

Syndicated Metals (SMD)

Open pit potential at Kalman

Upgraded Resource at Blue Star – Mt Remarkable expected

Recommendation

Speculative BUY

Price

13.5c

Indicative Valuation

25c

ASX / S&P Sector

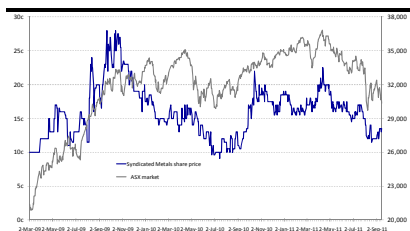
Metals & Mining

- In Nov. 2010, SMD reported a JORC Resource of 5.33Mt at 1.43% Cu, 0.14g/t Au, 2.5g/t Ag and Co
- SMD has since reported up 9m at 6.1% Cu and 8m at 1.8% Cu as part of extension to the resource at Barbara expected to be announced soon
- On 14 September, SMD announced significant intersections of near surface mineralisation as part of a plan for an open cut mine at Kalman
- Intersuisse does not include any value for Kalman
- Intersuisse expects to increase our valuation when SMD reports its upgraded resources at Mt Remarkable and its initial resource at Kalman.

Snapshot

Last Price \$0.135
 Market Cap. \$17.2 million
 Shares on Issue 104.25m FPO
 28.95m options,
 exercisable 20c to 55c
 52 Week High \$0.215
 52 Week Low \$0.105

Price Chart



SMD has 1,152km² under EL at Mt Remarkable, within which a JORC resource of over 76kt copper equivalent, SMD share, has been announced. There are many further mineralised occurrences and prospects in this area, around SMD's 80km of the Mt Remarkable fault.

Present drilling is expected to increase this resource, to over 100kt, and possibly up to 150kt.

SMD is now moving to 80% of a further 1,383km² south of Cloncurry, around 100km of the Pilgrim fault.

See : www.syndicatedmetals.com.au

Analyst: Pieter Bruinstroop :

Background

- SMD has tenements around 80km of the Mt Remarkable fault, north of Cloncurry, and 100km of the Pilgrim fault to the south

Mt Remarkable

- SMD's share of Resource at Barbara are 76kt Cu eq, from 5.33Mt at 1.43% Cu, 0.14g/t Au plus Ag and Co, for 1.64% Cu.eq
- The current drilling campaign is expected to increase this resource to over 100kt Cu eq., and possibly up to 150kt.
 - SMD expect to announce a resource upgrade soon
- Intersuisse has estimated that, based on 118kt Cu eq, the Barbara project has an NPV of \$125m, after tax, un-geared, assuming a 12% real discount rate, and first mining in mid 2014.
 - After taking into account financing, including equity raising, and including risk weighting, this indicates a per share value of 25c.

Kalman

- In September 2008, Cerro Resources (CJO.ASX) announced a total resource for Kalman and Kalman South of 384kt of copper equivalent (Cu eq.)
- SMD is drilling the shallow potential and has announced economic intercepts from its drilling.
 - Kalman is NOT included in Intersuisse's valuation

Recommendation

Intersuisse believes that SMD is cheap in the base case.

Intersuisse expects SMD to have at 450kt of Cu eq. in Resources soon, adding further upside to our valuation.

Intersuisse retains our Speculative BUY recommendation on SMD.

Kalman

On 14 September, SMD announced assay results from the first 5 holes it has drilled since assuming management of the Kalman project. Summary results for each of the holes are given in Figure 1.

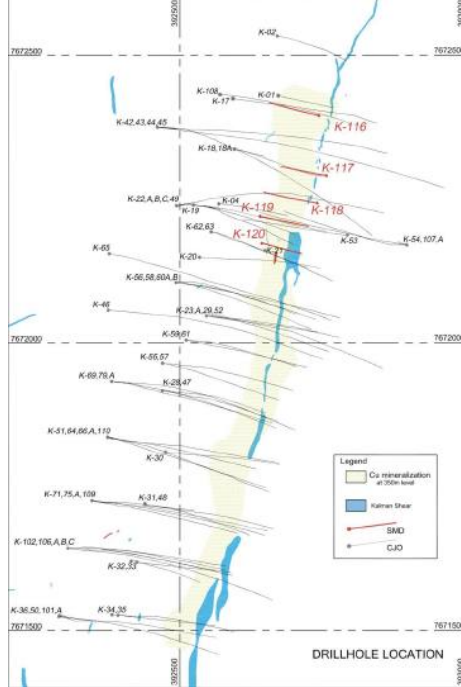
Figure 1 : Inferred Resource, Kalman

Hole	Intercept length	from (depth)	copper	gold	silver	molybdenum	rhenium	Cu eq	value (\$/t of ore)
K-116	20m	13m	0.82 %	0.59 g/t	0.9 g/t	11 ppm		1.20 %	\$ 102/t
K-117	2m	13m	0.77 %	0.07 g/t	0.2 g/t	95 ppm		0.99 %	\$ 74/t
K-118	13m	3m	0.52 %	0.21 g/t	0.6 g/t	30 ppm		0.69 %	\$ 58/t
K-119	8m	47m	0.88 %	0.63 g/t	0.3 g/t	28 ppm		1.26 %	\$ 109/t
K-120	2m	31m	0.11 %	0.02 g/t	0.7 g/t	2,784 ppm	5.8 g/t	1.44 %	\$ 121/t

Source : Syndicated Metals' ASX Announcement, 14 September 2011, Intersuisse

SMD has released the assays from the first 5 RC holes drilled by SMD at Kalman

Figure 2 : SMD's drilling at Kalman



Source : SMD's 14 Sept 2011 ASX announcement

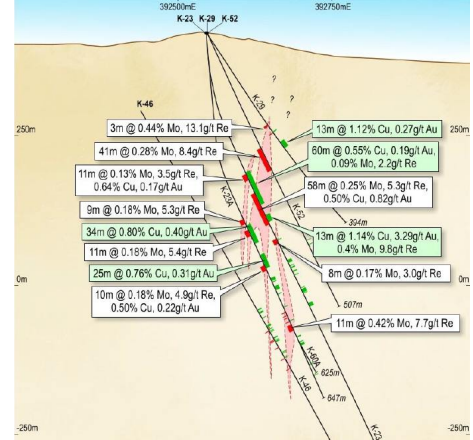
In contrast to earlier exploration, SMD has been testing for shallow mineralisation

SMD has started at the northern end and is drilling progressively to the south, along the structure, rather than targeting the potential high grade areas

Figure 2 shows the location of these 5 drill holes in plan.

Previous drilling, by Cerro Resources (CJO.ASX) targeted deeper mineralisation. Figure 3 shows that the previous drilling did not attempt to intersect the top 150m of mineralisation.

Figure 3 : Previous drilling



Source : .SMD, June 2011 presentation

Figure 2 shows that the drilling was started from the north of the area of suspected mineralisation and is progressively working south, rather than focussing on the areas that are likely to have the highest grades of mineralisation.

The assays reported suggest significant potential for an open pit operation

The grade suggest it will add significant value

Figure 1 gives an indicative value of the ore in the ground of about \$100/t. Figure 4 shows that the indicative cash costs to produce a saleable product is about \$40/t, though a further 10% - 15% needs to be added to this to allow for the fact that not all of the metal in the ore is able to be recovered in milling, to give a total indicative cost of \$44/t.

This value is assisted by the shallow intercepts, so very little allowance is needed for waste.

The undiscounted capital cost is about \$10/t, so, indicatively, a value of ore in the ground of about \$60/t suggests an economic deposit.

This suggests that Kalman will add significant value to SMD.

Figure 4 : Indicative costs

Indicative cash costs	
Mining	\$ 4/t
Milling	\$ 12/t
Admin	\$ 6/t
Transport	\$ 5/t
TC/RC	\$ 7/t
Royalty	\$ 5/t
Recovery allowance	\$ 5/t
TOTAL	\$ 44/t

Source : Intersuisse

Mt Remarkable

Intersuisse's indicative valuation of SMD, as explained in our research note of 30 March, assumes that SMD is successful in increasing its resources at Mt Remarkable. Figure 5 shows SMD's reported JORC resources, as at November 2010.

Figure 5 : SMD's November 2010 JORC Resources

	copper	gold	silver	cobalt	Cu	Au	Ag	Co	Cu eq.	
Indicated	3,778 kt	1.6 %	0.2 g/t	2.7 g/t	265 ppm	59.0 kt	18 koz	328 koz	1,000 t	67.4 kt
Inferred	1,552 kt	1.1 %	0.1 g/t	2.1 g/t	272 ppm	17.0 kt	6 koz	102 koz	421 t	20.2 kt
TOTAL	5,330 kt	1.43 %	0.14 g/t	2.5 g/t	267 ppm	76.0 kt	25 koz	430 koz	1,421 t	87.6 kt 1.64 %

Source : Syndicated Metals, 19 November 2010 ASX Announcement

Intersuisse expects SMD to advise an increase in resources at Mt Remarkable, soon

Note that SMD's equity share of these resources is about 4.3Mt, or 76kt of equity copper equivalent.

Figure 6 shows the increase in SMD's mineralisation assumed by Intersuisse in our indicative valuation.

Figure 6 : Increase in mineralisation assumed achieved by SMD

SMD Extra	SMD 62 %	copper	gold	silver	cobalt	Cu	Au	Ag	Co	Cu eq.
Indicated	801 kt	1.4 %	0.1 g/t	2.7 g/t	247 ppm					
Inferred	1,191 kt	1.0 %	0.1 g/t	1.9 g/t	265 ppm					
TOTAL	5,000 kt	1.1 %	0.1 g/t	2.1 g/t	272 ppm	54.8 kt	21 koz	330 koz	1,358 t	65.1 kt

Source : Intersuisse

SMD has stated that they expect to at increase their resources to at least 100kt of contained copper equivalent, and possibly up to 150kt, while the increase assumed by Intersuisse in our valuation is to a total of 117kt of equity copper equivalent.

On 11 May, SMD reported drill intercepts, as reported in our note of 13 May, suggesting that grades will be at least as high as, and likely higher than, that assumed in our analysis, as indicated by

Intersuisse's base case valuation of SMD is 25c a share, risk weighted, based on an expected development at Mt Remarkable

- 9m at 6.12% Cu, 0,69g/t Au, 5.38g/t Ag and 328ppm Co from 85m depth, ending in mineralisation;
- 14m at 1.1% Cu, 0,20g.t Au, 1,1g.t Ag and 91ppm Co from 23m depth
- 7m at 1.55% Cu, 1.12g/t Au, 1.3g/t Ag and 36ppm Co; and
- 4m at 1.65% Cu, 0.23g/t Au, 1.4g/t Ag and 76ppm Co

Figure 7 shows the cashflows projected by Intersuisse in our analysis, showing the production volumes and commodity process assumed in our base case.

Figure 7 : Intersuisse's projected cashflows

Project Cashflows	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2020-21	2021-22	2022-23	2023-24	2024-15
AUD/USD	1.050	1.050	1.025	1.000	0.950	0.950	0.950	0.950	0.950	0.950	0.950
Copper	\$ 9,000/t	\$ 9,000/t	\$ 9,000/t	\$ 8,500/t	\$ 7,750/t	\$ 7,500/t	\$ 7,500/t	\$ 7,500/t	\$ 7,500/t	\$ 7,500/t	\$ 7,500/t
Gold	\$ 1,450/oz	\$ 1,425/oz	\$ 1,325/oz	\$ 1,225/oz	\$ 1,200/oz	\$ 1,200/oz	\$ 1,200/oz	\$ 1,200/oz	\$ 1,200/oz	\$ 1,200/oz	\$ 1,200/oz
Silver	\$ 32.3/oz	\$ 28.5/oz	\$ 26.5/oz	\$ 24.5/oz	\$ 24.0/oz	\$ 24.0/oz	\$ 24.0/oz	\$ 24.0/oz	\$ 24.0/oz	\$ 24.0/oz	\$ 24.0/oz
Cobalt	\$ 15.0/lb	\$ 15.0/lb	\$ 15.0/lb	\$ 15.0/lb	\$ 15.0/lb	\$ 15.0/lb	\$ 15.0/lb	\$ 15.0/lb	\$ 15.0/lb	\$ 15.0/lb	\$ 15.0/lb
Copper produced	0 t	0 t	656 t	12,554 t	14,370 t	14,370 t	10,079 t	10,079 t	10,079 t	10,079 t	3,704 t
Gold produced	0 oz	0 oz	121 oz	2,344 oz	2,942 oz	3,328 oz	3,345 oz	3,345 oz	3,345 oz	3,345 oz	1,229 oz
Silver produced	0 oz	0 oz	2,387 oz	46,154 oz	57,299 oz	63,810 oz	49,455 oz	49,455 oz	49,455 oz	49,455 oz	18,175 oz
Cobalt produced	0.0k lb	0.0k lb	16.0k lb	310.2k lb	385.2k lb	408.5k lb	419.0k lb	419.0k lb	419.0k lb	419.0k lb	154.0k lb
Copper Revenue	\$A 0.0m	\$A 0.0m	\$A 5.9m	\$A 105.9m	\$A 117.2m	\$A 113.5m	\$A 79.6m	\$A 79.6m	\$A 79.6m	\$A 79.6m	\$A 29.2m
Cu TC/ RC	\$A 0.0m	\$A 0.0m	(\$A 0.5m)	(\$A 9.8m)	(\$A 11.0m)	(\$A 10.9m)	(\$A 7.6m)	(\$A 7.6m)	(\$A 7.6m)	(\$A 7.6m)	(\$A 2.8m)
By-products, net	\$A 0.0m	\$A 0.0m	\$A 0.2m	\$A 4.8m	\$A 6.6m	\$A 7.4m	\$A 8.0m	\$A 8.0m	\$A 8.0m	\$A 8.0m	\$A 2.9m
Cash Costs	\$A 0.0m	\$A 0.0m	(\$A 2.3m)	(\$A 36.7m)	(\$A 40.1m)	(\$A 41.1m)	(\$A 45.4m)	(\$A 47.0m)	(\$A 48.6m)	(\$A 50.2m)	(\$A 19.4m)
Royalties	\$A 0.0m	\$A 0.0m	(\$A 0.3m)	(\$A 4.7m)	(\$A 5.3m)	(\$A 5.2m)	(\$A 3.8m)	(\$A 3.8m)	(\$A 3.8m)	(\$A 3.8m)	(\$A 1.4m)
Dep'n & Amort'n	\$A 0.0m	\$A 0.0m	(\$A 0.4m)	(\$A 7.2m)	(\$A 7.9m)	(\$A 7.9m)	(\$A 7.9m)	(\$A 7.9m)	(\$A 7.9m)	(\$A 7.9m)	(\$A 2.9m)
E B I T	\$A 0.0m	\$A 0.0m	\$A 2.7m	\$A 52.2m	\$A 59.4m	\$A 55.9m	\$A 22.8m	\$A 21.2m	\$A 19.6m	\$A 18.0m	\$A 5.6m
Interest Expense	\$A 0.0m	\$A 0.0m	\$A 0.0m	\$A 0.0m	\$A 0.0m	\$A 0.0m	\$A 0.0m	\$A 0.0m	\$A 0.0m	\$A 0.0m	\$A 0.0m
Tax Expense	\$A 0.0m	\$A 0.0m	(\$A 0.8m)	(\$A 15.2m)	(\$A 17.2m)	(\$A 16.2m)	(\$A 6.6m)	(\$A 6.2m)	(\$A 5.7m)	(\$A 5.2m)	(\$A 1.6m)
N P A T	\$A 0.0m	\$A 0.0m	\$A 1.9m	\$A 37.1m	\$A 42.2m	\$A 39.7m	\$A 16.2m	\$A 15.1m	\$A 13.9m	\$A 12.8m	\$A 4.0m
Project Cap.Ex	\$A 5.0m	\$A 19.2m	\$A 47.8m	\$A 0.0m	\$A 0.0m	\$A 0.0m	\$A 0.0m	\$A 0.0m	\$A 0.0m	\$A 0.0m	\$A 0.0m
Sus. Cap. Ex	\$A 0.0m	\$A 0.0m	\$A 0.0m	\$A 1.5m	\$A 2.0m	\$A 2.0m	\$A 2.0m	\$A 2.0m	\$A 2.0m	\$A 2.0m	\$A 0.5m
Net Cashflow	(\$A 5.0m)	(\$A 19.2m)	(\$A 45.6m)	\$A 42.8m	\$A 48.1m	\$A 45.6m	\$A 22.1m	\$A 21.0m	\$A 19.9m	\$A 18.7m	\$A 6.4m

Source : Intersuisse estimates

This valuation is based solely upon resource along the Mt Remarkable fault, north of Cloncurry.

Valuation

Figure 8 shows that in deriving our valuation, Intersuisse has risk weighted the projected cashflows and also allowed for the financing of the project, with both debt and equity.

Figure 8 : Intersuisse's base case valuation of SMD

	discount rate =	12%	30-Jun-10		14-Sep-11	
			100%	Product	per share	
Mt Remarkable Resources	65 %		\$A 33.5m	\$A 21.8m	7.2 c	8.3 c
fanking credits	39 %		\$A 29.2m	\$A 11.4m	3.8 c	3.8 c
Mt Remarkable Extensions	50 %		\$A 16.9m	\$A 8.4m	2.8 c	2.8 c
fanking credits	30 %		\$A 5.1m	\$A 1.5m	0.5 c	0.5 c
Corporate	100 %		(\$A 6.6m)	(\$A 6.6m)	(2.2c)	(2.1c)
Cash / debt	100 %		\$A 4.7m	\$A 4.7m	1.6 c	1.3 c
Cash raised	100 %		\$A 31.0m	\$A 31.0m	10.3 c	10.6 c
TOTAL			\$A 113.8m	\$A 72.2m	24.0 c	25.2 c
			104.3m	existing	31.8m	Sep. 2011
			35.3m	June 2012	129.6m	March 2013

There is significant upside potential to Intersuisse's valuation of Mt Remarkable

Refer to Intersuisse's 28 April note, on Xstrata (XTA.L)'s purchase of the Cloncurry copper project from Exco Resources (EXS.ASX)

Source : Intersuisse estimates

Figure 8 shows that Intersuisse has risk weighted the NPV derived from the projected cashflows. Removing this risk weighting (ie. successful project delivery) raises the base case valuation from 25c to 36c.

Figure 7 showed that Intersuisse's base case valuation assumes commodity prices much lower than present prices. Using the prices from 14 September increases Intersuisse's base case valuation from 25c to 28c, as the higher AUD offsets much of the increase in commodity prices.

There is significantly greater potential upside to our valuation from an open pit operation at Kalman, which now looks like a strong possibility

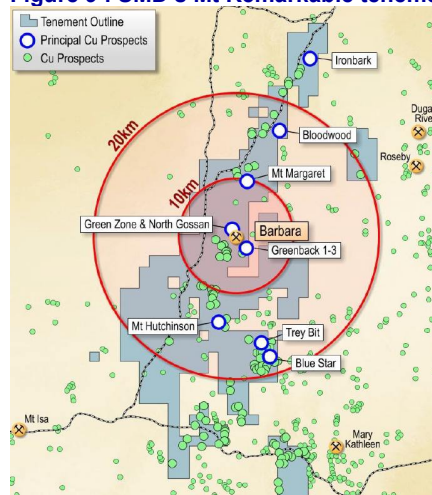
Conclusions

Intersuisse's base case valuation of SMD is 25c. This is based solely on the resources that are expected to be developed along the Mt Remarkable fault, as shown in Figure 9 and also in Figure 5 and Figure 6.

Intersuisse's note of 25 May outlined the potential value of the tenements around Kalman, to the south, where SMD has about 100km of the Pilgrim fault.

SMD's announcement on 14 September showed that there is serious potential for a shallow, open pit operation at Kalman, which will add significant value to SMD.

Figure 9 : SMD's Mt Remarkable tenements



Source : .SMD, June 2011 presentation

In Intersuisse's view :

- SMD's Resources around Mt Remarkable have a present value much greater than the share price;
- SMD has significant further mineralised potential around the Mt Remarkable fault;
- SMD has significant value in its tenements south of Cloncurry, though we are unable to given any estimate as to how much value; and
- SMD has good medium term production potential at Barbara and also at Kalman.

Intersuisse retains a BUY recommendation on SMD.

Intersuisse retains a BUY recommendation on SMD

Contacts List

Steve Morris 03 9618 8231 **Managing Director**

Private Clients

Research

Cameron Bell 03 9618 8283 Analyst
 Pieter Bruinstroop 03 9618 8275 Mining Analyst
 Nick Wirubov 03 9618 8251 Oil & Gas Analyst

Melbourne

Mark Chartres 03 9618 8240 Head of Wealth Management
 Peter Addison 03 9618 8226 Associate Director
 Craig Baillie 03 9618 8279 Client Adviser
 Howard Elton 03 9618 8233 Director
 Amanda Fanning 03 9618 8247 Client Adviser
 Steven Goossens 03 9618 8215 ITS Operator
 Graham Johnstone 03 9618 8246 Client Adviser
 Ben Ikin 03 9618 8231 Client Adviser
 Darren Levy 03 9618 8252 Associate Director
 Sue McDonald 03 9618 8211 Senior Client Adviser
 Luke Robinson 03 9618 8210 Senior Client Adviser
 Suzie Shipton 03 9618 8243 Manager Client Services
 John Taylor 03 9618 8219 Client Adviser
 Prasanna Wickramatunge 03 9618 8270 Client Adviser
 Mark Wiseman 03 9618 8228 Director
 Raymond Wong 03 9618 8225 Client Adviser

Corporate Finance – PhillipCapital Australia

Michael Beer 03 9618 8222 Resources
 Jonathan Buckley 03 9618 8244 Managing Director
 Andrea Coad 03 9618 8256 Administrator
 Sackville Kempton 03 9618 8258 Director
 Michael Laletas 03 9618 8234 Director
 David Pryles 03 9618 8269 Manager
 Leith Wale 03 9618 8253 Energy

Institutional Dealing

Will Cleland 03 9618 8223 Associate Director
 Colin Eichenberger 03 9618 8214 Associate Director
 Claire Shewan 03 9618 8232 Desk Assistant

Sydney

Andrew Sekely 02 9994 5508 Director
 Joe Durak 02 9994 5513 Senior Client Adviser
 Patricia Harrison 02 9994 5505 Senior Client Adviser
 Ryan Hoffman 02 9994 5512 Client Adviser
 Greg Lidicky 02 9994 5522 Client Adviser
 Nick Madden 02 9994 5518 Client Adviser
 Philip Rhead 02 9994 5509 Senior Client Adviser
 Pam Smith 02 9994 5510 Client Adviser
 William Tan 02 9994 5511 Client Adviser
 Oksana Wainwright 02 9994 5500 Administrator

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Prepared by Pieter Bruinstroop

INTERSUISSE LIMITED ABN 14 002 918 247, AFSL 246827		Market Participant of the ASX Group	
Melbourne Office: Level 37, 530 Collins Street, Melbourne, Vic, Australia 3000		Sydney Office: Level 7, 5 Elizabeth Street, Sydney, NSW, Australia 2000	
Telephone:	(+613) 9629 8288	Telephone:	(+612) 9233 2100
Facsimile:	(+613) 9629 8882	Facsimile:	(+612) 9233 2117
Email:	suisse@intersuisse.com.au	Email:	sydney@intersuisse.com.au
Internet: http://www.intersuisse.com.au			