

12 OCTOBER 2012

INDONESIA

GOLD

DFS COMPLETED/PROJECT FINANCING

EXCHANGE: ASX:SUM

**CAPITAL PROFILE**

Share price (A\$)	0.155
52 week range (A\$/share)	0.06 to 0.18
Number of shares (m)	219
Options and warrants (m)	99
Convertible notes (m)	0
Fully diluted (m)	318
Market capitalisation (undiluted) (A\$m)	33.9
Debt* (A\$m) - Sept 12F	5.0
Enterprise value (A\$m)	38.9
Major shareholders: National Nominees 9.6%, Provident Group 8.8%, Macquarie Bank (8.1%), SUM Management (7.7%), Newcrest (6.1%)	
Avg monthly volume (m)	10
Cash (A\$m) - Sept 12F	7.9
Price/Cash (x)	4.3
Price/Book (x)	2.0
Listed company options:	No

\* Macquarie convertible note due March 2013



**DIRECTORS**

W Morris (Chairman)  
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J Waller (Non exec)

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**SUMATRA COPPER & GOLD plc**

Price: A\$0.16

**Tembang (100% SUM) production expected 4Q13 (~40koz Au, 280koz Ag pa). DFS enhanced economics, 36% IRR (US\$1500/oz gold price). RCR valuation is \$0.30/share with further upside to exploration success (including strategic JV with Newcrest) and leverage to the strengthening gold price.**

**INVESTMENT POINTS**

- ◆ RCR risk adjusted valuation \$0.30/share. Valuation rises to \$0.30-0.45/share, with upside to financing, production post-commissioning, exploration success and leverage to the strengthening gold price (spot price US\$1760/oz).
- ◆ Low EV/resource ratio of an explorer at ~US\$40/resource oz Au, well below pre-development peers.
- ◆ Expected initial Au/Ag production at flagship Tembang project 4Q13 (40kozpa Au, 280kozpa Ag). Reserves 403koz Au and 5.5moz Ag.
- ◆ Tembang stage 1 DFS and Stage 2 PFS completed 3Q12. Two stage mine development. Stage 1 (years 1-5): low C1 cash costs ~US\$487/oz, capex US\$68m; with cash flow funding larger capacity Stage 2 (years 6 to 8). C1 target US\$431/oz over LOM stages 1 and 2 (total 8 years).
- ◆ Re-rated 3Q12, with strong share price appreciation (rising from ~\$0.08 to \$0.15) on robust PFS/DFS economics, low C1 costs (<US\$500/oz), QE3 and new strategic shareholder Provident Group.
- ◆ Debt/equity financing required - valuation factors in part equity financing (US\$30m). Key shareholders include financial market groups Macquarie Bank and Provident Group – each likely sources of additional funding.
- ◆ Experienced project team for transition to mining. Lessons learned from 1997-2000 Tembang mine operators (mine closed due to low gold price). Existing infrastructure reduces start-up costs.
- ◆ Previous Tembang mining left many unexploited veins with exploration upside - intersections 15.2m @ 5g/t Au in Berenai deeps, 4m @ 15.2g/t Au in Asmar deeps and 2m @ 82g/t Au in Belinau deeps are not in the reserves.
- ◆ SUM has 7 properties (3,200 km<sup>2</sup>) along the well mineralized Sumatra Fault Zone, host to Way Linggo (Kingrose), Martabe (G Resources) and Sihayo Gold (Sihayo). Targets are low sulphidation epithermal systems (> 5g/t Au).
- ◆ Tandai project is a high grade epithermal vein (1.4moz @ 15.4g/t) mined by the Dutch. Newcrest is spending US\$12m over 5 years for 70%. Two new prospects discovered. Drilling results from Ulukau prospect expected 4Q12.

**COMPANY STATISTICS**

Currency unit British Pounds

Year End December	Jun-12a	Sep-12F	2010a	2011a	2012
Exploration and evaluation - gross (GBPm)	0.89	0.50	3.04	4.36	3.08
Corporate (GBPm)	0.60	0.35	1.64	1.24	1.51
Exploration/(Expl.+ Corporate) (%)	60	59	65	78	67
Funding duration at current burn (years)			0.9	0.3	0.9
Shares on issue (pr end) (m shares)	190.6	218.6	153.9	190.6	218.6
Drilling - RAB (m)	0	0	0	0	0
Drilling - Other/Diamond (m)	1,000	0	8,615	7,402	2,000
Land holding ('000 ha)	322	322	322	322	322
Tenement costs (\$k per year)	-	-	-	-	-
Capital raisings (GBPm)	0.00	3.78	4.50	3.47	3.78
Funding from JV partners (GBPm)	1	1	0	2	4
Cash (GBPm)	2.1	5.1	4.2	1.6	4.0
Cash backing (p/share)	1.1	2.3	2.8	0.8	1.8
Net asset backing (p/share)	7.3	7.9	10.1	9.6	7.9

Quarters refer to calendar year.

## KEY PROJECTS

Project	Ownership/	Metal	JV	Target	Process	Project	
	Option		Partner	Type	Route	Status	Location
Tembang	100%	Au	none	Epithermal	CIL	DFS	Indonesia
Tandai	100/30*	Au	Newcrest	Epithermal	N/A	Adv. Exp	Indonesia
Sontang**	100%	Au	none	Replacement	N/A	Adv. Exp	Indonesia
Jambi	100%	Au	none	Epithermal	N/A	Early Expl.	Indonesia
Musi Rawas	100%	Au	none	Sed hosted	N/A	Early Expl.	Indonesia
Madina	100%	Au	none	Epithermal	N/A	Early Expl.	Indonesia

Local people hold a nominal percentage in all projects, as required by Indonesian law

\* Newcrest earning 70%

\*\* Replacement style in sandstone

## COMPANY COMMENT

**Overview:** Sumatra Copper & Gold plc is a Perth based company listed on the ASX Oct '09 to explore for gold and copper in Sumatra, Indonesia. SUM holds ~ 3,219 km<sup>2</sup> of tenements in 7 mining permits, including brownfields sites, along the Sumatra Fault Zone (host to Martabe – 5.3moz and Sihayo 1.4moz). RCR visited site 2Q12.

**Tembang (Sumatra):** Located ~120km NNE of Bengkulu in South Sumatra. This brownfields site produced from the **Berenai, Belinau and Bujang** pits from 1997-2000. Plant footings, roads and tailings dam infrastructure will be re-used. Epithermal veins are 1 to 20m wide.

JORC resource ~1moz Au and ~13moz Ag, beneath and along strike from previously mined pits. Reserve 0.4moz Au, 5.5moz Ag for a 5 year Stage 1, producing 146koz gold and 1.4moz silver from Belinau and Asmar pits, and Belinau underground. High grade Belinau u/g resource (8g/t Au, 70g/t Ag) and low strip Asmar pit (1:3) keep cash costs low. Cash flow from Stage 1 to fund plant expansion for nominal 3 year Stage 2 (staged production).

Well defined reserve (150,000m drilling) but some veins have little drilling. Deeper intersections (not in reserve) include 15.2m @ 5g/t Au in Berenai deeps, 4m @ 15.2g/t Au in Asmar deeps and 2m @ 82g/t Au in Belinau deeps. The southern high grade shoot at Berenai (with values of >25 gram-metres) remains open at depth. The Stage 1 DFS (SUM and consultants) was released 10 Sept 2012 for production in 4Q13.

SUM reduced pre-production capex to \$38.6 m and total capex to \$68 m in Stage 1 and \$37.5 m for Stage 2 plant upgrade, Mining licence and environmental approval received, forestry in-principle agreement negotiated, final approval for 4Q12 (no issues expected).

Stage 1 mine (5 year life) 400 ktpa for ~40kozpa Au, 280kozpa Ag. C1 cash costs ~US\$487/oz after silver credits, C3 <US\$800. Gold recoveries 90% and silver 80%. Stage 2 – 900 ktpa throughput. MOU signed for future gas supply reducing opex. LOM (Stage 1 and 2) C1 ~US\$431/oz after Ag credits, C3 costs ~US\$766/oz Au. Open pit reserve cut off 0.5 g/t, u/g cut off 2.78 g/t, using US\$1,500/oz gold price and US\$30/oz silver price. Exploration upside beneath and along strike from planned pits.

**Tandai (Sumatra – Newcrest JV):** Former Dutch mine site that produced 1.4moz at 15.4g/t Au. Newcrest spending

US\$12m over 5 years for 70%. Initial drilling discovered a small high grade shoot in TDD11024: including 21m @ 4.74g/t Au. SUM can buy back Newcrest's 70% for a nominal consideration if Newcrest does not spend US\$12m. SUM is managing the exploration program over the first 18 months. 2012 budget US\$4.3m. SUM is drilling out the newly discovered Ulukau vein system, which has rock chip results to 44 g/t Au and 3.7 g/t in stockwork veining and will evaluate two other priority areas. Veining suggests this is the upper level of an epithermal system, with potential for high grade gold/silver in veins or stockworks at deeper levels. Results expected 4Q12.

**Corporate:** Board member Mr Sjoekri an experienced Indonesian geologist provides permitting and government relations expertise. Newcrest is a ~ 6% shareholder. Macquarie bank have 31.25m options at \$0.16 from a US\$5m 1 year convertible debt facility. Provident Capital Partners (Indonesian group) made a \$3.8m capital injection and holds 8.4% of SUM, with option rights to increase to 29%, providing a likely source of additional funding and a move towards increased Indonesian participation in the project.

**Investment Comment:** SUM has optimized costs for Tembang production in 2013 via a low capex owner operator model, using leased equipment. The recent share price increase to ~A\$0.16/share (A\$39m Mcap - undiluted) reflects this and the support of a new strategic investor in Provident Capital. The EV/resource ratio of ~US\$40/oz is still modest for this pre-production project when compared to high grade peers such as Kingsrose and Medusa Mining.

**Valuation:** The Stage 2 PFS results confirm our near-term risk adjusted valuation of \$0.30/share (see adjacent table), taking account of a higher degree of cost certainty from the Stage 1 DFS and Stage 2 PFS. The valuation factors in equity financing (US\$30m, at \$0.10/share) and Stage 2 development with gas. The longer term post commissioning valuation rises to \$0.30-0.45/share.

Stage 1 debt financing is under negotiation. Successful capital raising through a combination of debt and equity is a key to unlocking value for the company, in the currently difficult capital markets, taking Tembang into production. Other share price catalysts include pending exploration results from Ulukau. (Tandai) and incremental optimisation of capital costs at Tembang.

## RESERVES AND RESOURCES/MINERALISED MATERIAL

Code for reporting mineral resources - Australian:		(JORC)						
Gold	Classification	Project	Ore	Au	Cutoff	Au	Ag	Eqty Au
Au		Equity	Mt	g/t	g/t	Koz	Koz	Koz
<b>Reserves (JORC)</b>						<b>0.0</b>	<b>0.0</b>	
Tembang	Proven	100%	2.4	2.5	^	190.0	2,991	190.0
	Probable	100%	<u>3.1</u>	<u>2.1</u>	^	<u>213.0</u>	<u>2,547</u>	<u>213.0</u>
	<b>Total</b>	<b>100%</b>	<b>5.5</b>	<b>2.3</b>	<b>^</b>	<b>403.0</b>	<b>5,539</b>	<b>403.0</b>
^ Economic cut-off for open pit reserves is 0.5 g/t Au, for underground reserves is 2.78 g/t Au at US\$1500 Au and \$30 Ag								
<b>Resources (JORC)</b>								
Tembang	Measured	100%	2.7	2.5	#	224.0	3,517	224.0
	Indicated	100%	16.0	1.0	#	522.0	6,741	522.0
	Inferred	100%	<u>3.8</u>	<u>1.9</u>	#	<u>229.0</u>	<u>2,536</u>	<u>229.0</u>
	<b>Total</b>	<b>100%</b>	<b>22.6</b>	<b>1.4</b>		<b>976.0</b>	<b>12,794</b>	<b>976.0</b>

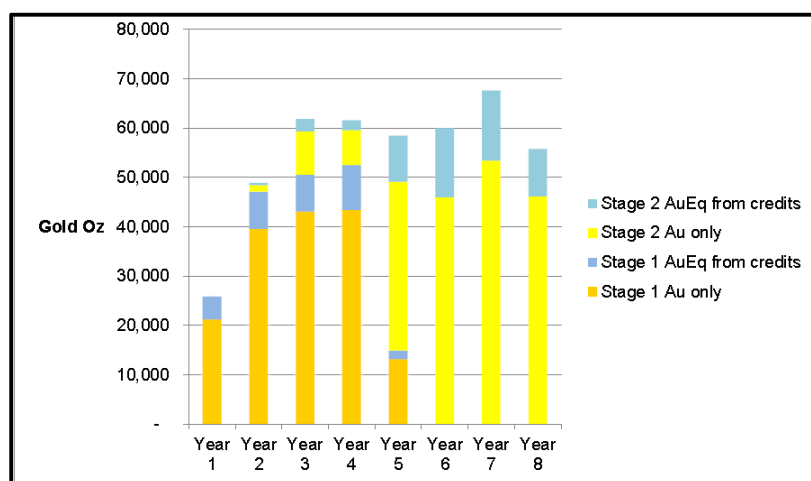
# (Measured, Indicated, inferred) u/g 2.78 g/t cutoff, o/c 0.5 g/t cutoff except sheeted veins (0.3 g/t) - the latter excluded from reserves

## TEMBANG KEY RESULTS SUMMARY – STAGE 1 DFS/STAGE 2 PFS

Source SUM September 24th ASX Announcement	Units	Stage 1 DFS	Stage 2 (incremental impacts)	Total Tembang Project after Stage 2
<b>Gold production</b>	<b>Oz</b>	146,000	249,000	<b>395,000</b>
<b>Silver production</b>	<b>Oz</b>	1,388,000	3,446,000	<b>4,834,000</b>
<b>Processing Rate</b>	<b>tpa</b>	400,000	500,000	<b>900,000</b>
<b>Mine Life</b>		5 years	3 years	<b>8 years</b>
<b>Pre-production capital</b>	<b>US\$ M</b>	\$38.50	\$1.50	<b>\$40.0</b>
<b>Total Capital</b>	<b>US\$ M</b>	\$68.0	\$37.5	<b>\$105.5</b>
<b>Revenue</b>	<b>US\$ M</b>	\$261	\$477	<b>\$738</b>
<b>Net Cashflow</b>	<b>US\$ M</b>	\$71	\$151	<b>\$222</b>
<b>Cash operating Cash Cost C1<sup>(1)</sup></b>	<b>US\$/ Oz</b>	\$487	<b>(\$56)</b>	<b>\$431</b>

Note 1) C1 Costs are as defined by Brook Hunt and are cash costs before tax and royalties and after silver credits using a silver price of US\$30 per ounce and a recovery of 82%.

## TEMBANG PRODUCTION PROFILE



Source SUM September 24th ASX Announcement

## SUMATRA COPPER AND GOLD LIMITED VALUATION

	Equity (%)	Reserve Val'n (US\$/oz AuEq)	NAV* (A\$m)	NAV Factor (%)	Adjusted Value (A\$m)	Adjusted Gold Price Sensitivity* (A\$m)			
<b>Assumptions</b>									
LT Realised Gold Price : US\$/oz			1500		1500	1100	1300	1600	1800
LT Exchange Rate: AUUS			1.00		1.00	1.00	1.00	1.00	1.00
<b>Projects</b>									
		Reserve 146koz Au, 1.4 moz Ag, 174koz AuEq							
Tembang project - Stage 1 : NPV @ 5%	100%	475	118	0.7	83	48	65	91	109
<b>Resources and Exploration</b>									
		Reserve 249koz Au, 3.5 moz Ag, 318koz AuEq							
Tembang - Stage 2 : NPV @ 5%	100%	138	88	0.5	44	5	25	54	74
Tandai plus other exploration			10		10	5	7	10	14
<b>Sub-total Tembang Stage 2 &amp; Exploration</b>			98		54	10	32	64	88
<b>Assets</b>									
+ Cash			7.9		7.9	7.9	7.9	7.9	7.9
+ Tax losses			1		1	1	1	1	1
<b>Liabilities</b>									
- Debt -Macquarie 5m convertible debt facility drawn/converted to options									
- Corporate			4		4	4	4	4	4
<b>SUM Net Assets</b>									
			221		141	62	101	160	201
Fully Diluted Shares (m)			318.0		318.0	318.0	318.0	318.0	318.0
Cash on Option Conversion			14.5		14.5	14.5	14.5	14.5	14.5
<b>SUM Net Asset Value per share : A\$/share</b>									
			1.01		0.65	0.29	0.46	0.73	0.92
<b>SUM Net Asset Value Diluted : A\$/share dil</b>									
			0.69		0.44	0.20	0.32	0.50	0.63
<b>Sensitivity of Net Asset Value to Equity Raising Price:</b>									
SUM Net Asset Value (assuming A\$30m capex raised through share issue at A\$0.15)					0.36	0.21	0.28	0.39	0.47
SUM Net Asset Value (assuming A\$30m capex raised through share issue at A\$0.12)					0.33	0.19	0.26	0.36	0.43
SUM Net Asset Value (assuming A\$30m capex raised through share issue at A\$0.10)					0.30	0.17	0.24	0.33	0.40

\* NPV Gold price sensitivities indicated and assumed from D13

### TEMBANG GOLD PROJECT KEY ASSUMPTIONS (derived from Stage 1 DFS/Stage 2PFS (SUM) - Sept 2012)

RESERVE ESTIMATES					
	Gold Reserve	Tonnes	Grade	Gold eq (50 Ag = 1 Au)	
		Mt	g/t AuEq	Cutoff Au g/t	AuEq oz
Stage 1	Reserve*	2.44	2.9	0.5 op/2.78 u/g	173,760
Stage 2	Reserve*	3.10	2.9	0.5	317,920
Stage 2 Inferred resource in LOM plan (but not in reserves)*		0.66	2.8		59,781
*Sept 2012 PFS & DFS	<b>Total Stage 1 &amp; 2</b>	<b>6.1</b>	<b>2.9</b>		<b>551,461</b>
<b>MINING METHOD</b> OPEN PITS and UNDERGROUND					
<b>PROCESS METHOD</b> CENTRALISED GOLD PLANT - CIL. Optimised from the previous site plant, with enhanced Ag recoveries					
RESOURCE CONVERSION Stage 1 & 2	:%	73	(Indicated and measured to reserves)		
TONNAGE DILUTION	:%	10	Reserves include 10% dilution with barren wall rock and 95% ore recovery		
GRADE UPLIFT	:%	7	PSV sheeted veins are a low grade envelope around some veins - limiting dilution These are not included in reserves and act as "upside" recovery		
<b>BASE CASE ASSUMPTIONS</b>					
PRODUCTION RATE	:mtpa	0.4	Production from two pits. Additional pits /plant expansion to 0.9 mtpa in Stage 2		
AVERAGE HEAD GRADE	:gpt	na	~2.3 g/t Au and 30 g/t Ag in Stages 1 and 2		
RECOVERY - GOLD	:%	90	DFS: 90% plant recovery		
RECOVERY - SILVER	:%	80	DFS: 80% plant recovery Enhanced recovery with oxygen plant		
GOLD PLANT CAPACITY	:mtpa	0.4	Production rate based on DFS Sept 2012. Stage 2 est 0.9 mtpa total		
GOLD PRODUCTION	:koz	40-45 AuEq	Annual Au equivalent (1:50 ratio value with Ag) annual production, year 1 ramp up		
PRE-PRODUCTION CAPITAL	:US\$m	38.50	Pre-production stage 1 capital cost		
TOTAL STAGE 1 CAPITAL COSTS	:US\$m	68	Stage 1 capital including central processing plant		
TOTAL STAGE 2 CAPITAL COSTS	:US\$m	37.5	Processing plant, mining fleet, TSF		
TOTAL PROJECT CAPITAL COST	:US\$m	105.5	Stage 1 and 2 capital costs		
OPERATING COSTS:	C1	:US\$/oz	431	Direct site operating costs with silver credit at US\$30/oz..	
Total production costs	C3	:US\$/oz	766	After silver credit, royalty, depreciation, amortization, but before tax	
TAX	:%	30			
ROYALTY	:%	3.75% Au, 3.25% Ag			
MINE LIFE	:Years	8 Years	Stage 1 - 5 years, phased Stage 2 start (from 2015 to 2017)		
COMMISSION PROJECT	:	4Q13	Stage 1 assumes 12 month ramp-up. Stage 2 extends for 3 years beyond Stage 1		
Stage 1 DFS & Stage 2 PFS: Definitive Feasibility Study prepared by SUM staff and consultants. Hellman and Schofield reviewed the resource estimate The reserves makes up 90% of the contained LOM gold					

These figures are preliminary in nature and are intended to provide only a general indication of project scale and economic robustness. Considerable refinement may result from subsequent feasibility studies.

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