

## Sihayo Gold Limited SIH

## Resource Upgrade

### Significant improvement in grades enhance project economics

Share Price	\$0.12	52%	discount to BGF valuation
Valuation	\$0.25		
12 Month Hi - Lo	\$0.02 - \$0.14		
Market Cap'n	\$61.6m		
Issued Capital	513.1 mill. ord.		
Options	43.9 mill. (mostly \$0.05 ex. price)		
Cash balance	\$1.1m		
Debt	Nil		
Major S'holders	Summit Investments Pty Limited	13.3%	
	IndoAust Mining Limited	9.1%	
	Mr C S Yaw	9.0%	



#### Recommendation: SPECULATIVE BUY

**Investment Perspective:** With today's release of an upgraded resource at the Sihayo-Pungkut project in Indonesia, SIH can now lay claim to having some of the best grades among ASX emerging gold producers with open pitable projects. While not representing the largest resource among its peers, from an economic standpoint, the improved grades now make the Sihayo-Pungkut project far more robust. A high conversion rate from inferred to indicated resources also provides further confidence in the geological model.

Not only do the new resource figures give the current DFS a boost, but we can also look forward to strong news flow over the coming weeks and months as SIH re-starts exploration drilling. The Company plans to focus initially on the evaluation of additional gold mineralisation proximal to the existing Sihayo resource. The deposit remains open in most directions, so we are buoyed by the prospect of further additions to the overall resource base. Additionally, regional programs targeting high grade epithermal prospects provide further opportunity.

We have upgraded our price target to \$0.25 per share following the resource upgrade. While this is based on a conceptual DCF valuation, any delivery risk associated with the DFS and eventual mine development can be offset by the prospects of exploration success at the Company's large number of regional exploration targets.

On a comparative basis, SIH remains attractively priced by the market with an EV/oz figure of approximately \$81/oz. Compared to the likes of similar sized peers such as Gryphon Minerals at \$129/oz and Ampella Mining at \$197/oz, we can see that there is much scope for this figure to improve as this stock is re-rated on the back of continued de-risking through feasibility studies, and high quality exploration prospects.

#### Resource Upgrade - Sihayo Gold Project (75%)

SIH today announced an upgrade to resources at the Sihayo Gold project, located in Northern Sumatra, Indonesia (see Table 1). The revised estimate (JORC compliant) was undertaken by independent consultants Runge Limited, and represents a conversion of over 90% of the previous inferred resource to the higher confidence indicated category. As part of this upgrade, SIH also reported that grades at the main Sihayo deposit, have increased by 25% to 3.0 gpt.

Deposit	Category	Mill. tonnes	gpt	Oz
Sihayo 1.2 gpt cut off grade	Indicated	8.5	3.0	828,000
	Inferred	1.1	2.3	82,000
Sambung 1.5 gpt cut off grade	Inferred	1.1	2.6	100,000
<b>Total</b>		<b>10.7</b>	<b>2.9</b>	<b>1,010,000</b>

Table 1: Revised Sihayo Project Resource Estimate  
(Source: SIH Company Report, 14.7.2010)

The upgrade of the resource follows an extensive in-fill drilling program which formed part of the on-going definitive feasibility study at the Sihayo Pungkut project. The new resource estimate, while not larger in overall contained ounces, is significant in that improves both the confidence in the resource and the economics of a possible mining operation.

Following the completion of the DFS drilling programs SIH plans to recommence exploration drilling, targeting strike extensions of the Sihayo deposit, where previous drilling outside the known resource has returned good results. The existing resource at Sihayo remains open to the south, east and north.

## Valuation Metrics

### Earnings-Based Methodology

We have adjusted our conceptual DCF valuation of the Sihayo Gold project following the improvement in the resource grade and high conversion of inferred resources to indicated. As a result, we have upgraded our price target to **\$0.25 per share**, incorporating the increasing likelihood of a positive outcome to the DFS, and the potential for exploration success at the Company's extensive suite of regional targets.

The current DFS will firm up the project's operating and financial parameters, but in the absence of such detail, our production and cashflow estimates for a mining operation at Sihayo have been made using an increased life of mine average grade. Capex, opex, and operating parameters have been based on the 2008 scoping study results, while earnings estimates are based on ungeared cashflows. We have assumed a 85% conversion of the now indicated resource to reserves.

### Sihayo Gold Project - DCF Parameters

- 75% Project Equity
- 7.5% discount rate
- Capex of US\$75m
- Throughput of 1 Mtpa in a conventional CIL plant
- Mine life of 8 years
- Avg. life of mine grade of 2.9 gpt and average cash costs of US\$491/oz
- Expected recoveries of 80%
- US\$1,200/oz gold price & AUD:USD \$0.85

### NAV Summary (A\$)

Sihayo Project NPV (SIH equity)	\$125.12 million
Cash at bank	\$1.1 million
<b>Total net asset value</b>	<b>\$127.62 million</b>
<b>Per share</b>	<b>\$0.25</b>

Source: Company data and BGF Equities estimates

## Sihayo Pungkut Gold Project, Indonesia (SIH 75%)

### Background

The Sihayo Gold Project is located on the west coast of Northern Sumatra, approximately 200 km NW of the provincial city of Padang. The project was acquired in 2004 when the then named Oropa Limited acquired a 75% interest in PT Sorikmas Mining, with the balance held by PT Aneka Tambang.



Figure 1: Project location map showing Sihayo CoW area (Source: SIH)

Covering 66,200 ha, the project area is situated within the 1,900 km long Trans-Sumatran Fault Zone ("TSFZ"), and lies 60 km south of G-Resources' 6 Moz Martabe development. The current 1.01 Moz resource, and a number of other epithermal and porphyry targets are held within a 7th Generation Contract of Work.

Gold resources are contained within two main deposits, namely Sihayo North and Sambung. Mineralisation at Sihayo North occurs as sub-horizontal zones of jasperoid silica in a limestone host formed at the contact with sedimentary cover rocks. The deposit is mostly overlain by

the Tertiary-age cover except for a section of the deposit that is exposed at the contact. Grades at Sihayo North range from 1 gpt to 5 gpt, while the SE section of the deposit has a higher grade tenor. The deposit remains open in most directions, while its location at the crest of a northwest trending ridge makes it amenable to a low strip open pit mining operation.

The Sambung deposit lies approximately 1.0 km to the SE of the main Sihayo 1 North resource. Gold is associated with jasperoid mineralisation as well as a higher grade primary zone consisting of steeply dipping jasperoid hydrothermal breccia.

### Definitive Feasibility Study

SIH is currently undertaking a Definitive Feasibility Study on the Sihayo Project, assessing the viability of a 60,000 to 70,000 oz pa operation. The study is being conducted internally with the use of third party consultants and is expected to be completed by the end of 2010. DFS work programs include:

- Metallurgical test-work
- Geotechnical studies
- AMDAL (environmental impact study)
- Community & Social Relations programs
- Hydroelectric power assessment

## Sihayo Gold project - Regional Exploration

There are a number of other highly prospective targets within SIH's CoW area which have the potential to add to the overall resource base at the Sihayo project. Regional exploration programs are expected to commence in Q3 2010.

### Northern Block

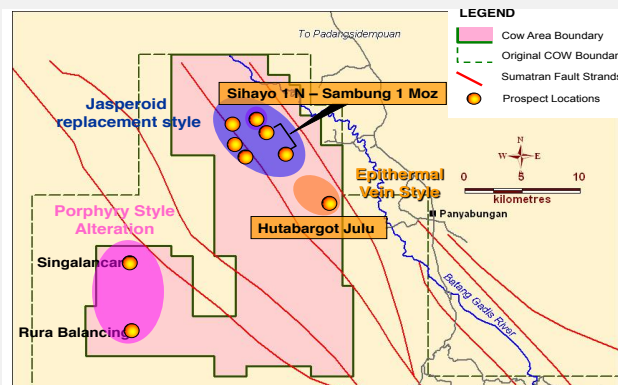


Figure 2: Northern Block location map showing epithermal & porphyry targets (Source: SIH)

- Sihayo 3, 4 & 5 form part of a 4 km mineralised trend to the west of the Sihayo North resource. Both Jasperoid mineralisation and sediment-hosted mesothermal quartz veins have been identified. Previous surface sampling at Sihayo 4 returned grades up to 16.5 gpt.
- Hutabargot Julu is situated 7 km along strike to the SE of the main Sihayo North-Sambung resource. SIH is targeting several large low sulphidation epithermal quartz veins which cover an interpreted strike length of over 3 km. Initial drilling by Oropa in 2008 returned 5m at 35 gpt Au and 198 gpt Ag from 47m, with follow up results including 6m at 2.66 gpt, and 5m at 2.12 gpt.
- Porphyry copper targets are located at Singalancar and Rura Balancing, where outcropping porphyry copper-gold-molybdenum mineralisation presents immediate drill targets. A mapping and sampling program is planned to further define drill targets once approval is received.

### Southern Block

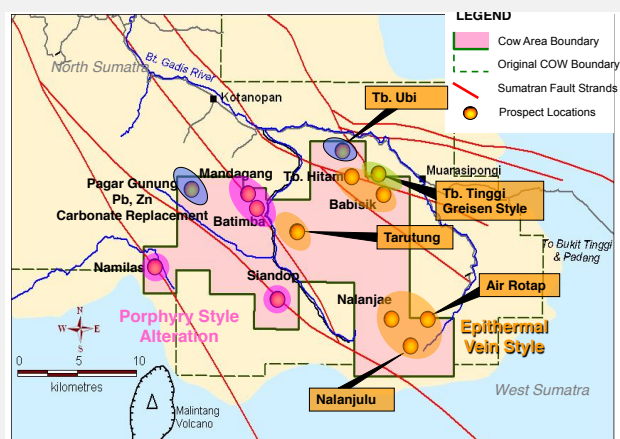


Figure 3: Southern Block map showing exploration targets (Source: SIH)

- *Tambang Ubi* is a garnet-epidote skarn deposit that was subject to small scale underground mining by the Dutch in the 1930's. Reported historical production totalled 100,000 tonnes with grades of up to 6 gpt Au and 0.24% Cu. Following the sampling and mapping of the historical drives in 2006, Oropa undertook a small drilling program, which returned 4m at 3.42 gpt Au and 0.48% Cu from 22m, and 1m @ 6.27 gpt Au and 0.47% Cu from 36m. These results have not been followed up to date with the deposit remaining open down plunge.
- *Tambang Tinggi* is a greisen prospect featuring altered fine grained granites and quartz veining. Previous scout drilling proximal to artisanal workings returned 112m at 1.52 gpt from surface. A large scale gold in soil anomaly also presents an attractive follow up target.
- *Tarutung* is located in the south block of SIH's CoW and is prospective for high grade epithermal vein mineralisation. Previous trenching has returned assays of 5m at 57 gpt Au and 312 gpt Ag, while sampling of outcrop has returned grades of up to 167 gpt Au and 384 gpt Ag, from within a 1.2 km long NW trending clay-pyrite alteration zone.

**Disclosure:** BGF Equities Pty Ltd has not been paid fees by Sihayo Gold Limited. Related parties of the author own shares in Sihayo Gold Limited.

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