



# TROY RESOURCES NL

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## REPORT ON ACTIVITIES FOR THE QUARTER ENDED 31 DECEMBER 2005

### HIGHLIGHTS

#### PRODUCTION

- Sertão Project (Troy 70%) in Brazil treated 21,791 tonnes of ore at 29.6g/t Au to produce **19,640 oz of gold at a cash cost of A\$191 per ounce (US\$140).**
- Sandstone Mill (Troy 100%) treated 121,997 tonnes of ore at 7.5g/t Au to produce **28,029 oz of gold at a cash cost of A\$164 per ounce (US\$120).**
- Residual production from Cornishman provided 877 ounces of gold.
- **Attributable gold production of 42,654 ounces** of gold for the December quarter, an increase of 46% over the September quarter.
- The **average cash cost of production** for the quarter was **\$173 per ounce (US\$127)** which would give cash margins of nearly A\$600 per ounce at current spot gold prices.
- Mining commenced at Xupé project in Brazil on 22 November 2005.

#### EXPLORATION

- Drilling continues to identify economic mineralisation down plunge at Xupé.
- Troy enters into new exploration project in Brazil.

#### CORPORATE

- Dividend of \$3.6 million fully franked paid to shareholders during the quarter.
- Group cash and equivalent liquid assets of A\$45.3 million.



# **MINING REPORT**

## **GOIÁS VELHO PROJECT SERTÃO GOLD MINE BRAZIL**

(Troy 70%)

### **GOLD PRODUCTION 100% : SERTÃO GOLD MINE**

	<b>December 2005 Quarter</b>	<b>December 2004 Quarter</b>	<b>6 Months to 31 December 2005</b>	<b>6 Months to 31 December 2004</b>
Tonnes Milled	<b>21,791</b>	24,883	<b>45,158</b>	50,134
Head Grade	<b>29.62 g/t</b>	20.89 g/t	<b>30.68 g/t</b>	26.06 g/t
Recovery	<b>89.8 %</b>	94.9 %	<b>93.2 %</b>	97.0 %
Gold Produced	<b>18,640 oz</b>	15,869 oz	<b>41,450 oz</b>	40,761 oz
Cash Cost per oz	<b>A\$ 191 US\$ 140</b>	A\$ 141 US\$ 110	<b>A\$ 161 US\$ 118</b>	A\$ 100 US\$ 78

“Cash Costs” are defined to include all expenditures directly incurred on mining and milling, plus overheads and outgoings net of movements in deferred mining costs and stockpiles, but exclude Government gold royalty payments.

## **MINING**

Sertão Mineração Ltda (“SML”) (Troy’s 70% Brazilian subsidiary) commenced mining at the Xupé project on 22 November 2005. Stockpiling of ore at the mine is scheduled to start at the end of January 2006. Xupé remains on track to deliver ore to the Sertão mill as from March 2006.

Heavy and persistent rains have slowed down mining both at Sertão and the Xupé mine. The result will be a prolongation of mining at Sertão into April 2006.

## **MILLING**

December quarter production was 18,640 ounces of gold from 21,791 tonnes of ore at a recovery of approximately 90%. The lower recovery reflected the anticipated increase in the primary sulphides content of the ore. The sulphides are partly refractory and slow leaching. The tailings are currently being stockpiled and will be re-treated at a later date for an expected additional recovery of approximately 1,100 ounces of gold.

Production for calendar year 2005 totalled 70,378 ounces of gold from 93,852 tonnes of ore @ 24.91g/t with a recovery of 93.5%.

Mill performance remained steady with no major problems. Alterations and additions are under way to double the plant’s throughput rate. The aim is to significantly reduce milling cost per tonne in anticipation of treating ore from the Xupé and the Antena deposits, which are lower grade than the Sertão deposit. Capital expenditure will not be significant.

The financial performance of the operation remains strong despite significant cost increases in energy, chemicals and spare parts during 2005, as well as the negative impact

of the strengthening by approximately 30% of the Brazilian currency against the US\$. This has been partly offset by the higher price of gold which has allowed a lowering of cut-off grades in the mine.

## **DEVELOPMENT**

Several new near mine targets were delineated and exploratory drilling will commence in January. The potential to further expand Stage 5 to take in previously uneconomic material left behind from Stage 4 is also being investigated. Other investigations are directed at the potential to underground mine down plunge extensions of the Stage 5 orebody. A major mapping and drilling program of other targets in the 'Mine Corridor' will be undertaken in early 2006.

## **SAFETY AND ENVIRONMENT**

Safety and Environmental performance remained excellent. There was one recorded lost time injury which was the only lost time injury for the 2005 calendar year. Environmental performance also continued to be in line with or better than the strict Brazilian regulations and no incidents or accidents involving the environment were recorded. Ongoing rehabilitation of worked out areas exceeds expectation in terms of growth and effectiveness.

## **COMMUNITY INVOLVEMENT**

During the December quarter SML committed to construct five new classrooms at a local primary school which currently teaches the children outdoors in a largely unprotected environment.

SML has also purchased medical equipment for the establishment of an intensive care unit at the Goiás Velho Hospital where presently none exist in a city of some 30,000 people. Similarly SML has assisted the local fire brigade and emergency service with the provision of rescue and first aid equipment.

## SANDSTONE OPERATIONS

(Troy 100%)

### GOLD PRODUCTION : SANDSTONE

	<b>December 2005 Quarter</b>	December 2004 Quarter	<b>6 Months to 31 December 2005</b>	6 Months to 31 December 2004
Tonnes Milled	<b>121,997</b>	130,262	<b>249,163</b>	240,140
Head Grade	<b>7.50 g/t</b>	1.17 g/t	<b>5.45 g/t</b>	1.38 g/t
Recovery	<b>95.3 %</b>	93.9 %	<b>94.5 %</b>	94.9 %
Gold Produced	<b>28,029 oz</b>	4,599 oz	<b>41,231 oz</b>	10,111 oz
Cash Cost per oz	<b>A\$ 164</b>	A\$ 452	<b>A\$ 181</b>	A\$ 396
“Cash Costs” are defined to include all expenditures directly incurred on mining and milling, plus overheads and outgoings net of movements in deferred mining costs and stockpiles, but exclude Government gold royalty payments.				

### MINING

In line with our mine plan, mining operations were reduced to a single shift operation during the quarter. In the quarter 395,455 bcm of material was mined at Lord Nelson including 106,343 tonnes of ore grading 5.83g/t gold. Overall, contained gold is reporting 18% higher than the estimate from the ore reserve model.

In addition, 27,512 bcm of material was mined from the Lord Henry pit. Investigations are continuing with the assistance of Golder Associates Pty Ltd and Keith Lindbeck & Associates into the disposal of water from the Lord Henry pit in a manner that is acceptable to the Department of Environment in Western Australia.

### MILLING

During the quarter 121,997 tonnes of Lord Nelson ore was treated at the Sandstone mill with an average grade of 7.50g/t yielding 28,029 recovered ounces of gold. Mill throughput was restricted due to realignment of the haul road and repairs to No.2 SAG mill. Two additional leach tanks have been incorporated into the milling circuit and this has increased gold recoveries. The recently purchased mobile crushing unit has been relocated to the mill.

### HEALTH, SAFETY AND ENVIRONMENT

A concerted effort was made to improve safety procedures and safety awareness resulting in fewer lost time injuries during the quarter. There were no reportable environmental incidents recorded and the Annual Environmental Review was conducted by Keith Lindbeck & Associates.

### GENERAL

An investigation into the conversion of resources into reserves utilising the current gold price of around A\$740/oz is currently being undertaken with the assistance of Snowden Mining Consultants. New pit designs for the Lord Nelson, Lord Henry and Ladybird deposits are also being generated based on the revised parameters.

# **EXPLORATION REPORT**

## **GOIÁS VELHO PROJECT BRAZIL**

(Troy 70%)

In November Troy assumed direct management of the Goiás Velho Project regional exploration program. A re-assessment of all existing targets and a target generation effort commenced shortly thereafter. Re-assaying of all regional grid-based soil samples for arsenic ("As") has been completed to create an extensive database from which several new As and coincident Au-As soil anomalies have been identified. These will be followed up in the March quarter. One of these new targets, the **Alaska Prospect**, consists of a prominent coincident Au-As soil anomaly that extends for over 1.8km along strike and contains a number of anomalous rock-chip samples including 14.33g/t and 3g/t Au. RAB drilling of this target will occur in the March quarter.

Environmental permitting has been obtained and drilling commenced on the down-plunge extent of the **Xupé** orebody within the Antena Cluster. The current step-out drilling is targeting extensions to the last high-grade intersections. Preliminary results include 9m @ 5.41g/t Au from 77m (GVC436) which was a follow-up to the high-grade intercept of 9m @ 7.61g/t Au from 62m, located 40m east in GVC403, indicating the orebody is open down plunge to the west.

First pass RAB & RC drilling commenced testing soil and rock chip anomalies at the Paraiso NW and Viuva prospects in the **Digo Digo Project**. Anomalous gold mineralisation over a 500m strike length has been intersected with broad spaced drilling at Viuva Central Zone. The intensity of silica + pyrite + chalcopyrite +/- sphalerite alteration and the associated width and grade of gold mineralisation is increasing towards the southwest. Drilling is planned to test the strike length in this direction.

Drilling in the March quarter will focus on testing new targets identified in close proximity to the Sertão and Xupé mines. The more regional targets, including strike extensions to mineralisation at Viuva Central, will be tested when a third drill rig arrives on site.

## SANDSTONE PROJECT

(Troy 100%)

A 4,000m RAB drill programme commenced assessing previously unexplored aeromagnetic targets identified within newly granted exploration tenements. This work is part of the Company's ongoing systematic evaluation of new target areas that lie within regional structural corridors along the margins of the Sandstone Greenstone Belt. Ethnographic surveys are now completed and once statutory exploration permits are issued significant exploration activities will commence over priority targets.

RAB drilling at the soil covered Coomb Bore Prospect has confirmed the continuity of a broad NW trending geochemical anomaly within the Edale structural corridor and extended the strike length to 5.5km. The ongoing exploration targeting within this anomalous area will be further enhanced by the availability of an aeromagnetic interpretation of previously acquired data next quarter.

An IP survey covering a 3km length of a regionally significant WSW trending thrust fault located approximately 300m west of the Lord Henry deposit was completed during the quarter. Several discrete chargeability anomalies were identified within a locally favorable granodiorite host. Presently, the survey data is being interpreted and selected targets modelled prior to RC drill testing.

## OTHER BRAZILIAN PROJECTS

During the December quarter, Troy's project generation team in Brazil ("TBX") continued with the assessment of 18 projects in Brazil. As a result of this ongoing assessment and project selection process, TBX has recently concluded negotiations on a new project and continues negotiating several other potential deals with third parties in Brazil.

The new project is **Rio Piranga** which is an alluvial gold project located south east of the famous Iron Quadrangle in the state of Minas Gerais. The main target, Três Cruzes, is an alluvial terrace with reported grade of approximately 6g/t Au and an estimated (non JORC compliant) resource of approximately 70,000oz gold. The deposit is open in all directions. Troy has signed a 39 month option with vendor for a series of payments totalling US\$30,000. Minimum expenditure commitments are cumulative US\$100,000 by 15 months, US\$200,000 by 27 months and US\$300,000 by 39 months. If Troy exercises the option to purchase the project, the vendor receives US\$100,000 dollars and a royalty of US\$15/oz capped at 6,666 ozs.

The Company maintains the opinion that Brazil is a country of exceptional exploration potential and development opportunity.

## MONGOLIA

### *Gutain Davaa Project*

(Troy earning 80%)

The main focus of field activities was the **Gutain Davaa Project** in North Central Mongolia where detailed mapping, prospecting rock chip sampling and a ground magnetics survey were completed. The formal Joint Venture agreement between Troy Mongolia and Mongolian based U & B Mining Company was executed as a replacement of the previous Letter of Understanding. Under the terms of this agreement Troy can earn an 80% interest in the project by spending US\$1 million over a 3 year period and making a series of cash payments to U & B Mining totalling US\$100,000. Troy is proceeding with plans for an RC drill program (approx 2000-2500m) with targets based on the geological mapping, rock grab sampling and structural interpretation from the ground magnetics survey. Major Drilling has been contracted to do the work and a rig will be mobilized to site in February 2006.

The recent mapping and sampling has identified a new high grade gold vein occurrence, known as the Toordogiin Shil zone, which is a sulphidic quartz vein zone hosted within granite. Within this zone, a quartz vein subcrop about 90-100m in length and varying in thickness between 40 and 60cm was observed to have limonite and/or reddish brown iron oxides that sometimes contained fine visible gold. Rock samples of the quartz vein have returned anomalous gold values ranging from 11g/t Au to 390g/t Au.

### *Other Projects*

A strategic project generation plan has been implemented for the acquisition of new projects in Mongolia. As a part of this process TMAR has also rationalised its existing portfolio and 6 projects have been dropped (refer to Figure 1 attached).

## ***FINANCE REPORT***

As at 31 December 2005, Troy **within Australia** held \$25.70 million in cash, plus equity investments with a market value of \$6.90 million and 6,550 ounces of gold awaiting sale. This equates to a total of approximately \$37.22 million of liquid assets. Troy's wholly owned Brazilian and European subsidiaries held cash deposits of A\$1.30 million. On 14 October 2005, Troy paid out A\$3.6 million in dividends to its shareholders.

At quarter end, Sertão Mineração Ltda ("SML") (Troy's 70% Brazilian subsidiary) had the equivalent of A\$4.02 million in cash. In addition, SML held 5,543 ounces of gold inventory, which approximates to A\$2.74 million of revenue based on a gold price of A\$705.25 per ounce.

**The Troy group equity share of cash and liquid assets is approximately A\$45.28 million as at 31 December 2005.**

Gold sales from the Sandstone operation for the quarter were 24,296 ounces at an average price of A\$636 per ounce. The average Cash Cost was A\$164 per ounce, which gives a **Cash Margin of A\$472 per ounce.**

During the quarter, the Company also generated sales from Cornishman of 877 ounces at an average price of A\$662 per ounce.

During the quarter, SML sold 13,999 ounces of gold at an average price of US\$478 per ounce. The average Cash Cost was US\$140 per ounce, which gives a **Cash Margin of US\$338 per ounce.**

At the end of the quarter, the Company had fixed forward gold hedge contracts for 10,000 ounces at A\$685.29/oz and 10,000 ounces at A\$700.00/oz, both for delivery 29 December 2006. This hedging is allocated to protecting low grade resources and stockpiles. At 31 December 2005 the hedging has a negative mark-to-market value of A\$931,600.

Exploration expenditure during the quarter was A\$451,000 plus A\$576,000 of exploration undertaken by SML in Brazil. Capital and development expenditure in Australia during the quarter was A\$650,000.

J L C Jones

**Executive Chairman**

31 January 2006

Geological information in this Report has been compiled by Troy's Exploration and Business Development Manager, Peter Doyle, who:

- Is a full-time employee of Troy Resources NL;
- Has sufficient experience which is relevant to the type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves';
- Is a Member of The Australasian Institute of Mining and Metallurgy;
- Has consented to the inclusion of this data.



Figure 1

