



## Quarterly Activities Report

(Quarter ended 31 December 2017)

### **HIGHLIGHTS:**

- Royalty payment of \$162,261 received in the December quarter from the Weeks Royalty;
- Significant progress made on reducing costs;
- The Bowdens silver project, where Royalco retains a sliding scale royalty interest, continues to be advanced by Silver Mines Limited;
- The operator at the Sam's Creek gold project in New Zealand has assigned its position to a third party, Condamine Resources Limited, with the intention of that party undertaking an IPO in early 2018; and
- Milling due to recommence at Mt Garnet this quarter. Dividend payment of \$89,000 received post quarter end.

### **CORPORATE DETAILS**

ASX Code: RCO

Issued Capital: 52,714,183 shares

Shareholders: 178

Share Price: 27.5 cents

Market Capitalisation: \$14.5 million

Cash/Liquids: \$2.22 million

#### **Directors:**

Sue Thomas  
*Non-Executive Chair*

Malcolm McComas  
*Non-Executive Director*

Geoff Barker  
*Non-Executive Director*

#### **Company Secretary:**

Justin Clyne

#### **Substantial Shareholders:**

Fitzroy River Corporation, Noontide Investments, Samuel Terry Asset Management and High Peak Royalties.

Royalco Resources Limited (**Royalco, RCO or Company**) is pleased to report on its activities during the quarter ended 31 December 2017.

## **1. Corporate:**

### **1.1 Summary of Announcements During the Quarter:**

Date:	Announcement
18 October	Notice of Annual General Meeting/Proxy Form
25 October	Change of Company Secretary
31 October	Quarterly Activities and Cashflow Reports
21 November	Company Update
22 November	Results of Meeting

**Table 1: Summary of ASX releases by Royalco during the December Quarter.**

### **1.2 Company Update:**

On 21 November 2017, the Board provided an update to the market on its progress over the preceding 6 months and status of its capital management and asset realization options as follows:

*“...Over the past 6 months, the Board has worked on reducing operating costs and reviewing the portfolio of royalty interests. In the 2017 Financial Year (FY17), total expenses were approximately \$1.5m and cash operating costs were \$1.06m. Following the departure of former Executive Chairman Peter Topham in September and Company Secretary Nick Boicos in October, cash operating costs going forward will be significantly reduced to approximately \$300-400k annually. However, the financial performance for the current 2018 Financial Year (FY18) will be adversely affected by various one-off costs including the cost of redundancies and payout of entitlements.*

*The Board has also spent time understanding the potential of Royalco’s royalty assets. In FY17, the Weeks royalty generated \$546k (FY16: \$527k) and the Company expects that it will generate at least this amount again in FY18. This is based on an expectation that ExxonMobil and BHP Billiton may reduce gas production to volumes comparable to pre-2016 averages. Any reduction in gas production may be offset by anticipated rising gas prices as existing contracts are replaced by new gas sales agreements at increased prices.*

*The non-cash costs of amortization and depreciation were \$431k in FY17 and this amount is expected to be approximately \$425k in FY18. Thus, Royalco is not expected to report a profit in FY18, based on current commodity prices and production volumes and in the absence of any material contribution from the Mt Garnett royalty or any other royalty in the Company’s portfolio.*

*As noted in the Company’s September 2017 Quarterly Activities Report (refer ASX release 31 October 2017), the potential of the Company’s other royalties is uncertain, of long duration and not possible to predict with any accuracy at this stage.*

*The Board would like to further reduce Royalco’s operating costs. However, it is difficult to see any significant further reductions while the Company remains listed on the ASX. Accordingly, given the*

*substantial costs associated with remaining a listed entity and the lack of liquidity in Royalco shares, the Board will continue to explore capital management options including such things as a buyback, the impact of a delisting and alternative liquidity options where they might enhance returns for investors...”*

Since this update, the Board has continued to be very active in advancing its strategy of reducing costs and pursuing options for the potential realisation of value for the Company’s assets. An announcement was made on 29 January 2018 that Royalco has commenced the process to sell the Weeks Royalty. The announcement states in part:

*“...The RCO Board has resolved to commence a sale process of Royalco’s 1.0% interest in the Weeks Royalty... Royalco is now sourcing legal and commercial advice in relation to the sale process. The issues to be resolved include, but are not limited to, the method and timetable of the sale, the use of the proceeds, tax implications, ASX Listing Rule requirements and the need for an open and transparent sale process. A data-room will be established for qualified bidders. Some vendor due-diligence material on the Weeks Royalty will be provided in the data-room, under confidentiality arrangements... The sale process will be supervised by the Company’s independent director Mr Geoff Barker... When further information is available about the sale process, it will be advised to shareholders via the ASX. Royalco expects that the sale process will be initiated in February and concluded by June 2018...”*

### **1.3     Appointment of Justin Clyne as Company Secretary:**

On 25 October, the Company announced the appointment of Justin Clyne as Company Secretary. The Board also advised of the resignation of Mr Nick Boicos as Company Secretary at the same time and thanked Nick for his significant contribution to Royalco over such a long period.

### **1.4     Change of Address:**

On 25 October 2017 the Company also advised pursuant to ASX Listing Rule 3.14, a change to its registered address, principal place of business and contact details effective from the same date with the new details as follows:

Registered address/principal place of business:

Suite 6.02, Level 6, 28 O’Connell Street, Sydney NSW 2000

Telephone:

+ 61 2 9048 8856

Mail:

GPO Box 4626, Sydney NSW 2001.

### **1.5     Finance:**

The company’s cash balance at the end of the December quarter was \$2.137 million, compared to \$2.278 million at the end of September.

## 2. Royalty Interests:

### 2.1 Weeks royalty:

Income received during the quarter (based on production for the 3-month period ended 30 September 2017) was \$162,261.

As noted in the September 2017 Quarterly Activities Report, “...The company is reviewing its anticipated returns against a backdrop of reduction in Bass Strait gas production from 2017 highs returning to 2016 levels and increasing east coast gas prices. Gas production has commenced from the Kipper field as part of the Kipper/Tuna/Turram multi-billion-dollar development.”

Royalco owns a 1.0% interest in the Weeks Petroleum Royalty (the equivalent of a 0.025% over-riding royalty from the entire hydrocarbon production of the main Bass Strait fields).

### 2.2 Other Royalties:

#### 2.2.1 Bowdens Project:

During the quarter, the operator of the Bowdens Project, Silver Mines Limited (ASX: **SVL**), announced a number of positive results with the highlights from its announcement to the market on 8 November 2017 stating:

- *“Drilling intersects extensive zones of base metal mineralisation in the first drill hole into the large IP chargeability zone beneath the Bowdens Silver resource.*
- *Mineralisation zone extends for approximately 300 metres down hole.*
- *The zone includes intervals of higher intensity base metal mineralisation over an approximate 80 metre interval down hole.*
- *The visual results from this drill hole demonstrate the existence of a significant base metal system hosted in basement rocks beneath the Bowdens Silver Deposit.*
- *The initial hole forms part of a larger drilling program to test the extent of the IP chargeability zone which is over 1000 metres in strike and 250 metres wide.*
- *Drilling will now test the central and southern portions of the target as part of a larger initial program of up to 11,000 metres.”*

This is positive progress and follows on from the significant upgrade of the mineral resource estimate for all categories for the Bowdens Project announced in the September 2017 quarter. The table below shows a significant upgrade from the 2012 mineral resources estimate.

Table 1 – Bowdens Silver Deposit Mineral Resource Estimate as at September 2017							
Category	Tonnes (Mt)	Silver Eq. (g/t)	Silver (g/t)	Zinc (%)	Lead (%)	Million Ounces Silver	Million Ounces Silver Eq.
Measured	76	72	45	0.37	0.25	111	175
Indicated	29	59	31	0.38	0.25	29	55
Inferred	23	60	31	0.40	0.28	23	45
<b>Total</b>	<b>128</b>	<b>67</b>	<b>40</b>	<b>0.38</b>	<b>0.26</b>	<b>163</b>	<b>275</b>

The Bowdens Silver Project is located in central New South Wales, approximately 26 kilometers east of Mudgee. Royalco's sliding scale royalty over the project starts at a 2.0% net smelter return until US\$5 million has been received and then becomes a 1.0% net smelter return thereafter.

SVL describes the Bowdens Project as *"... the largest undeveloped silver deposit in Australia with substantial resources and a considerable body of high quality technical work already completed. The projects boast outstanding logistics for future mine development..."*

### **2.2.2 Mt Garnet:**

During the quarter, Consolidated Tin Mines Limited (ASX: **CSD**) announced in relation to activities at Mt Garnet:

- *"Continued mining at the Mt Garnet underground mine with ore stockpiled adjacent to the Mt Garnet mill.*
- *Commenced construction of the Mt Garnet Deeps development drive.*
- *Suspended mill operations at Mt Garnet mid-Nov 17 to allow for a build-up of the ore stockpile from mining operations, with anticipated recommencement of milling in March 18."*

Post the end of the quarter, the Company received a dividend payment of just over \$89,000 from the administrator of the Mt Garnett mine as a first and final dividend for Royalco as an unsecured creditor.

Royalco's holds a 3% net smelter royalty interest.

### **2.2.3 Sam's Creek**

There were no updates by the operator of the **Sam's Creek** Gold Project in New Zealand, Mod Resources Limited (ASX: **MOD**) during the quarter other than to note in its September Quarterly Activities Report released to the market on 31 October 2017, its previously announced intention to assign its interest (80%) in the project to a public unlisted company called, Condamine Resources Limited (**Condamine**), for a total consideration of A\$3.8m who intends to complete an IPO to list on the ASX with their prospectus expected for lodgment in early 2018.

In its December Quarterly Activities Report released to the market on 29 January 2018, an update on the process stated in part:

*"...The SSA is subject to a number of conditions precedent including the transfer and assignment of OceanaGold Corporation's (TSX/ASX: OGC) 20% interest in the Joint Venture on terms acceptable to Condamine and the quotation of Condamine shares on the ASX..."*

Mod Resources states about the Sam's Creek Project:

*"... The Sams Creek Project is a substantial undeveloped gold project in New Zealand. The project includes a +1Moz porphyry hosted gold resource, which remains completely open at depth and along strike, supporting significant additional exploration potential.*

*The Sams Creek Project may have the potential to be developed as an underground mine and is located close to power, infrastructure and a sealed road linking it to Port Nelson.*

*The Project hosts a JORC (2012) compliant mineral resource of 20.5Mt @1.54 g/t Au at a 0.7 g/t Au cut-off grade. This includes an indicated resource of 10.1Mt @1.77g/t Au for 575koz..."*

Royalco retains a 1% royalty on the main project area.

No activities of substance have been reported during the quarter on the other royalty interests.

### **2.3 Schedule of Royalty Interests:**

PROJECT	OPERATOR	ROYALTY	COMMODITY
Weeks Petroleum	Exxon/BHP JV	1% of 2.5%	Hydrocarbons
Reefton-Blackwater	Oceana Gold Ltd (ASX: OGC)	1-3% ORR	Gold
Sam's Creek	MOD Resources Ltd (ASX: MOD)	1% ORR	Gold
Mt Garnet	Snow Peak/CSD JV (In voluntary administration)	3% NSR	Zinc, lead, silver
Bowdens	Silver Mines Ltd (ASX: SVL)	1 – 2 % NSR	Silver
LFB	Regis Resources Ltd (ASX: RRL)	3% NSR	Gold, copper

### **2.4 Information Pursuant to Listing Rule 5.4.3:**

In accordance with ASX Listing Rule 5.4.3, but noting its several royalty interests as described above, Royalco advises that:

- 1) No petroleum tenements were held at the end of the Quarter;
- 2) No petroleum tenements were acquired or disposed of during the Quarter;
- 3) The beneficial percentage interests held in farm-in or farm-out agreements at the end of the Quarter was nil; and
- 4) The beneficial percentage interests in farm-in or farm-out agreements acquired or disposed of during the Quarter was nil.

## **3. Events Subsequent to the Quarter:**

### **3.1 Change of Auditor:**

Subsequent to the end of the quarter on 12 January 2018, the Company advised that it has received the consent of the Australian Securities and Investments Commission (**ASIC**) for a change in auditor from John Wheller to Deloitte Touche Tohmatsu (**Deloitte**).

The primary reasons for the Company seeking the consent of ASIC to the change were that Royalco's major shareholder, Fitzroy River Corporation Limited (Fitzroy) owns 46.7% of Royalco and Fitzroy is audited by Deloitte. Fitzroy and Royalco share the same registered address and principal place of business, both use the same accounting services in the preparation of their accounts and it will now be more cost effective, timely and beneficial to both entities to utilise the services of the same auditor.

The details of the new auditor are:

Deloitte Touche Tohmatsu  
Grosvenor Place  
225 George Street  
Sydney NSW 2000  
Tel: +61 2 9322 7000

Under s329(8) of the Corporations Act 2001, the effective date of the change is 12 January 2018.

### **3.2     Commencement of Weeks Royalty Sales Process:**

As announced on 29 January 2018, the Board has resolved to commence a sale process of the Company's 1.0% interest in the Weeks Royalty and is now sourcing legal and commercial advice in relation to the sale process.

### **3.3     Receipt of Mt Garnet Dividend:**

In late January, the Company received a dividend payment of just over \$89,000 from the administrator of the Mt Garnett mine as a first and final dividend for Royalco as an unsecured creditor

#### **Susan Thomas**

Non-Executive Chair

Dated: 31 January 2018

#### **About Royalco Resources Limited (ASX: RCO):**

Royalco Resources Limited is an ASX listed resources company that owns the Weeks Royalty and a portfolio of other royalty opportunities in hydrocarbons, gold, zinc, copper, silver and other minerals located primarily in Australia and New Zealand. Royalco's Tier 1 asset is a 1% interest in the Weeks Petroleum Royalty that covers 20 producing fields with 19 platforms in the offshore Gippsland Basin owned by ExxonMobil (operator) and BHP Billiton.

## Appendix 5B

# Mining exploration entity and oil and gas exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10, 01/05/13, 01/09/16

### Name of entity

Royalco Resources Limited

### ABN

53 096 321 532

### Quarter ended ("current quarter")

31 December 2017

Consolidated statement of cash flows	Current quarter \$A'000	Year to date ( 6 months) \$A'000
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	168	323
1.2 Payments for		
(a) exploration & evaluation		
(b) development		
(c) production		
(d) staff costs	(123)	(566)
(e) administration and corporate costs	(201)	(289)
1.3 Dividends received (see note 3)		
1.4 Interest received	14	29
1.5 Interest and other costs of finance paid		
1.6 Income taxes paid		
1.7 Research and development refunds		
1.8 Other (provide details if material)		
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(141)</b>	<b>(502)</b>

<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire:		
(a) property, plant and equipment		
(b) tenements (see item 10)		
(c) investments		
(d) other non-current assets		



<b>Consolidated statement of cash flows</b>	<b>Current quarter \$A'000</b>	<b>Year to date ( 6 months) \$A'000</b>
2.2 Proceeds from the disposal of:		
(a) property, plant and equipment		
(b) tenements (see item 10)		
(c) investments		
(d) other non-current assets		
2.3 Cash flows from loans to other entities		
2.4 Dividends received (see note 3)		
2.5 Other (provide details if material)		
<b>2.6 Net cash from / (used in) investing activities</b>	<b>-</b>	<b>-</b>

<b>3. Cash flows from financing activities</b>		
3.1 Proceeds from issues of shares		
3.2 Proceeds from issue of convertible notes		
3.3 Proceeds from exercise of share options		
3.4 Transaction costs related to issues of shares, convertible notes or options		
3.5 Proceeds from borrowings		
3.6 Repayment of borrowings		
3.7 Transaction costs related to loans and borrowings		
3.8 Dividends paid		
3.9 Other (provide details if material)		
<b>3.10 Net cash from / (used in) financing activities</b>	<b>-</b>	<b>-</b>

<b>4. Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1 Cash and cash equivalents at beginning of period	2,278	2,639
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(141)	(502)
4.3 Net cash from / (used in) investing activities (item 2.6 above)		
4.4 Net cash from / (used in) financing activities (item 3.10 above)		
4.5 Effect of movement in exchange rates on cash held		
<b>4.6 Cash and cash equivalents at end of period</b>	<b>2,137</b>	<b>2,137</b>

Consolidated statement of cash flows	Current quarter \$A'000	Year to date ( 6 months) \$A'000

5. Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1 Bank balances	2,137	90
5.2 Call deposits		86
5.3 Bank overdrafts		
5.4 Other (provide details) Term deposits		2,102
5.5 Cash and cash equivalents at end of quarter (should equal item 4.6 above)	2,137	2,278

**6. Payments to directors of the entity and their associates**

- 6.1 Aggregate amount of payments to these parties included in item 1.2
- 6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

**Current quarter  
\$A'000**

28

Director fees

**7. Payments to related entities of the entity and their associates**

- 7.1 Aggregate amount of payments to these parties included in item 1.2
- 7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2

**Current quarter  
\$A'000**

## Mining exploration entity and oil and gas exploration entity quarterly report

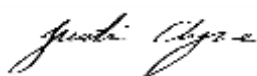
8.	<b>Financing facilities available</b>	<b>Total facility amount at quarter end \$A'000</b>	<b>Amount drawn at quarter end \$A'000</b>
8.1	Loan facilities		
	Credit standby arrangements		
8.3	Other (please specify)		
8.4	Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

9.	<b>Estimated cash outflows for next quarter</b>	<b>\$A'000</b>
9.1	Exploration and evaluation	
9.2	Development	
9.3	Production	
9.4	Staff costs	
9.5	Administration and corporate costs	150
9.6	Other (provide details if material)	
<b>9.7</b>	<b>Total estimated cash outflows</b>	<b>150</b>

10.	<b>Changes in tenements (items 2.1(b) and 2.2(b) above)</b>	<b>Tenement reference and location</b>	<b>Nature of interest</b>	<b>Interest at beginning of quarter</b>	<b>Interest at end of quarter</b>
10.1	Interests in mining tenements and petroleum tenements lapsed, relinquished or reduced				
10.2	Interests in mining tenements and petroleum tenements acquired or increased				

**Compliance statement**

- This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- This statement gives a true and fair view of the matters disclosed.



31.01.18

Sign here: .....  
(Company Secretary )

Date: .....

Print name: .....Justin Clyne.....

+ See chapter 19 for defined terms

1 September 2016

**Note-++**

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 that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, AASB 6: Exploration for and Evaluation of Mineral Resources and AASB 107: Statement of Cash Flows apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standards apply to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.