



## Sumatra SPECULATIVE BUY

Current Price: **\$0.39**

Ticker: **SUM**  
Sector: **Materials**

Shares on Issue (m): **126.2**  
Market Cap (\$m): **49.2**  
Cash (\$m): **3.9**  
Enterprise Value (\$m): **45.3**

52 wk High/Low: **\$0.38 \$0.16**  
12m Av Daily Vol (m): **0.25**

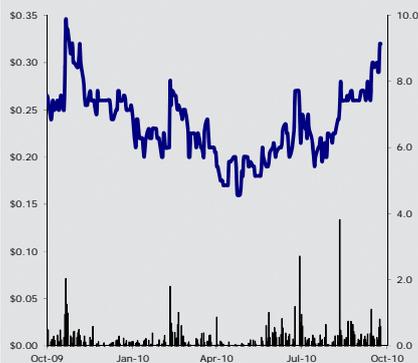
### Substantial shareholders

Macquarie Bank	9.3%
Gold 2000	8.2%
Newcrest	7.1%
Evolution	5.4%

### Directors

Warwick Morris	Non-Executive Chairman
Jocelyn Waller	Managing Director
Lord Daresbury	Non-Executive Director
Dr Michael Price	Non-Executive Director

### Share Price Graph



Analysts:  
Troy Irvin  
Tim Serjeant

29 October 2010

## Enter the epithermal connoisseur

### September Q Report:

In the September Q Sumatra (SUM) signed Definitive Agreements with Newcrest (NCM) involving an equity investment in SUM, a 70% earn-in on the Tandai project and an option to acquire a 25% interest in the Tembang project (formerly Rawas).

US\$2m of the proceeds have been allocated to a follow-up 10,000m drill program at Tembang (>2,500m completed). Recent intersections at Belinau include 2.0m @ 41.2 g/t Au and 41 g/t Ag from 226m, and 4.1m @ 15.5 g/t Au and 261 g/t Ag from 159m.

A man portable drill rig has been mobilised at the Sontang East manto discovery which returned channel samples of 20.2m @ 2.59 g/t Au, 56.9 g/t Ag, 0.16% Pb and 8.4% Zn.

### Impact:

Positive

The Definitive Agreements involve NCM:

1. Subscribing for an initial 7.1% stake in SUM for \$2.5m comprising 10m shares at A\$0.25ps and 10m attaching options, each exercisable to acquire one share for A\$0.38 over an 18 month period.
2. Earning a 70% interest in SUM's Tandai Project by spending US\$12m over 5 years, with a minimum commitment of US\$1.75m over the first 18 months.
3. Providing a down-payment of US\$0.5m for an option to acquire a 25% interest in SUM's Tembang Project for US\$10m, exercisable at any time until 31 March 2011.

An updated Tembang resource will follow completion of the current drilling program. Ongoing high grade drill results point to grade upside to the Resource estimate of 53.7 Mt at 1.0g/t Au and 11g/t Ag for 1.64Moz of gold and 19.8Moz of silver.

### View:

Positive

The appearance of NCM endorses the potential of SUM's assets. NCM plans to grow by acquisition and exploration in the Asia-Pacific region and Africa, and is a connoisseur of high grade Indonesian epithermal deposits. NCM successfully mined >2Moz from three ore bodies (Gosowong, Toguraci and Kencana) on Halmahera Island since 1999.

### Recommendation:

Spec Buy

SUM offers relative value, trading at an EV of US\$20/oz v an Indonesian peer average of US\$93/oz. The key to a re-rating will be the translation of higher grade drill results into an increased resource grade.

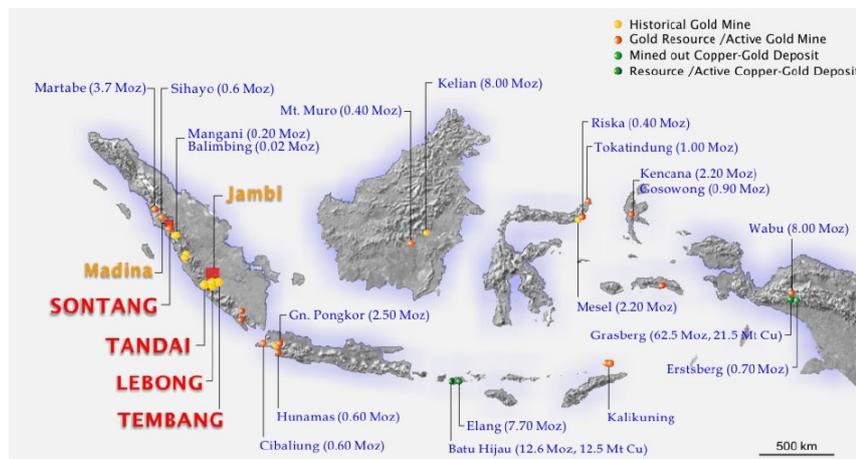
### Important Disclosures

Argonaut acts as Corporate Advisor to SUM. Argonaut also acted as manager and broker to SUM IPO in October 2009. Argonaut receives fees commensurate with these services provided to SUM.



SUM signed Definitive Agreements with NCM...

Figure 1: Project location map

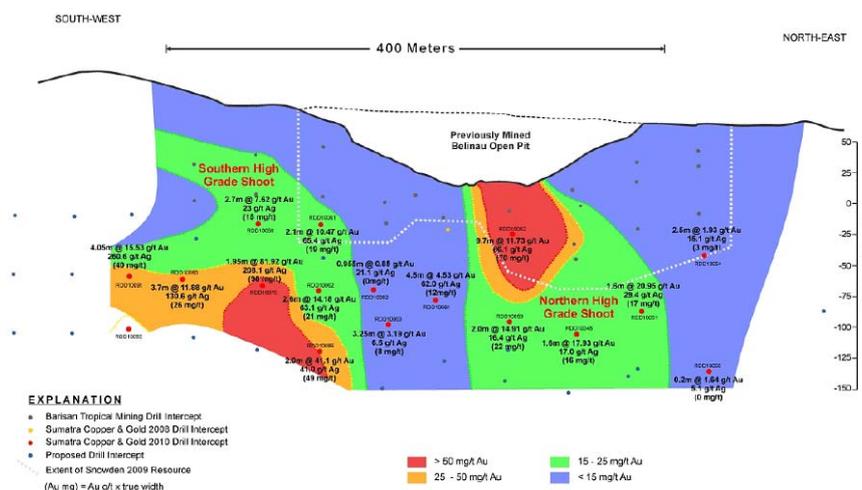


...involving an equity investment, a 70% earn-in on Tandai and an option to acquire 25% of Tembang

Source: SUM

A follow-up 10,000m drill program is underway at Tembang...

Figure 2: Belinau long section showing drill pierce points and grade thickness

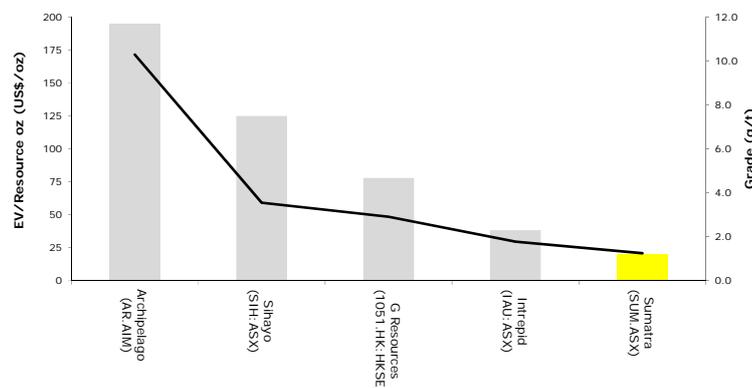


...with an updated resource to follow

Source: SUM

SUM is trading at an EV of US\$20/oz v an Indonesian peer average of US\$93/oz

Figure 3: Indonesian peers (developers and explorers) - EV / Resource oz, and grade



The key to a re-rating will be the translation of higher grade drill results into an increased resource grade

Source: Argonaut

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