



FINANCIAL REPORT 2010

CORPORATE INFORMATION

DIRECTORS

Philip G Crabb
Non-Executive chairman

Marcus F Flis
Managing director

Frank DeMarte
Executive director

Brian D Richardson
Non-Executive director

Malcolm J Randall
Non-Executive director

COMPANY SECRETARY

Frank DeMarte

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STOCK EXCHANGE LISTING

Australian Securities Exchange Ltd
Code: ROY

WEBSITE

Web: www.royalresources.com.au

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CORPORATE GOVERNANCE STATEMENT

Royal Resources Limited ("the company") has made it a priority to adopt systems of control and accountability as the basis for the administration of corporate governance. Some of these policies and procedures are summarised in this statement. Commensurate with the spirit of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations ("principles & recommendations"), the company has followed each recommendation where the board has considered the recommendation to be an appropriate benchmark for its corporate governance practices. Where the company's corporate governance practices follow a recommendation, the board has made appropriate statements reporting on the adoption of the recommendation. Where, after due consideration, the company's corporate governance practices depart from a recommendation, the board has offered full disclosure and reason for the adoption of its own practice, in compliance with the "if not, why not" regime.

Disclosure of corporate governance practices

Summary statement

	ASX P & R ¹	If not, why not ²		ASX P & R ¹	If not, why not ²
Recommendation 1.1	✓		Recommendation 4.3	✓	
Recommendation 1.2	✓		Recommendation 4.4 ³	n/a	n/a
Recommendation 1.3 ³	n/a	n/a	Recommendation 5.1	✓	
Recommendation 2.1		✓	Recommendation 5.2 ³	n/a	n/a
Recommendation 2.2		✓	Recommendation 6.1	✓	
Recommendation 2.3	✓		Recommendation 6.2 ³	n/a	n/a
Recommendation 2.4		✓	Recommendation 7.1	✓	
Recommendation 2.5	✓		Recommendation 7.2	✓	
Recommendation 2.6 ³	n/a	n/a	Recommendation 7.3	✓	
Recommendation 3.1	✓		Recommendation 7.4 ³	n/a	n/a
Recommendation 3.2	✓		Recommendation 8.1		✓
Recommendation 3.3 ³	n/a	n/a	Recommendation 8.2	✓	
Recommendation 4.1	✓		Recommendation 8.3 ³	n/a	n/a
Recommendation 4.2		✓			

Note 1 Indicates where the company has followed the principles & recommendations.

Note 2 Indicates where the company has provided "if not, why not" disclosure.

Note 3 Indicates an information based recommendation. Information based recommendations are not adopted or reported against using "if not, why not" disclosure – information required is either provided or it is not.

Website disclosures

Further information about the company's charters, policies and procedures may be found at the company's website at www.royalresources.com.au, under the section marked corporate governance. A list of the charters, policies and procedures which are referred to in this corporate governance statement, together with the recommendations to which they relate, are set out below.

Charters	Recommendation(s)
Board	1.3
Audit committee	4.4
Nomination committee	2.6
Remuneration committee	8.3
Policies and procedures	
Policy and procedure for selection and (re)appointment of directors	2.6
Process for performance evaluation	1.2, 2.5
Policy on assessing the independence of directors	2.6
Policy for trading in company securities (summary)	3.2, 3.3
Code of conduct (summary)	3.1, 3.3
Policy on ASX listing rule compliance (summary)	5.1, 5.2
Compliance procedures (summary)	
Procedure for selection, appointment and rotation of external auditor	4.4
Shareholder communication policy	6.1, 6.2
Risk management policy (summary)	7.1, 7.4

DISCLOSURE – PRINCIPLES & RECOMMENDATIONS

The company reports below on how it has followed (or otherwise departed from) each of the principles & recommendations during the 2009/2010 financial year ("Reporting period").

Principle 1 – Lay solid foundations for management and oversight

Recommendation 1.1:

Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions.

Disclosure:

The company has established the functions reserved to the board and has set out these functions in its board charter. The board is collectively responsible for promoting the success of the company through its key functions of overseeing the management of the company, providing overall corporate governance of the company, monitoring the financial performance of the company, engaging appropriate management commensurate with the company's structure and objectives, involvement in the development of corporate strategy and performance objectives and reviewing, ratifying and monitoring systems of risk management and internal control, codes of conduct and legal compliance.

The company has established the functions delegated to senior executives and has set out these functions in its board charter. Senior executives are responsible for supporting the managing director and assisting the managing director in implementing the running of the general operations and financial business of the company, in accordance with the delegated authority of the board.

Senior executives are responsible for reporting all matters which fall within the company's materiality thresholds at first instance to the managing director or, if the matter concerns the managing director, then directly to the chair or the lead independent director, as appropriate.

Recommendation 1.2:

Companies should disclose the process for evaluating the performance of senior executives.

Disclosure:

The performance evaluations of senior executives are undertaken by the managing director on an annual and informal basis.

Recommendation 1.3:

Companies should provide the information indicated in the guide to reporting on principle 1.

Disclosure:

No evaluation of the senior executives took place in the reporting period.

Please refer to the section above marked website disclosures.

Principle 2 – Structure the board to add value

Recommendation 2.1:

A majority of the board should be independent directors.

Notification of departure:

The board does not have a majority of independent directors.

Explanation for departure:

The independent directors of the board are Malcolm Randall, Brian Richardson, and Rick Crabb (who resigned on 11 August 2009) and the non-independent directors of the board are Philip Crabb, Frank Demarte and Marcus Flis (who was appointed on 11 August 2009).

From the beginning of the reporting period to 11 August 2009, the board had a majority of independent directors. However following the resignation of Rick Crabb and the appointment of Marcus Flis on 11 August 2009, the board did not have a majority of independent directors.

The board considers that its composition is appropriate given the current size and operations of the company. The board believes that each of the directors possesses the appropriate mix of skills and expertise relevant to the company's business. The board continues to regularly review its composition in light of the company's circumstances and future direction and will appoint independent directors if considered appropriate.

DISCLOSURE – PRINCIPLES & RECOMMENDATIONS (continued)

Recommendation 2.2:

The chair should be an independent director.

Notification of departure:

The chair, Philip Crabb, is not an independent director.

Explanation for departure:

The board believes that Philip Crabb is the most appropriate person for the position of chair because of his industry experience and knowledge. Philip Crabb and his associate's substantial shareholding is the only factor that precludes him from being considered independent. The board believes that Philip Crabb makes decisions that are in the best interests of the company.

Recommendation 2.3:

The roles of the chair and chief executive officer should not be exercised by the same individual.

Disclosure:

The managing director is Marcus Flis who is not chair of the board.

Recommendation 2.4:

The board should establish a nomination committee.

Notification of departure:

The company has not established a separate nomination committee.

Explanation for departure:

The role of the nomination committee is carried out by the full board. The board considers that given the current composition of the board, at this stage no efficiencies or other benefits would be gained by establishing a separate nomination committee. Items that are usually required to be discussed by a nomination committee are marked as separate agenda items at board meetings when required. When the board convenes as the nomination committee it carries out those functions which are delegated in the company's nomination committee charter. The board deals with any conflicts of interest that may occur when convening in the capacity of nomination committee by ensuring the director with conflicting interests is not party to the relevant discussions.

Recommendation 2.5:

Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.

Disclosure:

The chair is responsible for evaluation of the board and, when deemed appropriate, board committees and individual directors. The nomination committee is responsible for evaluating the managing director. These evaluations are conducted on an informal basis, as required.

Recommendation 2.6:

Companies should provide the information indicated in the *guide to reporting on principle 2*.

Disclosure:

Skills, experience, expertise and term of office of each director

A profile of each director containing their skills, experience, expertise and term of office is set out in the directors' report.

Identification of independent directors

The independent directors of the company are Malcolm Randall, Brian Richardson, and Rick Crabb (who resigned on 11 August 2009). These directors are independent as they are non-executive directors who are not members of management and who are free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the independent exercise of their judgment.

Independence is measured having regard to the relationships listed in box 2.1 of the principles & recommendations and the company's materiality thresholds. The materiality thresholds are set out below.

Company's materiality thresholds

The board has agreed on the following guidelines for assessing the materiality of matters, as set out in the company's board charter:

- Balance sheet items are material if they have a value of more than 10% of pro-forma net asset.
- Profit and loss items are material if they will have an impact on the current year operating result of 10% or more.
- Items are also material if they impact on the reputation of the company, involve a breach of legislation, are outside the ordinary course of business, they could affect the company's rights to its assets, if accumulated they would trigger the quantitative tests, involve a contingent liability that would have a probable effect of 10% or more on balance sheet or profit and loss items, or they will have an effect on operations which is likely to result in an increase or decrease in net income or dividend distribution of more than 10%.

DISCLOSURE – PRINCIPLES & RECOMMENDATIONS (continued)

- Contracts will be considered material if they are outside the ordinary course of business, contain exceptionally onerous provisions in the opinion of the board, impact on income or distribution in excess of the quantitative tests, there is a likelihood that either party will default, and the default may trigger any of the quantitative or qualitative tests, are essential to the activities of the company and cannot be replaced, or cannot be replaced without an increase in cost of such a quantum, triggering any of the quantitative tests, contain or trigger change of control provisions, they are between or for the benefit of related parties, or otherwise trigger the quantitative tests.

Statement concerning availability of independent professional advice

To assist directors with independent judgement, it is the board's policy that if a director considers it necessary to obtain independent professional advice to properly discharge the responsibility of their office as a director then, provided the director first obtains approval for incurring such expense from the chair, the company will pay the reasonable expenses associated with obtaining such advice.

Nomination matters

No meetings were held by the full board in its capacity as the nomination committee during the reporting period.

The explanation for departure set out under recommendation 2.4 above explains how the functions of the nomination committee are performed.

Performance evaluation

With the exception of an evaluation of the managing director, no evaluation of the board, individual directors, and any applicable committees took place in the reporting period. The evaluation of the managing director took place in accordance with the process disclosed at recommendation 2.5.

Selection and (re)appointment of directors

In determining candidates for the board, the nomination committee (or equivalent) follows a prescribed procedure whereby it considers the balance of independent directors on the board as well as the skills and qualifications of potential candidates that will best enhance the board's effectiveness.

The board recognises that board renewal is critical to performance and the impact of board tenure on succession planning. Each director other than the managing director, must not hold office (without re-election) past the third annual general meeting of the company following the director's appointment or three years following that director's last election or appointment (whichever is the longer). However, a director appointed to fill a casual vacancy or as an addition to the board must not hold office (without re-election) past the next annual general meeting of the company. At each annual general meeting a minimum of one director or a third of the total number of directors must resign. A director who retires at an annual general meeting is eligible for re-election at that meeting. Re-appointment of directors is not automatic.

Principle 3 – Promote ethical and responsible decision-making

Recommendation 3.1:

Companies should establish a Code of Conduct and disclose the code or a summary of the code as to the practices necessary to maintain confidence in the company's integrity, the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders and the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

Disclosure:

The company has established a code of conduct as to the practices necessary to maintain confidence in the company's integrity, practices necessary to take into account their legal obligations and the expectations of their stakeholders and responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

Recommendation 3.2:

Companies should establish a policy concerning trading in company securities by directors, senior executives and employees, and disclose the policy or a summary of that policy.

Disclosure:

The company has established a policy concerning trading in the company's securities by directors, senior executives and employees.

Recommendation 3.3:

Companies should provide the information indicated in the *guide to reporting on principle 3*.

Disclosure:

Please refer to the section above marked website disclosures.

DISCLOSURE – PRINCIPLES & RECOMMENDATIONS (continued)

Principle 4 – Safeguard integrity in financial reporting

Recommendation 4.1:

The board should establish an audit committee.

Disclosure:

The company has established an audit committee.

Recommendation 4.2:

The audit committee should be structured so that it:

- consists only of non-executive directors;
- consists of a majority of independent directors;
- is chaired by an independent chair, who is not chair of the board; and
- has at least three members.

Notification of departure:

The audit committee comprises two directors – Malcolm Randall and Brian Richardson. Accordingly, it is not structured in accordance with Recommendation 4.2.

Explanation for departure:

Prior to 11 August 2009, the audit committee comprised two independent non-executive directors – Brian Richardson and Rick Crabb. On 11 August 2009, Malcolm Randall (an independent non-executive director) was appointed to the audit committee in Rick Crabb's place.

Brian Richardson and Malcolm Randall are independent non-executive directors. The company considers that the members of the audit committee are the most appropriate for the company's current needs, given their experience, their qualifications, and that they are both independent non-executives directors. Malcolm Randall, who is not chair of the board, chairs the audit committee.

Recommendation 4.3:

The audit committee should have a formal charter.

Disclosure:

The company has adopted an audit committee charter.

Recommendation 4.4:

Companies should provide the information indicated in the *guide to reporting on principle 4*.

Disclosure:

The audit committee held two meetings during the reporting period, which all members of the audit committee (Brian Richardson and Malcolm Randall) attended.

Details of each of the director's qualifications are set out in the directors' report.

Both members of the audit committee consider themselves to be financially literate and have experience in the industry in which the company operates. Brian Richardson has extensive industry knowledge with over 25 years experience in the mining industry. Malcolm Randall also has extensive experience in management and marketing in the resource sector.

The company has established procedures for the selection, appointment and rotation of its external auditor, which is available on the company's website. The board is responsible for the initial appointment of the external auditor and the appointment of a new external auditor when any vacancy arises, as recommended by the audit committee (or its equivalent). Candidates for the position of external auditor must demonstrate complete independence from the company through the engagement period. The board may otherwise select an external auditor based on criteria relevant to the company's business and circumstances. The performance of the external auditor is reviewed on an annual basis by the audit committee (or its equivalent) and any recommendations are made to the board.

Principle 5 – Make timely and balanced disclosure

Recommendation 5.1:

Companies should establish written policies designed to ensure compliance with ASX listing rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.

Disclosure:

The company has established written policies designed to ensure compliance with ASX listing rule disclosure and accountability at a senior executive level for that compliance.

DISCLOSURE – PRINCIPLES & RECOMMENDATIONS (continued)

Recommendation 5.2:

Companies should provide the information indicated in the *guide to reporting on principle 5*.

Disclosure:

Please refer to the section above marked website disclosures.

Principle 6 – Respect the rights of shareholders

Recommendation 6.1:

Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.

Disclosure:

The company has designed a communications policy for promoting effective communication with shareholders and encouraging shareholder participation at general meetings.

Recommendation 6.2:

Companies should provide the information indicated in the *guide to reporting on principle 6*.

Disclosure:

Please refer to the section above marked website disclosures.

Principle 7 – Recognise and manage risk

Recommendation 7.1:

Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.

Disclosure:

The board has adopted a risk management policy, which sets out the company's risk profile. Under the policy, the board is responsible for approving the company's policies on risk oversight and management and satisfying itself that management has developed and implemented a sound system of risk management and internal control.

Under the policy, the board delegates day-to-day management of risk to the managing director, who is responsible for identifying, assessing, monitoring and managing risks. The managing director is also responsible for updating the company's material business risks to reflect any material changes, with the approval of the board.

In fulfilling the duties of risk management, the managing director may have unrestricted access to company employees, contractors and records and may obtain independent expert advice on any matter they believe appropriate, with the prior approval of the board.

The board has established a separate audit committee to monitor and review the integrity of financial reporting and the company's internal financial control systems and risk management systems.

In addition, the following risk management measures have been adopted by the board to manage the company's material business risks:

- the board has established authority limits for management which, if exceeded, will require prior board approval;
- the board has adopted a compliance procedure for the purpose of ensuring compliance with the company's continuous disclosure obligations; and
- the board has adopted a corporate governance manual which contains other policies to assist the company to establish and maintain its governance practices.

In July 2009, the Company commenced formalising its system and procedures to manage its material business risks. The Company expects to complete implementing the system in the second quarter of the 2010/2011 financial year. The system will include the preparation of a risk register by management to identify the Company's material business risks and risk management strategies for these risks. The risk register will be reviewed quarterly and updated, as required. During the Reporting Period, management identified material business risks and risk management strategies for these risks, which were then reported to the Board. Management reported to the Board on material business risks as required and the Board made further enquiries of management as necessary. The process of managing of material business risks has been allocated to members of senior management.

The categories of risk reported on as part of the company's systems and processes for managing material business risk include: liquidity risk, foreign currency exchange risks, operational risk, environmental risk, compliance risk, strategic risk, human capital, financial reporting and market-related risks.

DISCLOSURE – PRINCIPLES & RECOMMENDATIONS (continued)

Recommendation 7.2:

The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.

Disclosure:

The board has required management to design, implement and maintain risk management and internal control systems to manage the company's material business risks. The board also requires management to report to it confirming that those risks are being managed effectively. Further, the board has received a report from the managing director as to the effectiveness of the company's management of its material business risks.

Recommendation 7.3:

The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

Disclosure:

The managing director and the chief financial officer have provided a declaration to the board in accordance with section 295A of the Corporations Act and have assured the board that such declaration is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial risk.

Recommendation 7.4:

Companies should provide the information indicated in the *guide to reporting on principle 7*.

Disclosure:

The board has received the report from management under recommendation 7.2.

The board has received the assurance from the managing director and the chief financial officer under recommendation 7.3.

Principle 8 – Remunerate fairly and responsibly

Recommendation 8.1:

The board should establish a remuneration committee.

Notification of departure:

The company has not established a separate remuneration committee.

Explanation for departure:

The role of the remuneration committee is carried out by the full board. The board considers that given the current composition of the board, at this stage no efficiencies or other benefits would be gained by establishing a separate remuneration committee. Accordingly, the board performs the role of remuneration committee. Items that are usually required to be discussed by a remuneration committee are marked as separate agenda items at board meetings when required. When the board convenes as the remuneration committee it carries out those functions which are delegated in the company's remuneration committee charter (available on the company's website). The board deals with any conflicts of interest that may occur when convening in the capacity of remuneration committee by ensuring the director with conflicting interests is not party to the relevant discussions.

Recommendation 8.2:

Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.

Disclosure:

Non-executive directors are remunerated at market rates (for comparable companies) for time, commitment and responsibilities. Remuneration for non-executive directors is not linked to the performance of the company. An additional fee is also paid for each board committee on which a director sits, in recognition of the additional time commitment required by directors who serve on one or more of these committees. The company may grant options to non-executive directors, in order to attract, motivate and retain highly skilled directors. This policy is subject to annual review.

Pay and rewards for executive directors and senior executives consists of a base salary and performance incentives. Long term performance incentives may include options granted at the discretion of the board and subject to obtaining the relevant approvals.

Recommendation 8.3:

Companies should provide the information indicated in the *guide to reporting on principle 8*.

DISCLOSURE – PRINCIPLES & RECOMMENDATIONS (continued)

Disclosure:

Details of remuneration, including the company's policy on remuneration, are contained in the "remuneration report" which forms of part of the directors' report.

The full board, in its capacity as the remuneration committee, held one meeting during the reporting period. All board members (Philip Crabb, Malcolm Randall, Brian Richardson, Frank Demarte and Marcus Flis) were in attendance at the remuneration committee meeting, except for Rick Crabb who had resigned from the board at the time the committee meeting was held. To assist the board to fulfil its functions as the remuneration committee it has adopted a remuneration committee charter (available on the company's website).

The explanation for departure set out under recommendation 8.1 above explains how the functions of the remuneration committee are performed.

There are no termination or retirement benefits for non-executive directors (other than for superannuation).

The company's remuneration committee charter includes a statement of the company's policy on prohibiting transactions in associated products which limit the risk of participating in unvested entitlements under any equity based remuneration schemes.

DIRECTORS' REPORT

Your directors submit their report on the consolidated entity consisting of Royal Resources Limited and the entity it controlled at the end of, or during, the year ended 30 June 2010.

INFORMATION ON DIRECTORS

The following persons were directors of the Royal Resources Limited ("company") during the financial year and until the date of this report. Directors were in office since the start of the financial year to the date of this report unless otherwise stated.

Philip G Crabb

FAusIMM, MAICD

Non-Executive director Age 70

Experience and expertise

Mr Crabb is a fellow of the Australasian Institute of Mining and Metallurgy and a member of the Institute of Company Directors. Mr Crabb has been actively engaged in mineral exploration and mining activities for the past 40 years in both publicly listed and private exploration companies. He has considerable experience in field activities, having been a drilling contractor, quarry manager and mining contractor. Mr Crabb also has extensive knowledge of the Australian mining industry and has many years of experience with management of Australian publicly listed companies.

Mr Crabb is presently also the chairman of Thundelarra Exploration Ltd (since 2003) and a director of Canadian publicly listed Aldershot Resources Ltd (since 2009).

Former directorships of listed companies in last 3 years

United Minerals Corporation (from 2004 to 2009).

Special responsibilities

Chairman of the board

Member of the nomination committee (from November 2005).

Member of the remuneration committee (from November 2005).

Interest in shares and options

23,662,915 ordinary shares.

6,566,135 options over ordinary shares.

Marcus F Flis

BSc (Hons), M.Sc, FAusIMM

Managing director Age 53

(Appointed on 11 August 2009)

Experience and expertise

Mr Flis holds degrees in both geology and geophysics and is highly qualified in the resources industry, having over 30 years experience covering all aspects of exploration, resource definition and project assessment. He has recently held the position of project director with Rio Tinto Iron Ore's business development group. Previously Mr Flis held positions as exploration manager with Hamersley Iron and Iron Ore company of Canada and Manager-Geophysics at Newcrest Mining Ltd. Mr Flis comes with extensive experience as an explorationist for a wide range of mineral commodities in varied mineral terrains and geographies.

Former directorships of listed companies in last 3 years

None.

Special responsibilities

Member of the nomination committee (from August 2009).

Member of the remuneration committee (from August 2009).

Interest in shares and options

1,833,366 ordinary shares.

7,304,766 options over ordinary shares.

DIRECTORS' REPORT (continued)

Frank DeMarte

BBus, FCIS, MAICD

Executive director and company secretary Age 48

Experience and expertise

Mr DeMarte has over 26 years of experience in the mining and exploration industry in Western Australia. Mr DeMarte has held executive positions with a number of listed mining and exploration companies and is currently an executive director of the company.

Mr DeMarte is experienced in areas of secretarial practice, management accounting and corporate and financial management. Mr DeMarte holds a bachelor of business majoring in accounting and is a fellow of the Chartered Secretaries of Australia. Mr DeMarte was first appointed to the board on 23 February 2004.

Mr DeMarte is presently also a director of Thundelarra Exploration Ltd (since 2001).

Former directorships of listed companies in last 3 years

Aldershot Resources Ltd (from 2006 to 2009)

Special responsibilities

Member of the nomination committee (from February 2004).

Member of the remuneration committee (from February 2004).

Interest in shares and options

2,688,135 ordinary shares.

5,269,733 options over ordinary shares.

Brian D Richardson

BSc (Hons), MAusIMM

Non-Executive director Age 57

Experience and expertise

Mr Richardson is a geologist who has been involved in the Australian exploration and mining industry for over 28 years. He has many years experience in planning, conducting and evaluating gold, base metal, uranium and diamond projects. He has also held senior management positions with a number of listed junior exploration companies. Mr Richardson is presently also a director of Thundelarra Exploration Ltd (since 2003).

Former directorships of listed companies in last 3 years

Aldershot Resources Ltd (from 2004 to 2008).

Special responsibilities

Member of audit committee (from February 2004).

Member of the nomination committee (from February 2004).

Member of the remuneration committee (from February 2004).

Interest in shares and options

1,645,188 ordinary shares.

4,695,363 options over ordinary shares.

Malcolm J Randall

B.Applied Chem, AICD

Non Executive director Age 64

Experience and expertise

Mr Randall is presently also the chairman of Iron Ore Holdings Ltd (since 2003) and a director of Summit Resources Limited (since 2007), Thundelarra Exploration Ltd (since 2003) and Matilda Zircon Limited (since 2009).

Mr Randall was appointed to the board on 4 October 2006.

Former directorships in last 3 years

Olympia Resources Ltd (from 2006 to 2008).

Northern Mining Limited (from 2007 to 2008).

United Minerals Corporation NL (from 2004 to 2009)

DIRECTORS' REPORT (continued)

Special Responsibilities

Chairman of audit committee (from August 2009).

Member of the nomination committee (from October 2006).

Member of the remuneration committee (from October 2006).

Interest in shares and options

1,387,383 ordinary shares.

2,448,197 options over ordinary shares.

COMPANY SECRETARY

Frank DeMarte Age 48

BBus, FCIS, MAICD

The Company Secretary is Frank DeMarte. Mr DeMarte has held executive positions with a number of listed mining and exploration companies and is currently an Executive Director and Chief Financial Officer of the Company.

Mr DeMarte is experienced in areas of secretarial practice, management accounting and corporate and financial management. Mr DeMarte holds a Bachelor of Business majoring in Accounting and is a Fellow of the Chartered Secretaries of Australia. Mr DeMarte was appointed the Company Secretary on 23 February 2004 and is also an Executive Director of the Company.

DIVIDENDS

No dividends were paid or declared since the start of the financial year. No recommendation for the payment of dividends has been made.

PRINCIPAL ACTIVITIES

The principal activities of the consolidated entity during the year was mineral exploration in Australia and the USA. There were no significant changes in the nature of those activities during the year.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

No other significant change in the state of affairs of the consolidated entity during the financial year not otherwise dealt with in this report.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

Since the end of the financial year, the directors are not aware of any other matter or circumstance not otherwise dealt with in this report or the financial statements that has significantly or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in subsequent financial years with the exception of the following, the financial effects of which have not been provided for in the 30 June 2010 financial statements.

Exercise of quoted options

- (i) 22,136 quoted options exercisable at 10 cents each expiring 31 October 2011 were exercised raising \$2,214 in working capital.
- (ii) 70,523 quoted options exercisable at 12 cents each expiring 31 October 2013 were exercised raising \$8,463 in working capital.

Razorback JORC Compliant Resource

On 25 August 2010, the company announced a JORC compliant maiden inferred resource of 277 million tonnes at 26% iron defined at the Razorback Iron Ridge project.

Sale of mineral tenement

On 7 September 2010, the company sold a tenement (E47/1615) to Atlas Iron Limited for an amount of \$110,000 (inclusive of GST) pursuant to a sale and purchase option agreement dated 21 August 2009.

LIKELY DEVELOPMENTS, FUTURE OPERATIONS AND EXPECTED RESULTS

Details of important developments in the operations of the consolidated entity are set out in the review of operations section of this report. The consolidated entity will continue to explore its Australian and USA tenement areas of interest for minerals, and any significant information or data will be released in the market and to shareholders.

DIRECTORS' REPORT (continued)

PERFORMANCE IN RELATION TO ENVIRONMENTAL OBLIGATIONS

The consolidated entity has assessed whether there are any particular or significant environmental regulations which apply. It has been determined that the risk of non-compliance is low, and has not identified any compliance breaches during the financial year. The directors are not aware of any environmental regulations not being complied with.

REVIEW OF OPERATIONS

Royal Resources Limited explores for iron ore and uranium in the two low sovereign risk countries of Australia and the USA. Over the past year, Royal has rapidly advanced our flagship Razorback Iron Ore Project in South Australia, while steadily advancing our uranium assets in the USA and the Northern Territory.

SHARE OPTIONS

Shares under option

As at the date of this report, there were 66,103,540 unissued ordinary shares of the company under options.

Date options granted	Expiry date	Exercise price of options	Number of options
Unquoted options			
23 January 2006	31 January 2011	0.20	3,500,000
24 July 2007	30 June 2012	0.50	6,750,000
9 January 2008	10 January 2011	0.34	250,000
14 January 2008	15 January 2011	0.50	1,350,000
7 April 2008	6 April 2011	0.25	1,400,000
7 April 2008	6 April 2012	0.30	1,500,000
17 April 2008	6 April 2013	0.50	1,500,000
16 June 2008	30 June 2011	0.34	360,000
27 November 2008	30 November 2013	0.30	3,000,000
1 May 2009	30 April 2013	0.08	1,780,000
27 November 2009	26 November 2014	0.55	4,500,000
14 May 2010	13 May 2013	0.30	1,180,000
Quoted options			
20 November 2009	31 October 2011	0.10	4,156,037
8 June 2010	31 October 2013	0.12	34,877,503

Option holders do not have any right, by virtue of the option, to participate in any share issue of the company or in the interest issue of any other registered scheme.

SHARES ISSUED AS A RESULT OF THE EXERCISE OF OPTIONS

During the financial year:

- (i) 6,930,000 options were exercised to acquire ordinary fully paid shares in the company;
- (ii) 750,000 options which had not been exercised expired on 9 March 2010; and
- (iii) 39,730,858 quoted options with an exercise price of 20 cents each expired on 11 July 2009.

Since the end of the financial year and until the date of this report.

- (i) 22,136 quoted options exercisable at 10 cents each expiring 31 October 2011 were exercised raising \$2,214 in working capital; and
- (ii) 70,523 quoted options exercisable at 12 cents each expiring 31 October 2013 were exercised raising \$8,463 in working capital.

OPERATING RESULTS

During the year the consolidated entity incurred a consolidated loss \$2,234,032 (2009: \$5,832,779).

DIRECTORS' REPORT (continued)

CORPORATE INFORMATION

Royal Resources Limited	Parent entity
Royal USA Inc	100% owned controlled entity
Razorback Iron Pty Ltd	100% owned controlled entity
Razorback Operations Pty Ltd	100% owned controlled entity

REMUNERATION REPORT (AUDITED)

This report outlines the remuneration arrangements in place for directors and executives of Royal Resources Limited (the company).

(a) Details of key management personnel

Directors

P G Crabb	Chairman	(Non-Executive)
M F Flis	Managing director	(Executive) (Appointed on 11 August 2009)
F DeMarte	Director	(Executive)
B D Richardson	Director	(Non-Executive)
R W Crabb	Director	(Non-Executive) (Resigned on 11 August 2009)
M J Randall	Director	(Non-Executive)

(b) Compensation of key management personnel

Remuneration policy

The performance of the company depends upon the quality of its directors and executives. To prosper, the company must attract, motivate and retain highly skilled directors and executives.

To this end, the company embodies the following principles in its compensation framework:

- Provide competitive rewards to attract high calibre executives; and
- Link executive rewards to shareholder value.

Remuneration committee

The remuneration committee comprises the entire board of directors of the company and is responsible for determining and reviewing compensation arrangements for the directors and all other key management personnel.

The remuneration committee assesses the appropriateness of the nature and amount of compensation of key management personnel on an annual basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team.

Remuneration structure

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

Non-executive director compensation

Objective

The board seeks to set aggregate compensation at a level that provides the company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost that is acceptable to shareholders.

Structure

The constitution and the ASX listing rules specify that the aggregate compensation of non-executive directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the directors as agreed. The latest determination was at the annual general meeting held on 26 November 2009 when shareholders approved an aggregate compensation of \$400,000 per year.

The amount of aggregate compensation sought to be approved by shareholders and the manner in which it is apportioned amongst directors is reviewed annually. The board considers advice from external consultants as well as the fees paid to non-executive directors of comparable companies when undertaking the annual review process.

Each director receives a fee for being a director of the company. An additional fee may also be paid for each board committee on which a director sits. The payment of additional fees for serving on a committee recognises the additional time commitments required by directors who serve on one or more sub committees.

DIRECTORS' REPORT (continued)

Each non-executive director receives \$50,000 per annum effective from 1 March 2010, plus superannuation obligations for being a director of the company. The exception to this fee structure is the chairman of the board who receives \$65,000 per annum plus superannuation.

Non-executive directors have long been encouraged by the board to hold shares in the company (purchased by the director on market). It is considered good governance for directors to have a stake in the company on whose board they sit.

The compensation of non-executive directors for the year ended 30 June 2010 is detailed as per the disclosures on page 15.

Executive compensation

Objective

The entity aims to reward executives with a level and mix of compensation commensurate with their position and responsibilities within the entity so as to:

- reward executives for company, business unit and individual performance against targets set by to appropriate benchmarks;
- align the interests of executives with those of shareholders;
- link rewards with the strategic goals and performance of the company; and
- ensure total compensation is competitive by market standards

Structure

In determining the level and make-up of executive remuneration, the remuneration committee will review individual performance, relevant comparative compensation in the market and internally and, where appropriate, external advice on policies and practices.

The company has entered into a detailed contract of employment with the managing director, details of this contract are provided on page 16.

Fixed compensation

Objective

Fixed compensation is reviewed annually by the remuneration committee. The process consists of a review of companywide, business unit and individual performance, relevant comparative compensation in the market and internally and, where appropriate, external advice on policies and practices.

Structure

Executives are given the opportunity to receive their fixed remuneration in a variety of forms including cash and fringe benefits such as motor vehicles and expense payment plans. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the company.

Other compensation

Notwithstanding guideline 8.2 of the ASX Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations which provides that non-executive directors should not receive Options, the directors consider that the grant of the options is designed to encourage the directors to have a greater involvement in the achievement of the company's objectives and to provide an incentive to strive to that end by participating in the future growth and prosperity of the company through share ownership.

Under the company's current circumstances the granting of options is an incentive to each of the directors, which is a cost effective and efficient reward for the company, as opposed to alternative forms of incentive, such as the payment of additional cash compensation to the directors.

DIRECTORS' REPORT (continued)

Remuneration of key management personnel and highest paid executives of the company

Remuneration for the year ended 30 June 2010

Directors	Year	Short term		Post employment	Share based payments	Long term	Total remuneration \$	Consisting of options for the year %
		Salary and fees \$	Annual leave accrual \$	Superannuation \$	options \$	Long service leave \$		
Managing director M F Flis ¹	2010	298,909	315	50,000	201,284		550,508	37%
	2009	282,000	1,470	48,000	173,217	-	504,687	34%
Executive director F DeMarte	2010	114,467	8,012	10,312	125,875		258,666	49%
	2009	107,300	20,083	9,000	23,925	-	160,308	15%
Non executive directors P G Crabb	2010	61,667	-	5,550	75,525	-	142,742	53%
	2009	60,000	-	5,400	23,925	-	89,325	27%
B D Richardson ²	2010	38,073		3,428	50,350		91,851	55%
	2009	32,110	-	2,890	15,950	-	50,950	31%
R W Crabb ³	2010	3,612	-	325	-	-	3,937	0%
	2009	32,110	-	2,890	15,950	-	50,950	31%
M J Randall	2010	38,073		3,428	50,350		91,851	55%
	2009	32,110	-	2,890	15,950	-	50,950	31%
Totals	2010	554,801	8,327	73,043	503,384		1,139,555	48%
	2009	545,630	21,553	71,070	268,917	-	907,170	30%

Note 1 M F Flis was appointed managing director on 11 August 2009.

Note 2 Excludes fees paid in the normal course of business during the year for geological services totalling \$ Nil (2009: \$8,800) paid to a company of which B D Richardson is a director and shareholder.

Note 3 R W Crabb resigned as a director on 11 August 2009.

DIRECTORS' REPORT (continued)

Employment agreement

The company has entered into an employment agreement with Mr Marcus Flis, chief executive officer (appointed managing director on 11 August 2009). A summary of the terms of the agreement are as follows:

- Term of Agreement – no fixed term.
- Base salary, inclusive of superannuation, of \$327,000 increased to \$392,400 effective 1 March 2010, to be reviewed annually by the remuneration committee.
- Payment of a termination benefit on early termination by the company, other than for gross misconduct, equal to the base salary for 6 months.

Employment contracts for directors

The company has not entered into any service, employment contracts or agreements with the directors of the company during the financial year.

Share-based compensation options

Compensation options: Granted and vested during the year ended 30 June 2010.

30 June 2010	Vested & granted		Terms & conditions for each grant					
	Number of options	Grant date	Fair Value per option at grant date (\$)	Exercise price per option (\$)	Expiry date	First exercise date/ Vesting date	Last exercise date	% vested and exercisable at 30 June 2010
Directors								
P G Crabb	750,000	27/11/2009	0.1007	0.55	26/11/2014	27/11/2009	26/11/2014	100%
M F Flis	1,500,000	27/11/2009	0.1007	0.55	26/11/2014	27/11/2009	26/11/2014	100%
F DeMarte	1,250,000	27/11/2009	0.1007	0.55	26/11/2014	27/11/2009	26/11/2014	100%
B D Richardson	500,000	27/11/2009	0.1007	0.55	26/11/2014	27/11/2009	26/11/2014	100%
M J Randall	500,000	27/11/2009	0.1007	0.55	26/11/2014	27/11/2009	26/11/2014	100%
Total	4,500,000							

Options granted as part of remuneration

Details of options over ordinary shares in the company provided as remuneration to each director of the company and each of the key management personnel are set out below. Each option when exercised is convertible into one ordinary share in the company.

Vesting conditions

Options issued to directors and employees vest on the basis that continued employment with the company may be achieved.

For details on the valuation of the options, including models and assumptions used, please refer to note 24. These were no alterations to the terms and conditions of options granted as remuneration since their grant date.

DIRECTORS' REPORT (continued)

Equity instruments – audited

Analysis of options and rights over equity instruments granted as compensation.

Details of vesting profiles of the options granted as remuneration to each key management person of the group and each of the five named company executives and group executives are detailed below.

	Number of options granted	Grant date of options	Price of Options \$	Fair value of options on grant date \$	Financial years in which grant expires
Executive directors					
M F Flis	1,500,000	7 Apr 2008	0.25	121,500	2011
	1,500,000	7 Apr 2008	0.30	132,000	2012
	1,500,000	7 Apr 2008	0.50	130,500	2013
	1,000,000	1 May 2009	0.08	38,600	2013
	1,500,000	27 Nov 2009	0.55	151,050	2015
F DeMarte	1,000,000	23 Jan 2006	0.20	88,100	2011
	1,750,000	24 Jul 2007	0.50	568,750	2012
	750,000	27 Nov 2008	0.30	23,925	2014
	1,250,000	27 Nov 2009	0.55	125,875	2015
Non-executive directors					
P G Crabb	1,000,000	23 Jan 2006	0.20	88,100	2011
	1,000,000	24 Jul 2007	0.50	325,000	2012
	750,000	27 Nov 2008	0.30	23,925	2014
	750,000	27 Nov 2009	0.55	75,525	2015
B D Richardson	1,000,000	23 Jan 2006	0.20	88,100	2011
	2,500,000	24 Jul 2007	0.50	812,500	2012
	500,000	27 Nov 2008	0.30	15,950	2014
	500,000	27 Nov 2009	0.55	50,350	2015
M J Randall	750,000	24 Jul 2007	0.50	243,750	2012
	500,000	27 Nov 2008	0.30	15,950	2014
	500,000	27 Nov 2009	0.55	50,350	2015
R W Crabb (resigned 11/08/09)	1,000,000	23 Jan 2006	0.20	88,100	2011
	750,000	24 Jul 2007	0.50	243,750	2012
	500,000	27 Nov 2008	0.30	15,950	2014

Options are fully vested on date of grant.

Analysis of movements in options.

The movement during the reporting period, by value, of options over ordinary shares in the company held by each key management person and each of the five named company executives and relevant group executives is detailed below.

Directors	Granted in year \$(A)	Value of options exercised in year \$(B)	Lapsed in year \$(C)
M F Flis	151,050	1,000	-
F DeMarte	125,875	-	-
P G Crabb	75,525	-	-
B D Richardson	50,350	-	-
M J Randall	50,350	18,000	-
R W Crabb (resigned 11/08/09)	-	75,000	-

DIRECTORS' REPORT (continued)

Note: On 21 October 2009 M J Randall exercised 300,000 options at 20 cents expiring 31 January 2011.
On 21 October 2009 M F Flis exercised 100,000 options at 25 cents expiring 6 April 2011.
On 20 October 2009 R W Crabb exercised 1,000,000 options at 20 cents expiring 31 January 2011.

- (a) The value of options granted in the year is the fair value of the options calculated at grant date using the Black-Scholes option-pricing model. The total value of the options granted is included in the table above.
- (b) The value of options exercised during the year is calculated as the market price of shares of the company as at close of trading on the date the options were exercised after deducting the price paid to exercise the option.
- (c) The value of the options that lapsed during the year represents the benefit forgone and is calculated at the date the option lapsed using Black-Scholes option-pricing model.

DIRECTORS MEETINGS

The number of meetings of directors (including meeting of committees of directors) held during the year and the number of meetings attended by each director are:

Name	Board of directors' meetings		Audit committee meetings		Remuneration committee meetings	
	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend
P G Crabb	6	6	-	-	1	1
M F Flis	6	6	-	-	1	1
B D Richardson	5	6	2	2	1	1
F DeMarte	6	6	2	2	1	1
M J Randall	6	6	2	2	1	1

Committee memberships

As at the date of this report, the company had an audit committee and remuneration committee.

Audit	Remuneration	Nomination
M J Randall ^(C)	M J Randall ^(C)	M J Randall ^(C)
B Richardson	F DeMarte	F DeMarte
	B D Richardson	B D Richardson
	P G Crabb	P G Crabb
	M F Flis	M F Flis

Note: (C) Designates the chairman of the committee. Malcolm J Randall was appointed the chairman of the audit committee on 11 August 2009.
Rick W Crabb resigned as the chairman of the audit committee on the 11 August 2009.

INSURANCE OF DIRECTORS AND OTHERS

During the financial year no amounts were paid to insure the directors or other officers of the company.

PROCEEDINGS ON BEHALF OF THE COMPANY

On 23 February 2010, the company and its wholly owned subsidiary Razorback Iron Pty Ltd were joined to legal proceedings ("the proceedings") commenced in the New South Wales Supreme Court by John Frederick Hillam ("Hillam") against Ivan Peter Lewis ("Lewis"), Mintech Resources Pty Ltd ("Mintech"), Goldus Pty Ltd ("Goldus") and Mawson Gold NL ("Mawson").

Hillam has made a number of claims against Lewis, Mintech, Goldus and Mawson in relation to non-payment of monies and breach of contract. Hillam alleges that his previous arrangements with Lewis, Mintech, Goldus and Mawson included an equitable interest in EL/4267, EL/3997 and EL/3927. Razorback acquired EL/4267 pursuant to a tenement sale agreement entered into with Mintech on arms length terms on 23 November 2009. Razorback is the registered legal holder of EL/4267 as recorded with the Government of South Australia.

Mr. Hillam has joined Razorback to the proceedings as the current owner of EL/4267 and Royal to the proceedings as the holder of an option over EL/3997 and EL/3927. Royal, Razorback and Royal's lawyers consider the claims made by Mr. Hillam in relation to EL/4267, EL/3997 and EL/3927 are without merit and will be vigorously defending the claims.

DIRECTORS' REPORT (continued)

AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

The auditor's independence declaration for the year ended 30 June 2010 has been received and can be found on page 65.

NON-AUDIT SERVICES

Stantons International or its related parties have not received nor are they due to receive any amounts for the year ended 30 June 2010 for the provision of non-audit services.

Signed in accordance with a resolution of the directors.

A handwritten signature in black ink, appearing to read 'M. Flis', with a long horizontal stroke extending to the right.

Marcus F Flis
MANAGING DIRECTOR

30 September 2010

Perth, Western Australia

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2010**

	Notes	2010 \$	2009 \$
Other income	4	2,788,379	3,351,823
Exploration expenditure		(2,431,519)	(7,996,527)
Gain (loss) on sale of property, plant and equipment	4	(9,600)	(9,524)
General and administrative costs		(444,768)	(316,888)
Other expenses	4	(2,578,981)	(1,065,959)
Operating loss		(2,676,489)	(6,037,075)
Finance income		292,877	204,629
Finance costs		(248)	(333)
Loss before income tax		(2,383,860)	(5,832,779)
Income tax benefit	5(a)	149,828	-
Loss for the year		(2,234,032)	(5,832,779)
Other comprehensive income			
Revaluation of financial asset	16(d)	(202,500)	194,000
Foreign currency translation	16(d)	(39,771)	1,008,299
Other comprehensive (loss)/income for the year		(242,271)	1,202,299
Total comprehensive (loss) for the year, net of tax		(2,476,303)	(4,630,480)
Basic and diluted earnings/(loss) per share (cents per share)	6	(1.26)	(6.31)

The above consolidated statement of comprehensive income is to be read in conjunction with the accompanying notes.

**CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2010**

Notes	2010 \$	2009 \$
ASSETS		
Current assets		
Cash and cash equivalents	7(a) 9,600,749	2,583,802
Trade and other receivables	8 301,357	16,604
Other financial assets	9 3,725,070	1,731,900
Total current assets	13,627,176	4,332,306
Non-current assets		
Trade and other receivables	8 148,944	706,721
Plant and equipment	11 313,196	264,201
Exploration expenditure	12 10,417,177	2,056,917
Intangible assets	13 16,809	28,073
Total non-current assets	10,896,126	3,055,912
TOTAL ASSETS	24,523,302	7,388,218
LIABILITIES		
Current liabilities		
Trade and other payables	14 892,005	99,271
Provisions	15 59,895	39,662
Total current liabilities	951,900	138,933
TOTAL LIABILITIES	951,900	138,933
NET ASSETS	23,571,402	7,249,285
EQUITY		
Contributed equity	16(a) 32,785,999	15,709,716
Reserves	16(d) 7,108,386	5,628,520
Accumulated losses	(16,322,983)	(14,088,951)
TOTAL EQUITY	23,571,402	7,249,285

The above consolidated balance sheet is to be read in conjunction with the accompanying notes.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
YEAR ENDED 30 JUNE 2010**

	Notes	Equity \$	Reserves \$	Accumulated Losses \$	Total \$
At 1 July 2008		15,709,716	3,993,225	(8,256,172)	11,446,769
Total comprehensive income for the year as reported in the 2009 financial statements		-	1,202,299	(5,832,779)	(4,630,480)
Employee share options – value of employee services	16(d)	-	432,996	-	432,996
At 30 June 2009		15,709,716	5,628,520	(14,088,951)	7,249,285

	Notes	Equity \$	Reserves \$	Accumulated Losses \$	Total \$
At 1 July 2009		15,709,716	5,628,520	(14,088,951)	7,249,285
Total comprehensive income for the year		-	(242,271)	(2,234,032)	(2,476,303)
Contributions of equity, net of transaction costs and tax	16(b)	17,076,283	-	-	17,076,283
Employee share options – value of employee services	16(d)	-	582,137	-	582,137
Share options – value of unlisted investment	16(d)	-	1,140,000	-	1,140,000
		17,076,283	1,722,137	-	18,798,420
At 30 June 2010		32,785,999	7,108,386	(16,322,983)	23,571,402

The above consolidated statement of changes in equity is to be read in conjunction with the accompanying notes.

**CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2010**

	Notes	2010 \$	2009 \$
Cash flows from operating activities			
Payments to suppliers and employees		(472,923)	(999,237)
Interest paid		(248)	(333)
Interest received		247,495	201,233
Other revenue		12,380	252,771
Net cash flows used in operating activities	7(b)	(213,296)	(545,566)
Cash flows from investing activities			
Payment for plant and equipment	11	(172,025)	(23,741)
Payment for investments		-	(98,576)
Payment for intangibles	13	(20,318)	(56,146)
Placement of security deposits	8	(48,959)	(103,739)
Redemption of security deposits	8	604,280	-
Proceeds from disposal of plant and equipment		21,121	44,226
Proceeds from disposal of tenements		90,000	2,000,000
Proceeds from disposal of investments		492,613	234,404
Payment for exploration and evaluation expenditure	12	(10,811,686)	(4,518,372)
Net cash flows used in investing activities		(9,844,974)	(2,521,944)
Cash flows from financing activities			
Net proceeds from issuance of shares	16(b)	17,076,283	-
Net cash flow from financing activities		17,076,283	-
Net (decrease)/ increase in cash and cash equivalents		7,018,013	(3,067,510)
Cash and cash equivalents at beginning of the financial year		2,583,802	5,607,418
Exchange differences on cash balances held		(1,066)	43,894
Cash and cash equivalents at end of the financial year	7(a)	9,600,749	2,583,802

The above consolidated statement of cash flows is to be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

1. CORPORATE INFORMATION

This financial report includes the consolidated financial statements and notes of Royal Resources Limited and its controlled entities ("consolidated entity or group").

The financial report of Royal Resources Limited (the company) for the year ended 30 June 2010 was authorised for issue in accordance with a resolution of the directors on 30 September 2010.

Royal Resources Limited is a company limited by shares incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange Ltd.

The nature of the operations and principal activities of the group are described on page 12 of the Directors Report.

Separate financial statements of Royal Resources Limited as an individual entity are no longer presented as the consequences of a change to the Corporations Act 2001, however required financial information for Royal Resources Limited as an individual entity is included in note 27.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001* and Australian Accounting Standards (including Australian Accounting Standards and Interpretations). The financial report has also been prepared on a historical cost basis and the accruals basis, modified where applicable by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

Going concern

The accounts have been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and liabilities in the normal course of business.

The group recorded a loss of \$2,234,032 for the year ended 30 June 2010. The loss is primarily due to the exploration expenditure incurred on mineral projects. Total exploration expenditure recognised in the loss for the year is \$2,431,519.

The group had cash assets of just over \$9.6 million at 30 June 2010 and investments held for trading and available for sale valued at \$3.7 million at the reporting date. The directors consider these funds to be sufficient for the planned expenditure on the mineral projects for the ensuing 12 months as well as for corporate and administrative overhead costs. The directors also believe that they have the capacity to raise additional capital should that become necessary. For these reasons, the directors believe the going concern basis of preparation is appropriate.

(b) Statement of compliance

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the company for the annual reporting period ended 30 June 2010 are outlined below.

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). The financial report also complies with International Financial Reporting Standards (IFRS).

(c) New accounting standards for application in future periods

The Company has adopted all new and revised Australian Accounting Standards issued by the AASB which are mandatory to apply to the current interim period. Disclosures required by these Standards that are deemed material have been included in this financial statement on the basis that they represent a significant change in information from that previously made available and are detailed below.

Presentation of Financial Statements

AASB 101 prescribes the contents and structure of financial statements. Changes reflected in this financial report include:

- the replacement of the Income Statement with the Statement of Comprehensive Income. Items of income and expense not recognised in profit or loss are now disclosed as components of 'other comprehensive income'. In this regard, such items are no longer reflected as equity movements in the Statement of Change in Equity;
- the adoption of the single statement approach to the presentation of the Statement of Comprehensive Income; and
- other financial statements are renamed in accordance with the Standard.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

Other accounting standards which are effective for this accounting period include AASB 3 – Business Combinations and AASB 8

Segment Reporting

The consolidated entity has applied AASB 8 Operating Segments with effect from 1 July 2009. AASB 8 requires the entity to identify operating segments and disclose segment information on the basis of internal reports that are provided to, and reviewed by, the chief operating decision maker of the consolidated entity to allocate resources and assess performance. In the case of the consolidated entity, the chief operating decision maker is the Board of Directors. Operating segments now represent the basis on which the Company reports its segment information to the Board on a monthly basis. The change in policy has not resulted in a change to the disclosure presented.

Business combinations

Revised AASB 3 Business Combinations and AASB 127 Consolidated and Separate Financial Statements apply prospectively from 1 July 2009. Changes introduced by these standards which are expected to affect the Company, include the following:

- Costs incurred that relate to the business combination are expensed instead of comprising part of the goodwill acquired on consolidation;
- Any non-controlling interest (previously known as minority interest) in an acquiree is measured at either fair value or as the non-controlling interest's proportionate share of net identifiable assets of the acquiree;
- The acquirer is prohibited from recognising contingent liabilities of the acquiree at acquisition date that do not meet the definition of a liability;
- Consideration for the acquisition, including contingent consideration, must be measured at fair value at acquisition date. Subsequent changes in the fair value of contingent consideration payable are not regarded as measurement period adjustments but are rather recognised in accordance with other Australian Accounting Standards as appropriate;
- The proportionate interest in losses attributable to non-controlling interests is assigned to non-controlling interests irrespective of whether this results in a deficit balance. Previously, losses causing a deficit to non-controlling interests were allocated to the parent entity; and
- Where control of a subsidiary is lost, the balance of the remaining investment account shall be remeasured to fair value at the date that control is lost.

The AASB has issued new and amended accounting standards and interpretations that have mandatory application dates for future reporting periods. The group has decided against early adoption of these standards. A discussion of those future requirements and their impact on the group follows;

- (i) AASB 9: Financial instruments and AASB 2009-11; amendments to Australian Accounting Standards arising from AASB 9 (AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 138, 139, 1023 & 1038 and Interpretations 10 & 121 (applicable for annual reporting periods commencing on or after 1 January 2013).

These standards are applicable retrospectively and amend the classification and measurement of financial assets. The group has not yet determined the potential impact on the financial statements.

The changes made to accounting requirements include:

- simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value; simplifying the requirements for embedded derivatives;
 - removing the tainting rules associated with held-to-maturity assets;
 - removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;
 - allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument; and
 - reclassifying financial assets where there is a change in an entity's business model as they are initially classified based on;
 - the objective of the entity's business model for managing the financial assets; and
 - the characteristics of the contractual cash flows.
- (ii) AASB 124: Related Party Disclosures (applicable for annual reporting periods commencing on or after 1 January 2011).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

This standard removes the requirement for government related entities to disclose details of all transactions with the government and other government related entities and clarifies the definition of a related party to remove inconsistencies and simplify the structure of the standard. No changes are expected to materially affect the group.

- (iii) AASB 2009-5; Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139] (applicable for annual reporting periods commencing from 1 January 2010).

These standards detail numerous non-urgent but necessary changes to accounting standards arising from the IASB's annual improvements project. No changes are expected to materially affect the group.

- (iv) AASB 2009-8; Amendments to Australian Accounting Standards - group Cash-settled Share-based Payment Transactions [AASB 2] (applicable for annual reporting periods commencing on or after 1 January 2010).

These amendments clarify the accounting for group cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when the entity has no obligation to settle the share-based payment transaction. The amendments incorporate the requirements previously included in Interpretation 8 and Interpretation 11 and as a consequence, these two Interpretations are superseded by the amendments. These amendments are not expected to impact the group.

- (v) AASB 2009-9: Amendments to Australian Accounting Standards - Additional Exemptions for First-time Adopters [AASB 1] (applicable for annual reporting periods commencing on or after 1 January 2010). These amendments specify requirements for entities using the full cost method in place of the retrospective application of Australian Accounting Standards for oil and gas assets, and exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with Interpretation 4 when the application of their previous accounting policies would have given the same outcome. These amendments are not expected to impact the group.
- (vi) AASB 2009-10: Amendments to Australian Accounting Standards - Classification of Rights Issues] AASB 132] applicable for annual reporting periods commencing on or after 1 February 2010). These amendments clarify that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro-rata to all existing owners of the same class of its own non-derivative equity instruments. These amendments are not expected to impact the group.
- (vii) AASB 2009-12: Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052] (applicable for annual reporting periods commencing on or after 1 January 2011).

This standard makes a number of editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of International Financial Reporting Standards by the IASB. The standard also amends AASB 8 to require entities to exercise judgment in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. These amendments are not expected to impact the group.

- (viii) AASB 2009-13: Amendments to Australian Accounting Standards arising from Interpretation 19 [AASB 1] (applicable for annual reporting periods commencing on or after 1 July 2010). This standard makes amendments to AASB 1 arising from the issue of Interpretation 19. The amendments allow a first-time adopter to apply the transitional provisions in Interpretation 19. This standard is not expected to impact the group.
- (ix) AASB 2009-14: Amendments to Australian Interpretation - Prepayments of a Minimum Funding Requirement [AASB interpretation 14] (applicable for annual reporting periods commencing on or after 1 January 2011).

This standard amends Interpretation 14 to address unintended consequences that can arise from the previous accounting requirements when an entity prepays future contributions into a defined benefit pension plan. This standard will not impact the group.

- (x) AASB Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments (applicable for annual reporting periods commencing on or after 1 July 2010). This Interpretation deals with how a debtor would account for the extinguishment of a liability through the issue of equity instruments. The Interpretation states that the issue of equity should be treated as the

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

consideration paid to extinguish the liability, and the equity instruments issued should be recognised at their fair value unless fair value cannot be measured reliably in which case they shall be measured at the fair value of the liability extinguished. The Interpretation deals with situations where either partial or full settlement of the liability has occurred. This Interpretation is not expected to impact the group.

The group does not anticipate the early adoption of any of the above Australian Accounting Standards.

(d) **Significant accounting estimates and assumptions**

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimate and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

Share based payment transactions

The company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using a Black-Scholes option pricing model, using the assumptions detailed in note 24.

Mineral exploration and evaluation

Exploration and evaluation expenditure is accumulated in respect of each identifiable area of interest.

These costs may be carried forward in respect of an area that has not at balance sheet date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active operations in or relating to, the area of interest are continuing.

Subsidiary intercompany loans

Provisions for write off of intercompany loans are made as there is significant uncertainty as to whether the loans are recoverable.

Recovery of deferred tax assets

Judgment is required in determining whether deferred tax assets are recognised in the balance sheet. Deferred tax assets, including those arising from un-utilised tax losses require management to assess the likelihood that the group will generate taxable earnings in future periods, in order to utilise recognised deferred tax assets. Deferred tax assets will not be recognised until the group is able to generate a net taxable income.

Estimates of future taxable income will be based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the group to realise the net deferred tax assets recorded at the reporting date could be impacted.

Additionally, future changes in tax laws in the jurisdictions in which the Group operates could limit the ability of the Group to obtain tax deductions in future periods.

(e) **Cash and cash equivalents**

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as detailed above, net of any outstanding bank overdrafts.

(f) **Trade and other receivables**

Trade receivables, which generally have 30-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

An allowance for doubtful debts is made when there is objective evidence that the group will not be able to collect the debts. Bad debts are written off when identified.

(g) **Income tax**

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

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

- when the deferred income tax liability arises from the initial recognition of goodwill or of 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 profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

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

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

(h) Other taxes

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

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

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

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

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

(i) Plant and equipment

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

Depreciation

The depreciable amount of all fixed assets is depreciated on a diminishing value basis over their useful lives to the group commencing from the time the asset is held ready for use.

The depreciation rates used for each class of depreciable assets are:

Plant and equipment – over 4 to 10 years

Motor vehicles – over 4 years

Office furniture and equipment – over 3 years

Impairment

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

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If any such indication exists and where the carrying value exceeds the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the item value of money and the risks specific to the asset.

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

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

(j) Exploration, evaluation and development expenditure

Exploration, evaluation and development costs are accumulated in respect of each separate area of interest. Exploration and evaluation costs are carried forward where right of tenure of the area of interest is current and they are expected to be recouped through sale or successful development and exploitation of the area of interest or, where exploration and evaluation activities in the area of interest have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves. When an area of interest is abandoned or the directors decide that it is not commercial, any accumulated costs in respect of that area are written off in the financial period the decision was made. Each area of interest is also reviewed at the end of each accounting period and accumulated costs written off to the extent that they may not be recoverable in the future. Amortisation is not charged on costs carried forward in respect of areas of interest in the development phase until production commences.

(k) Trade and other payables

Trade payables and other payables are carried at amortised costs and represent liabilities for goods and services provided by the group prior to the end of the financial year that are unpaid and arise when the group becomes obliged to make future payments in respect of the purchase of these goods and services.

Trade payables and other payables are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the group.

(l) Provisions

Provisions are recognised when the group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations and a reliable estimate can be made of the amount of the obligation.

When the group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

(m) Earnings per share

- (i) Basic earnings per share ("EPS") is calculated by dividing the net profit/loss attributable to members for the reporting period, after excluding any costs of servicing equity, by the weighted average number of ordinary shares of the company, adjusted for any bonus issue.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

- (ii) Diluted EPS is calculated by dividing the basic EPS, adjusted by the after tax effect of financing costs associated with dilutive potential ordinary shares and the effect on net revenues and expenses of

conversion to ordinary shares associated with dilutive potential ordinary shares, by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus issue.

(n) Contributed equity

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.

(o) Borrowing costs

Borrowing costs are recognised as an expense when incurred. Alternatively, borrowing costs can be capitalised for qualifying assets.

(p) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Finance leases, which transfer to the company substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in profit or loss.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the company will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Lease incentives are recognised in the income statement as an integral part of the total lease expense.

(q) Impairment of assets

The company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is treated as a revaluation decrease).

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised.

If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

(r) **Interests in joint ventures**

The company has an interest in a joint venture that is a jointly controlled operation.

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. A jointly controlled operation involves use of assets and other resources of the venturers rather than establishment of a separate entity. The company recognises its interest in the jointly controlled operation by recognising the assets that it controls and the liabilities that it incurs. The company also recognises the expenses that it incurs and its share of the income that it earns from the sale of goods or services by the jointly controlled operation.

(s) **Investments**

All investments are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investment.

After initial recognition, investments, which are classified as held for trading and available-for-sale, are measured at fair value. Gains or losses on investments held for trading are recognised in the income statement.

Gains or losses on available-for-sale investments are recognised as a separate component of equity.

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the company has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification.

Other long-term investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any discount or premium on acquisition, over the period to maturity.

For investments carried at amortised cost, gains and losses are recognised in income when the investments are derecognised or impaired, as well as thorough the amortisation process.

For investments that are actively traded in organised financial markets, fair value is determined by reference to stock exchange quoted market bid prices at the close of business on the balance sheet date.

For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment.

Purchases and sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place are recognised on the trade date i.e. the date that the group commits to purchase the asset.

Equity settled transactions:

The group provides benefits to employees (including senior executives) of the group in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

There is currently one plan in place the employee option share plan, which provides benefits to all employees, excluding directors.

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using a Black-Scholes option pricing model, further details of which are given in note 24.

(t) **Share-based payment transactions**

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Royal Resources Limited (market conditions) if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting period).

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects:

- (i) the extent to which the vesting period has expired; and
- (ii) the company's best estimate of the number of equity instruments that will ultimately vest.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of the period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is only conditional upon a market condition.

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share (see note 6).

(i) Cash settled transaction

The group also provides benefits to employees in the form of cash-settled share-based payments, whereby employees render services in exchange for cash, the amounts of which are determined by reference to movements in the price of the shares of Royal Resources Limited.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share (see note 6).

The cost of cash-settled transactions is measured initially at fair value at the grant date using the Black-Scholes formula taking into account the terms and conditions upon which the instruments were granted (see note 24). This fair value is expensed over the period until vesting with recognition of a corresponding liability. The liability is remeasured to fair value at each balance sheet date up to and including the settlement date with changes in fair value recognised in profit or loss.

(u) Comparatives

When required by accounting standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

(v) Foreign currency translation

(i) Functional and presentation currency

The functional currency of the company is measured using the currency of the primary economic environment in which the company operates. The financial statements are presented in Australian dollars which is the company's functional and presentation currency. The functional currency of its subsidiary Royal USA Inc is the United States dollar. The functional currency of all other subsidiaries is Australian dollars.

(ii) Transaction and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year end exchange rate. Non-monetary items measured at historical costs continued to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

(iii) Group companies

The financial results and position of foreign operations whose functional currency is different from the group's presentation currency are translated as follows:

Assets and liabilities are translated at year-end exchange rates prevailing at that reporting date. Income and expenses are translated at average exchange rates for the period. Retained profits are translated at the exchange rates prevailing at the date of the transaction.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

(w) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the group and the revenue can be reliably measured.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

(x) Basis of consolidation

The consolidated financial statements comprise the financial statements of Royal Resources Limited and its subsidiaries including the jointly controlled entities as at 30 June 2010.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated.

3. SEGMENT INFORMATION

Description of segments

The Consolidated Entity has adopted AASB 8 Operating Segments with effect from 1 July 2009. AASB 8 requires operating segments to be identified on the basis of internal reports about components of the Consolidated Entity that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

The Consolidated Entity has identified its operating segments based on the internal reports that are reviewed and used by the executive management team in assessing performance and in determining the allocation of resources.

The Consolidated Entity operates in one operating segment and two geographical segments, being mineral exploration in Australia and United States of America. This is the basis on which internal reports are provided to the Directors for assessing performance and determining the allocation of resources in the Consolidated Entity.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010**

3. SEGMENT INFORMATION (continued)

	Australia		USA		Consolidated	
	2010 \$	2009 \$	2010 \$	2009 \$	2010 \$	2009 \$
Segment revenue						
Other income	2,945,832	3,560,537	14,120	11,833	2,959,952	3,572,370
Finance revenue	288,720		4,157		292,877	
Total segment revenue	3,234,552	3,560,537	18,277	11,833		
Intersegment elimination					(21,745)	(25,442)
Consolidated revenue					3,231,084	3,546,928
Segment result						
Segment result	(2,772,750)	(5,645,956)	(785,675)	(7,206,725)	(3,558,425)	(12,852,681)
Intersegment elimination					1,174,565	7,019,902
Loss before income tax					(2,383,860)	(5,832,779)
Income tax benefit					149,828	-
Loss for the year					(2,234,032)	(5,832,779)
Segment assets and liabilities						
Segment assets	31,074,712	6,519,056	1,271,554	869,163	32,346,266	7,388,219
Intersegment elimination					(7,822,964)	(1)
Total assets					24,253,302	7,388,218
Segment liabilities	856,354	91,247	7,913,096	47,686	8,769,450	138,933
Intersegment elimination					(7,817,550)	-
Total liabilities					951,900	138,933
Other segment information						
Acquisition of property, plant and equipment	172,025	18,394	-	5,347	172,025	23,741
Depreciation and amortisation expense	103,403	108,743	24,203	39,661	127,606	148,404
Doubtful debts expense						
Total doubtful debts expense	7,817,550	7,022,266	-	-	7,817,550	7,022,266
Intersegment elimination					(7,817,550)	(7,022,266)
					-	-

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010**

4. OTHER INCOME AND EXPENSES

Other income

Increase in market value of investments	2,451,870	232,073
Sundry income	12,380	5,413
Foreign currency exchange gain	-	252,771
	2,464,250	490,257

Proceeds from disposal of assets	492,613	234,404
Less carrying value of disposed assets	(256,200)	(116,249)
Net gain on disposal on investments	236,413	118,155

Proceeds from disposal of tenements	90,000	3,060,000
Less carrying value of disposed tenements	(2,284)	(316,589)
Net gain on disposal tenements	87,716	2,743,411

2,788,379	3,351,823
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Loss from disposal of property, plant and equipment

Proceeds from disposal of property, plant and equipment	21,121	44,226
Less carrying value of disposed property, plant and equipment	(30,721)	(53,750)
Net (loss)/gain on disposal on property, plant and equipment	(9,600)	(9,524)

Other expenses

Depreciation and amortisation	127,606	148,404
Consultants fee	188,065	108,244
Share based payments expense	582,137	432,996
Employee benefits	541,173	376,315
Diminution in value of investments	1,140,000	-
	2,578,981	1,065,959

This share based payments expense relates to the requirement to recognise the cost of granting options to directors, employees and consultants under AIFRS over the option vesting period.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010**

	2010 \$	2009 \$
5. INCOME TAX		
(a) Numerical reconciliation of income tax expense to prima facie tax payable		
Loss from ordinary activities before income tax expense	(2,234,032)	(5,832,779)
Prima facie tax benefit on loss from ordinary activities at 30% (2009: 30%)	(670,210)	(1,749,834)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Unlisted options	174,535	128,394
Entertainment	946	1,547
	(494,729)	(1,619,893)
Movements in unrecognised temporary differences	(3,147,271)	1,436,014
Tax effect of current year tax losses for which no deferred tax asset has been recognised	3,642,000	183,879
Research and development grant	149,828	-
Income tax benefit	149,828	-
(b) Unrecognised temporary differences		
Deferred tax assets (at 30%)		
Prepayments	1,038	-
Property, plant and equipment	15,184	10,265
Loans	-	-
Provisions	26,969	18,478
Capital raising costs	224,188	112,479
Carry forward foreign tax losses	4,873,158	2,092,154
Carry forward revenue tax losses	2,520,172	1,560,343
	7,660,709	3,793,719
Deferred tax liabilities (at 30%)		
Capitalised tenement acquisition costs	2,709,311	447,794
Unearned revenue	-	1,019
Fair value increment on investment	457,521	134,942
	3,166,832	583,755

Potential future income tax benefits attributable to tax losses amounting to approximately \$7,393,330 (2009: \$3,652,497) at 2010 corporate tax rate of 30%, have not been brought to account at 30 June 2010 because the directors do not believe it is appropriate to regard realisation of the future income tax benefits as probable. These benefits will only be obtained if:

- (a) the company derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the loss and exploration expenditure to be realised;
- (b) the company continues to comply with the conditions for deductibility imposed by law; and
- (c) no changes in tax legislation adversely affect the company in realising the benefit from the deductions for the loss and exploration expenditure.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

6. EARNINGS PER SHARE

(i) Basic earnings per share

Basic earnings per share are calculated by dividing the profit/loss attributable to equity holders of the company by the weighted average number of ordinary shares outstanding during the year.

(ii) 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. Diluted earnings per share are the same as basic earnings per share in 2010 and 2009 as the company is in a loss position.

The following reflects the income and share data used in the basic and diluted earnings per share computations.

	2010 \$	2009 \$
Net Loss attributable to ordinary shareholders	(2,234,032)	(5,832,779)
Weighted average number of ordinary shares	177,067,672	92,460,720

7. CASH AND CASH EQUIVALENTS

(a) Reconciliation of cash and cash equivalents

Cash and cash equivalents comprises:

Cash at bank and in hand	3,443,672	103,669
Short-term deposits	6,157,077	2,480,133
	9,600,749	2,583,802

Cash at bank earns interest at floating rates based on daily bank deposit rates.

Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the company, and earn interest at the respective short-term deposit rates.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010**

7. CASH AND CASH EQUIVALENTS (continued)

	2010 \$	2009 \$
(b) Reconciliation of net loss after income tax to net cash flows from operating activities		
Net loss	(2,234,032)	(5,832,779)
<i>Adjustment for :</i>		
Depreciation and amortisation	127,606	148,404
Exploration expenditure written off	2,431,519	7,996,527
Share options expensed	582,137	432,996
Increase in market value of investments	(2,451,870)	(232,073)
(Profit)/loss on disposal of plant and equipment	9,600	9,524
Profit on disposal of investments	(236,413)	(118,155)
Profit on disposal of tenements	(87,716)	(2,743,411)
Diminution in value of investments	1,140,000	-
Foreign currency exchange difference	(22,341)	-
<i>Changes in assets and liabilities:</i>		
(Increase) in trade and other receivables	(284,753)	(8,344)
(Decrease)/increase in trade, other payables and provisions	812,967	(198,255)
Net cash used in operating activities	(213,296)	(545,566)

8. TRADE AND OTHER RECEIVABLES

Current

Other receivables (i)	301,357	11,436
Related party receivables	-	5,168
	301,357	16,604

Non-current

Opening balance	706,721	602,982
Placement of deposits	48,959	103,739
Redemption of deposits	(604,280)	-
Foreign currency exchange difference	(2,456)	-
Term deposit for bonds	148,944	706,721

- (i) Other receivables are non-interest bearing and generally on 30-90 day terms. An allowance for doubtful debts is made when there is objective evidence that a trade receivable is impaired.
- (ii) Other classes within trade and other receivables do not contain impaired assets and are not past due.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010**

9. OTHER FINANCIAL ASSETS (NON CURRENT)

	2010 \$	2009 \$
Listed shares at fair value		
Giralia Resources Limited	3,700,000	1,270,000
Gascoyne Resources Limited	15,070	-
Silverlake Resources Limited	-	379,500
Thundelarra Exploration Ltd	-	79,200
	3,715,070	1,728,700
Listed options at fair value		
Thundelarra Exploration Ltd	10,000	3,200
	3,725,070	1,731,900
Unlisted shares at fair value		
Mawson Metals Group Ltd	1,140,000	-
Less - write off	(1,140,000)	-
	-	-

Shares in Giralia Resources Limited were acquired as part proceeds from the disposal of the Prairie Downs project. The market price of the shares at the time of acquisition was \$0.53. Royal Resources Limited holds 2,000,000 shares in Giralia Resources Limited.

Subsequent to balance date the shares in Mawson Metals Group Ltd have been transferred to Mintech Resources Pty Ltd for nil consideration.

10. CONTROLLED ENTITY

Name	Country of incorporation	Percentage interest held		Carrying amount of parent entity's investment	
		2010 %	2009 %	2010 \$	2009 \$
Royal USA Inc	USA	100%	100	1	1
Razorback Iron Pty Ltd	AUS	100%	-	20	-
Razorback Operations Pty Ltd	AUS	100%	-	20	-

During 2010 financial year, Royal Resources Limited formed a wholly owned subsidiary namely Razorback Iron Pty Ltd. The subsidiary company was registered on 20 November 2009 and the cost of investment in relation to this subsidiary was \$20 and issued share capital was \$20.

During 2010 financial year, Royal Resources Limited formed a wholly owned subsidiary namely Razorback Operations Pty Ltd. The subsidiary company was registered on 18 May 2010 and the cost of investment in relation to this subsidiary was \$20 and issued share capital was \$20.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

11. PROPERTY, PLANT AND EQUIPMENT

	2010 \$	2009 \$
Leasehold improvements, at cost	90,144	90,144
Less: accumulated depreciation	(58,837)	(40,057)
	31,307	50,087
Plant and equipment, at cost	222,391	57,740
Less: accumulated depreciation	(53,196)	(30,909)
	169,195	26,831
Office equipment, at cost	165,164	157,790
Less: accumulated depreciation	(100,436)	(71,123)
	64,728	86,667
Motor vehicles, at cost	21,682	21,682
Less: accumulated depreciation	(13,515)	(12,074)
	8,167	9,608
Furniture and fittings, at cost (USA)	59,997	65,386
Less: accumulated depreciation	(38,123)	(24,089)
	21,874	41,297
Motor vehicles, at cost (USA)	32,268	71,547
Less: accumulated depreciation	(14,343)	(21,836)
	17,925	49,711
Total property, plant and equipment	313,196	264,201

The USA assets were transferred to the jointly controlled entity at net book value from the parent entity on 31 December 2009.

Reconciliations

Reconciliation of the carrying amounts of each class of property, plant and equipment at the beginning and end of the current financial year are set out below:

Leasehold improvements

Carrying amount at 1 July 2009	50,087	80,334
Depreciation	(18,780)	(30,247)
Carrying amount at 30 June 2010	31,307	50,087

Plant and equipment

Carrying amount at 1 July 2009	26,831	24,250
Additions	164,651	3,949
Depreciation	(22,287)	(1,368)
Carrying amount at 30 June 2010	169,195	26,831

Office furniture and equipment

Carrying amount at 1 July 2009	86,667	119,577
Additions	7,374	14,445
Depreciation	(29,313)	(47,355)
Carrying amount at 30 June 2010	64,728	86,667

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

11. PROPERTY, PLANT AND EQUIPMENT (continued)

	2010 \$	2009 \$
Motor vehicles		
Carrying amount at 1 July 2009	9,608	11,308
Depreciation	(1,441)	(1,700)
Carrying amount at 30 June 2010	8,167	9,608
Furniture and fittings (USA)		
Carrying amount at 1 July 2009	41,297	-
Transferred from parent entity	-	60,359
Write off 20% of jointly controlled assets	-	(12,072)
Additions	-	2,837
Disposals	(3,974)	(1,454)
Depreciation	(17,264)	(19,373)
Foreign currency exchange movement	1,815	11,000
Carrying amount at 30 June 2010	21,874	41,297
Motor vehicles (USA)		
Carrying amount at 1 July 2009	49,711	-
Transferred from parent entity	-	125,931
Write off 20% of jointly controlled assets	-	(25,186)
Additions	-	2,510
Disposals	(26,747)	(52,296)
Depreciation	(6,939)	(20,288)
Foreign currency exchange movement	1,900	19,040
Carrying amount at 30 June 2010	17,925	49,711
Total carrying amount	313,196	264,201

12. EXPLORATION EXPENDITURE

At 1 July 2009	2,056,917	4,874,625
Exploration expenditure	10,811,686	4,518,372
Sale of Mt Lockyer and Mt Margaret (2009: Sale of Prairie Downs project)	(2,284)	(316,589)
Transfer of expenditure to subsidiary	-	-
Expenditure written off	(2,431,519)	(7,996,527)
Foreign currency exchange movement	(17,623)	977,036
At 30 June 2010	10,417,177	2,056,917

The value of the group's interest in exploration expenditure is dependent upon:

- the continuance of the group's rights to tenure of the areas of interest;
- the results of future exploration; and
- the recoupment of costs through successful development and exploitation of the areas of interest, or alternatively, by their sale.

The group's exploration properties may be subject to claim(s) under native title, or contain sacred sites, or sites of significance to Aboriginal people. As a result, exploration properties or areas within the tenements may be subject to exploration restrictions, mining restrictions and/or claims for compensation. At this time, it is not possible to quantify whether such claims exist, or the quantum of such claims.

In respect to the sale of Mt Lockyer and Mt Margaret, the group made a profit of \$87,716 (2009 in respect to the sale of the Prairie Downs project, the company made a profit of \$2,743,411).

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010**

13. INTANGIBLES

Software and licences, at cost
Less: accumulated amortisation

2010 \$	2009 \$
76,464	56,146
(59,655)	(28,073)
16,809	28,073

Reconciliation

Reconciliation of the carrying amount of intangible assets at the beginning and end of the financial year are set out below:

Opening balance at 1 July 2009
Additions
Amortisation
Carrying amount at 30 June 2010

28,073	-
20,318	56,146
(31,582)	(28,073)
16,809	28,073

14. TRADE AND OTHER PAYABLES (CURRENT)

Trade payables (i)

892,005	99,271
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(i) Trade payables are non-interest bearing and are normally settled on 30-60 day terms.

15. PROVISIONS (NON-CURRENT)

Employee benefits

59,895	39,662
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16. CONTRIBUTED EQUITY AND RESERVES

(a) Issued and paid up capital

Ordinary shares

Number of shares 2010	Number of shares 2009	2010 \$	2009 \$
261,489,756	92,460,720	32,785,999	15,709,716

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010**

16. CONTRIBUTED EQUITY AND RESERVES (continued)

(b) Movement in ordinary shares on issue

Date		Number of shares	Issue price \$	Total \$
	Balance at 30 June 2008	92,460,720		15,709,716
	Balance at 30 June 2009	92,460,720		15,709,716
12 October 2009	Placement	8,869,108	0.15	1,330,366
20 October 2009	Option conversion	60,000	0.34	20,400
20 October 2009	Option conversion	1,250,000	0.20	250,000
21 October 2009	Option conversion	300,000	0.20	60,000
21 October 2009	Option conversion	100,000	0.25	25,000
21 October 2009	Option conversion	2,793,750	0.10	279,375
22 October 2009	Option conversion	2,206,250	0.10	220,625
20 November 2009	Rights issue	108,039,828	0.10	10,803,983
22 December 2009	Placement	5,000,000	0.10	500,000
22 December 2009	Placement	5,000,000	0.15	750,000
1 February 2010	Option conversion	100,000	0.08	8,000
1 February 2010	Option conversion	1,266	0.10	127
8 March 2010	Option conversion	311,332	0.10	31,133
20 May 2010	Option conversion	120,000	0.08	9,600
8 June 2010	Option conversion	34,877,502	0.10	3,487,750
	Less transaction costs			(700,076)
	Balance at 30 June 2010	261,489,756		32,785,999

Number of options	
2010 \$	2009 \$

(c) Movement in options on issue

(i) Quoted options exercisable at 20 cents, on or before 11 July 2009

Balance at the beginning of the year	39,730,858	23,909,406
Issued during the year	-	16,799,012
Exercised during the year	-	(977,560)
Expired during the year	(39,730,858)	-
Balance at the end of the year	-	39,730,858

(ii) Unquoted options exercisable at 20 cents, on or before 9 March 2010

Balance at the beginning of the year	500,000	500,000
Issued during the year	-	-
Exercised during the year	(250,000)	-
Expired during the year	(250,000)	-
Balance at the end of the year	-	500,000

(iii) Unquoted options exercisable at 40 cents, on or before 9 March 2010

Balance at the beginning of the year	500,000	500,000
Issued during the year	-	-
Exercised during the year	-	-
Expired during the year	(500,000)	-
Balance at the end of the year	-	500,000

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010**

16. CONTRIBUTED EQUITY AND RESERVES (continued)

		Number of options	
		2010 \$	2009 \$
(iv)	Unquoted options exercisable at 10 cents, on or before 1 November 2011		
	Balance at the beginning of the year	-	-
	Issued during the year	5,000,000	-
	Exercised during the year	(5,000,000)	-
	Balance at the end of the year	-	-
(v)	Unquoted options exercisable at 8 cents, on or before 31 December 2011		
	Balance at the beginning of the year	100,000	-
	Issued during the year	-	100,000
	Exercised during the year	(100,000)	-
	Balance at the end of the year	-	100,000
(vi)	Unquoted options exercisable at 34 cents, on or before 10 January 2011		
	Balance at the beginning of the year	250,000	250,000
	Issued during the year	-	-
	Exercised during the year	-	-
	Balance at the end of the year	250,000	250,000
(vii)	Unquoted options exercisable at 50 cents, on or before 15 January 2011		
	Balance at the beginning of the year	1,350,000	1,350,000
	Issued during the year	-	-
	Exercised during the year	-	-
	Balance at the end of the year	1,350,000	1,350,000
(viii)	Unquoted options exercisable at 20 cents, on or before 31 January 2011		
	Balance at the beginning of the year	4,800,000	4,800,000
	Issued during the year	-	-
	Exercised during the year	(1,300,000)	-
	Balance at the end of the year	3,500,000	4,800,000
(ix)	Quoted options exercisable at 10 cents, on or before 31 January 2011		
	Balance at the beginning of the year	-	-
	Issued during the year	39,346,137	-
	Exercised during the year	(35,190,100)	-
	Balance at the end of the year	4,156,037	-
(x)	Unquoted options exercisable at 25 cents, on or before 6 April 2011		
	Balance at the beginning of the year	1,500,000	1,500,000
	Issued during the year	-	-
	Exercised during the year	(100,000)	-
	Balance at the end of the year	1,400,000	1,500,000

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010**

16. CONTRIBUTED EQUITY AND RESERVES (continued)

		Number of options	
		2010 \$	2009 \$
(xi)	Unquoted options exercisable at 34 cents, on or before 30 June 2011		
	Balance at the beginning of the year	420,000	420,000
	Issued during the year	-	-
	Exercised during the year	(60,000)	-
	Balance at the end of the year	360,000	420,000
(xii)	Unquoted options exercisable at 30 cents, on or before 6 April 2012		
	Balance at the beginning of the year	1,500,000	1,500,000
	Issued during the year	-	-
	Exercised during the year	-	-
	Balance at the end of the year	1,500,000	1,500,000
(xiii)	Unquoted options exercisable at 50 cents, on or before 30 June 2012		
	Balance at the beginning of the year	6,750,000	6,750,000
	Issued during the year	-	-
	Exercised during the year	-	-
	Balance at the end of the year	6,750,000	6,750,000
(xiv)	Unquoted options exercisable at 50 cents, on or before 6 April 2013		
	Balance at the beginning of the year	1,500,000	1,500,000
	Issued during the year	-	-
	Exercised during the year	-	-
	Balance at the end of the year	1,500,000	1,500,000
(xv)	Unquoted options exercisable at 8 cents, on or before 30 April 2013		
	Balance at the beginning of the year	1,900,000	-
	Issued during the year	-	1,900,000
	Exercised during the year	(120,000)	-
	Balance at the end of the year	1,780,000	1,900,000
(xvi)	Unquoted options exercisable at 30 cents, on or before 13 May 2013		
	Balance at the beginning of the year	-	-
	Issued during the year	1,180,000	-
	Exercised during the year	-	-
	Balance at the end of the year	1,180,000	-
(xvii)	Quoted options exercisable at 12 cents, on or before 31 October 2013		
	Balance at the beginning of the year	-	-
	Issued during the year	34,877,503	-
	Exercised during the year	-	-
	Balance at the end of the year	34,877,503	-
(xviii)	Unquoted options exercisable at 30 cents, on or before 30 November 2013		
	Balance at the beginning of the year	3,000,000	-
	Issued during the year	-	3,000,000
	Exercised during the year	-	-
	Balance at the end of the year	3,000,000	3,000,000

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

16. CONTRIBUTED EQUITY AND RESERVES (continued)

- (xix) Unquoted options exercisable at 55 cents, on or before 26 November 2014
- Balance at the beginning of the year
- Issued during the year
- Exercised during the year
- Balance at the end of the year

Number of options	
2010 \$	2010 \$
-	-
4,500,000	-
-	-
4,500,000	-

(d) Reserves

Asset revaluation reserve

Balance at the beginning of the year

Revaluation of financial asset

Balance at the end of the year

2010 \$	2009 \$
202,500	8,500
(202,500)	194,000
-	202,500

Listed option reserve

Balance at the beginning of the year

Proceeds from option issue

Balance at the end of the year

1,007,941	1,007,941
-	-
1,007,941	1,007,941

Foreign currency

Balance at the beginning of the year

Foreign currency translation

Balance at the end of the year

1,008,299	-
(39,771)	1,008,299
968,528	1,008,299

Share based payments reserve

Balance at the beginning of the year

Options expense

Balance at the end of the year

Total reserves at year end

3,409,780	2,976,784
1,722,137	432,996
5,131,917	3,409,780
7,108,386	5,628,520

Asset revaluation reserve

This reserve is used to record the fair value changes on available for sale financial assets as set out in note 9. This relates to the shares held in Silverlake Resources Limited which were divested during the year.

Listed option reserve

This reserve is used to record the proceeds from the issue of listed options, net of expenses of the issue.

Foreign currency translation reserve

This reserve is used to record exchange differences arising on transactions of the group entities that do not have a functional currency of Australian dollars and have been translated into Australian dollars for presentation purposes as described in note 2(v).

Share based payments reserve

This reserve is used to record the value of equity benefits provided to directors, employees and consultants as part of their remuneration. Refer note 24 for further details. Options were also issued to acquire an investment in an unlisted public company.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

17. FINANCIAL INSTRUMENTS

The group's principal financial instruments comprise of cash, short term deposits and investments held for trading. The main purpose of these financial instruments is to maintain the group's operations. The group has various other financial assets and liabilities such as trade receivables and trade payables. The main risk arising from the group's financial instruments are cash flow interest risk, liquidity risk, credit risk and market price risk.

The group has various other financial assets and liabilities such as trade receivables and trade payables. It is, and has been throughout the period under review, the group's policy that no trading in financial instruments shall be undertaken. The exception to this has been a parcel of shares held in Giralia Resources NL, which was part payment for the sale of the Prairie Downs Project. The main risks arising from the group's financial instruments are cash flow interest rate risk, liquidity risk, credit risk and market risk.

(a) Interest rate risk

The group is exposed to movements in market interest rates on short term deposits. The policy is to monitor the interest rate yield curve out to 120 days to ensure a balance is maintained between the liquidity of cash assets and the interest rate return.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the financial statements.

The group's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rate for each class of financial assets and financial liabilities comprises:

Consolidated	Floating interest rate		Fixed interest rate – 1 year or less		Non-interest bearing		Total	
	2010 \$	2009 \$	2010 \$	2009 \$	2010 \$	2009 \$	2010 \$	2009 \$
Financial assets								
Cash and cash equivalents	3,443,672	103,669	6,157,077	2,480,133	-	-	9,600,749	2,583,802
Trade and other receivables	-	-	148,944	706,721	301,357	16,604	450,301	723,325
Other financial assets	-	-	-	-	3,725,070	1,731,900	3,725,070	1,731,900
Total financial assets	3,443,672	103,669	6,306,021	3,186,854	4,026,427	1,748,504	13,776,120	5,039,027
Financial liabilities								
Trade and other payables	-	-	-	-	(892,005)	(99,271)	(892,005)	(99,271)
Total financial liabilities	-	-	-	-	(892,005)	(99,271)	(892,005)	(99,271)
Net financial assets/(liabilities)	3,443,672	103,669	6,306,021	3,186,854	3,134,422	1,649,233	12,884,115	4,939,756

Weighted average interest rate 4.49% 5.51%

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

17. FINANCIAL INSTRUMENTS (continued)

	2010 \$	2009 \$
Reconciliation of net financial assets/ (liabilities) to net assets		
Net financial assets/(liabilities) as above	12,884,115	4,939,756
Plant, equipment and vehicles	313,196	264,201
Exploration & evaluation expenditure	10,417,177	2,056,917
Intangibles	16,809	28,073
Provisions	(59,895)	(39,662)
Net assets per balance sheet	23,571,402	7,249,285

The net fair value of all financial assets and liabilities at balance date approximate to their carrying value:

(a) Credit risk

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the group. The group has adopted the policy of only dealing with credit worthy counterparties and obtaining sufficient collateral or other security where appropriate, as a means of mitigating the risk of financial loss from defaults.

The group's primary banker is National Australia Bank, at balance date a majority of all operating accounts are with this bank.

All funds on deposit are placed with reputable counterparties with an "A" credit rating or higher.

The carrying amount of financial assets recorded in the financial statements, net of any provisions for losses, represents the group's maximum exposure to credit risk.

(b) Net fair value of financial assets and liabilities

The net fair value of the financial assets and financial liabilities approximates their carrying value, except for the fair value of equity investments traded on organised markets which have been valued by reference to the market prices prevailing at balance date for those equity investments

(c) Foreign currency risk

The group is exposed to fluctuations in foreign currency arising from costs incurred for mineral exploration expenditure in relation to the company's joint ventures in the USA. Overseas expenses are paid at the spot rate on the date that the invoice is paid. The group does not engage in any hedging or derivative transactions to manage foreign currency risk.

(d) Liquidity risk

The group manages its liquidity risk by monitoring its cash reserves and forecast spending. Management is cognisant of the future demands for liquid finance requirements to finance the group's current and future operations.

(e) Market risk

The group manages its exposure to market risk by monitoring market conditions and making decisions based industry experience.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

17. FINANCIAL INSTRUMENTS (continued)

Financial risk management

Consolidated 2010 Financial assets	Level 1 \$	Level 2 \$	Total \$
Financial assets at fair value through the profit or loss			
Investments held for trading	3,725,070	-	3,725,070
Available for sale financial assets:			
Listed investments	-	-	-
Unlisted investments	-	-	-
Total	3,725,070	-	3,725,070

Level 1

The fair value of these financial assets has been based on the closing quoted bid prices at reporting date.

Level 2

Valuation techniques such as those using comparisons to similar investments for which market observable prices are available have been adopted to determine the fair values of these investments.

Consolidated 2009 Financial assets	Level 1 \$	Level 2 \$	Total \$
Financial assets at fair value through the profit or loss			
Investments held for trading	1,352,400	-	1,352,400
Available for sale financial assets:			
Listed investments	379,500	-	379,500
Unlisted investments	-	-	-
Total	1,731,900	-	1,731,900

Level 1

The fair value of these financial assets has been based on the closing quoted bid prices at reporting date.

Level 2

Valuation techniques such as those using comparisons to similar investments for which market observable prices are available have been adopted to determine the fair values of these investments.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

18. SENSITIVITY ANALYSIS

(a) Interest rate risk

The following table represents a summary of the interest rate sensitivity of the group's financial assets at the balance sheet date on the deficit for the year and equity for a 1% change in interest rates. It is assumed that the change in interest rates is held constant throughout the reporting period.

Consolidated 30 June 2010	Carrying amount \$	Interest rate risk -1%		Interest rate risk + 1%	
		Net loss \$	Equity \$	Net gain \$	Equity \$
Financial assets					
Cash and cash equivalents	9,600,749	(96,007)	(96,007)	96,007	96,007
Other receivables	148,944	(1,489)	(1,489)	1,489	1,489
Total	9,749,693	(97,496)	(97,496)	97,496	97,496

Consolidated 30 June 2009	Carrying amount \$	Interest rate risk -1%		Interest rate risk + 1%	
		Net loss \$	Equity \$	Net gain \$	Equity \$
Financial assets					
Cash and cash equivalents	2,583,802	(25,838)	(25,838)	25,838	25,838
Other receivables	706,721	(7,067)	(7,067)	7,067	7,067
Total	3,290,523	(32,905)	(32,905)	32,905	32,905

None of the group's financial liabilities are interest bearing.

(b) Foreign currency risk

The group is exposed to foreign exchange currency risk at balance date primarily through undertaking certain transactions denominated in foreign currency as shown below based on notional amounts:

30 June 2010	USD\$	A\$
Financial assets and liabilities		
Cash and cash equivalents	50,522	59,277
Other receivables	3,697	4,338
Loan receivable – Royal USA Inc	6,662,898	7,817,550
Trade and other payables	(81,434)	(95,546)
Loan payable – Royal USA Inc	(6,662,898)	(7,817,550)
Balance sheet exposure	(27,215)	(31,931)

30 June 2009	USD\$	A\$
Financial assets and liabilities		
Cash and cash equivalents	43,417	53,968
Other receivables	81,704	101,558
Loan receivable – Royal USA Inc	5,649,454	7,022,266
Trade and other payables	(38,364)	(47,686)
Loan payable – Royal USA Inc	(5,649,454)	(7,022,266)
Balance sheet exposure	86,757	107,840

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

18. SENSITIVITY ANALYSIS (continued)

The following foreign exchange rates applied during the financial year:

Currency	Average rate		Spot rate at reporting date	
	2010	2009	2010	2009
USD	0.8821	0.7480	0.8523	0.8045

The following table details the effect on the net loss and equity from a 10% increase in the Australian dollar against the United States dollar with all other variables held constant.

	30 June 2010		30 June 2009	
	Net loss A\$	Equity A\$	Net loss A\$	Equity A\$
Net increase/(decrease)	2,902	2,902	(9,802)	(9,802)

The following table details the effect on the net loss and equity from a 10% decrease in the Australian dollar against the United States dollar with all other variables held constant.

	30 June 2010		30 June 2009	
	Net loss A\$	Equity A\$	Net loss A\$	Equity A\$
Net increase/(decrease)	(3,458)	(3,458)	11,984	11,984

19. COMMITMENTS

There are no outstanding commitments or contingencies which are not disclosed in the financial report of the company as at 30 June 2010 other than:

(i) Mineral tenement expenditure commitments – Australia and USA

	2010 \$	2009 \$
Within one year	2,074,214	3,002,304
After one year but not more than five years	3,959,996	5,186,918
More than five years	1,074,903	1,107,621
	7,109,113	9,296,843

The group has expenditure obligations with respect to mineral tenements and minimum expenditure requirements on mineral tenements that have not been recognised as a liability or payable in the financial statements.

These include commitments relating to tenement lease rentals and the minimum expenditure requirements of the Western Australian Mines Department attaching to the tenements and are subject to re-negotiation upon expiry of the exploration leases or when application for a mining licence is made.

If the company decides to relinquish certain leases and/or does not meet these obligations, assets recognised in the balance sheet may require review to determine the appropriateness of carrying values. The sale, transfer or farm-out of exploration rights to third parties will reduce or extinguish these obligations.

These are necessary in order to maintain the tenements in which the company and other parties are involved. All parties are committed to meet the conditions under which the tenements were granted in accordance with the relevant mining legislation in Western Australia and the Northern Territory.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

19. COMMITMENTS (continued)

(ii) Mineral tenement expenditure commitments – USA

	2010 US\$	2009 US\$
Within one year	407,980	1,399,748
After one year but not more than five years	1,631,920	2,446,715
	2,039,900	3,846,463

The group has expenditure obligations in United States dollars with respect to mineral tenements and joint venture expenditure requirements with third parties in the USA on mineral tenements that have not been recognised as a liability or payable in the financial statements.

The above expenditure obligations with respect to mineral tenements and joint venture expenditure requirements with third parties in the USA on mineral tenements expressed in Australian dollars as at the 30 June 2010 are as follows:

	2010 \$	2009 \$
Within one year	478,681	1,739,887
After one year but not more than five years	1,914,725	3,041,267
	2,393,406	4,781,154

Based on foreign currency exchange rate of 1 AUD = 0.8523 USD (2009: 1 AUD = 0.80450 USD)

(iii) Operating lease commitments

	2010 \$	2009 \$
Within one year	124,300	104,718
After one year but not more than five years	267,588	355,277
	391,888	459,995

The company has a commercial sub-lease on its corporate office premises. This is a non-cancellable lease expiring 30 June 2013 that has not been recognised as liability or payable in the financial statements.

(iv) Bonds

At 30 June 2010 the group has outstanding \$112,204 (2009: \$22,182) as a current bond provided by the company's bank for mineral tenements.

(v) Bank guarantee

At 30 June 2010 the group has outstanding \$36,470 (2009: \$36,470) as a current guarantee provided by the company's bank for corporate office lease.

(vi) Letter of credit

At 30 June 2010 the group has outstanding \$Nil (2009: \$546,512) as a current letter of credit provided by the company's bank for exploration commitments in relation to the Arizona Strip Joint Venture in the USA. On 1 July 2009 the letter of credit expired and was not renewed by the company.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

20. INTEREST IN JOINT VENTURES

The group has entered into joint venture agreements with third parties in Australia and USA, whereby the group can earn an interest in exploration areas by expending specified amounts in the exploration areas.

The group has an interest in the following joint ventures:

(a) Warriedar Joint Venture

The Warriedar Joint Venture is between the company and Gindalbie Metals Ltd. The purpose of the joint venture is to explore 150 square kilometres covering the central area of the Midwest iron ore province. The company holds a 40% interest and Gindalbie 60% interest.

(b) Lynx2 Joint Venture

On January 1, 2009, Royal Resources Limited through its wholly owned subsidiary, Royal USA Inc. formed a joint venture with Lynx2 LLC (of Salt Lake City Utah) in relation to the Mineral areas of interests in Wray Mesa, Egnar and Le Sal. In relation to above joint venture, Royal Resources Limited through its 100% owned subsidiary, Royal USA Inc. was required to spend US\$4.5 million in exploration and operating expenditures in order to acquire 80% interest in above joint venture. This was achieved in August 2008. Lynx2 contributed mineral rights for its 20% interest which has zero basis. Through a letter agreement dated August 28, 2009, Lynx2 LLC assigned ½ of their 20% ownership to Royal USA Inc. resulting in Royal USA Inc.'s interest increasing to 90%. Without proven and probable reserves the minority interest will not be recorded by Lynx-Royal JV LLC until the completion of a geological resource survey. The above joint venture operates under a joint venture entity called Lynx- Royal JV LLC. Royal USA Inc. is the operating manager of this joint venture.

(c) Canon City Joint Venture

On July 18, 2007, Royal Resources Limited through its 100% owned subsidiary Royal USA Inc. formed a joint venture with Lynx3 LLC, Geomin, Inc. (a Colorado registered company) & Randy Dale Roberts. Under the terms of the joint venture agreement, Royal Resources Limited through its wholly owned subsidiary Royal USA Inc. and Lynx3 LLC acquired an 80% interest in 106 claims by payment of US\$210,000 and can earn an 80% interest in all new claims, properties and resources acquired by the joint venture by incurring a further expenditure of US\$800,000 over 18 months. Geominic contributed mineral rights for its 20% interest which has zero basis. Without proven and probable reserves the minority interest will not be recorded by Royal USA Inc. and Lynx3 LLC until the completion of a geological resource survey. This joint venture operates under a joint venture entity called GeoLynx LLC. Royal USA, Inc. is the operating manager of this joint venture. After satisfying all the joint venture terms and conditions of the original joint venture agreement, Royal Resources Limited (via Royal USA Inc.), interest in all the acquired projects would be 64% (80% multiplied by 80%), with Geominic holding 20% and Lynx3 LLC 16% (20% multiplied by 80%). On November 9, 2009, the venture agreement was amended with Lynx3 LLC assigning all of their interest to Royal USA Inc. Therefore, after satisfying all the joint venture terms and conditions, Royal USA Inc.'s interest will be 80% and Geominic 20%.

(d) Colorado Plateau Partners Joint Venture

On November 1, 2008, the Company formed a joint venture between Lynx-Royal JV LLC and Energy Fuels Resources Corporation ("Energy Fuels"), a Toronto Stock Exchange listed company. Initially Lynx-Royal JV LLC interests were 80% Royal USA Inc. & 20% Lynx2 LLC but after a letter agreement dated August 28, 2009, half of Lynx2 LLC's interest was assigned to Royal resulting in Lynx-Royal's interests being 90% Royal USA Inc. & 10% Lynx2 LLC. Under the terms and conditions of the joint venture, Lynx-Royal JV LLC and Energy Fuels will each contribute their respective Colorado properties to the joint venture. Lynx-Royal JV LLC and Energy Fuels will contribute equally 50% of the expenditure commitments. The Royal USA, Inc. interest in the joint venture properties is 45% (90% multiplied by 50%) with Energy fuels holding 50% and Lynx2 LLC 5% (10% multiplied by 50%). This joint venture operates under a joint venture entity called The Colorado Plateau Partners LLC. Royal USA, Inc. is the operating manager of this joint venture.

(e) Arizona Strip Joint Venture

The Company initially formed a joint venture between the Lynx-Royal JV LLC (80% Royal USA, Inc. & 20% Lynx2 LLC) and Energy Fuels Resources Corporation ("Energy Fuels"). Under the terms and conditions of the joint venture Energy Fuels has contributed the Arizona properties controlled by Energy Fuels and Lynx-Royal JV LLC can earn 50% interest in the joint venture properties by expending US\$2 million over three years. After satisfying all the joint venture terms and conditions of the Arizona Strip Partners Joint Venture Agreement, Royal USA, Inc. interest in the joint venture properties will be 40% (80% multiplied by 50%), with Energy Fuels holding 50% and Lynx2 LLC 10% (20% multiplied 50%). The joint venture agreement was amended on November 30, 2009 with Lynx-Royal assigning all of their interests to Royal USA Inc. Royal USA, Inc. now has a 50% interest after the terms and conditions are met. This joint venture operates under a joint venture entity called The Arizona Strip Partners JV LLC. Energy Fuels is the operating manager of this joint venture. At June 30, 2010, the Company has not earned its 50% interest and does not control the joint venture. The Company accounts for this joint venture at cost.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

(f) Aldershot Joint Venture

The Aldershot Joint Venture is between the company and Aldershot Resources Ltd, a TSX Venture Exchange listed company. The purpose of the joint venture is to explore, evaluate and mine uranium on 4 tenements located in the Northern Territory controlled by Aldershot Resources Ltd.

Under the terms and conditions of the joint venture agreement, the company can earn an 70% interest in the tenements by the expenditure of \$900,000 over 3 years.

(g) Assets utilised in the USA Joint Ventures

The group's share of the assets, liabilities, revenue and expenses of the jointly controlled operation's before the provision for impairment, which is included in the consolidated financial statements, are as follows:

	2010 \$	2009 \$
ASSETS		
Current assets		
Cash and cash equivalents	17,943	53,968
Trade and other receivables	4,338	-
Total current assets	22,281	53,968
Non-current assets		
Trade and other receivables	41,334	101,558
Property, plant and equipment	39,799	91,008
Exploration expenditure	1,168,140	622,629
Total non-current assets	1,249,273	815,195
TOTAL ASSETS	1,271,554	869,163
LIABILITIES		
Current liabilities		
Trade and other payables	95,546	47,686
Total current liabilities	95,546	47,686
TOTAL LIABILITIES	95,546	47,686
NET ASSETS	1,176,008	821,477

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

21. EVENTS AFTER THE BALANCE SHEET DATE

Since the end of the financial year, the directors are not aware of any other matter or circumstance not otherwise dealt with in this report or the financial statements that has significantly or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in subsequent financial years with the exception of the following, the financial effects of which have not been provided for in the 30 June 2010 financial statements.

Exercise of quoted options

- (i) 22,136 quoted options exercisable at 10 cents each expiring 31 October 2011 were exercised raising \$2,214 in working capital.
- (ii) 70,523 quoted options exercisable at 12 cents each expiring 31 October 2013 were exercised raising \$8,463 in working capital.

Sale of mineral tenement

On 7 September 2010, the company sold a tenement (E47/1615) to Atlas Iron Limited for an amount of \$110,000 (inclusive of GST) pursuant to a sale and purchase agreement dated 21 August 2010.

22. AUDITOR'S REMUNERATION

	2010 \$	2009 \$
Audit and review of the financial report for the consolidated entity	70,146	61,367
Audit of US subsidiary by US auditor	16,934	-
	87,080	61,367

23. DIRECTOR AND EXECUTIVE DISCLOSURES

(a) Details of key management personnel

Directors

P G Crabb	Chairman	(Non-Executive)
M F Flis ¹	Managing director	(Executive)
F DeMarte	Director	(Executive)
B D Richardson	Director	(Non-Executive)
R W Crabb ²	Director	(Non-Executive)
M J Randall	Director	(Non-Executive)

Note 1 M F Flis was appointed managing director on 11 August 2009.

Note 2 R W Crabb resigned as a director on 11 August 2009.

(b) Compensation for key management personnel

	2010 \$	2009 \$
Short term employee benefits	554,801	545,630
Annual leave provision	8,327	21,533
Post employment benefits	73,043	71,070
Share based payments	503,384	268,917
Total compensation	1,139,555	907,150

(c) Shares issued on exercise of compensation options

During the financial year the following shares were issued to directors or key executives on exercise of compensation options

On 21 October 2009 M J Randall exercised 300,000 options at 20 cents expiring 31 January 2011.

On 21 October 2009 M F Flis exercised 100,000 options at 25 cents expiring 6 April 2011.

On 20 October 2009 R W Crabb exercised 1,000,000 options at 20 cents expiring 31 January 2011..

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010**

23. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

(d) Options holding of key management personnel

30 June 2010	Balance at beginning of year 01-Jul-09	Granted as remuneration	Options exercised	Net change other	Balance at end of year 30-Jun-10	Vested at 30 June 2010		
						Total	Exercisable	Not exercisable
Directors								
P G Crabb	6,630,635	750,000	(6,946,770)	6,132,270	6,566,135	6,566,135	6,566,135	-
F DeMarte	3,963,680	1,250,000	(980,413)	1,036,466	5,269,733	5,269,733	5,269,733	-
B D Richardson	4,233,698	500,000	(333,698)	395,363	4,795,363	4,795,363	4,795,363	-
R W Crabb ²	3,170,581	-	-	(3,170,581)	-	-	-	-
M Randall	2,135,675	500,000	(696,394)	508,916	2,448,197	2,448,197	2,448,197	-
M F Flis ¹	5,500,000	1,500,000	(504,766)	809,532	7,304,766	7,304,766	7,304,766	-
Total	25,634,269	4,500,000	(9,462,041)	5,711,966	26,384,194	26,384,194	26,384,194	-

Note 1: M F Flis was appointed managing director on 11 August 2009.

Note 2: R W Crabb resigned as a director on 11 August 2009.

30 June 2009	Balance at beginning of year 01-Jul-08	Granted as remuneration	Options exercised	Net change other	Balance at end of year 30-Jun-09	Vested at 30 June 2009		
						Total	Exercisable	Not exercisable
Directors								
P G Crabb	5,880,635	750,000	-	-	6,630,635	6,630,635	6,630,635	-
F DeMarte	3,213,680	750,000	-	-	3,963,680	3,963,680	3,963,680	-
B D Richardson	3,733,698	500,000	-	-	4,233,698	4,233,698	4,233,698	-
R W Crabb	2,670,581	500,000	-	-	3,170,581	3,170,581	3,170,581	-
M Randall	1,635,675	500,000	-	-	2,135,675	2,135,675	2,135,675	-
Executive								
M F Flis	4,500,000	1,000,000	-	-	5,500,000	5,500,000	3,000,000	2,500,000
Total	21,634,269	4,000,000	-	-	25,634,269	25,634,269	23,134,269	2,500,000

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

23. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

(e) Shareholdings of key management personnel

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

30 June 2010	Balance 01-Jul-09 Ord	Granted as remuneration Ord	On exercise of options Ord	Net change other Ord	Balance 30-Jun-10 Ord
Directors					
P G Crabb	11,498,410	-	6,946,770	5,217,735	23,662,915
R W Crabb ²	2,110,023	-	-	(2,110,023)	-
F DeMarte	909,201	-	980,413	798,521	2,688,135
B D Richardson	886,094	-	333,698	425,396	1,645,188
M Randall	294,593	-	696,394	396,396	1,387,383
M F Flis ¹	-	-	504,766	1,328,600	1,833,366
Total	15,698,321	-	9,462,041	6,056,625	31,216,987

Note 1 M F Flis was appointed managing director on 11 August 2009.

Note 2 R W Crabb resigned as a director on 11 August 2009.

30 June 2009	Balance 01-Jul-08 Ord	Granted as remuneration Ord	On exercise of options Ord	Net change other Ord	Balance 30-Jun-09 Ord
Directors					
P G Crabb	10,898,410	-	-	600,000	11,498,410
R W Crabb	2,110,023	-	-	-	2,110,023
F DeMarte	909,201	-	-	-	909,201
B D Richardson	886,094	-	-	-	886,094
M Randall	294,593	-	-	-	294,593
Key management					
M F Flis	-	-	-	-	-
Total	15,098,321	-	-	600,000	15,698,321

All equity transactions with key management personnel other than those arising from the exercise of remuneration options have been entered into under terms and conditions no more favourable than those the company would have adopted if dealing at arm's length.

(f) Loans to key management personnel

There were no loans to key management personnel during the year.

(g) Other transactions and balances with key management personnel and their related parties

Disclosures relating to other transactions and balances with key management personnel are included and set out in note 25.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

24. SHARE BASED PAYMENTS

Options are granted under the company Employee Share Option Plan ("ESOP") which was approved by the directors on 19 April 2007. The ESOP is available to any person who is a director, or an employee (whether full-time or part-time) of the company or of an associated body corporate of the company ("Eligible Person").

Subject to the rules set out in the ESOP and the listing rules, the company (acting through the board) may offer options to any eligible person at such time and on such terms as the board considers appropriate.

There are no voting or dividend rights attached to the options. There are no voting rights attached to the unissued ordinary shares. Voting rights will be attached to the unissued ordinary shares when the options have been exercised.

The expense recognised in the income statement in relation to share-based payments during the financial year is disclosed in note 4.

The following table illustrates the number and weighted average exercise price of and movements in share options issued during the year:

	2010 Number	2010 WAEP \$	2009 Number	2009 WAEP \$
Outstanding at beginning of the year	24,070,000	0.34	19,365,000	0.37
Granted during the year	10,680,000	0.31	5,000,000	0.21
Exercised during the year	(6,930,000)	0.13	-	-
Lapsed during the year	(750,000)	0.33	(295,000)	(0.32)
Outstanding at the end of the year	27,070,000	0.38	24,070,000	0.34

Exercisable at the end of the year **25,890,000** 20,570,000

(a) Issue of vendor options

On the 19 October 2009 the company granted 5,000,000 options to various shareholders of Mawson Metals Group Limited for the purchase of 100,000,000 shares in Mawson Metals Group Limited. The options have an exercise price of 10 cents each and have an expiry date of 1 November 2011. The options were granted at no cost and carry no dividend or voting rights. The options are not quoted on the Australian Securities Exchange Ltd. Options were exercised by the previous shareholders of Mawson Metals Group Ltd

(b) Issue of directors options

On the 27 November 2009 approval was granted at annual general meeting to issue the directors of the company with 4,500,000 options. The options have an exercise price of 55 cents each and have an expiry date of 26 November 2014. The options were granted at no cost and carry no dividend or voting rights. The options are not quoted on the Australian Securities Exchange Ltd.

(c) Issue of employee options

On the 14 May 2010 the company granted 1,180,000 options to eligible employees under the Employee Share Option Plan. The options vest 12 months from the grant date, have an exercise price of 30 cents each and have an expiry date of 13 May 2013. The options were granted at no cost and carry no dividend or voting rights. The options are not quoted on the Australian Securities Exchange Ltd and;

- (i) the weighted average remaining contractual life for the options outstanding as at 30 June 2010 is 2.34 years (2009: 2.707 years);
- (ii) the weighted average exercise price for options outstanding at the end of the year was \$0.38 (2009: \$0.34);
- (iii) the weighted average fair value of options granted during the year was \$0.16 (2009: \$0.34); and
- (iv) the fair value of the equity-settled share options granted under the plan is estimated as at the date of grant using a Black-Scholes Option Pricing Model taking into account the terms and conditions upon which the options were granted.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

24. SHARE BASED PAYMENTS (continued)

The following table lists the inputs to the model used for the year ended 30 June 2010.

Number of options	5,000,000	4,500,000	1,180,000
Share Price at grant date	28 cents		21 cents
Option exercise price	10 cents	55 cents	30 cents
Expiry date	1/11/2011	26/11/2014	13/05/2013
Expected life of the option (years)	2 years	5 years	3 years
Vesting period (months)	-	-	12 months
Dividend yield (%)	Nil%	Nil%	Nil%
Expected volatility (%)	128.79%	130.84%	129.2%
Risk-free interest rate (%)	4.99%	4.97%	5.03%
Fair value of options	22.8 cents	10.07 cents	10.4 cents
Vesting date	-	-	14/05/2011

The following table lists the inputs to the model used for the year ended 30 June 2009.

Number of options	3,000,000	100,000	1,900,000
Share price at grant date	8 cents	7.5 cents	6 cents
Option exercise price	30 cents	8 cents	8 cents
Expiry date	30/11/2013	31/12/2011	30/04/2013
Expected life of the option (years)	5 years	3 years	4 years
Vesting period (months)	-	12 months	12 months
Dividend yield (%)	Nil%	Nil%	Nil%
Expected volatility (%)	99.7%	113.8%	178.46%
Risk-free interest rate (%)	4.05%	2.94%	4.08%
Fair value of options	3.19 cents	3.58 cents	3.86 cents
Vesting date	-	17/12/2009	1/05/2010

25. RELATED PARTY DISCLOSURES

Fees paid in the normal course of business in 2010 for drilling and exploration services \$93,136 (2009: Nil) and included in trade creditors \$ Nil (2009: \$Nil) to a company of which Mr Philip Crabb is a director and shareholder.

Fees paid in the normal course of business in 2010 for office rentals, administration and employee services totalling \$180,457 (2009: \$195,843) were paid/payable (balance outstanding at 30 June 2010, and included in trade creditors \$14,589 (2009: \$Nil) to a company of which the directors are directors and shareholders.

Costs paid in the normal course of business in 2010 for exploration expenditure in relation to a farm-in joint venture totalling \$483,928 to a company of which Mr Frank DeMarte is a director and shareholder.

Loans advanced to subsidiary, Razorback Iron Pty Ltd totalling \$8,591,618 (2009:\$ Nil).

Loans advanced to subsidiary, Razorback Operations Pty Ltd totalling \$20 (2009:\$ Nil).

Loans advanced to subsidiary, Royal USA Inc totalling \$7,817,550 (2009:\$ 7,022,266).

Management fees charged to subsidiary totalling \$21,745 (2009: \$13,554).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

26. CONTINGENT LIABILITIES

On 23 February 2010, the company and its wholly owned subsidiary Razorback Iron Pty Ltd were joined to legal proceedings ("the proceedings") commenced in the New South Wales Supreme Court by John Frederick Hillam ("Hillam") against Ivan Peter Lewis ("Lewis"), Mintech Resources Pty Ltd ("Mintech"), Goldus Pty Ltd ("Goldus") and Mawson Gold NL ("Mawson").

Hillam has made a number of claims against Lewis, Mintech, Goldus and Mawson in relation to non-payment of monies and breach of contract. Hillam alleges that his previous arrangements with Lewis, Mintech, Goldus and Mawson included an equitable interest in EL/4267, EL/3997 and EL/3927. Razorback acquired EL/4267 pursuant to a tenement sale agreement entered into with Mintech on arms length terms on 23 November 2009. Razorback is the registered legal holder of EL/4267 as recorded with the Government of South Australia.

Mr. Hillam has joined Razorback to the proceedings as the current owner of EL/4267 and Royal to the proceedings as the holder of an option over EL/3997 and EL/3927. Royal, Razorback and Royal's lawyers consider the claims made by Mr. Hillam in relation to EL/4267, EL/3997 and EL/3927 are without merit and will be vigorously defending the claims.

Razorback Iron Pty Ltd, a wholly owned subsidiary of Royal Resources Limited, has paid an initial amount of \$4,950,000 to Mintech Resources Pty Ltd to acquire EL/4267.

Additional amounts are due and payable upon completing the milestones associated with further developing this resource and are detailed below;

	2010 \$	2009 \$
Financial Position		
Pre-feasibility study	5,000,000	-
Bankable feasibility study	20,000,000	-
Total	25,000,000	-

Royal has entered into an exclusive option agreement with Goldus Pty Ltd for the right to access, for the purposes of iron ore exploration, and acquire exploration licences EL/3927 and EL/3997. An annual option fee of \$50,000 is payable with a right to exercise the option to acquire both ELs for a payment of \$10 million. The option is for a ten year period. Royal also retains the right of first right of refusal on any other minerals found on these two tenements.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010**

27. PARENT ENTITY

Financial Position

Assets

Current assets	12,998,177	2,546,438
Non-current assets	10,371,029	3,972,618
Total assets	23,369,206	6,519,056

Liabilities

Current liabilities	821,807	91,247
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Net Assets

22,547,999	6,427,809
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Equity

Issued capital	32,785,999	15,709,716
Accumulated losses	(16,378,458)	(13,902,128)

Reserves

Asset revaluation reserve	-	202,500
Listed option reserve	1,007,941	1,007,941
Share based payments reserve	5,131,917	3,409,780
Total equity	22,547,399	6,427,809

Financial Performance

Loss for the year	(2,476,330)	(5,645,956)
Revaluation of financial asset	(202,500)	194,000
Total comprehensive income	(2,678,830)	(5,451,956)

Mineral tenement expenditure commitments – Australia

Within one year	1,348,866	1,262,417
After one year but not more than five years	1,551,938	2,145,651
More than five years	1,074,903	1,107,621
	3,975,707	4,517,689

Contingencies

Refer to note 26 for details of the parent entity contingencies.

DIRECTORS DECLARATION

In accordance with a resolution of the directors of Royal Resources Limited, I state that:

In the opinion of the directors:

- (a) the financial statements, notes and the additional disclosures included in the directors' report designated as audited, of the company and the consolidated entity are in accordance with the Corporations Act 2001, including:
 - (v) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2010 and of their performance for the year ended on that date; and
 - (vi) complying with accounting standards and the Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
- (c) the financial report also complies with International Financial Reporting Standards as described in note 2(b).

This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial year ended 30 June 2010.

On behalf of the board



Marcus F Flis
MANAGING DIRECTOR

Perth, Western Australia

30 September 2010

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ROYAL RESOURCES LIMITED

Report on the Financial Report

We have audited the accompanying financial report of Royal Resources Limited, which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cashflows for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of 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 and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 2(b), the directors also state, in accordance with Australian Accounting Standard AASB 101 Presentation of Financial Statements, that the financial report, comprising the financial statements and notes, complies 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. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance 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.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

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*.

Auditor's opinion

In our opinion:

- (a) the financial report of Royal Resources Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(b).

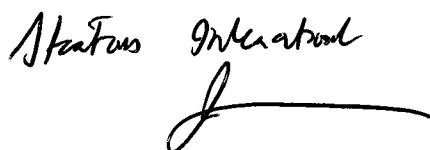
Report on the Remuneration Report

We have audited the remuneration report included in pages 13 to 18 of the directors' report for the year ended 30 June 2010. 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

Auditor's opinion

In our opinion the remuneration report of Royal Resources Limited for the year ended 30 June 2010 complies with section 300 A of the *Corporations Act 2001*.

STANTONS INTERNATIONAL
(An Authorised Audit Company)



J P Van Dieren
Director

West Perth, Western Australia
30 September 2010

Stantons International

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www.stantons.com.au

30 September 2010

Board of Directors
Royal Resources Limited
Level 3, IBM Building
1060 Hay Street
West Perth WA 6005

Dear Directors

RE: ROYAL RESOURCES LIMITED

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Royal Resources Limited.

As Audit Director for the audit of the financial statements of Royal Resources Limited for the year ended 30 June 2010, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely
STANTONS INTERNATIONAL
(Authorised Audit Company)



John Van Dieren
Director