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Sumatra Copper & Gold Plc 05 Oct 11

Tembang gets better and better

The investment matrix for Sumatra Copper & Gold's Tembang gold and silver project in Indonesia continues to improve as the project moves toward production in 2013. Exploration continues to deliver better gold and silver grades, while important metallurgical testing improves the recovery rate for gold and silver.

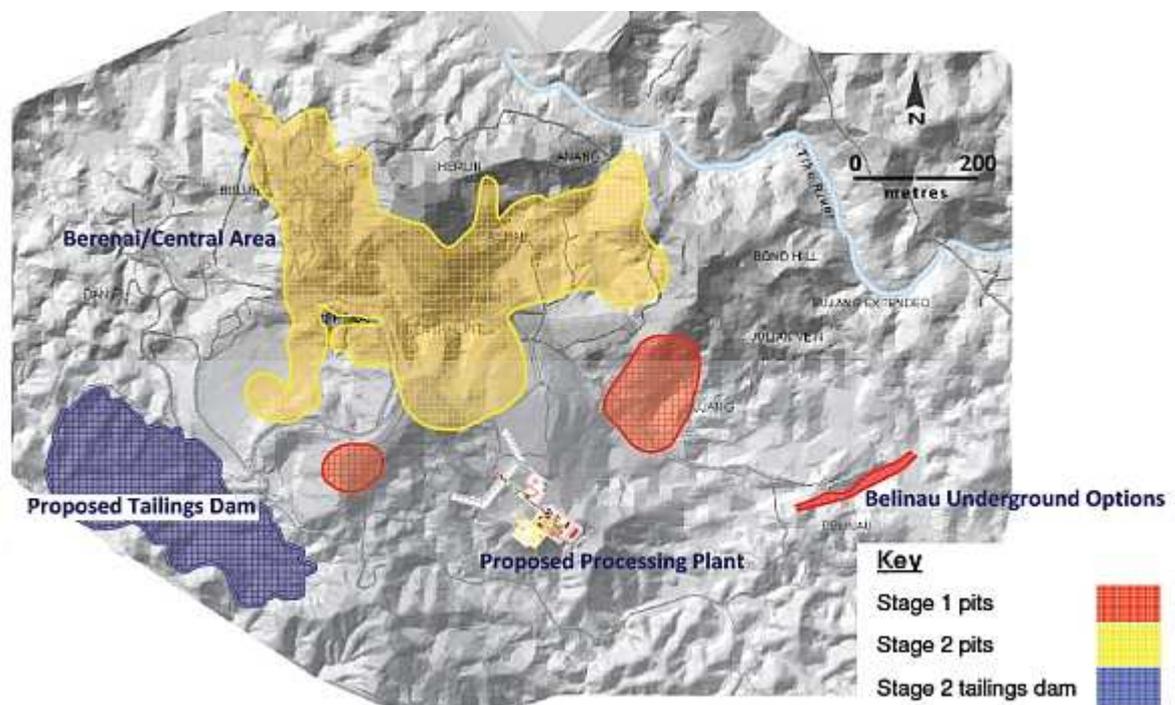
The major aim of exploration activities at Tembang was to complete further in-fill drilling to allow the release of an upgraded mineral resource estimate for the project. The following table shows the joint ore reserve code mineral resource estimate for Tembang (Au is the symbol for gold and Ag silver).

		Ktonnes	Au g/t	Ag g/t	Au koz	Ag koz
BELINGAU VEIN	Measured	149	7.22	75.5	35	361
	Indicated	266	8.02	67.9	69	580
	Inferred	72	10.50	81.4	24	188
	Sub-Total	487	8.14	72.2	127	1,130
OTHER VEINS	Measured	2,598	2.27	37.8	190	3,156
	Indicated	4,423	1.80	25.6	256	3,637
	Inferred	3,554	1.80	20.3	202	2,319
	Sub-Total	10,575	1.91	26.8	648	9,112
PSV	Measured					
	Indicated	11,323	0.54	6.9	198	2,523
	Inferred	194	0.50	4.6	3	29
	Sub-Total	11,517	0.54	6.9	201	2,552
Combined Total Resource Open Pit + Underground						
ALL	Measured	2,747	2.54	39.9	224	3,517
	Indicated	16,012	1.02	13.1	522	6,741
	Inferred	3,820	1.90	20.7	229	2,536
	Total	22,579	1.35	17.6	976	12,794

The Tembang project has a total resource of 22.6 million tonnes of ore showing 1.35 grams per tonne gold (g/t) and 17.6g/t silver for contained gold of 976,000 ounces and silver 12.8 million ounces.

The in-fill drill programme of some 5,618 metres generated the above upgraded mineral resource estimate that will now form the resource platform for the DFS.

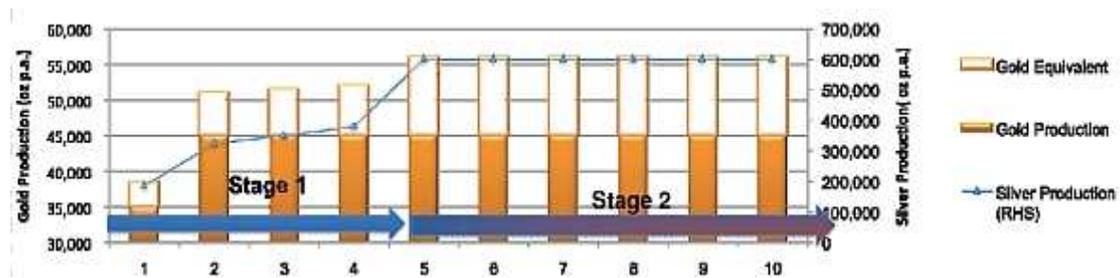
To take advantage of the current understanding of the Berenai deposit, scoping studies indicated a two stage development of the deposit combining an initial open cut pit and also an underground mine. The following figure shows a schematic of the proposed Tembang mine.



Stage 1 involves extracting ore from the high grade pits at Belinau, South Aidit and Bujang, where grade ranges to a high of 7g/t gold and 64g/t silver. The capital cost for stage 1 is estimated at US\$30 million and will process between 200,000 and 400,000 tonnes of ore per annum. Gold production would range between 40,000 and 45,000 ounces per annum and silver 350,000 to 400,000 ounces per annum. Stage 1 will have a life of four years.

Production costs are estimated to be in the region of US\$800 per ounce. **With gold trading at some US\$1,600 an ounce at the time of writing, stage 1 will generate a significant operating margin.**

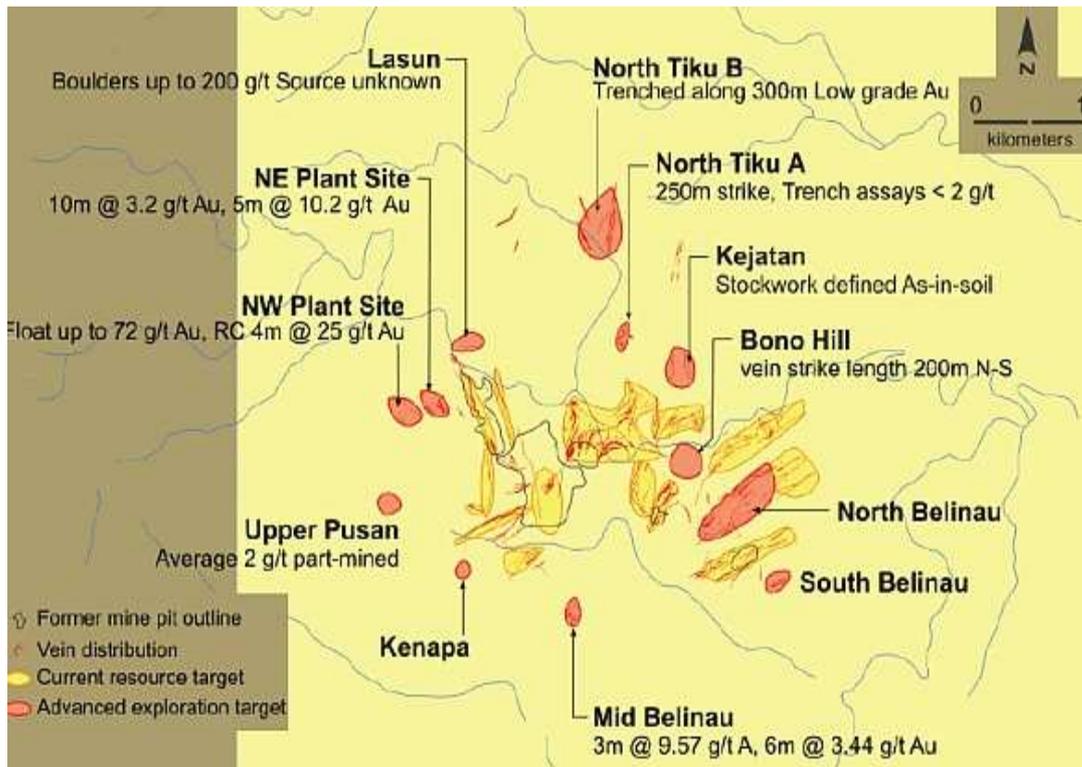
Following-on from stage 1 will be stage 2 which will involve a higher production rate of 750,000 tonnes per annum. Production of gold will be in the range 40,000 to 45,000 ounces per annum and silver 650,000 to 800,000 ounces per annum. Extraction of lower grade ore from Berenai, Aidit, Asmar, Central and Nuri accounts for stable gold production given the rise in ore processing. The following chart shows forecast production at Tembang.



Production of silver will rise to between 650,000 to 800,000 ounces per annum. Higher ore through the plant and better grades account for the improvement.

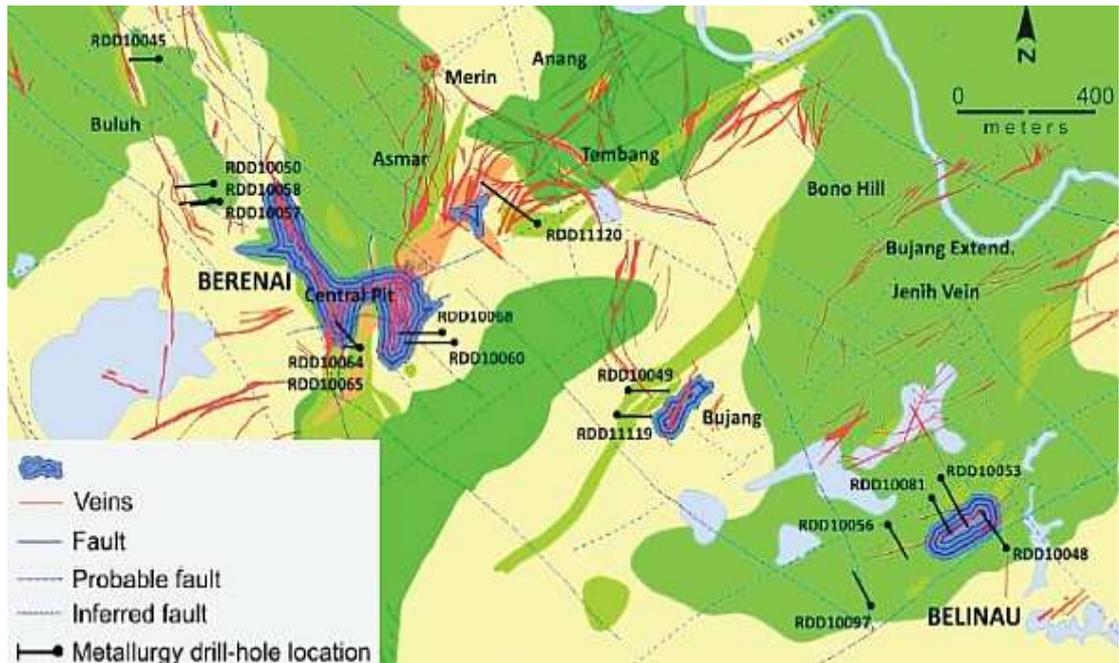
Higher ore extraction and plant through-put is expected to lower stage 2 total production costs to US\$700 per ounce. Operating margins similar to stage 1 could be significant. Stage 2 will add a further six years to the mine life of Tembang.

Exploration efforts have been focussed on the Berenai prospect and near mine (proposed) targets. The following figure is a schematic of the Belinau prospect and its surrounds.



We consider the prospective nature of the Tembang tenement and indeed the region will likely see the company discover further gold and silver deposits. We do remind Members however that exploration carries with it a significant risk as outcomes may not match expectations.

Important metallurgical testing of the Tembang gold and silver ore has determined that aggressive heap leaching tactics will generate a marked improvement in the grade of silver recovered and to a lesser extent gold. Recovery of silver improved from a rate of 68% to 82% under the revised processing regime. The following figure shows the location of drill holes where core sampling was taken for metallurgical testing.



The recovery of gold also improved from 84% to 91%. The heightened recovery rates for both gold and silver will have a major positive impact on the economic value of the Tembang project. To ensure reliable outcomes, the ore samples used in the testing were drawn from a broader representation of the Tembang gold and silver ore.

The metallurgical results suggest the Tembang ores exhibit the best range of gold and silver extraction when treated by gravity pre-concentration and cyanidation of gravity tails. The company anticipates the increased processing costs will be fully recovered by the additional revenue generated from the higher gold and silver content.

The current metallurgical testing will form the basis for the findings of the pending definitive feasibility study (DFS). The study is scheduled to get underway on Tembang in the December 2011 Quarter.

The company recently placed 24 million chess deposit interests (CDI) at a price of A16 cents per CDI. The issue raised A\$3.8 million. The company also receiving an undertaking for a further A\$1 million in funds through the issue of an additional 6.3 million CDIs at A16 cents each.

We suggest Members vote in favour of the additional CDI placement when Management seek its approval at a meeting of shareholders to be held on 20

October 2011. Details regarding this meeting were forwarded to shareholders on 19 September 2011.

Total funds raised of approximately A\$4.8 million will be used to progress the DFS on Tembang and fund other pre DFS activities. Included in these pre DFS activities are ongoing metallurgical testing and further resource definition and exploration drilling.



The bearish moving average cross in place since June is suggestive of momentum and trend to both favour the downside. The recent break of structural support at 19 cents is indicative of lower levels at hand. We would expect the downside to be limited to the 10 cent region should weakness continue to play out in the near term.



With reference to the weekly chart, the MACD continues to hover below the zero line, suggesting a firm downtrend in place. Volume is drying up, which signals an exhaustion of the recent decline. This is seen as positive, should a basing formation unfold over the coming months.

We maintain our view that there is more good news to come out of Sumatra Copper & Gold, with future upgrades to its Tembang resource. With Newcrest now carrying the costs at Tandai and the company well positioned for further exploration, we continue to recommend Sumatra Copper & Gold as a buy for Members who do not already have exposure to the stock.