup>nd</sup> March 2006