



# opportunities stability progression royalties

ANNUAL REPORT 2015-16



**ROYALCO**  
RESOURCES LIMITED

**Royalco Resources Limited**  
**Corporate directory**  
**30 June 2016**

Directors	Mr Peter Topham (Executive Chairman) Mr Bruce Pertzelt (Non-Executive Director) Mr Piers Reynolds (Non-Executive Director) Mr Malcolm McComas (Non-Executive Director)
Company secretary	Mr Nick Boicos
Share register	Security Transfer Registrars Pty Ltd 770 Canning Highway Applecross WA 6153
Auditor	John Wheller FCA Suite 304 22 St Kilda Road St Kilda 3182 VIC
Bankers	ANZ Banking Group 388 Collins Street, Melbourne Victoria 3000 Commonwealth Bank of Australia 367 Collins Street, Melbourne Victoria 3000
Stock exchange listing	Royalco Resources Limited shares are listed on the Australian Securities Exchange (ASX code: RCO)
Website	<a href="http://www.royalco.com.au">www.royalco.com.au</a>
Corporate Governance Statement	Refer to <a href="http://www.royalco.com.au">www.royalco.com.au</a>

In recent times the challenge for companies active in the natural resource sector has been to maintain a strong balance sheet without diluting shareholders' interests. Royalco continues to meet this challenge while continuing to distribute fully franked dividends.

Over the past four years Royalco's management strategies have incorporated both prudence and patience in an environment of extreme volatility within the natural resources sector.

Directors are now shifting this cautious approach to one of moderate optimism. The markets appear to be returning to normality for most commodities after some time in the doldrums.

#### *The Year in Review*

As at 30 June 2016, the company had a cash balance of \$3,085,378 and remains debt-free.

Revenue for the year was \$841,935, compared to \$1,145,315 the previous year. The main cause was further decline in the underlying commodity prices which generate our royalty revenue. The benefit of having a diverse portfolio of royalty interests remains a core objective, with two distinct royalty streams generating revenue for the company through the financial year.

The Company incurred a loss of \$752,186, (\$1.089 million 2014-2015), which includes a non-cash item of \$425,000 for amortization of royalty rights.

The **Weeks Petroleum Royalty** remains our principal source of income. It offers both a long life and a commercially significant revenue stream – the only true "Tier 1" petroleum royalty in the Australian market. Royalco remains the only Australian-listed entity that offers direct exposure to this Bass Strait interest. Income from this interest was \$527,599 for the financial year (\$593,628 previously).

Total petroleum products derived from Bass Strait in 2015-16 increased by 13% year- on-year, with natural gas jumping 28%. Crude oil and condensate fell some 14% as a result of industrial action. Unfortunately this action is ongoing and continues to impair the crude oil and condensate component of the Weeks Petroleum Royalty, which, on current pricing, influences the gross sales receipts from total petroleum products more than natural gas or natural gas liquids. This is despite the substantial lift in east coast gas pricing.

The completion of the upgrade on the Longford conditioning plant is imminent. This will allow the final commissioning of the Kipper/Tuna/Turram project, which bodes well for increased production and field life extension for Bass Strait.

A mooted sale of a number of the older oil fields by the Bass Strait joint venture partners, ExxonMobil and BHP Billiton, is regarded as an attractive outcome for the Weeks Petroleum Royalty holders. It would be a reasonable assumption that any incoming third party would seek to enhance existing flow rates to regain any capital outlay as a priority, without being constrained by investment hurdle rates these two major production houses may currently impose.

The **Mount Garnet** royalty was a significant producer of royalty income for the year. However the operators, Snow Peak Mining Pty Ltd and Consolidated Tin Mines Limited, experienced financial difficulties during the final quarter of 2015-16 and are now in voluntary administration.

The status of outstanding royalties remains uncertain until the administrators provide further clarification. An announcement will be made to the ASX once this situation has been clarified. This is the second time the **Mount Garnet** royalty has been placed under a cloud. The first was during the operatorship of Kagara Zinc limited, now in liquidation with funds still owing to Royalco.

On a brighter note, the **Bowdens** royalty obligations have been passed to a new operator, Silver Mines Limited, who expressed a very positive outlook for the future development of this project.

The new operator is beginning additional drilling this quarter with a view to completing pre-feasibility studies by the end of this year. The Environmental Impact Study is targeted to be lodged in the first half of 2017. This timetable suggests requisite mining leases could be advanced later in 2017, with a potential development schedule in 2018.

The operator told the ASX on 15 July 2016: **"Bowdens Silver is the largest undeveloped silver deposit in Australia with substantial resources and with a considerable body of high quality technical work already completed. The Project boasts outstanding logistics for future mine development."**

## **Royalco Resources Limited**

### **Chairman address**

**30 June 2016**

The **Blackwater Project** at Reefton in New Zealand, where Royalco retains a significant royalty interest, is one of the highest grade undeveloped gold resources in global terms. The operator, OceanaGold Limited, appears to have priorities elsewhere on comparatively larger gold projects.

It is our understanding that the operator has received a number of inquiries from third parties interested in acquiring the project. As with **Bowdens**, once this project is developed it will provide significant income to Royalco in future years.

### *Management*

The question of the appropriate level of administrative costs is one that should apply to all publicly listed companies. It is the practice at Royalco to review all directors and staff emoluments on a regular basis, along with head office costs in general. Reviews are informal in nature and take into consideration existing contracts, peer group reviews, prevailing office rentals and various fixed costs. The outcome at end 2015-16 is that Royalco continues to be cost-competitive while at the same time remaining pro-active in the resources sector.

One factor beyond directors' control was the complete waste of administrative time and substantial legal costs arising from a Section 249D requisition under the Corporations Code. This action was begun in September 2015 by High Peak Royalties Limited, a competing player in the royalties sector and a relatively new entrant on to the Royalco share register as a substantial shareholder.

The requisition was claimed to be in relation to Royalco's operating costs but was in reality little more than an attempted takeover by backdoor methods without shareholders receiving any benefit. This action was rightly rejected by shareholders.

### *New Initiatives*

Royalco's preferred commodity exposure remains in precious and base metals, as well as energy.

Over the past 12 months we have reviewed 14 separate gold royalties/financings, four base metal royalty packages, two energy opportunities and four exploration programs. One of these is now the subject of greater deliberation and further detailed review.

Should suitable investment opportunities arise, directors' note that Royalco's longer term involvement with any one project will eventually become passive in nature – i.e. the stake in the project would be either onsold and/or converted into a royalty interest.

### *Capital*

The current dividend reflects Royalco's ability to pay fully franked dividends in the short term and probably represents the last distribution until developments such as **Bowdens** and/or **Blackwater** come to fruition.

In the meantime, prudent capital management measures have been implemented to accommodate the company's cash flow requirements and to preserve a satisfactory cash balance in order to pursue appropriate investment initiatives.

### *David Ogg*

Mr David Ogg, a founding director of Royalco in 2001, retired from the board of directors with effect from 30 June 2016.

David's input over this substantial period of time has been of enormous benefit to fellow directors and the company as a whole. His analytical skills are of the highest level and we will continue to seek his input when the need arises. Our board collectively wishes him well in retirement.

### *Peter J Topham*



**Royalco Resources Limited**  
**Directors' report**  
**30 June 2016**

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of Royalco Resources Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2016.

**Directors**

The following persons were directors of Royalco Resources Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

Mr Peter Topham (Executive Chairman)  
Mr Bruce Pertzelt (Non-Executive Director)  
Mr Piers Reynolds (Non-Executive Director)  
Mr Malcolm McComas (Non-Executive Director - appointed 1 January 2016)  
Mr David Ogg (Non-Executive Director - resigned 23 June 2016)

**Principal activities**

During the financial year the principal continuing activities of the consolidated entity consisted of:

- management of resource based royalties; and
- investigating other exploration development opportunities.

**Dividends**

Dividends paid during the financial year were as follows:

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Final dividend for the year ended 30 June 2014 of 1.0 cent per ordinary share paid on 19 September 2014 fully franked based on a tax rate of 30%	-	527,142
Interim dividend for the year ended 30 June 2015 of 0.5 cents per ordinary share paid on 13 March 2015 fully franked based on a tax rate of 30%	-	263,570
Final dividend for the year ended 30 June 2015 of 0.5 cents per ordinary share paid on 24 September 2015 fully franked based on a tax rate of 30%	263,571	-
Interim dividend for the year ended 30 June 2016 of 0.5 cents per ordinary share paid on 22 March 2016 fully franked based on a tax rate of 30%	263,571	-
	<u>527,142</u>	<u>790,712</u>

**Review of operations**

The loss for the consolidated entity after providing for income tax amounted to \$752,186 (30 June 2015: \$1,186,110).

Refer to separate detailed review of operations directly following this director's report.

**Significant changes in the state of affairs**

There were no significant changes in the state of affairs of the consolidated entity during the financial year.

**Matters subsequent to the end of the financial year**

On 16th September 2016, the company announced a dividend of 0.5 cents per share payable on 27th September 2016.

No other matter or circumstance has arisen since 30 June 2016 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

**Royalco Resources Limited**  
**Directors' report**  
**30 June 2016**

**Likely developments and expected results of operations**

Information on likely developments in the operations of the consolidated entity and the expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the consolidated entity.

**Environmental regulation**

The consolidated entity is not subject to any significant environmental regulation under Australian Commonwealth or State law.

**Information on directors**

Name:	Mr Peter Topham
Title:	Executive Chairman
Qualifications:	B.Ec., LLB, M.AusIMM
Experience and expertise:	Peter has over 20 years experience as a CEO of junior mining companies. Under his guidance Mineral Commodities was involved with the White Foil gold discovery in Western Australia and the copper discovery at Inheritance in Queensland. In conjunction with David Ogg, Peter established Royalco in 2001. Under his leadership Royalco listed on the ASX in 2006 and has subsequently expanded the company's presence in both mineral exploration and royalty interest ownership. He is a Barrister and Solicitor of the Supreme Court of Victoria but does not carry on practice as such.
Other current directorships:	Nil
Former directorships (last 3 years):	Nil
Special responsibilities:	Nil
Interests in shares:	5,805,140 fully paid ordinary shares
Interests in options:	Nil

Name:	Mr Bruce Pertzelt
Title:	Non-Executive Director
Qualifications:	B.Sc. (Geol), Dipl. Geosci (Post Grad), F.AusIMM, MAIG, MSEG
Experience and expertise:	Bruce is the Principal of the long established geological consulting firm Pertzelt Tahan & Associates Pty Ltd. He established this firm in 1982 following a ten-year engagement with Endeavour Resources Limited during which time he progressed from Project Geologist to Exploration Manager. Bruce has had widespread experience gained over 45 years in exploration activities in the Asia/Pacific and African regions.
Other current directorships:	Nil
Former directorships (last 3 years):	Nil
Special responsibilities:	Member of Remuneration Committee
Interests in shares:	31,000 fully paid ordinary shares
Interests in options:	Nil

Name:	Mr Piers Reynolds
Title:	Non-Executive Director
Qualifications:	Bach. of App. Sc. (Geol), Grad. Dip. App. Finance and Investment from FINSA
Experience and expertise:	Piers has over 20 years experience in the resource and finance industries and is currently an Executive Director of Veritas Securities Limited. He worked for nine years in the resource sector as a geologist in gold, base metals and bulk commodities. In 2001 Piers joined a mid tier Australian securities firm as a resource analyst prior to becoming a founding Director of Veritas in 2006. He has significant experience in fundamental analysis and investment banking activities including equity capital markets and corporate advisory in the minerals and energy sectors.
Other current directorships:	Bora Bora Resources Ltd (BBR)
Former directorships (last 3 years):	Nil
Special responsibilities:	Member of Audit Committee
Interests in shares:	Nil
Interests in options:	Nil

**Royalco Resources Limited**  
**Directors' report**  
**30 June 2016**

Name: Mr Malcolm McComas  
Title: Non-Executive Director (appointed 1 January 2016)  
Qualifications: BEc, LLB (Monash), SFFin and FAIDC.  
Experience and expertise: Malcolm has experience as a company director and was a former investment banker.  
Other current directorships: Fitzroy River Corporation Limited (ASX:FZR), Pharmaxis Limited (ASX:PXS) and Saunders International Limited (ASX:SND).  
Former directorships (last 3 years): BC Iron Limited (ASX:BCI), resigning 26th November 2014.  
Special responsibilities: Nil  
Interests in shares: Nil  
Interests in options: Nil

Name: Mr David Ogg  
Title: Non-Executive Director (resigned 23 June 2016)  
Qualifications: B.Ec. M.AusIMM  
Experience and expertise: Prior to joining Mineral Commodities as an executive Director in 1994, David was involved in a variety of roles in the stockbroking, investment banking and financial services arena. David is a founding director and company secretary of Royalco. More recently he has been company secretary of Copper Strike and Syrah Resources, both positions of which he relinquished in 2011  
Other current directorships: Nil  
Former directorships (last 3 years): Nil  
Special responsibilities: Member of Audit and Remuneration Committees  
Interests in shares: 3,695,260 fully paid ordinary shares  
Interests in options: Nil

'Former directorships (in the last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and excludes directorships in all other types of entities, unless otherwise stated.

**Meetings of directors**

The number of meetings of the company's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2016, and the number of meetings attended by each director were:

	Full Board		Audit Committee		Remuneration Committee	Remuneration Committee
	Attended	Held	Attended	Held	Attended	Held
Mr Peter Topham	8	8	-	-	-	-
Mr David Ogg	8	8	2	2	1	1
Mr Bruce Pertz	8	8	-	-	1	1
Mr Piers Reynolds	8	8	2	2	-	-
Mr Malcolm McComas	4	4	-	-	-	-

Held: represents the number of meetings held during the time the director held office or was a member of the relevant committee.

**Remuneration report (audited)**

The remuneration report, which has been audited, outlines the director and executive remuneration arrangements for the consolidated entity and the company, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including all directors.

**Royalco Resources Limited**  
**Directors' report**  
**30 June 2016**

The remuneration report is set out under the following main headings:

- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Service agreements
- Share-based compensation
- Additional information
- Additional disclosures relating to key management personnel

***Principles used to determine the nature and amount of remuneration***

The objective of the consolidated entity's and company's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and conforms with the market best practice for delivery of reward. The Remuneration Committee ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- alignment of executive compensation
- transparency

The Remuneration Committee is responsible for determining and reviewing remuneration arrangements for its directors and executives. The performance of the consolidated entity and company depends on the quality of its directors and executives. The remuneration philosophy is to attract, motivate and retain high performance and high quality personnel.

The Remuneration Committee has structured an executive remuneration framework that is market competitive and complementary to the reward strategy of the consolidated entity and company.

The reward framework is designed to align executive reward to shareholders' interests. The Board has considered that it should seek to enhance shareholders' interests by:

- having economic profit as a core component of plan design
- focusing on sustained growth in shareholder wealth, consisting of dividends and growth in share price, and delivering constant or increasing return on assets as well as focusing the executive on key non-financial drivers of value
- attracting and retaining high calibre executives

Additionally, the reward framework should seek to enhance executives' interests by:

- rewarding capability and experience
- reflecting competitive reward for contribution to growth in shareholder wealth
- providing a clear structure for earning rewards

In accordance with best practice corporate governance, the structure of non-executive director and executive director remuneration is separate.

***Non-executive directors 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 Remuneration Committee, which may be subject to shareholder approval in accordance with the ASX Listing Rules.

ASX listing rules requires that the aggregate non-executive directors' remuneration shall be determined periodically by a general meeting. The most recent determination was at the Annual General Meeting held on 16 May 2009, where the shareholders approved an aggregate remuneration of \$300,000.

***Executive remuneration***

In determining the level and make-up of executive remuneration, the Remuneration Committee negotiates a remuneration to reflect the market salary for a position and individual of comparable responsibility and experience. Remuneration is regularly compared with the external market by participation in industry salary surveys and during recruitment activities generally. If required, the Remuneration Committee 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.

**Royalco Resources Limited**  
**Directors' report**  
**30 June 2016**

The executive remuneration and reward framework has two components

- Fixed remuneration
- Long term incentive portion as deemed appropriate.

All executives are eligible to receive a base salary (which is based on factors such as experience and comparable industry information), fringe benefits, options, and performance incentives. The Remuneration Committee reviews the Executive Chairman's remuneration package, and the Executive Chairman reviews the senior executives' remuneration packages, annually by reference to the company's performance, executive performance and comparable information within the industry.

The performance of executives is measured against criteria agreed annually with each executive and is based predominantly on the overall success of the company in achieving its broader corporate goals. This policy is designed to attract the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth.

Directors, executives, staff and specialist consultants who are involved with the business may be invited to participate in the EIOS.

Australian-resident directors or executives receive a company paid superannuation contribution, which is currently 9-11% of their cash compensation, and do not receive any other retirement benefits (except salary sacrifice superannuation which is at the discretion of the employee).

All remuneration paid to directors and executives is valued at the cost to the company and expensed. Options are valued using the Black-Scholes methodology.

#### Employee option share plan

The company operates an ownership-based scheme for executives and senior employees of the consolidated entity. In accordance with the provisions of the plan, as approved by shareholders at a previous annual general meeting, executives and senior employees may be granted options to purchase parcels of ordinary shares at an exercise price determined by the Remuneration Committee. Each employee share option converts into one ordinary share in Royalco Resources Limited on exercise. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

The number of options granted is determined by the Remuneration Committee.

The purpose of the plan is to provide eligible employees with an incentive to remain with the company and to improve the longer term performance of the company and its return to shareholders. It is intended that the plan will enable the company to retain and attract skilled and experienced employees and provide them with the motivation to make the company more successful.

#### *Use of remuneration consultants*

The company has not made use of remuneration consultants during the current year.

#### *Voting and comments made at the company's 12 November 2015 Annual General Meeting ('AGM')*

The company received 41.96% of 'for' votes in relation to its remuneration report for the year ended 30 June 2015. The company did not receive any specific feedback at the AGM regarding its remuneration practices.

As the company received votes against its remuneration report representing greater than 25% of the votes cast by persons entitled to vote a first strike was received for remuneration report purposes.

In these circumstances, the Corporations Act 2001 requires the company to include an explanation of its actions in response to that first strike.

The company is an active operator in a tough, competitive and challenging environment with a small team of executive / non-executive personnel.

Aggregate remuneration paid to Non-Executive Directors for 2016 represents 49% of the approved shareholder limit. In June 2016 Mr David Ogg retired as Non-Executive Director.

The company has not, however, amended its overall remuneration policy. The Board remains confident that the remuneration policy and the level and structure of its executive remuneration are suitable for the company and its shareholders.



**Royalco Resources Limited**  
**Directors' report**  
**30 June 2016**

**Details of remuneration**

*Amounts of remuneration*

Details of the remuneration of key management personnel of the consolidated entity are set out in the following tables.

	Short-term benefits			Post-employment benefits		Long-term benefits	Total
	Cash salary and fees	Bonus	Non-monetary	Super-annuation	Termination	Long Service Leave	
2016	\$	\$	\$	\$	\$	\$	\$
<i>Non-Executive Directors:</i>							
Mr B Pertzel	42,000	-	-	-	-	-	42,000
Mr P Reynolds	42,000	-	-	-	-	-	42,000
Mr D Ogg *	42,000	-	-	-	-	-	42,000
Mr M McComas	21,000	-	-	-	-	-	21,000
<i>Executive Directors:</i>							
Mr P Topham	260,000	-	-	25,000	-	5,428	290,428
<i>Other Key Management Personnel:</i>							
Mr N Boicos	150,000	-	-	-	-	1,423	151,423
	557,000	-	-	25,000	-	6,851	588,851

\* resigned with effect from 23 June 2016.

N Boicos, D Ogg, and B Pertzel were paid as consultants during the year. In addition to the above, B Pertzel was paid further consulting fees of \$30,250.

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	Total
	Cash salary and fees	Bonus	Non-monetary	Super-annuation	Termination	Long-service leave	
2015	\$	\$	\$	\$	\$	\$	\$
<i>Non-Executive Directors:</i>							
Mr B Pertzel	42,000	-	-	-	-	-	42,000
Mr P Reynolds	42,000	-	-	-	-	-	42,000
Mr D Ogg	42,000	-	-	-	-	-	42,000
<i>Executive Directors:</i>							
Mr P Topham	255,000	-	-	25,000	-	7,994	287,994
<i>Other Key Management Personnel:</i>							
Mr N Boicos	130,000	-	-	-	-	1,644	131,644
	511,000	-	-	25,000	-	9,638	545,638

N Boicos, D Ogg, and B Pertzel were paid as consultants during the prior year. In addition to the above B Pertzel, was paid further consulting fees of \$72,150.

**Royalco Resources Limited**  
**Directors' report**  
**30 June 2016**

***Service agreements***

Remuneration and other terms of employment for key management personnel are formalised in service agreements. Details of these agreements are as follows:

Name:	Mr Peter Topham
Title:	Executive Chairman
Agreement commenced:	1 January 2014
Details:	Either party may terminate the employment contract with cause by giving 12 months written notice. The company may terminate the contact at any time without notice if serious misconduct has occurred. The amount of payment in lieu is to be calculated based on the average annual salary that the Executive received from the Employer over the 3 year period prior to the termination being equal to the maximum amount payable under Part 2D.2 of the Corporations Act without shareholder approval but no more than this maximum. On termination of the agreement Mr Topham will be entitled to be paid those outstanding amounts owing to him up until the Termination Date.

Key management personnel have no entitlement to termination payments in the event of removal for misconduct.

***Share-based compensation***

*Issue of shares*

There were no shares issued to directors and other key management personnel as part of compensation during the year ended 30 June 2016.

*Options*

There were no options over ordinary shares issued to directors and other key management personnel as part of compensation that were outstanding as at 30 June 2016.

There were no options over ordinary shares granted to or vested by directors and other key management personnel as part of compensation during the year ended 30 June 2016.

***Additional information***

The earnings of the consolidated entity for the five years to 30 June 2016 are summarised below:

	2012	2013	2014	2015	2016
	\$	\$	\$	\$	\$
Sales revenue	10,511,083	3,353,833	1,035,858	1,145,315	841,935
EBITDA	6,725,196	(2,553,451)	(2,853,808)	(56,841)	(416,795)
Profit/(loss) after income tax	5,274,847	(2,056,655)	(3,215,873)	(1,186,110)	(752,186)

The factors that are considered to affect total shareholders return ('TSR') are summarised below:

	2012	2013	2014	2015	2016
Share price at financial year end (\$)	0.52	0.37	0.24	0.21	0.20
Total dividends declared (cents per share)	4.00	4.00	2.00	1.50	1.00
Basic earnings per share (cents per share)	10.01	(3.90)	(6.10)	(2.25)	(1.43)

***Additional disclosures relating to key management personnel***

***Shareholding***

The number of shares in the company held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

	Balance at the start of the year	Received as part of remuneration	Additions	Disposals/ other	Balance at the end of the year
<i>Ordinary shares</i>					
Mr P Topham	5,405,640	-	399,500	-	5,805,140
Mr D Ogg *	3,695,260	-	-	-	3,695,260
Mr B Pertzel	31,000	-	-	-	31,000
	<u>9,131,900</u>	<u>-</u>	<u>399,500</u>	<u>-</u>	<u>9,531,400</u>

\* resigned on 23 June 2016.

***This concludes the remuneration report, which has been audited.***

**Shares under option**

There were no unissued ordinary shares of Royalco Resources Limited under option outstanding at the date of this report.

**Shares issued on the exercise of options**

There were no ordinary shares of Royalco Resources Limited issued on the exercise of options during the year ended 30 June 2016 and up to the date of this report.

**Indemnity and insurance of officers**

The company has indemnified the directors of the company for costs incurred, in their capacity as a director, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the company has not paid a premium in respect of a contract to insure the directors of the company against a liability to the extent permitted by the Corporations Act 2001.

**Indemnity and insurance of auditor**

The company has not otherwise, during or since the financial year, indemnified or agreed to indemnify the auditor of the company or any related entity against a liability incurred by the auditor.

During the financial year, the company has not paid a premium in respect of a contract to insure the auditor of the company or any related entity.

**Proceedings on behalf of the company**

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the company, or to 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 part of those proceedings.

**Non-audit services**

There were no non-audit services provided during the financial year by the auditor.

**Officers of the company who are former partners of John Wheller**

There are no officers of the company who are former partners of John Wheller.

**Royalco Resources Limited**  
**Directors' report**  
**30 June 2016**

**Auditor's independence declaration**

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

**Auditor**

John Wheller continues in office in accordance with section 327 of the Corporations Act 2001.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the directors

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

---

Peter Topham  
Executive Chairman

22 September 2016  
Melbourne

**Operating Activities**

PROJECT	OPERATOR	ROYALTY	COMMODITY
Weeks Petroleum	ExxonMobil/BHP	1% of 2.5%	Hydrocarbons
Reefton-Blackwater	OceanaGold Limited	1-3% ORR	Gold
Mt Garnet	CSD/Snow Peak JV	3% NSR	Zinc, copper
Bowdens	Silver Mines Ltd	1–2 % NSR	Silver
Sam's Creek	MOD Resources Limited	1% ORR	Gold
Stanton	Private	1% NSR	Nickel, cobalt
Red Dam	Private	1.5% ORR	Gold, silver
LFB	Regis Resources Ltd	3% NSR	Gold, copper
Philippines	Private	1.0 % NSR	Gold, copper
Mt Lyndhurst	Syrah Resources Ltd	1.5% NSR	Copper

**WEEKS PETROLEUM ROYALTY**

Royalco owns a 1% 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).

The **Weeks Petroleum Royalty** covers 17 production fields with 23 offshore platforms in the Offshore Gippsland Basin, ("Bass Strait").

The ExxonMobil/BHPB facilities supply in excess of 40 per cent of the prevailing east coast domestic gas market.

Royalty payments for the financial year 2015-2016:

September 30 2015	\$142,858
December 31 2015	\$91,427
March 31 2016	\$112,241
June 30 2016	\$181,073
<b>TOTAL</b>	<b>\$527,599</b>

\*Accrued

This figure compares with \$593,628 received in the previous year.

The reasons for this reduction were the ongoing decline in the TAPIS price of oil, coupled with industrial action which witnessed crude oil and condensate production dropping from 15,930 Mboe to 13,650 Mboe on a year on year basis. This fall in both price and production was partially offset by increased natural gas production in conjunction with rising gas prices for the same period.

The major gas supply contracts for Bass Strait production cease between 2017 and 2019 and it would be reasonable to assume that the operators would seek to renegotiate these agreements to a significantly higher level given the substantial difference now prevalent between spot prices and the historic pricing models.

In the very near term, the processing facilities at Longford are being upgraded and the Kipper-Tuna-Turrum fields will be brought into full production. Both developments should enhance the revenues payable under the royalty however we cannot provide any guidance as to the dollar value this may represent.

With regard to field life, we are aware of one major internal technical report prepared approximately 12 months ago which suggested that operations should still be in production post 2040. That report noted that a further four fields would be brought onstream in the medium to long term with ten further fields capable of development in the right economic climate. Of further note, that report did not take into consideration the exploration success achieved by the joint venture partners during 2015 and the report's economic modelling made commodity price assumptions that appear extremely conservative and are already out of date.



## MT GARNET

**Mt Garnet** restarted zinc and copper production during 2014-15 however the operators, Snow Peak Mining Pty Ltd and Consolidated Tin Mining Limited, were recently placed into Voluntary Administration.

Income from Royalco's 3% net smelter return generated \$225,509 for the 2015/2016 year. A further \$115,522 has been invoiced for production pre 30<sup>th</sup> June 2016 and is awaiting payment from the Voluntary Administrators. In addition there are royalties due from production subsequent to their appointment with effect from 19<sup>th</sup> July, 2016. This amount is believed to be in excess of \$130,000.

It is worth noting that Royalco has received \$500,000 in royalties from Mt Garnet, a project that restarted operations only in the December quarter of 2014 after being shut down for a considerable period. The unpaid invoices will bring the total to more than \$750,000 in less than 18 months assuming the outstanding invoices are paid in full. The expected further payments will be something of a bonus, plus the company retains a royalty interest should the project re-open once again. This royalty interest has been ascribed no value in our balance sheet.

The historic operator, Kagara Limited in liquidation, also remains a debtor from the same project historically for the amount of \$164,498 which is yet to be forthcoming. Indications from the liquidator suggest a first 'dividend' should be received shortly.

## BOWDENS

The development of the **Bowdens Project** in central NSW, where Silver Mines Limited (SVL) is now the operator, is back on the agenda following a recent lift in silver prices. The acquisition consideration was \$25 million.

The Royalco royalty interest in this project starts at a 2% net smelter return until US \$5 million has been received, then reverts to a 1% net smelter return for the life of the mine.

Infill drilling, completion of pre-feasibility studies and the Environmental Impact Study are targeted to be completed in the first half of 2017. Assuming favourable results a project development could be undertaken in 2018. Based on broker reports it is likely that potential production would be approximately 2 million tonnes per annum which suggests initial royalty receipts in excess of \$2 million per annum using prevailing commodity prices.

## REEFTON/BLACKWATER

The operator at **Reefton** in New Zealand, OceanaGold Ltd (OGC), provided a Preliminary Economic Assessment of the Blackwater Gold Project to the ASX in October 2014.

In summary, the study recommended the construction of an exploration decline to advance the project given the potentially attractive economic returns. Key parameters suggested production of 58,000 ounces of gold a year over a 10-year minelife.

On prevailing gold prices Royalco's 3% over-riding royalty interest would generate more than \$2.5 million a year gross. Of note, the operator has a one-off right to re-acquire the royalty interest for a payment of approximately A\$9 million, which is adjusted for inflation. The study assumed this right was exercised.

## SAM'S CREEK

At the **Sam's Creek Project** in New Zealand, Royalco holds a 1% over-riding royalty interest. The operator, MOD Resources Limited (MOD), has previously reported a resource in excess of 1 million ounces of gold. During the March quarter the operator announced that it had appointed PCF Capital to divest part, or all, of MOD's 80 per cent interest in the project. No further announcements in this regard have been observed.

No advice as to any activities of substance has been received for the royalty interests held at **Stanton, LFB, Mt Lyndhurst, Philippines** or **Red Dam**.

## OTHER INTERESTS

Small investments are made from time to time and are only the subject of discussion should they become material.

**AUDITOR'S INDEPENDENCE DECLARATION  
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001  
FOR THE YEAR ENDED 30 JUNE 2016**

As lead auditor for the audit of Royalco Resources Limited for the year ended 30 June 2016, 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



**JOHN WHELLER**  
Registered Company Auditor  
Registration: 9003

Dated: 22 September 2016

## **Royalco Resources Limited**

### **Contents**

**30 June 2016**

Statement of profit or loss and other comprehensive income	17
Statement of financial position	19
Statement of changes in equity	20
Statement of cash flows	21
Notes to the financial statements	22
Directors' declaration	44
Independent auditor's report to the members of Royalco Resources Limited	45
Shareholder information	47

### **General information**

The financial statements cover Royalco Resources Limited as a consolidated entity consisting of Royalco Resources Limited and the entities it controlled at the end of, or during, the year. The financial statements are presented in Australian dollars, which is Royalco Resources Limited's functional and presentation currency.

Royalco Resources Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 1  
394-396 Little Bourke Street  
Melbourne Victoria 3000

A description of the nature of the consolidated entity's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 22 September 2016. The directors have the power to amend and reissue the financial statements.

**Royalco Resources Limited**  
**Statement of profit or loss and other comprehensive income**  
**For the year ended 30 June 2016**

	<b>Note</b>	<b>Consolidated 2016 \$</b>	<b>2015 \$</b>
<b>Revenue from continuing operations</b>	4	841,935	1,145,315
<b>Expenses</b>			
Administrative costs		(509,617)	(461,864)
Employee benefits expense		(482,275)	(464,234)
Depreciation expense	5	(3,650)	(2,883)
Impairment of investments		-	(11,200)
Exploration expenditure		(68,559)	(218,241)
Amortisation of royalty rights		(425,000)	(425,000)
Other expenses		(105,020)	-
<b>Loss before income tax expense from continuing operations</b>		(752,186)	(438,107)
Income tax expense	6	-	-
Loss after income tax expense from continuing operations		(752,186)	(438,107)
Loss after income tax expense from discontinued operations	7	-	(748,003)
<b>Loss after income tax expense for the year attributable to the owners of Royalco Resources Limited</b>		(752,186)	(1,186,110)
<b>Other comprehensive income</b>			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		-	97,359
Other comprehensive income for the year, net of tax		-	97,359
<b>Total comprehensive income for the year attributable to the owners of Royalco Resources Limited</b>		<u>(752,186)</u>	<u>(1,088,751)</u>
Total comprehensive income for the year is attributable to:			
Continuing operations		(752,186)	(1,088,751)
Discontinued operations		-	-
		<u>(752,186)</u>	<u>(1,088,751)</u>

*The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes*

**Royalco Resources Limited**  
**Statement of profit or loss and other comprehensive income**  
**For the year ended 30 June 2016**

	<b>Note</b>	<b>Consolidated 2016 \$  Cents</b>	<b>2015 \$  Cents</b>
<b>Earnings per share for loss from continuing operations attributable to the owners of Royalco Resources Limited</b>			
Basic earnings per share	33	(1.43)	(0.83)
Diluted earnings per share	33	(1.43)	(0.83)
<b>Earnings per share for loss from discontinued operations attributable to the owners of Royalco Resources Limited</b>			
Basic earnings per share	33	-	(1.42)
Diluted earnings per share	33	-	(1.42)
<b>Earnings per share for loss attributable to the owners of Royalco Resources Limited</b>			
Basic earnings per share	33	(1.43)	(2.25)
Diluted earnings per share	33	(1.43)	(2.25)

*The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes*



**Royalco Resources Limited**  
**Statement of financial position**  
**As at 30 June 2016**

	<b>Note</b>	<b>Consolidated 2016 \$</b>	<b>2015 \$</b>
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	8	3,085,378	3,789,712
Trade and other receivables	9	199,837	284,816
Other	10	5,417	-
Total current assets		<u>3,290,632</u>	<u>4,074,528</u>
<b>Non-current assets</b>			
Property, plant and equipment	11	6,709	10,359
Intangibles	12	7,177,872	7,602,872
Other financial assets	14	24,000	12,800
Other	15	-	5,417
Total non-current assets		<u>7,208,581</u>	<u>7,631,448</u>
<b>Total assets</b>		<u>10,499,213</u>	<u>11,705,976</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	16	71,130	31,211
Employee benefits	17	251,649	220,426
Total current liabilities		<u>322,779</u>	<u>251,637</u>
<b>Non-current liabilities</b>			
Employee benefits	19	5,998	4,575
Total non-current liabilities		<u>5,998</u>	<u>4,575</u>
<b>Total liabilities</b>		<u>328,777</u>	<u>256,212</u>
<b>Net assets</b>		<u>10,170,436</u>	<u>11,449,764</u>
<b>Equity</b>			
Issued capital	20	12,321,611	12,321,611
Accumulated losses		<u>(2,151,175)</u>	<u>(871,847)</u>
<b>Total equity</b>		<u>10,170,436</u>	<u>11,449,764</u>

*The above statement of financial position should be read in conjunction with the accompanying notes*

**Royalco Resources Limited**  
**Statement of changes in equity**  
**For the year ended 30 June 2016**

	Contributed Equity	Accumulated losses	Foreign Currency Reserve	Total equity
	\$	\$	\$	\$
<b>Consolidated</b>				
Balance at 1 July 2014	12,321,611	1,078,763	(71,147)	13,329,227
Loss after income tax expense for the year	-	(1,186,110)	-	(1,186,110)
Other comprehensive income for the year, net of tax	-	-	97,359	97,359
Total comprehensive income for the year	-	(1,186,110)	97,359	(1,088,751)
<i>Transactions with owners in their capacity as owners:</i>				
Transfers	-	26,212	(26,212)	-
Dividends paid (note 21)	-	(790,712)	-	(790,712)
Balance at 30 June 2015	<u>12,321,611</u>	<u>(871,847)</u>	<u>-</u>	<u>11,449,764</u>
	Contributed Equity	Accumulated losses		Total equity
	\$	\$		\$
<b>Consolidated</b>				
Balance at 1 July 2015	12,321,611	(871,847)		11,449,764
Loss after income tax expense for the year	-	(752,186)		(752,186)
Other comprehensive income for the year, net of tax	-	-		-
Total comprehensive income for the year	-	(752,186)		(752,186)
<i>Transactions with owners in their capacity as owners:</i>				
Dividends paid (note 21)	-	(527,142)		(527,142)
Balance at 30 June 2016	<u>12,321,611</u>	<u>(2,151,175)</u>		<u>10,170,436</u>

*The above statement of changes in equity should be read in conjunction with the accompanying notes*

**Royalco Resources Limited**  
**Statement of cash flows**  
**For the year ended 30 June 2016**

	<b>Note</b>	<b>Consolidated 2016 \$</b>	<b>2015 \$</b>
<b>Cash flows from operating activities</b>			
Payments to suppliers and employees (inclusive of GST)		(987,886)	(1,096,910)
Interest received		94,246	151,802
Royalties received		707,760	978,096
R&D tax offset		-	86,882
		<u>          </u>	<u>          </u>
Net cash from/(used in) operating activities	32	<u>(185,880)</u>	<u>119,870</u>
<b>Cash flows from investing activities</b>			
Payments for investments		(36,000)	-
Payments for exploration and evaluation		-	(213,789)
Payments for property, plant and equipment		-	(4,026)
Proceeds from disposal of investments		44,688	-
Proceeds from release of security deposits		-	6,566
		<u>          </u>	<u>          </u>
Net cash from/(used in) investing activities		<u>8,688</u>	<u>(211,249)</u>
<b>Cash flows from financing activities</b>			
Dividends paid	21	<u>(527,142)</u>	<u>(790,712)</u>
Net cash used in financing activities		<u>(527,142)</u>	<u>(790,712)</u>
Net decrease in cash and cash equivalents		(704,334)	(882,091)
Cash and cash equivalents at the beginning of the financial year		<u>3,789,712</u>	<u>4,671,803</u>
Cash and cash equivalents at the end of the financial year	8	<u><u>3,085,378</u></u>	<u><u>3,789,712</u></u>

*The above statement of cash flows should be read in conjunction with the accompanying notes*

## **Note 1. Significant accounting policies**

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### **New, revised or amending Accounting Standards and Interpretations adopted**

The consolidated entity has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

### **Basis of preparation**

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

#### *Historical cost convention*

The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of available-for-sale financial assets, financial assets and liabilities at fair value through profit or loss, investment properties, certain classes of property, plant and equipment and derivative financial instruments.

#### *Critical accounting estimates*

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

### **Parent entity information**

In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 29.

### **Principles of consolidation**

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Royalco Resources Limited ('company' or 'parent entity') as at 30 June 2016 and the results of all subsidiaries for the year then ended. Royalco Resources Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Where the consolidated entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The consolidated entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

**Note 1. Significant accounting policies (continued)**

**Operating segments**

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

**Revenue recognition**

Revenue is recognised when it is probable that the economic benefit will flow to the consolidated entity and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

*Royalties*

Royalty revenue is recognised on an accrual basis in accordance with the substance of the relevant agreement (provided this it is probable the economic benefits will flow to the group and the amount can be reliably measured). Royalties determined on a time basis are recognised on a straight-line basis over the period of the agreement. Royalty agreements that are based on production, sales and other measures, are recognised by reference to the underlying agreement.

*Interest*

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

*Other revenue*

Other revenue is recognised when it is received or when the right to receive payment is established.

**Income tax**

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

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

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

**Discontinued operations**

A discontinued operation is a component of the consolidated entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately on the face of the statement of profit or loss and other comprehensive income.

**Note 1. Significant accounting policies (continued)**

**Current and non-current classification**

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

**Cash and cash equivalents**

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

**Trade and other receivables**

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Trade receivables are generally due for settlement within 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the consolidated entity will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable may be impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

Other receivables are recognised at amortised cost, less any provision for impairment.

**Investments and other financial assets**

Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. They are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on the purpose of the acquisition and subsequent reclassification to other categories is restricted.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the consolidated entity has transferred substantially all the risks and rewards of ownership.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the asset is derecognised or impaired.

*Impairment of financial assets*

The consolidated entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. Objective evidence includes significant financial difficulty of the issuer or obligor; a breach of contract such as default or delinquency in payments; the lender granting to a borrower concessions due to economic or legal reasons that the lender would not otherwise do; it becomes probable that the borrower will enter bankruptcy or other financial reorganisation; the disappearance of an active market for the financial asset; or observable data indicating that there is a measurable decrease in estimated future cash flows.

**Note 1. Significant accounting policies (continued)**

The amount of the impairment allowance for loans and receivables carried at amortised cost is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. If there is a reversal of impairment, the reversal cannot exceed the amortised cost that would have been recognised had the impairment not been made and is reversed to profit or loss.

**Property, plant and equipment**

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment (excluding land) over their expected useful lives as follows:

Plant and equipment	3 years
---------------------	---------

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the consolidated entity. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss. Any revaluation surplus reserve relating to the item disposed of is transferred directly to retained profits.

**Intangible assets**

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

*Software*

Significant costs associated with software are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 5 years.

*Royalty Rights*

Royalty rights acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

**Trade and other payables**

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

**Employee benefits**

*Short-term employee benefits*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

**Note 1. Significant accounting policies (continued)**

*Other long-term employee benefits*

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

*Defined contribution superannuation expense*

Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

**Issued capital**

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

**Dividends**

Dividends are recognised when declared during the financial year and no longer at the discretion of the company.

**Earnings per share**

*Basic earnings per share*

Basic earnings per share is calculated by dividing the profit attributable to the owners of Royalco Resources Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

*Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

**Goods and Services Tax ('GST') and other similar taxes**

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

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

**New Accounting Standards and Interpretations not yet mandatory or early adopted**

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2016. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.



**Note 1. Significant accounting policies (continued)**

*AASB 9 Financial Instruments*

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely principal and interest. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income ('OCI'). For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment will be measured under a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. The standard introduces additional new disclosures. The consolidated entity will adopt this standard from 1 January 2018 but the impact of its adoption is yet to be assessed by the consolidated entity.

*AASB 15 Revenue from Contracts with Customers*

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgements made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer. The consolidated entity will adopt this standard from 1 January 2018 but the impact of its adoption is yet to be assessed by the consolidated entity.

*AASB 16 Leases*

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured as the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under AASB 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component. For lessor accounting, the standard does not substantially change how a lessor accounts for leases. The consolidated entity will adopt this standard from 1 July 2019 but the impact of its adoption is not expected to be material.

## **Note 2. Critical accounting judgements, estimates and assumptions**

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

### *Estimation of useful lives of assets*

The consolidated entity determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

### *Income tax*

The consolidated entity is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The consolidated entity recognises liabilities for anticipated tax audit issues based on the consolidated entity's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

### *Recovery of deferred tax assets*

Deferred tax assets are recognised for deductible temporary differences only if the consolidated entity considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

### *Employee benefits provision*

As discussed in note 1, the liability for employee benefits expected to be settled more than 12 months from the reporting date are recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account.

## **Note 3. Operating segments**

### *Identification of reportable operating segments*

The consolidated entity is organised into two operating segments: management of resource based royalties and exploration activities. These operating segments are based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources. There is no aggregation of operating segments.

The CODM reviews both adjusted earnings before interest, tax, depreciation and amortisation (segment result) and profit before income tax.

### *Refer below for a brief description of each segment*

The principal products and services of each of these operating segments are as follows:

Royalty Management	manages a portfolio of resource based royalty rights held in Australia and New Zealand.
Philippines Exploration	explores mineral tenements in the Philippines (discontinued during prior year).
Oher	relates to corporate and administrative functions.

**Note 3. Operating segments (continued)**

*Operating segment information*

	Royalty Management	Other segments	Total	
	\$	\$	\$	
<b>Consolidated - 2016</b>				
<b>Revenue</b>				
Sales to external customers	728,788	-	728,788	
Other revenue	-	113,147	113,147	
<b>Total revenue</b>	<u>728,788</u>	<u>113,147</u>	<u>841,935</u>	
<b>EBITDA</b>	<u>728,788</u>	<u>(947,304)</u>	<u>(218,516)</u>	
<b>Profit/(loss) before income tax expense</b>	<u>728,788</u>	<u>(947,304)</u>	<u>(218,516)</u>	
Income tax expense			-	
<b>Loss after income tax expense</b>			<u>(218,516)</u>	
Depreciation and amortisation			(428,650)	
Impairment of receivables			(105,020)	
<b>Loss before income tax expense</b>			<u>(533,670)</u>	
Income tax expense			-	
<b>Loss after income tax expense</b>			<u>(533,670)</u>	
<b>Assets</b>				
Segment assets	<u>7,369,447</u>	<u>3,129,766</u>	<u>10,499,213</u>	
<b>Total assets</b>			<u>10,499,213</u>	
<b>Liabilities</b>				
Segment liabilities	<u>-</u>	<u>328,777</u>	<u>328,777</u>	
<b>Total liabilities</b>			<u>328,777</u>	
	Royalty Management	Philippines Exploration	Other segments	Total
	\$	\$	\$	\$
<b>Consolidated - 2015</b>				
<b>Revenue</b>				
Sales to external customers	997,461	-	-	997,461
Other revenue	-	86,899	147,854	234,753
<b>Total revenue</b>	<u>997,461</u>	<u>86,899</u>	<u>147,854</u>	<u>1,232,214</u>
<b>EBITDA</b>	<u>997,461</u>	<u>(46,626)</u>	<u>(1,007,676)</u>	<u>(56,841)</u>
Depreciation and amortisation				(427,892)
Impairment of assets				(701,377)
<b>Loss before income tax expense</b>				<u>(1,186,110)</u>
Income tax expense				-
<b>Loss after income tax expense</b>				<u>(1,186,110)</u>
<b>Assets</b>				
Segment assets	<u>7,878,439</u>	<u>-</u>	<u>3,827,537</u>	<u>11,705,976</u>
<b>Total assets</b>				<u>11,705,976</u>
<i>Total assets includes:</i>				
Acquisition of non-current assets	<u>-</u>	<u>-</u>	<u>4,026</u>	<u>4,026</u>
<b>Liabilities</b>				
Segment liabilities	<u>-</u>	<u>-</u>	<u>256,212</u>	<u>256,212</u>
<b>Total liabilities</b>				<u>256,212</u>

**Royalco Resources Limited**  
**Notes to the financial statements**  
**30 June 2016**

**Note 4. Revenue**

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
<b>From continuing operations</b>		
<i>Sales revenue</i>		
Royalty	728,788	997,461
<i>Other revenue</i>		
Interest	93,259	131,626
Gain on sale of listed investments	19,888	-
Other revenue	-	16,228
	<u>113,147</u>	<u>147,854</u>
Revenue from continuing operations	<u>841,935</u>	<u>1,145,315</u>

**Note 5. Expenses**

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Loss before income tax from continuing operations includes the following specific expenses:		
<i>Depreciation</i>		
Plant and equipment	3,650	2,660
<i>Amortisation</i>		
Software	-	223
Royalty rights	425,000	425,000
Total amortisation	<u>425,000</u>	<u>425,223</u>
Total depreciation and amortisation	<u>428,650</u>	<u>427,883</u>
<i>Impairment</i>		
Exploration and evaluation	-	919,618
Shares in Australian listed entity	-	11,200
Trade receivables	105,020	-
Total impairment	<u>105,020</u>	<u>930,818</u>
<i>Superannuation expense</i>		
Defined contribution superannuation expense	<u>25,000</u>	<u>25,000</u>

**Note 6. Income tax expense**

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
<i>Income tax expense</i>		
Current tax	(123,642)	(57,010)
Current year expense relating to losses forgone	375,504	-
Net prior year adjustments	(456,906)	(331,715)
Deferred tax - origination and reversal of temporary differences	(83,844)	(68,470)
Amounts not recognised	288,888	457,195
	<u>-</u>	<u>-</u>
Aggregate income tax expense	-	-
<i>Numerical reconciliation of income tax expense and tax at the statutory rate</i>		
Loss before income tax expense from continuing operations	(752,186)	(438,107)
Loss before income tax expense from discontinued operations	-	(748,003)
	<u>(752,186)</u>	<u>(1,186,110)</u>
Tax at the statutory tax rate of 30%	(225,656)	(355,833)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Entertainment expenses	4,670	4,603
Foreign loss of subsidiary not recognised	13,500	251,801
Prior year under provision	289	57,891
Prior year amounts not recognised	(457,195)	(389,606)
R&D tax offset	-	(26,051)
	<u>(664,392)</u>	<u>(457,195)</u>
Current year expense relating to losses forgone	375,504	-
Current year tax losses not recognised	288,888	457,195
	<u>-</u>	<u>-</u>
Income tax expense	-	-

**Note 7. Discontinued operations**

*Description*

During the prior year the company disposed of it Royalco Philippines Inc. The consideration for the disposal was a 1% net smelter royalty over the future production from the Gambang tenements. In addition the company is entitled to 10% of any consideration from the sale of the tenement or equity of the company.

**Note 7. Discontinued operations (continued)**

*Financial performance information*

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Interest	-	17
R&D tax offset	-	86,882
Total revenue	-	86,899
Administration expense	-	(84,172)
Employee benefit expense	-	(49,353)
Impairment of exploration assets	-	(701,377)
Total expenses	-	(834,902)
Loss before income tax expense	-	(748,003)
Income tax expense	-	-
Loss after income tax expense from discontinued operations	-	(748,003)

**Note 8. Current assets - cash and cash equivalents**

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Cash at bank	3,085,378	3,789,712

**Note 9. Current assets - trade and other receivables**

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Trade receivables	115,523	-
Less: Provision for impairment of receivables	(105,020)	-
	10,503	-
Royalties receivable	181,073	275,568
Interest receivable	8,261	9,248
	199,837	284,816

All royalties receivable have been received within agreed terms during the year and since year end.

*Impairment of receivables*

The ageing of the impaired receivables provided for above are as follows:

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
0 to 3 months overdue	105,020	-

**Royalco Resources Limited**  
**Notes to the financial statements**  
**30 June 2016**

**Note 10. Current assets - other**

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Security deposits	5,417	-

**Note 11. Non-current assets - property, plant and equipment**

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Plant and equipment - at cost	42,556	42,556
Less: Accumulated depreciation	(35,847)	(32,197)
	<u>6,709</u>	<u>10,359</u>

*Reconciliations*

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

<b>Consolidated</b>	<b>Plant &amp; Equipment \$</b>	<b>Total \$</b>
Balance at 1 July 2014	35,230	35,230
Additions	4,026	4,026
Write off of assets	(26,237)	(26,237)
Depreciation expense	(2,660)	(2,660)
	<u>10,359</u>	<u>10,359</u>
Balance at 30 June 2015	10,359	10,359
Depreciation expense	(3,650)	(3,650)
	<u>6,709</u>	<u>6,709</u>
Balance at 30 June 2016	<u>6,709</u>	<u>6,709</u>

**Note 12. Non-current assets - intangibles**

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Software - at cost	36,121	36,121
Less: Accumulated amortisation	(36,121)	(36,121)
	<u>-</u>	<u>-</u>
Royalty rights - at cost	8,819,738	8,819,738
Less: Accumulated amortisation	(1,641,866)	(1,216,866)
	<u>7,177,872</u>	<u>7,602,872</u>
	<u>7,177,872</u>	<u>7,602,872</u>

**Note 12. Non-current assets - intangibles (continued)**

*Reconciliations*

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

<b>Consolidated</b>	Royalty Rights \$	Software \$	Total \$
Balance at 1 July 2014	8,027,872	233	8,028,105
Amortisation expense	(425,000)	(233)	(425,233)
Balance at 30 June 2015	7,602,872	-	7,602,872
Amortisation expense	(425,000)	-	(425,000)
Balance at 30 June 2016	<u>7,177,872</u>	<u>-</u>	<u>7,177,872</u>

The company has assessed the recoverable amount of the royalty rights and is satisfied that they are not impaired.

**Note 13. Non-current assets - deferred tax**

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
<i>Deferred tax asset comprises temporary differences attributable to:</i>		
Amounts recognised in profit or loss:		
Tax losses	128,236	375,747
Impairment of receivables	31,506	-
Employee benefits	77,294	67,501
Exploration expenditure	84,705	64,137
Accrued expenses	14,400	7,075
Property, plant and equipment	927	344
Royalty rights	1,678	3,347
Deductible capital costs	6,942	13,885
Revaluations	-	10,606
Amount not recognised	<u>(345,688)</u>	<u>(542,642)</u>

**Note 14. Non-current assets - other financial assets**

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Shares in Australian listed entity - at market value	-	12,800
Share in Australian unlisted entity - at cost	<u>24,000</u>	<u>-</u>
	<u>24,000</u>	<u>12,800</u>

The company disposed of all its shares in Australian listed entities during the year, recognising a profit of \$19,888



**Note 15. Non-current assets - other**

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Security deposits	-	5,417

**Note 16. Current liabilities - trade and other payables**

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Other payables	71,130	31,211

Refer to note 22 for further information on financial instruments.

**Note 17. Current liabilities - employee benefits**

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Employee benefits	251,649	220,426

**Note 18. Non-current liabilities - deferred tax**

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
<i>Deferred tax liability comprises temporary differences attributable to:</i>		
Amounts recognised in profit or loss:		
Interest receivable	2,478	2,774
Royalty receivable	54,322	82,672
Amounts not recognised	(56,800)	(85,446)

**Note 19. Non-current liabilities - employee benefits**

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Employee benefits	5,998	4,575

**Note 20. Equity - issued capital**

	<b>2016</b>	<b>Consolidated</b>	<b>2016</b>	<b>2015</b>
	<b>Shares</b>	<b>Shares</b>	<b>\$</b>	<b>\$</b>
Ordinary shares - fully paid	<u>52,714,183</u>	<u>52,714,183</u>	<u>12,321,611</u>	<u>12,321,611</u>

*Ordinary shares*

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

*Share buy-back*

There is no current on-market share buy-back.

*Capital risk management*

The consolidated entity's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

In order to maintain or adjust the capital structure, the consolidated entity may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The consolidated entity would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current parent entity's share price at the time of the investment. The consolidated entity is not actively pursuing additional investments in the short term as it continues to integrate and grow its existing businesses in order to maximise synergies.

The capital risk management policy remains unchanged from the 30 June 2015 Annual Report.

**Note 21. Equity - dividends**

Dividends paid during the financial year were as follows:

	<b>Consolidated</b>	<b>2015</b>
	<b>2016</b>	<b>\$</b>
Final dividend for the year ended 30 June 2014 of 1.0 cent per ordinary share paid on 19 September 2014 fully franked based on a tax rate of 30%	-	527,142
Interim dividend for the year ended 30 June 2015 of 0.5 cents per ordinary share paid on 13 March 2015 fully franked based on a tax rate of 30%	-	263,570
Final dividend for the year ended 30 June 2015 of 0.5 cents per ordinary share paid on 24 September 2015 fully franked based on a tax rate of 30%	263,571	-
Interim dividend for the year ended 30 June 2016 of 0.5 cents per ordinary share paid on 22 March 2016 fully franked based on a tax rate of 30%	263,571	-
	<u>527,142</u>	<u>790,712</u>

## Note 22. Financial instruments

### Financial risk management objectives

The consolidated entity's activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk and interest rate risk), credit risk and liquidity risk. The consolidated entity's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the consolidated entity. The consolidated entity uses derivative financial instruments such as forward foreign exchange contracts to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes, i.e. not as trading or other speculative instruments. The consolidated entity uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks, ageing analysis for credit risk and beta analysis in respect of investment portfolios to determine market risk.

Risk management is carried out by senior finance executives ('finance') under policies approved by the Board of Directors ('the Board'). These policies include identification and analysis of the risk exposure of the consolidated entity and appropriate procedures, controls and risk limits. Finance identifies, evaluates and hedges financial risks within the consolidated entity's operating units. Finance reports to the Board on a monthly basis.

### Market risk

#### Foreign currency risk

The consolidated entity is not exposed to material foreign exchange risk.

#### Price risk

The consolidated entity is exposed to price risk in relation to its shares held in listed investments.

Consolidated - 2015	% change	Average price increase		% change	Average price decrease	
		Effect on profit before tax	Effect on equity		Effect on profit before tax	Effect on equity
Shares in Australian listed entity	50%	<u>6,400</u>	<u>6,400</u>	50%	<u>(6,400)</u>	<u>(6,400)</u>

The company disposed of all of its investments in Australian listed shares during the current year.

#### Interest rate risk

The consolidated entity is exposed to interest rate risk on its cash holdings. The consolidated entity does not have any interest bearing liabilities

Refer below for a sensitivity analysis in relation to the consolidated entity's exposure to interest rate risk,

Consolidated - 2016	Basis points change	Basis points increase		Basis points change	Basis points decrease	
		Effect on profit before tax	Effect on equity		Effect on profit before tax	Effect on equity
Cash at bank	100	<u>30,854</u>	<u>30,854</u>	100	<u>(30,854)</u>	<u>(30,854)</u>

  

Consolidated - 2015	Basis points change	Basis points increase		Basis points change	Basis points decrease	
		Effect on profit before tax	Effect on equity		Effect on profit before tax	Effect on equity
Cash at bank	100	<u>37,897</u>	<u>37,897</u>	100	<u>(37,897)</u>	<u>(37,897)</u>

**Note 22. Financial instruments (continued)**

***Credit risk***

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The consolidated entity has a strict code of credit, including obtaining agency credit information, confirming references and setting appropriate credit limits. The consolidated entity obtains guarantees where appropriate to mitigate credit risk. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The consolidated entity does not hold any collateral.

During the current year the consolidated entity recognised an impairment of \$105,020 in relation to its trade receivables (2015 : \$nil).

***Liquidity risk***

Vigilant liquidity risk management requires the consolidated entity to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable.

The consolidated entity manages liquidity risk by maintaining adequate cash reserves and by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

***Remaining contractual maturities***

The following tables detail the consolidated entity's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

	Weighted average interest rate %	1 year or less \$	Between 1 and 2 years \$	Between 2 and 5 years \$	Over 5 years \$	Remaining contractual maturities \$
<b>Consolidated - 2016</b>						
<b>Non-derivatives</b>						
<i>Non-interest bearing</i>						
Other payables	-	71,130	-	-	-	71,130
Total non-derivatives		71,130	-	-	-	71,130

	Weighted average interest rate %	1 year or less \$	Between 1 and 2 years \$	Between 2 and 5 years \$	Over 5 years \$	Remaining contractual maturities \$
<b>Consolidated - 2015</b>						
<b>Non-derivatives</b>						
<i>Non-interest bearing</i>						
Other loans	-	31,211	-	-	-	31,211
Total non-derivatives		31,211	-	-	-	31,211

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

***Fair value of financial instruments***

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value.

**Note 23. Key management personnel disclosures**

*Compensation*

The aggregate compensation made to directors and other members of key management personnel of the consolidated entity is set out below:

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Short-term employee benefits	557,000	511,000
Post-employment benefits	25,000	25,000
Long-term benefits	6,851	9,638
	<u>588,851</u>	<u>545,638</u>

**Note 24. Remuneration of auditors**

During the financial year the following fees were paid or payable for services provided by John Wheller, the auditor of the company:

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
<i>Audit services - John Wheller (2015: Lore)</i>		
Audit or review of the financial statements	<u>30,000</u>	<u>28,000</u>

**Note 25. Contingent liabilities**

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Bank guarantees	<u>79,250</u>	<u>79,250</u>

**Note 26. Commitments**

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
<i>Lease commitments - operating</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	17,853	71,177
One to five years	-	17,853
	<u>17,853</u>	<u>89,030</u>

Operating lease commitments includes contracted amounts for the company's Melbourne office.

**Note 27. Related party transactions**

*Parent entity*

Royalco Resources Limited is the parent entity.

**Note 27. Related party transactions (continued)**

*Subsidiaries*

Interests in subsidiaries are set out in note 30.

*Key management personnel*

Disclosures relating to key management personnel are set out in note 23 and the remuneration report included in the directors' report.

*Transactions with related parties*

The following transactions occurred with related parties:

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Payment for other expenses:		
Directors fees paid to David Ogg and Associates (an entity associated with Mr David Ogg)	42,000	42,000
Directors fees paid to Alpha Unicorn Company Pty Ltd (an entity associated with Mr Bruce Pertzelt)	42,000	42,000
Directors fees paid to McComas Capital Pty Ltd (an entity associated with Mr Malcolm McComas)	21,000	-
Directors fees paid to Mad Fish Management Pty Ltd (an entity associated with Mr Piers Reynolds)	42,000	42,000
Consulting fees paid to Alpha Unicorn Company Pty Ltd (an entity associated with Mr Bruce Pertzelt)	30,250	72,150

*Receivable from and payable to related parties*

There were no trade receivables from or trade payables to related parties at the current and previous reporting date.

*Loans to/from related parties*

There were no loans to or from related parties at the current and previous reporting date.

*Terms and conditions*

All transactions were made on normal commercial terms and conditions and at market rates.

**Note 28. Unused credit facilities**

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
<b>Unused credit facility</b>		
Total unutilised credit card facility	<u>60,000</u>	<u>60,000</u>

**Note 29. Parent entity information**

Set out below is the supplementary information about the parent entity.

*Statement of profit or loss and other comprehensive income*

	<b>Parent</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Loss after income tax	(798,524)	(3,762,812)
Total comprehensive income	(798,524)	(3,762,812)

*Statement of financial position*

	<b>Parent</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Total current assets	3,290,634	4,029,529
Total assets	10,499,214	11,752,314
Total current liabilities	322,779	251,637
Total liabilities	328,777	256,212
Equity		
Issued capital	12,321,611	12,321,611
Accumulated losses	(2,151,174)	(825,509)
Total equity	10,170,437	11,496,102

*Guarantees entered into by the parent entity in relation to the debts of its subsidiaries*

The parent entity had no guarantees in relation to the debts of its subsidiaries as at 30 June 2016 and 30 June 2015

*Contingent liabilities*

Refer to Note 26 for details of the parent entity's contingent liabilities. All amounts disclosed relate to the parent entity.

*Capital commitments - Property, plant and equipment*

The parent entity had no capital commitments for property, plant and equipment at as 30 June 2016 and 30 June 2015.

**Note 30. Interests in subsidiaries**

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1:

<b>Name</b>	<b>Principal place of business / Country of incorporation</b>	<b>Ownership interest</b>	
		<b>2016</b>	<b>2015</b>
		<b>%</b>	<b>%</b>
Ginto Minerals Pty Ltd	Australia	100.00%	100.00%
Royalco Resources (No1) Pty Ltd	Australia	100.00%	100.00%
Royalco Mining PLC *	Ethiopia	100.00%	100.00%

\* the company has made the decision to wind up this entity and is in the process of doing this.

**Note 31. Events after the reporting period**

On 16th September 2016, the company announced a dividend of 0.5 cents per share payable on 27th September 2016.

No other matter or circumstance has arisen since 30 June 2016 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

**Note 32. Reconciliation of loss after income tax to net cash from/(used in) operating activities**

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Loss after income tax expense for the year	(752,186)	(1,186,110)
Adjustments for:		
Depreciation and amortisation	428,650	427,892
Net gain on disposal of non-current assets	(19,888)	-
Impairment of exploration expenditure	-	919,618
Employee entitlements	32,646	(26,844)
Impairment of investments	-	11,200
Change in operating assets and liabilities:		
Decrease in trade and other receivables	84,979	28,636
Increase/(decrease) in trade and other payables	39,919	(54,522)
Net cash from/(used in) operating activities	<u>(185,880)</u>	<u>119,870</u>

**Note 33. Earnings per share**

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
<i>Earnings per share for loss from continuing operations</i>		
Loss after income tax attributable to the owners of Royalco Resources Limited	<u>(752,186)</u>	<u>(438,107)</u>
	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>52,714,183</u>	<u>52,714,183</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>52,714,183</u>	<u>52,714,183</u>
	<b>Cents</b>	<b>Cents</b>
Basic earnings per share	(1.43)	(0.83)
Diluted earnings per share	(1.43)	(0.83)
	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
<i>Earnings per share for loss from discontinued operations</i>		
Loss after income tax attributable to the owners of Royalco Resources Limited	<u>-</u>	<u>(748,003)</u>



**Note 33. Earnings per share (continued)**

	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>52,714,183</u>	<u>52,714,183</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>52,714,183</u>	<u>52,714,183</u>
	<b>Cents</b>	<b>Cents</b>
Basic earnings per share	-	(1.42)
Diluted earnings per share	-	(1.42)
	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
<i>Earnings per share for loss</i>		
Loss after income tax attributable to the owners of Royalco Resources Limited	<u>(752,186)</u>	<u>(1,186,110)</u>
	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>52,714,183</u>	<u>52,714,183</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>52,714,183</u>	<u>52,714,183</u>
	<b>Cents</b>	<b>Cents</b>
Basic earnings per share	(1.43)	(2.25)
Diluted earnings per share	(1.43)	(2.25)

**Note 34. Share-based payments**

There were no share based payments made in the 2016 or 2015 financial year.

**Royalco Resources Limited**  
**Directors' declaration**  
**30 June 2016**

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the directors



---

Peter Topham  
Executive Chairman

22 September 2016  
Melbourne

## **INDEPENDENT AUDITOR'S REPORT TO THE DIRECTORS OF ROYALCO RESOURCES LIMITED**

### ***Report on the Financial Report***

We have audited the accompanying financial report of Royalco Resources Limited, which comprises the statements of financial position as at 30 June 2016, the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the company and the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

### ***Directors' Responsibility for the Financial Report***

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Independence***

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of Royalco Resources Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

***Opinion***

In our opinion:

- a) the financial report of Royalco Resources Limited is in accordance with the Corporations Act 2001, including:
  - 1. giving a true and fair view of the company's and consolidated entity's financial positions as at 30 June 2016 and of their performance for the year ended on that date; and
  - 2. complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- b) the consolidated financial statements and notes in the financial report also comply with International Financial Reporting Standards as disclosed in Note 1.

***Report on the Remuneration Report***

We have audited the Remuneration Report included in pages 6 to 11 of the directors' report for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

***Opinion***

In our opinion, the Remuneration Report of Royalco Resources Limited for the year ended 30 June 2016, complies with section 300A of the Corporations Act 2001.



**JOHN WHELLER**  
Registered Company Auditor  
Registration: 9003

Dated: 22 September 2016

**Royalco Resources Limited**  
**Shareholder information**  
**30 June 2016**

The below shareholder information was applicable as at 2 September 2016.

**Distribution of equitable securities**

Analysis of number of equitable security holders by size of holding:

	Number of holders of ordinary shares
1 to 1,000	34
1,001 to 5,000	133
5,001 to 10,000	100
10,001 to 100,000	200
100,001 and over	38
	<hr/> 505 <hr/>
Holding less than a marketable parcel	<hr/> 70 <hr/>

**Equity security holders**

*Twenty largest quoted equity security holders*

The names of the twenty largest security holders of quoted equity securities are listed below:

	Ordinary shares % of total shares issued
Number held	
High Peak Royalties Ltd	10,540,000 19.99
JP Morgan Nominees Pty Ltd	9,754,615 18.50
Fitzroy River Corporation Ltd	7,873,500 14.94
Keryn Anne Topham	4,530,000 8.59
Meballa Pty Ltd	2,665,260 5.06
Tara SF PL	1,200,000 2.28
Peter John and Keryn Anne Topham	1,055,140 2.00
David Ogg and Associates Pty Ltd	690,000 1.31
Argonaut Securities Pty Ltd	507,552 0.96
Errol Goldschmidt	359,238 0.68
Brockway Yager Pty Ltd	300,000 0.57
Miriam Aviva Tatarka	300,000 0.57
Blackleaf Investments Pty Ltd	300,000 0.57
W Richardson	299,951 0.57
Whorouly Pty Ltd	270,000 0.51
Henry Jacobs Geelong PL	270,000 0.51
Henry Jacobs Geelong PL - Account No 2	255,000 0.48
Peter James Hayman	250,000 0.47
Dorran Pty Ltd	250,000 0.47
David Ogg	240,000 0.46
	<hr/> 41,910,256 <hr/> 79.49 <hr/>

*Unquoted equity securities*

There are no unquoted equity securities.

**Royalco Resources Limited**  
**Shareholder information**  
**30 June 2016**

**Substantial holders**

Substantial holders in the company are set out below:

	<b>Ordinary shares</b>	
	<b>% of total</b>	
	<b>Number held</b>	<b>shares issued</b>
High Peak Royalties Ltd	10,540,000	19.99
Noontide Investments Ltd	9,798,132	18.59
Fitzroy River Corporation Ltd	7,873,215	14.94
Keryn Anne Topham and Associates	5,805,140	11.01
David Lindsay Ogg and Associates	3,695,260	7.01

**Voting rights**

The voting rights attached to ordinary shares are set out below:

*Ordinary shares*

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

There are no other classes of equity securities.