

December 2006 Quarterly Report

24th January 2007

Corporate Details

ASX Code: RCO

Issued Capital:

56,411,200 Shares

2,800,000 Options @50c, 31/3/2011 (Unlisted)
510,000 Options @52c, 31/3/2011

Share Price: 63c

Market Capitalisation:
\$35.5 million

Cash Balance: \$9.6 mill

Major Shareholders:

Oxiana Ltd	17.7%
Directors	14.9%
Gasmere	7.4%
Riomin Gold	6.4%
Colonial First State	6.9%

Directors:

Peter Topham – Executive Chairman

David Ogg – Executive Director

Peter Lester – Non executive Director

Tom Eadie – Non executive Director

Adam Boyd – Non executive Director

Highlights

Royalties

Major advances on a number of projects covered by Royalco royalty interests will create strong cashflows commencing in the second half of 2007.

Recent **Oceana Gold Limited** announcements should ensure income from the Reefton royalty package will accrue from the September quarter whilst releases by **Kagara Zinc Limited** and **Copperco Limited** support additional cashflow commencing in 2008 - much earlier than previously anticipated.

Philippines Exploration

Samay project

Two diamond drill holes SDH-7 and SDH-8 were completed during the December quarter, totalling 696 metres. A third hole, SDH-9 is currently being drilled, completing the initial phase of exploration work for this project.

Malangza project

Exploration Permit granted during quarter and fieldwork commenced. Encouraging BLEG sample results received in an area offering substantial structurally controlled alteration.

Gambang, Pao projects

Large diamond drilling programme to be initiated in the March quarter, with final access approvals imminent.

Introduction

The announcement by Oceana Gold earlier this month concerning the commissioning and production schedule of its Reefton Gold Project in New Zealand is a significant step forward in Royalco achieving its corporate goals of generating royalty income whilst expanding its exploration activities.

Further positive announcements by the operators at Mt Garnet and Mt Kelly will substantially enhance our Company's cashflow through forthcoming periods consolidating Royalco's already strong financial position.

In the Philippines, the company posted a solid quarter of work activities with the commencement of diamond drilling activities at Samay, granting of the Malangza exploration permit, fieldwork in five project areas and employment of additional geologists. Proposed exploration programmes involve diamond drilling on a number of advanced prospects this calendar year.

Royalties

Reefton-in an announcement to the Australian Stock Exchange dated 2nd January 2007, Oceana Gold Limited ("OGD"), the project operator, confirmed that dry commissioning of its Golden Globe processing plant commenced in late December with wet commissioning and production to commence in mid February. The plant falls within the Reefton project area, upon which Royalco retains a sliding scale royalty.

This announcement confirms Royalco's expectation of Reefton royalty payments to commence during the September quarter of 2007. Based on prevailing gold prices, the royalty should generate in excess of \$3.5 million per annum. The project is believed to have a minelife in excess of 7 years utilising forecast production rates ascribed to the operator.

The royalty also encompasses tenements on the ground immediately surrounding Globe Progress as well as Sam's Creek further north where a separate royalty is also applicable.

Mt Garnet-in its recently released quarterly report to the Australian Stock Exchange, Kagara Zinc Limited ("KZL"), the project operator, indicated that mining 240,000 tonnes (grade 6% zinc) of open pit material will be undertaken shortly, with underground development being considered for 2007/8. We had previously anticipated production commencing in 2009 based on prior corporate presentations by the operator.

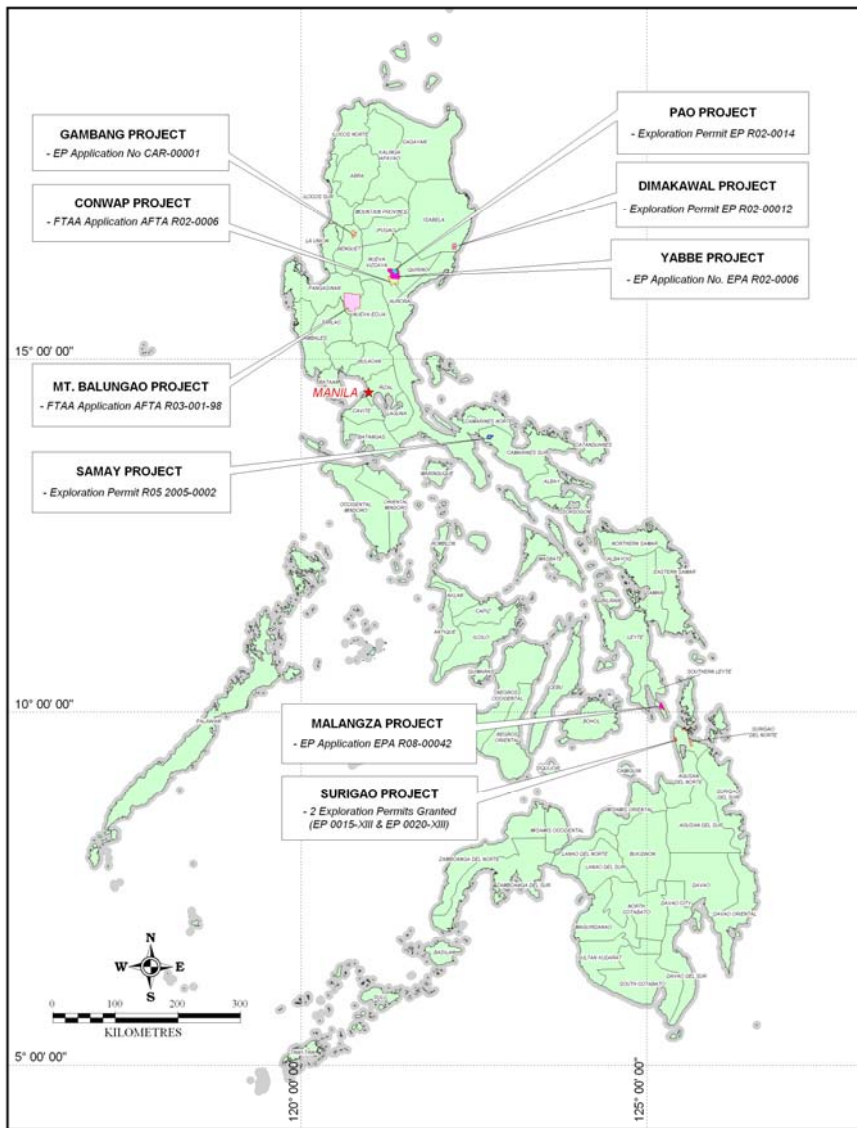
The royalty applicable is a 3% Net Smelter Return, payable after a further 11,700 of contained zinc metal has been produced.

Mt Kelly-Copperco Limited (CUO") as project operator has made a number of recent releases to the Australian Stock Exchange in reference to the Mt Kelly project area upon which Royalco has royalty agreements. These include permitting approvals and an intention to commission an electrowinning plant by July of this year.

There are two separate royalty areas, both of which provide for a 1% Net Smelter Return capped at \$619,000 in each instance after the first 11,300 tonnes of copper has been produced. The nameplate plant capacity has been described as 19,000 tonnes per annum with ore sourced initially from one of our royalty areas, at Mount Clarke.

We are not aware of any significant developments on any of our other royalty interests at this point in time.

Phillipines Exploration



Map of the Philippines showing Royalco's tenement locations

Samay (farm in)

Two diamond drill holes SDH-7 and SDH-8 were completed during the December quarter, totalling 696 metres. A third hole, SDH-9 is currently being drilled, which shall complete the initial phase of exploration work for this project.

Samples from the first two drill holes have been submitted for assay with results expected during January. Visual inspection of the core from the first two drill holes indicated narrow quartz veining and low tenor sulphide mineralization.

Work for the current quarter will be to complete hole SDH-9 during January, submit samples for assaying and update the geological model. The results of this three hole programme will be reviewed during the March quarter prior to deciding on future work for Samay. (Royalco has now met its US\$200,000 expenditure commitment for the first twelve months.)

Pao (100%)

Work has progressed on obtaining Indigenous People's Consent for access to the project area with the FPIC process now due for completion by mid February.

Upon obtaining tenement access, a 16 hole diamond drilling programme is proposed to test geophysical IP anomalies plus a series of shallower holes to evaluate enargite surface veins that have returned high gold values including 49.4g/t Au, 348 g/t Ag, and 3.9% Cu. This vein set, (at Manidyo), has not been drilled before and is an early priority in our proposed drilling programme.

It is currently proposed to have two diamond drill rigs on this tenement to accelerate exploration on this highly prospective project area.

Gambang (100%)

Under new Government guidelines, approvals can be given in part for a tenement area. Such a process should advance our tenement approval in a more expeditious fashion and allow early drilling on the Herman's Find Prospect, (where channel sampling generated 42 metres at 2.35% Cu), whilst permitting for the balance of the permit is completed. This is expected to be clarified in the next two weeks.

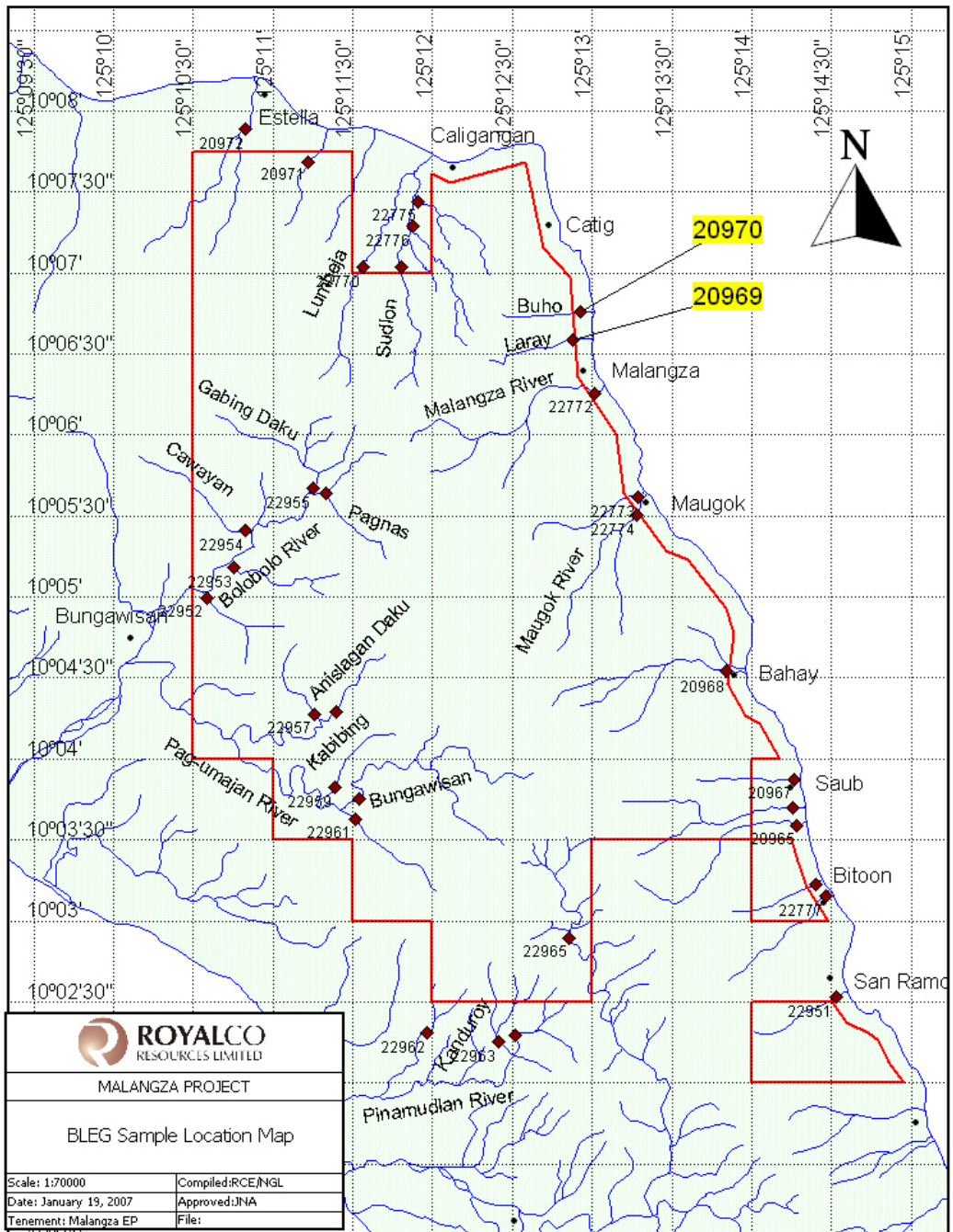
Satellite imagery of the region has been purchased and is being processed this month to evaluate spatial and spectral data.

Malangza (100%)

On 10 December 2006 the Philippines Mines and Geosciences Bureau approved Royalco's 4,192ha Malangza Exploration Permit.

Royalco geologists have commenced reconnaissance work including mapping and rock chip sampling, soil, stream and BLEG sampling. A batch of BLEG sample results recently received from the laboratory all returned encouraging anomalous gold results, including the best two results of 0.699 ppm Au and 0.483 ppm Au.

Planned work during the March quarter is to continue mapping and sampling activities together with a detailed evaluation of high resolution satellite imagery of the tenement.



Map of the Malangza tenement showing BLEG sampling locations

Surigao (100%)

Exploration work during the December quarter consisted of field mapping and sampling.

Planned work during the March quarter is to review the fieldwork conducted onsite during 2006 and complete a high resolution satellite imagery review of the tenements prior to deciding a project exploration budget and schedule.

Business Development

We continue to review opportunities for additional royalty acquisitions as well as exploration initiatives where appropriate.

As to the latter, Confidentiality Agreements have been entered into for two separate project areas in the Philippines. One has copper targets, the other nickel laterites. Both are currently under evaluation.

Corporate

Cash on deposit at the end of the quarter was \$9.6 million.

Additional technical staff have been employed in the Philippines where we now have five geologists and one mining engineer. Further additions to this number is anticipated once the major drilling programmes have been advanced on the **Pao** and **Gambang** project areas.



Peter J Topham
Executive Chairman

The information in this report as it relates to geology, geochemical, geophysical and exploration results was compiled by Mr Steven Tambanis, MAusIMM, who is a Competent Person and has in excess of 5 years experience in the minerals industry and the activities being reported on. Mr Tambanis consents to the inclusion of this information in the form and context in which it appears in this report.

Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

Royalco Resources Ltd

ABN

53 096 321 532

Quarter ended ("current quarter")

December 2006

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (12 months) \$A'000
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for (a) exploration and evaluation	(401)	(752)
(b) development	-	-
(c) production	-	-
(d) administration	(315)	(562)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	164	313
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other (provide details if material)	(9)	(6)
Net Operating Cash Flows	(561)	(1007)
Cash flows related to investing activities		
1.8 Payment for purchases of: (a)prospects	-	(68)
(b)equity investments	15	15
(c) other fixed assets	(3)	(36)
1.9 Proceeds from sale of: (a)prospects	-	-
(b)equity investments	29	29
(c)other fixed assets	-	-
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other (provide details if material)	-	-
Net investing cash flows	11	(90)
1.13 Total operating and investing cash flows (carried forward)	(550)	(1097)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(550)	1097)
Cash flows related to financing activities			
1.14	Proceeds from issues of shares, options, etc.	-	-
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other (provide details if material)	-	-
	Net financing cash flows	0	0
Net increase (decrease) in cash held			
		(550)	(1097)
1.20	Cash at beginning of quarter/year to date	10142	10689
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	9592	9592

Payments to directors of the entity and associates of the directors
Payments to related entities of the entity and associates of the related entities

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	151
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

Nil

+ See chapter 19 for defined terms.

Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	-	-
3.2 Credit standby arrangements	-	-

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	845
4.2 Development	-
Total	845

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank		
5.2 Deposits at call	1592	2142
5.3 Bank overdraft	-	-
5.4 Other (provide details) Bank Term Deposits	8000	8000
Total: cash at end of quarter (item 1.22)	9592	10142

Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed	-		
6.2	Interests in mining tenements acquired or increased			

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

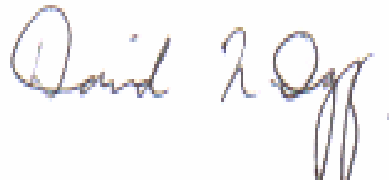
	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 Preference +securities <i>(description)</i>	-	-		
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 +Ordinary securities	56,411,200	37,118,444		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	- -	- -		
7.5 +Convertible debt securities <i>(description)</i>	-	-		
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 Options <i>(description and conversion factor)</i>	2950,000 510,000	- -	Exercise price 50 cents 52 cents	Expiry date 31st Mar 2011 31st Mar 2011
7.8 Issued during quarter	150,000	-	50 cents	31st Mar 2011
7.9 Exercised during quarter	-	-		
7.10 Expired during quarter	-	-		
7.11 Debentures <i>(totals only)</i>	-	-		

+ See chapter 19 for defined terms.

7.12	Unsecured notes (<i>totals only</i>)		
------	---	--	--

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement does /does not* (*delete one*) give a true and fair view of the matters disclosed.



Sign here: Date: 24th January 2007
 (Company secretary)

Print name: David L Ogg

Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

+ See chapter 19 for defined terms.

== == == == ==

+ See chapter 19 for defined terms.