

23 October 2006

The Manager
Company Announcements
Australian Stock Exchange Ltd

Highlights for the Quarter Ended 30 September 2006

- **Drilling commences at Samay Project**
- **Approval process for access to Pao and Gambang project areas nearing completion**
- **A 1970s Gambang mine feasibility study underpins the potential of copper/gold porphyry targets in this region**
- **Re-interpretation of geophysical data completed for Samay, Gambang and Pao projects, confirming previous targets and identifying further anomalies**
- **Additional technical and community relations staff employed. Head office relocated to larger premises in Baguio City**
- **More royalty opportunities under evaluation**

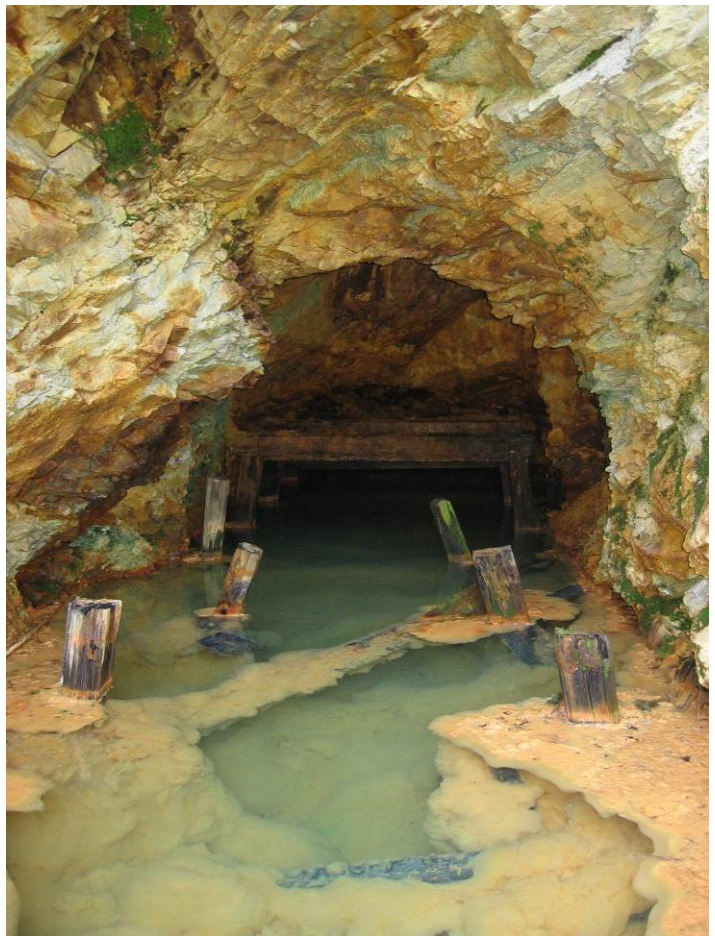


Photo of the partially collapsed Scholey Tunnel entrance at Hermans Find area, Gambang Project, Benguet

Corporate Details:

ASX Code: RCO
Issued Capital: 56.4 m
Unlisted options: 3.3 m
Cash Balance: A\$10.1 m
Market Cap: A\$29.0 m

Directors:

Peter Topham (Executive Chairman)
David Ogg (Executive Director)
Peter Lester
Tom Eadie
Adam Boyd

Exploration Activities

The September quarter was Royalco's first full quarter since listing in June this year.

Activities focussed on preparing the Philippines team for a substantial increase in field exploration work. On the technical and administration side, the Philippines exploration projects were reviewed by the Company and external consultants to finalise detailed exploration programmes. Additional Filipino staff were employed with three new field geologists, community relations and additional office administration staff joining the Company. The Baguio office was relocated and computers, software and field equipment were upgraded.

Royalco made detailed presentations to the Philippines authorities including the Mines and Geosciences Bureau (MGB) of its proposed exploration activities.

Samay Drilling

During September the Samay project area was prepared for drilling with new camp accommodation facilities constructed, roads upgraded for vehicle traffic and drill pads prepared. This work was completed to a high standard by local tradesmen and labourers from the Samay Barangay.

The rig has been delivered to the Samay project area with drilling to commence in the last week of October. The severe effects of Typhoon Milenyo at the start of the month has slightly delayed the programme start.

The target at Samay will focus on drilling of epithermal gold veins delineated by Phelps Dodge exploration activity in 2004/5 and potential copper porphyry structures at depth. A comparatively short programme of up to five diamond holes is anticipated.

Pao and Gambang Approval Process

Royalco staff have made good progress completing the IP (Indigenous Peoples) approval process, holding numerous meetings with stakeholders and Government Departments at both regions during the quarter.

Pao started its FPIC (Free and Prior Informed Consent) process on 16 October. This process is expected to take approximately 6 weeks to complete.

At Gambang, the approval process for the BOMA tenements is scheduled to start on 05 November. This process is expected to be completed within 6 weeks of start date.

Technical reviews and field activities at projects

During the quarter, technical reviews were completed on all Philippines projects.

Field activities resumed or increased at Surigao, Malangza, Samay, Pao and Gambang. Work varied from sampling and exploration work at Surigao and Samay, through to consultation with stakeholders at Pao, Gambang and Malangza. Logistics planning was reviewed for each project.

Discovery of Archived exploration documents

Following listing on the ASX, an archived mine feasibility study was found relating to two of Royalco's exploration targets in the Gambang region, Benguet Province, namely the Eastern Breccia and Hermans Find. The feasibility study was commissioned in 1979 by Trans-Asia Oil Company (Trans-Asia) to mine and process a higher grade 16.5 million tonne portion of a 55 million tonne Non JORC Compliant copper-gold "reserve" at a rate of 1.65 Million tonnes per annum utilising underground block caving methods.

Royalco wishes to make it clear that the Trans-Asia Study was completed 27 years ago and is not JORC compliant. The Feasibility Study is a summary document of a detailed mine feasibility study and whilst it includes geological plans and long sections, does not have detailed drilling data attached such as drill and assay logs. Royalco is seeking to locate additional historical data that could assist current exploration efforts.

The significance of this report, however, is that at the Eastern Breccia zone, Trans-Asia used a combination of 26 diamond drillholes and a series of exploratory tunnels to define a mineralised copper/gold porphyry with approximate dimensions of 800 metres length, up to 100 metres in width and a vertical extent greater than 300 metres. There is sufficient summary data in the plans and sections to create a detailed 3D model of the mineralised zone. Royalco believes that this data can be used to interpret mineralisation and structure and to focus an initial drilling programme at Eastern Breccia. Additionally, there is limited drillhole data for the Western Zone (Hermans Find) which Royalco believes could be useful in exploration of the Hermans area.

The photo of the Scholey tunnel portal on page 1 of this report shows the current condition of the portal at Hermans Find. A collapse of overlying conglomerate at the portal entrance has flooded the tunnel however the timber sets appear to be in good condition. Trans-Asia sampled ore intercepts from the tunnel as part of its ore calculation process in the late 1970's. The tunnel is purported to be 900 metres long.

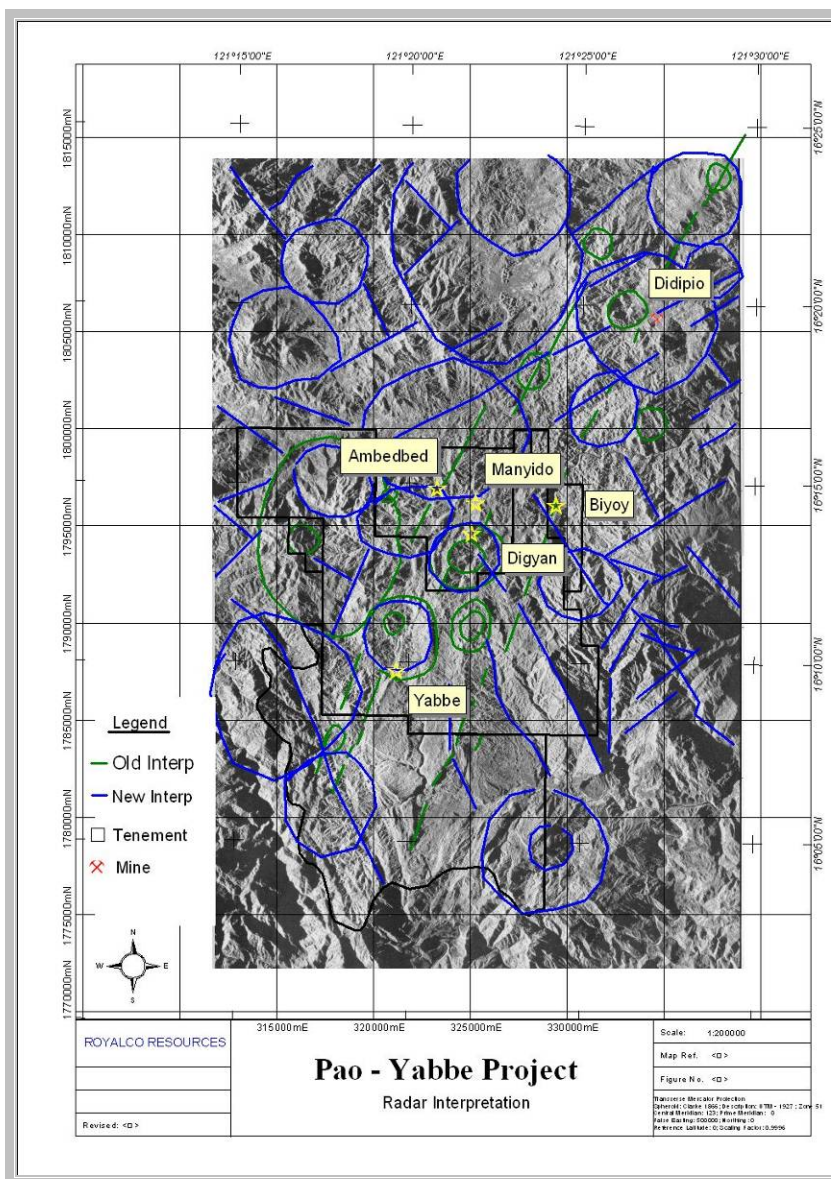
Geophysical Data Review

During August, consulting geophysicists Frank Lindeman and Richard McRae completed a technical assessment of the Gambang, Pao and Samay project areas.

At Gambang, re-interpretation of IP and magnetic surveys confirmed drill targets at the Hermans Find, Eastern Breccia and Cableway areas. The review concluded that existing geochemical sampling grids should be extended and reviewed prior to conducting additional geophysical work. Additional IP work is being planned to test extensions of the Eastern Breccia.

At Pao, satellite radar imagery was re-evaluated, confirming the principal targets at Digyan, Manido and Yabbe, where a number of “ring structures” are coincident with magnetic structures and surface chip sampling that has returned high gold and copper results. Existing geochemical sampling grids are to be extended and reviewed.

At Samay, a review of a ground magnetic programme conducted by Phelps Dodge was completed, confirming that the existing Samay drill targets are appropriate.



Pao-Yabbe project – Satellite Radar

Corporate Activities – Royalties

A number of potential royalty acquisitions were evaluated during the quarter. Many were too small to merit consideration at this point in time, however we did bid on one large offshore interest. The bid was unsuccessful but resulted in Royalco being placed onto a tender panel for an additional royalty package to be evaluated during the December quarter. A significant energy royalty is currently under evaluation.

Our royalty interests include:

- Reefton in New Zealand, where Oceana Gold Limited is the operator
- Mt Garnet in Queensland where Kagara Zinc Limited is the operator
- Mt Kelly in Queensland operated by Copperco Limited
- Bowdens In New South Wales operated by Silver Standard Resources Inc

Based on current publicly available information and today's gold pricing, Reefton should be generating in excess of A\$3 million per annum commencing mid 2007. The Mt Garnet production timetable has not been stipulated however the royalty interest in that project should generate in excess of A\$1 million per annum when in full production after a royalty 'holiday' period. The Mt Kelly project involves two royalties capped at just over A\$1 million following a royalty 'holiday' period at the start of production. Bowdens is undergoing final feasibility studies, expected to be completed during the December quarter.

December Quarter - proposed activities

- Complete the planned 5-6 drillhole programme at Samay
- Finalise access for the Gambang and Pao project areas and begin field work prior to drilling
- Digitise the new data found for Eastern Breccia and Hermans Find and create a geological model of structures and mineralised zones.
- Ramp-up exploration activities at Malangza
- Conduct data reviews and field visits of several proposed exploration joint ventures in other parts of the Philippines
- Evaluation of additional royalty opportunities



Peter Topham
Executive Chairman

For further information please contact:-

Peter Topham , Executive Chairman, or
Steven Tambanis, General Manager, Project Development
Phone (03) 9602 3626, or email, info@royalco.com.au

Photos



An Adit developed by artisan miners to the west of Hermans Find



A water powered ball mill and sluice box used by artisan miners to the west of Hermans Find



Newly constructed Drillers camp and facilities at Samay



Drill pad #2 cleared at Samay

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")

September 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	(351)	(351)
(b) development	-	-
(c) production	-	-
(d) administration	(247)	(247)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	149	149
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other (provide details if material)	3	3
Net Operating Cash Flows	(446)	(446)
Cash flows related to investing activities		
1.8 Payment for purchases of: (a)prospects	(68)	(68)
(b)equity investments	-	-
(c) other fixed assets	(33)	(33)
1.9 Proceeds from sale of: (a)prospects	-	-
(b)equity investments	-	-
(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	(101)	(101)
1.13 Total operating and investing cash flows (carried forward)	(547)	(547)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(547)	(547)
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			
		(547)	(547)
1.20	Cash at beginning of quarter/year to date	10689	10689
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	10142	10142

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	133
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	2142	2689
5.3 Bank overdraft	-	-
5.4 Other (provide details) Bank Term Deposits	8000	8000
Total: cash at end of quarter (item 1.22)	10142	10689

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.

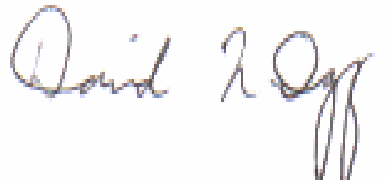
	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 Preference +securities <i>(description)</i>	-	-		
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 +Ordinary securities	56,411,200	36,672,044		
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>	2,800,000 510,000	- -	Exercise price 50 cents 52 cents	Expiry date 31st Mar 2011 31st Mar 2011
7.8 Issued during quarter	510,000	-	52 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>)		
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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.



24th October 2006

Sign here: Date:
 (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.

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