



Sumatra SPECULATIVE BUY

Current Price: **\$0.225**

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

Shares on Issue (m): **127.5**

Market Cap (\$m): **28.7**

Cash (\$m): **7.0**

Enterprise Value (\$m): **21.7**

Substantial shareholders

Macquarie Bank 10.0%
Citicorp Nominees 7.8%
Alan Robert Flint 5.4%

Directors

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

Analyst:
Troy Irvin

26 October 2009

Oh we're from Tigerland...

Sumatra Copper and Gold (SUM) is focused on three historic gold silver projects (Tembang, Tandai and Lebong) and a recent polymetallic discovery (Sontang) on the island of Sumatra, Indonesia.

SUM has an initial economic interest of 92.5%. Total attributable JORC resources are 2Moz gold and 22Moz silver, or 2.4Moz Au equivalent at spot gold and silver prices:

	Mt	g/t Au	g/t Ag	Moz Au	Moz Ag
Tembang	49.7	1.0	11.5	1.5	18.3
Lebong - Donok	8.9	1.1	6.0	0.3	1.7
Lebong - Tambang Sawah	3.2	1.6	22.1	0.2	2.3
TOTAL	61.7	1.0	11.2	2.0	22.3

The Company has raised \$12m at 20cps in the largest resources IPO to date on the ASX this year. After allocating \$3.9m to retire a Macquarie facility news flow is expected to be strong on the back of a \$5.9m two-year exploration budget. An Independent Expert Report rates the exploration potential at 7.2-13.0Moz gold and 104-192Moz silver.

SUM is hunting large copper-silver, and copper-gold deposits armed with the following:

- Pipeline of projects from grass-roots exploration to advanced exploration
- \$7m cash
- Resources of 2Moz Au and 22Moz Ag
- Undemanding EV/resource oz of \$9/oz (Au eq)

Risks include the new Indonesian mining laws, community and government relations, and seismic risk. However SUM offers experienced management with a track record in challenging locations including Russia, West Africa and Indonesia.

SPECULATIVE BUY

Important Disclosures

Argonaut is acting as corporate advisor and broker to the issue of shares in SUM and will receive fees commensurate with this service.

Overview

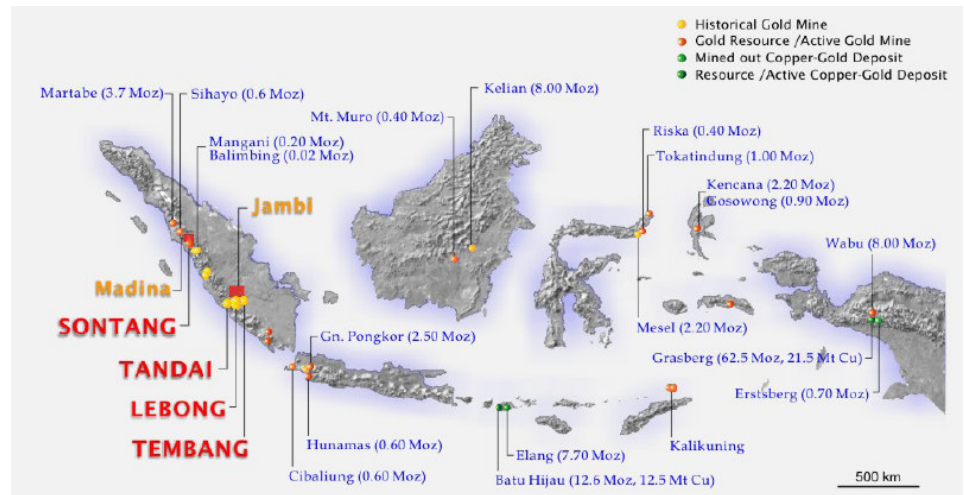
Established porphyry copper and epithermal gold-silver province

Focused on an established porphyry copper and epithermal gold-silver province

SUM has an initial economic interest of 92.5% in a total tenement area of 6,050km² on the island of Sumatra, Indonesia.

The Indonesian volcanic arcs offer significant geological potential for porphyry copper and epithermal gold-silver deposits, such as the world class Grasberg and Batu Hijau deposits.

Figure 1: Regional endowment



All figures are sourced from SUM unless otherwise stated

Projects include three historic gold silver projects and a recent polymetallic discovery

SUM is focused on three historic gold silver projects in Central Sumatra (Tembang, Tandai and Lebong) and a recent polymetallic discovery with no prior production history (Sontang) in North Sumatra.

Figure 2: SUM projects



JORC resources

Total attributable JORC resources are 2.4Moz Au eq

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Table 1: Attributable JORC resources

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Non-JORC exploration targets

The Independent Expert Report rates the exploration potential at up to 13Moz Au

In the Independent Expert Report (CSA Global, part of the August 2009 Prospectus) the four projects' exploration potential is summarised as below.

Table 2: Exploration targets – Tonnes and grade

Project	Mt	Au g/t	Ag g/t	Pb %	Zn %
Tembang	20 - 28	0.9 - 1.2	9 - 11	-	-
Lebong	35 - 45	3.0 - 4.0	20 - 25	-	-
Tandai	45 - 60	2.0 - 3.0	50 - 70	-	-
Sontang	2.0 - 2.8	2.0 - 4.0	90 - 130	0.5 - 1.0	4 - 6

Source: CSA Global

Table 3: Exploration targets – Contained metal

Project	Moz Au	Moz Ag	Pb kt (Au)	Zn kt
Tembang	0.6 - 1.1	8 - 10	-	-
Lebong	3.5 - 5.5	20 - 35	-	-
Tandai	3.0 - 6.0	70 - 135	-	-
Sontang	0.1 - 0.4	6 - 12	10 - 28	80 - 168

Source: CSA Global

According to CSA Global "the magnitude of the targets at Tandai and Lebong reflects the interplay of proximity to old mines, the high cut-off grades previously applied as the operations were underground, and the potential remaining in these large high-grade systems".

Projects

Tembang (formerly Rawas)

Tembang was previously mined from 1997 to 2000

Tembang is a large low-sulphidation epithermal deposit that produced 155koz by open pit mining from 1997 to 2000 (operated by Laverton Gold). The plant was shut down in March 2000, and the processing plant and associated infrastructure dismantled and removed.

JORC Resources are 53.7 Mt at 1.0g/t Au and 11g/t Ag for 1.64Moz of gold and 19.8Moz of silver. Approximately half the resource is higher grade vein mineralisation (1.9g/t Au), and half is lower grade halo mineralisation (0.7g/t Au). JORC Reserves are 10.3 Mt at 1.4g/t Au and 21g/t Ag for 467koz of gold and 7.2Moz of silver.

Snowden has undertaken a PFS based on JORC reserves of 467koz Au and 7.2Moz Ag

Independent consultant Snowden has undertaken a PFS showing potential for a milling rate of up to 2.5Mtpa, producing 139kozpa over an eight year mine life at cash costs of US\$559/oz. The study investigated the potential to upgrade the halo mineralisation by simple beneficiation – the prior operator only mined the main high grade veins.

Lebong

Lebong comprises two historic underground epithermal gold-silver mines

Lebong is located 60km from Tembang. To date, SUM has worked on two formerly Dutch operated underground epithermal gold-silver mines.

Donok produced 1.3Moz of gold and 7.4Moz of silver at a grade of 12.8g/t Au and 70 g/t Ag. Inferred JORC Resources are 9.6 Mt at 1.1g/t Au and 6g/t Ag for 334koz of gold and 1.8Moz of silver.

At Tambang Sawah (eight kilometres to the north of Donok) the geology is more complicated and less well-understood than Donok. Inferred JORC Resources are 3.4 Mt at 1.6g/t Au and 22g/t Ag for 175koz of gold and 2.4Moz of silver.

First objective is to identify open-pit reserves in the vicinity of the old mines

SUM's first objective is to identify and develop open-pit reserves in the vicinity of the old mines.

Figure 3: Donok headframe and mine buildings circa 1930s



Tandai

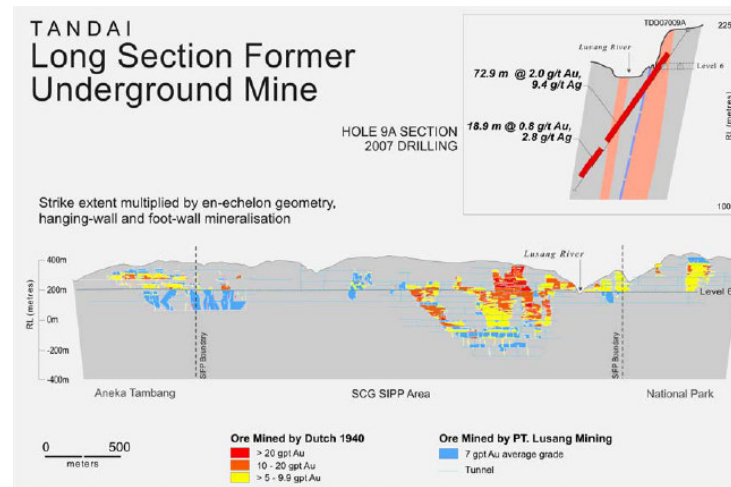
Historic underground mine

Historic Dutch underground production totals 1.4Moz Au and 15Moz Ag at a grade of 15.4 g/t Au and 167 g/t Ag. A further 150koz Au were produced by CSR/Billiton during 6 years of mining following the mine's reopening in 1986.

Attractive drill hits

Recent drill intercepts by SUM include 22.0m (true width) at 2.0 g/t Au adjacent to old Dutch stopes. Insufficient work has been completed to define a resource.

Figure 4: Long section of former underground mine



Like Lebong the objective is to identify open-pit reserves in the vicinity of the old mines

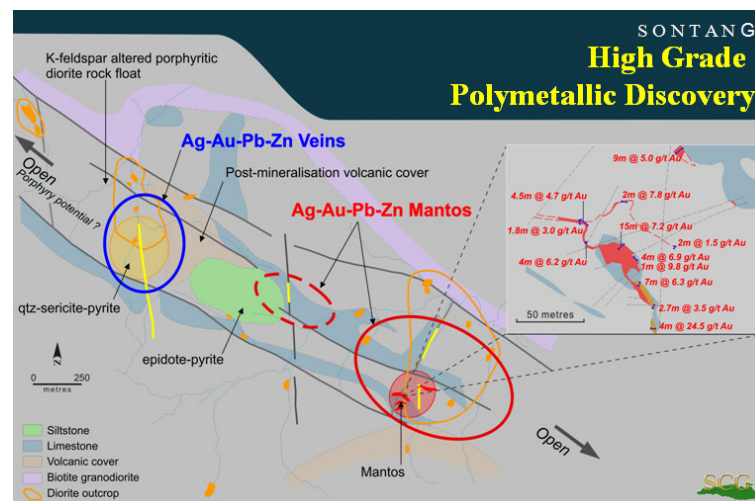
Like Lebong the objective is to identify open-pit reserves in the vicinity of the old mines. The Company controls 2.9km of 5km of prospective strike, and is in discussion with Aneka Tambang who control ground to the immediate west.

Sontang

New high-grade polymetallic manto discovery

SUM discovered this new high-grade polymetallic manto in ground previously explored by other companies. A manto is a strata bound deposit overlying a large granitic intrusion, in regions adjacent to porphyry copper deposits.

Figure 5: Sontang interpretive geology and exploration target



High grade rock chip and channel sample results

Rock sample results are characterised by high grades of up to 24.5ppm Au, 1000ppm Ag, 12.2% Pb and 30.8% Zn. The weighted-average metal contents for 54.8m of sawn rock-channel samples are 2.9g/t Au, 118g/t Ag, 0.6% Pb and 5.7% Zn.

People

Management offers a mix of finance, exploration and mining experience

Directors and management

- Warwick Morris (Non-Executive Chairman)
 - × Former Executive Director of Macquarie Bank
 - × Former manager of Minproc's mining division
 - × Co-founder of Macquarie Energy Capital business
- Jocelyn Waller (Managing Director)
 - × 22 year career with Anglo American in mining, exploration and metal sales
 - × Previously founded Avocet Mining plc and Trans Siberian Mining
- Alan Flint (Director of Exploration)
 - × Geologist with 30 years experience in Brazil, southern Europe and Indonesia with Rio Tinto and Newmont Mining
- Lord Daresbury (Non-Executive Director)
 - × Previously served as CEO and director of a number of publicly listed companies
 - × Former executive chairman of Highland Gold Mining and non-executive chairman of Kazakh Gold Group
- Dr Michael Price (Non-Executive Director)
 - × 30 years of mining and resource finance experience
 - × Worked with Rothschild, Societe Generale and Barclays Capital

>\$17m contributed in pre-IPO funding

Shareholders / management have contributed >\$17m in pre-IPO funding over three years.

Indonesian partner

The Indonesian partners are Mr Adi Sjoekri and two companies controlled by him

The remaining interest of 7.5% in the projects is held by the Indonesian partners, comprising Mr Adi Sjoekri and two companies controlled by him, Dwinad and NPM.

Mr Sjoekri is a western-educated professional geologist who previously worked with CSR/Billiton and then Newmont Mining Corporation in both Indonesia and the USA.

Use of funds

Successfully raised \$12m at 20cps...

SUM has raised \$12m at 20cps. Most of the funds will be allocated to exploration activities as shown below.

Table 4: Use of funds (\$m)

	Year 1	Year 2	Total
Exploration General	2.0	1.6	3.6
Exploration Drilling	1.2	1.1	2.3
Administration	0.5	0.4	0.9
Retire Macquarie Facilities	3.9	0.0	3.9
Expenses of Issue	1.2	0.0	1.2
General Working Capital	0.1	0.1	0.2
TOTAL	8.9	3.1	12.0

...with the bulk allocated to exploration and retiring a US\$3m Macquarie facility

Peer comparisons

Despite offering relatively advanced exploration status SUM's EV is the second lowest in a peer group of four

Argonaut has compared SUM with three other Indonesian-focused explorers listed on the ASX – Oropa (ORP), Robust (ROL) and Prosperity (PSP).

Table 5: Peer comparison – ASX listed Indonesian explorers

	Sumatra	Oropa	Robust	Prosperity
Code	SUM	ORP	ROL	PSP
Status	Advanced	Feasibility Study	Exploration	Exploration
Indonesian Location	Sumatra	Sumatra	Romang	Aceh
Gold resources (Moz)	2.0	1.0	-	-
Gold resources (g/t)	1.0	2.4	-	-
Silver resources (Moz)	22.3	-	-	-
Silver resources (g/t)	11.2	-	-	-
Gold eq resource (Moz)	2.4	-	-	-
Market Cap (\$m)	28.7	27.4	34.6	33.1
Cash Estimate (\$m)	7.0	6.5	4.0	4.3
Debt (\$m)	0.0	0.0	0.0	0.6
EV (\$m)	21.7	20.9	30.6	29.4
Managing Director	Jocelyn Waller	Tony Martin	Gary Lewis	Mo Munshi
EV/Resource oz (\$/oz)	9	21	-	-
12 month performance	-	183%	340%	357%

Source: Argonaut

SUM's EV is the second lowest, despite offering relatively advanced exploration status.

The Martabe sale shows the potential value captured by delivering a larger and higher grade resource

Upside is demonstrated by the April 2009 US\$218m sale of the Martabe project in Sumatra from Oz Minerals to G Resources.

Table 6: Martabe sale

Martabe	
Reserve:	
Tonnes (Mt)	35.7
Gold grade (g/t)	1.9
Silver grade (g/t)	25.9
Contained gold (Moz)	2.2
Contained silver (Moz)	29.7
Contained gold eq (Moz)	2.6
Resource:	
Tonnes (Mt)	138.1
Gold grade (g/t)	1.4
Silver grade (g/t)	14.3
Contained gold (Moz)	5.9
Contained silver (Moz)	61.5
Contained gold eq (Moz)	6.8
Sale to G Resources:	
Sale price (US\$m)	218
Sale price (A\$m)	261
Sale price (US\$/Reserve oz eq)	84
Sale price (US\$/Resource oz eq)	32

Source: Argonaut

At the bottom of the resources market Martabe commanded US\$32/oz. Although Martabe is a relatively advanced project this transaction demonstrates the value that can be captured by delivering a larger and higher grade resource.

Risks

New mining laws

In January 2009 the old systems of holding tenure were overturned...

Prior to the promulgation of the new Mining Law in January 2009 there were two ways of holding tenure in Indonesia:

- Contract of Work (CoW) system - Comprehensive agreements between the government and the mining company that set out the rights and obligations of both parties throughout the life cycle of the operation from exploration through to mine closure
- Licences or KPs - Could only be held by Indonesians, with contractual arrangements covered the securing of title for the foreign participant

SUM had rights to tenements both ways.

...in favour of a new mining law that should provide better tenure than before

In January 2009 the old systems were overturned in favour of a new mining law with a new form of license known as an IUP. Unlike a KP an IUP can have foreign shareholding up to 100% (initially). This should provide better tenure than before across the board.

Indonesia is unlikely to complete final regulations this year, creating uncertainty...

Unfortunately Indonesia is unlikely to complete final regulations this year, creating some uncertainty. For example, according to SUM's Prospectus "The New Mining Law contains a provision which states that 5 years after commercial production, foreign holders of interests in an Indonesian mining licence holding company are required to divest a percentage of their interest. Regulations setting out the percentage of required divestment have not yet been passed. However, current indications are that, commencing on the 5th year after commercial production, foreign interests must be reduced over a 4 year period so that the foreign interests in the relevant Indonesian mining licence holding company can be no greater than 80%. To date, such regulation has not been issued and could specify a different percentage to be divested and/or a different time period for completion of the divestment process".

...that has prompted some companies to shelve their investment plans

Low metal prices and uncertainty over the new mining law have prompted some companies to shelve their Indonesian investment plans. BHP Billiton scrapped a study to develop a nickel project in eastern Indonesia and also decided not to proceed with a coal mine in Central Kalimantan. Chinese firm Tsingshan put a US\$500m nickel project in North Maluku on ice.

SUM already has its first IUP issued (covering Sontang) and processing is well advanced in all other project areas

Although final 'implementing' regulations are not yet issued Argonaut notes that SUM already has its first IUP issued (covering Sontang) and IUP processing is well advanced in all other project areas.

Community and government relations

'Soft' skills are critical when operating in Indonesia

Argonaut considers 'soft' skills critical when operating in Indonesia.

To successfully operate, SUM will need to address typical community concerns including:

- Environmental issues
- Land issues
- Local employment
- Local business opportunities

SUM will also need to maintain good relationships with the various government agencies at Provincial, Regent, District and Village levels.

Lebong legal dispute

Some tenements are subject to an ongoing legal dispute

Some tenements at Lebong are subject to an ongoing legal dispute involving an overlapping license.

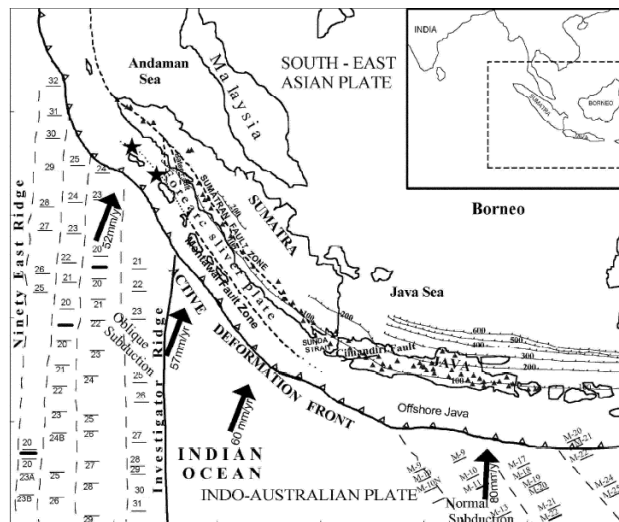
Although SUM and its Indonesian lawyers believe that the competing exploitation KP licence in dispute was not validly issued, the process of resolving this matter may take considerable time and cost and may ultimately need to be decided by the Indonesian Supreme Court.

Seismic risk

Sumatra is located in a highly seismic part of the world

The recent Sumatran earthquakes reminded investors that Sumatra is located in a highly seismic part of the world. Tectonic features include the subduction zone and associated Sunda Arc off the west coast of the island, and the large Sumatran Fault System, which runs the entire length of the island and hosts the main mineral deposits.

Figure 6: Regional tectonic map



Source: Current Science, Vol. 90, No. 5, 10 March 2006

Sound engineering can make operations more resilient to minor seismic events

SUM has no control over seismic activity although in production scenarios Companies can employ sound engineering (e.g. pit slope design, tailings dam design) to make operations more resilient to minor seismic events.

A fighting fury we're from Tigerland

Well armed to discover large copper-silver, and copper-gold deposits

SUM is hunting large copper-silver, and copper-gold deposits armed with the following:

- Pipeline of projects from grass-roots exploration to advanced exploration
- \$7m cash
- Resources of 2Moz Au and 22Moz Ag
- Undemanding EV/resource oz of \$9/oz (Au eq)
- Experienced management with a track record in challenging geopolitical locations

SPECULATIVE BUY

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