TROY RESOURCES REDUCED TO LESS THAN CASH VALUE:

Troy Resources (ASX:TRY; TSX:TRY) has recently become an unfortunate member of a growing number of gold mining companies around the world that are trading for less than their Net Financial Asset backing. With more than A$60m in cash and investments (as at 30 September 08) this equates to just under A$0.86 a share or close to C$0.70 a share. For the week ending 21 November 08, Troy Resource's share price was languishing at A$0.70 on the ASX and C$0.54 on the TSX.

The Global Speculator caught up with Paul Benson, the CEO of Troy Resources who confirmed everything is on track towards achieving commercial production at their Andorinhas project in Brazil during the March quarter of 2009. Andorinhas is scheduled to produce 50,000 ounces of gold a year at an average operating cash cost of US$300/oz over the 5 year mine life. Ongoing capital expenditure over this period is scheduled to be US$25m or US$5m a year which translates to an average capital cost of about US$100/oz. Total cash costs (including capital expenditure) amounts to US$400/oz, a respectable number in the present environment of higher costs. At a current gold price of close to US$800/oz, this could see Troy Resources generate as much as US$20m a year from operations. Not bad for an asset which the market is failing to attribute any value to. One qualification Benson did make was that a large quantity of lower grade open cut ore had been stockpiled from Lagao Seca. This would ensure continuity of production but may result in varied operational results depending on how much is supplemented with the higher grade underground ore at any given time. Despite this, he maintains the average life of mine operating cash cost would remain around the US$300/oz mark.

As far as exploration goes, Benson expressed some disappointment in the programs that had been carried out around the Andorinhas mine to date, with only sporadic success. He did remain optimistic however, in the prospect of extending the life of the Andorinhas Gold mine with the deposit remaining open at depth and more exploration to be carried out as underground development advances.

Here in Australia, Troy is winding down production at their Sandstone project in WA. When asked about the prospects of extending the life of the mine given present strong domestic gold prices, Benson explained that there may be potential for an additional 12 months of production but cash costs would remain high. In the September quarter 08, the Sandstone facility processed 10,271 oz at a cash cost of A$833/oz. At the present stage, Sandstone is expected to cease operations in February 2009.

Another asset Troy Resource has worked on over recent months has been the shallow Andorinhas Iron ore deposit. An NI 43-101 resource was released with an indicated mineral resource of 6.5 Mt at a grade of 50.8% Fe, including a probable mineral reserve of 2.12 Mt at a washed and screened grade of 63.1% Fe. In the recent quarterly report, the company has expressed their intention to commence open pit production in the first half of calendar 2009, pending permitting and agreement on off-take contracts. With most of the infrastructure in place, construction and commissioning is expected to be swift at a minimal capital outlay.

In early July 08, Troy divested out of their 14.5% investment position in Canadian listed Comaplex Minerals. Benson expressed his satisfaction in the terms they negotiated on the sales agreement with Agnico-Eagle. A sale price of C$6.15 a share (a 21% premium to the market price the day before) and a top up arrangement with Agnico-Eagle where, if Agnico were to move to take a majority interest in the company within an 18 month period, Agnico would pay Troy the difference between the C$6.15 sales price and their final purchase price. At the time of writing, the Comaplex Minerals share price was languishing at around C$1.75 a share. This deal freed up C$47m for Troy which led to the obvious question as to whether the company had seen anything in the market of late that had taken their interest. Benson played his cards pretty close to his chest, but did mention they had been in negotiations with a number of parties with nothing material coming from the discussions at this stage. Troy also has a 700 Kt per annum processing plant which the company would like to use as equity to joint venture into a new project. Given the size of the plant, Benson mentioned it was ideally suited to an open pit deposit with an average grade of 3-4 g/t, meaning it had a fairly limited market here in Australia.

You usually associate companies trading for less than cash value with corporate shells containing few tangible assets and very little corporate direction. A conversation with Paul Benson clearly indicates that Troy Resources isn't one of those companies.

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