

## TROY RESOURCES DEC QTR 08: THIN MARGINS BUT IMPROVEMENT EXPECTED

	Dec Qtr	Sept Qtr	Change
Production (oz)	15,233	17,217	-12%
Head Grade (g/t)	2.42	2.78	-13%
Cash Cost ( A\$ per oz)	792	698	13%
Development Capital (per oz)	158	134	18%
<b>Total Cost per Oz</b>	<b>950</b>	<b>832</b>	<b>14%</b>
Average Price (\$)	1,137	1,026	11%
<b>Margin (\$) per oz</b>	<b>187</b>	<b>194</b>	<b>-4%</b>
Margin (%) per oz	20%	23%	-16%
Cash Balance (\$)	55.9	58.6	-5%
Hedging Liability (\$)	-	-	0%
Exploration (\$)	1.4	2.4	-43%
Share Price (A\$)	1.01	1.34	-25%

Troy Resource (ASX:TRY) had a fairly steady December quarter. Operational performance at Andorinhas continued to improve with production of 6,804 oz at an average cash cost of US\$535/oz (Sep Qtr: 6,946 oz at US\$660/oz). Mining at the Lagoa Sec open pit was completed in November. Underground development at Mamao is on track, with first development ore at an average grade of 5g/t to enter the mill in February 09. During the quarter, the main development decline reached the M2 ore body with stoping generating 10,501t at 4.84g/t. This ore was stockpiled. Production at Sandstone declined during the quarter with 8,429 oz produced at an average cash cost of A\$806/oz (Sep Qtr: 10,271 oz at A\$627/oz) and was the primary reason for the deterioration in the result.

On a brighter note, a decision was made during the quarter to recommence mining at Sandstone, which will see the mine life extended until the end of calendar 2009. This will see additional production of 30,000 oz. The decision was based on the increase in the Australian dollar gold price as the economics of recommencing production were re-examined. Low grade remnant ore at Lord Nelson will be mined, all be it at a relatively high cash cost. Several months of overburden stripping are required before first ore will reach the mill in the June quarter. The processing of low grade stockpiles and mineralized waste will continue through the March quarter.

As at the 31<sup>st</sup> December 08, Troy reported ore stockpiles at Andorinhas and Sandstone of 25,174 oz (290,000t @ 2.7g/t) and 18,184 oz (506,000 @ 1.01g/t) respectively. The Andorinhas stockpile represents nearly 1 year's worth of mill feed. Stockpiles represent gold that has been mined but not yet processed. The cost of mining the ore will not be recouped until the gold is processed and sold at a later date. Accumulating stockpiles gives a company more flexibility with its future production through substitution in the event of mining delays. These can be due to unexpected grade reconciliation issues or unseasonal weather. Alternatively, they can be fully planned as in the recommencement of mining at Sandstone, which will involve preliminary pre-stripping work.

The operating cash cost for Troy deteriorated during the quarter, primarily due to the lower head grade (2.12g/t versus 2.40g/t) and recovery rates (90.6% versus 88.8%) at Sandstone. The deterioration of 14% was largely negated by an 11% improvement in the average gold price received. As production continues to ramp up at Andorinhas over the coming months, one would expect margins to significantly improve. The cash balance for the quarter fell marginally to \$55.9m, representing \$0.80 a share or two thirds of the company's market capitalization at the time of writing this review.

Exploration was limited at just \$1.4m for the quarter and included some channel sampling at the Horizonte JV Rio West tenement, which yielded encouraging grades of 3m @ 13.55g/t and 3.5m @ 9.65g/t. This area is expected to be drilled at the completion of the wet season. It lies within trucking distance of the Andorinhas mill, so even a small deposit could theoretically support development. The arrival of an underground diamond drill is planned for early March, which will see the start of a drill program to build on existing resources and reserves at Andorinhas. The deposit remains open at depth, making the results particularly interesting to follow.

Troy Resources looks to have made some solid progress during the December quarter, with the production benefits of the Mamao underground ore body to begin filtering through in the March quarter. The company remains strong financially and appears to be starting a new chapter in its long and successful production history.

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