

Syndicated Metals (SMD)

SMD to move to 80% of Kalman

Copper Exploration, Mt Isa district

Recommendation

Speculative BUY

Price

16.5c

Indicative Valuation

26c

ASX / S&P Sector

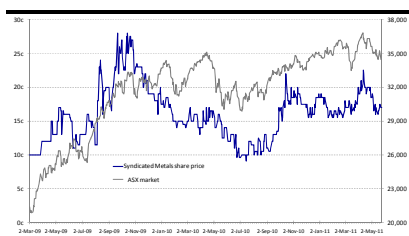
Metals & Mining

- On 16 May, SMD announced agreement with Cerro Resources to move to 80% of Kalman and Kalman South, by paying for \$11m in exploration and issuing \$3m in SMD shares.
- SMD is a 49% JV partner in Kalman South
- The acquisition adds a further 712km² to SMD's existing 1,823km² near Cloncurry.
- Intersuisse was very impressed with the potential of the total area in our site visit on 17 May.

Snapshot

| | |
|-----------------|--|
| Last Price | \$0.165 |
| Market Cap. | \$15.8 million |
| Shares on Issue | 104.25m FPO 28.45m options, exercisable 20c to 55c |
| 52 Week High | \$0.215 |
| 52 Week Low | \$0.091 |

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.

SMD also has a further 1,946km² under lease in N-W Queensland.

See : www.syndicatedmetals.com.au

Analyst: Pieter Bruinstroop :

Background

- 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 by September
- Intersuisse has estimated that, based on 118kt Cu eq, the Barbara project has an NPV of \$125m, after tax, un-g geared, assuming a 12% real discount rate, zero value for franking credits with metals prices near current prices, and first mining in mid 2014.
 - After taking into account financing, including equity raising, and including risk weighting, and assuming copper prices fall to \$7,500/t, this indicates a per share value of 26c.

Kalman

- In September 2008, Cerro Resources (CJO.ASX) announced a total resource for Kalman and Kalman South of 384kt of copper equivalent (Cu eq.)
- Before the announced agreement with, SMD had an equity interest in 120kt of Cu eq., from 18Mt at 0.67% Cu eq.
 - This is NOT included in Intersuisse's valuation
- When SMD has completed its exploration requirements, it will have an interest in 308kt of Cu eq., from 48.6Mt at 0.63% Cu eq.
- After our site visit, Intersuisse is confident that SMD will be able to increase resources at Kalman and nearby areas, at higher grades.

Recommendation

Intersuisse believes that SMD is very cheap in the base case

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

Intersuisse retains our Speculative BUY recommendation on SMD.

Kalman

On 16 May, SMD announced that it had reached an agreement with Cerro Resources (CJO.ASX) to move to 80% of CJO's Kalman and Kalman South tenements.

Cerro Resources had previously been called Kings Minerals (KMN.ASX), having changed its name on 7 December 2010. The change is intended to reflect its focus on the development of its 77Mt of gold and silver reserves and resources, grading nearly 1.0g/t of gold equivalent, at Cerro de Gallo in Mexico.

SMD now has about 100km of the highly prospective Pilgrim Fault, along which are historic mines and known mineralised areas

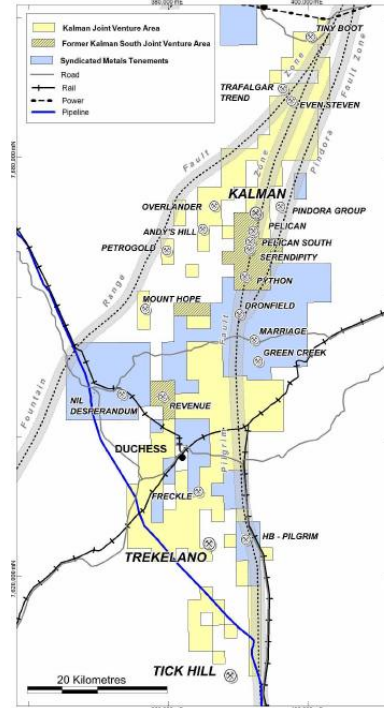
Figure 1 shows the combined tenements of CJO and SMD.

Prior to the agreement, SMD held 49% of Kalman South, which is EPM 13870, shown in Figure 1 as the hashed area.

Figure 1 also shows :

- The CJO and SMD tenements are co-located
- SMD already has identified mineralisation in this area; and.
- The combined area has a total of about 100km of the highly prospective Pilgrim Fault

Figure 1 : CJO and SMD's Mt Isa tenements



Source : SMD's 16 May 2011 ASX announcement

On 10 September 2008, CJO (then KMN) reported an Inferred Resource for Kalman (EPM 14232, CJO 100%) and Kalman South (CEP 13870, CJO 51%), as shown in Figure 2a and Figure 2b respectively.

Figure 2a : Inferred Resource, Kalman

| EPM 14232 | Cut-off Grade | SMD 0 % | Cu | Mo | Re | Au | Contained metal | | | | Cu eq. | grade |
|--------------|---------------|----------------|---------------|---------------|-----------------|-----------------|-----------------|-----------------|----------------|------------------|---------------|---------------|
| | | | | | | | Cu | Mo | Re | Au | | |
| Copper | 0.2% Cu | 16.6 Mt | 0.34 % | 0.007 % | - | 0.15 g/t | 56.7 kt | 1,200 t | - | 80.6 koz | | |
| Molybdenum | 0.02% Mo | 7.4 Mt | 0.34 % | 0.12 % | 2.56 g/t | 0.17 g/t | 25.3 kt | 8,900 t | 609.2 koz | 40.8 koz | | |
| Open Pit | | 24.0 Mt | 0.34 % | 0.04 % | 0.79 g/t | 0.16 g/t | 82.0 kt | 10,100 t | 609.2 koz | 121.4 koz | | |
| Copper | 0.5%Cu | 0.08 Mt | 0.56 % | 0.001 % | - | 0.17 g/t | 0.4 kt | 100 t | 0 koz | 0.4 koz | | |
| Molybdenum | 0.05% Mo | 0.0 Mt | | | | | | | | | | |
| Underground | | 0.1 Mt | 0.56 % | 0.00 % | 0.00 g/t | 0.17 g/t | 0.4 kt | 1,600 t | 0 koz | 0.4 koz | | |
| TOTAL | | 24.1 Mt | 0.34 % | 0.04 % | 0.79 g/t | 0.16 g/t | 82.4 kt | 20,400 t | 609 koz | 121.8 koz | 186 kt | 0.77 % |

Source : Kings Minerals' ASX Announcement, 10 September 2008, Intersuisse

Figure 2b : Inferred Resource, Kalman South

| EPM 13870 | Cut-off Grade | SMD 49 % | Cu | Mo | Re | Au | Contained metal | | | | Cu eq. | grade |
|--------------|---------------|----------------|---------------|---------------|-----------------|-----------------|-----------------|-----------------|------------------|------------------|---------------|---------------|
| | | | | | | | Cu | Mo | Re | Au | | |
| Copper | 0.2% Cu | 15.3 Mt | 0.35 % | 0.002 % | - | 0.15 g/t | 53.6 kt | 400 t | - | 76.0 koz | | |
| Molybdenum | 0.02% Mo | 17.5 Mt | 0.22 % | 0.11 % | 2.88 g/t | 0.11 g/t | 38.6 kt | 19,283 t | 1,624 koz | 61.4 koz | | |
| Open Pit | | 32.9 Mt | 0.28 % | 0.06 % | 1.54 g/t | 0.13 g/t | 92.1 kt | 18,800 t | 1,624 koz | 137.4 koz | | |
| Copper | 0.5%Cu | 2.4 Mt | 0.66 % | 0.004 % | - | 0.38 g/t | 16.1 kt | 100 t | 0 koz | 29.3 koz | | |
| Molybdenum | 0.05% Mo | 1.3 Mt | 0.29 % | 0.12 % | 2.15 g/t | 0.14 g/t | 3.9 kt | 1,500 t | 93 koz | 6.2 koz | | |
| Underground | | 3.8 Mt | 0.53 % | 0.05 % | 0.77 g/t | 0.29 g/t | 20.0 kt | 1,600 t | 93 koz | 35.5 koz | | |
| TOTAL | | 36.7 Mt | 0.31 % | 0.06 % | 1.46 g/t | 0.15 g/t | 112.1 kt | 20,400 t | 1,717 koz | 172.9 koz | 234 kt | 0.64 % |

Source : Kings Minerals' ASX Announcement, 10 September 2008, Intersuisse

Figure 3 is the total of Figure 2a and 2b. It shows that the total resource (100% basis) is 60.7Mt at 0.63% copper equivalent, for 384kt of copper equivalent.

Figure 4 shows the detail of Intersuisse's calculation of the copper equivalent, using both spot and assumed long run prices. It shows that copper is the most significant value, but the minor metals comprise about half of the total in-ground metal value.

SMD is effectively paying \$14m to acquire a further 188kt of copper equivalent of JORC resource in the ground, with significant further potential.

This cost is \$74/t of Cu eq, which compares with \$379/t paid by Xstrata for Exco Resources' Cloncurry Copper project

Figure 3 : Kalman and Kalman South, total Inferred Resources, 100% basis

| Kalman | Cut-off Grade | Total | Assumed metal prices | | | | Calculated metal values | | | | Cu eq. | grade |
|--------------------|---------------|----------------|----------------------|----------------|-----------------|-----------------|-------------------------|-----------------|--------------------|------------------|---------------|---------------|
| | | | Cu | Mo | Re | Au | Cu | Mo | Re | Au | | |
| Copper | 0.2% Cu | 31.9 Mt | 0.35 % | 0.005 % | 0.00 g/t | 0.15 g/t | 110.3 kt | 1,600 t | 0.0 koz | 156.6 koz | | |
| Molybdenum | 0.02% Mo | 24.9 Mt | 0.26 % | 0.113 % | 2.79 g/t | 0.13 g/t | 63.8 kt | 28,183 t | 2,232.9 koz | 102.2 koz | | |
| Open Pit | | 56.9 Mt | 0.31 % | 0.052 % | 1.22 g/t | 0.14 g/t | 174.1 kt | 29,783 t | 2,232.9 koz | 258.8 koz | | |
| Copper | 0.5% Cu | 2.5 Mt | 0.66 % | 0.008 % | 0.00 g/t | 0.37 g/t | 16.5 kt | 200 t | 0.0 koz | 29.7 koz | | |
| Molybdenum | 0.05% Mo | 1.3 Mt | 0.29 % | 0.112 % | 2.16 g/t | 0.14 g/t | 3.9 kt | 1,500 t | 93.3 koz | 6.2 koz | | |
| Underground | | 3.9 Mt | 0.53 % | 0.044 % | 0.75 g/t | 0.29 g/t | 20.4 kt | 1,600 t | 93.3 koz | 35.9 koz | | |
| TOTAL | | 60.7 Mt | 0.32 % | 0.052 % | 1.19 g/t | 0.15 g/t | 194.5 kt | 31,383 t | 2,326 koz | 294.7 koz | 384 kt | 0.63 % |

Source : Kings Minerals' ASX Announcement, 10 September 2008, Intersuisse

Figure 4 : Copper equivalent calculations

| | Assumed metal prices | | | | Calculated metal values | | | | copper |
|-------|----------------------|----------|-------------|-------------|-------------------------|-----------|---------|---------|--------|
| | Cu | Mo | Re | Au | Cu | Mo | Re | Au | |
| spot | \$ 9,546/t | \$ 18/lb | \$ 2,000/lb | \$ 1,500/oz | \$ 1,857m | \$ 1,245m | \$ 319m | \$ 442m | 405 kt |
| L - R | \$ 7,500/t | \$ 12/lb | \$ 500/lb | \$ 1,200/oz | \$ 1,459m | \$ 830m | \$ 80m | \$ 354m | 363 kt |

Source : Intersuisse estimates

SMD previously held 49% of one the tenements

CJO is focussed on its development in Mexico, and retains the iron ore rights

Kalman Agreement

The new Agreement gives Syndicated the right to earn an 80% interest in all of Cerro's over 700km² of Mt Isa tenements (granted and applications) and will replace the existing Pelican Joint Venture Agreement between the two companies.

- The first stage of the earn-in is for SMD to earn an initial 60% by issuing \$2m in shares to CJO and by spending \$4m on exploration over 2 years.
 - The existing Pelican JV agreement will be replaced only after SMD has completed the first stage of the earn-in.
- Stage 2 is for SMD to move to 80% by issuing \$1m shares to CJO and spending \$7m on exploration over 3.5 years.
- SMD will manage the new Joint Venture.
- CJO will retain 100% of the rights to its Mount Philip iron ore project.
- CJO will become a substantial shareholder in Syndicated (about 12%).
- CJO then free carried to a "decision to mine"
 - SMD has the option to buy the remaining 20% of a mine development area once a decision to mine is made
 - The payment may in cash or in shares, or a combination, at CJO's discretion, at a value agreed by SMD and CJO, or failing agreement, a value determined by an expert.

SMD issued 12,523,482 fully paid ordinary shares to CJO in 24 May. SMD and CJO have entered into a Voluntary Escrow Deed so that 50% of the shares issued are escrowed for 12 months with the remaining 50% being escrowed for 24 months.

Impact of Kalman Acquisition

Figure 5 is taken from Intersuisse's initiation research on SMD (see our 30 March 201 note) and updated for SMD's 16 May announcement.

Figure 5 : Comparative valuations

| | Market cap | cash | tenement area | copper eq. | E.V. \$/t | av. grade | |
|---------------------------------------|------------|-----------|---------------|-----------------------|-----------------|---------------|--------|
| Ivanhoe Australia | IVA.ASX | \$ 1,258m | \$ 159m | 4,977 km ² | 4,871 kt | \$ 226/t | 0.64 % |
| Cudeco | CDU.ASX | \$ 462m | \$ 45m | 54 km ² | 393 kt | \$ 1,061/t | 0.94 % |
| Queensland Minerals | QMN.ASX | \$ 38m | \$ 3m | 1400 km ² | 354 kt | \$ 100/t | 0.64 % |
| Altona Mining | AOH.ASX | \$ 165m | \$ 76m | 2000 km ² | 1,154 kt | \$ 77/t | 0.86 % |
| EXS' Onconcurry Project | EXS.ASX | \$ 175m | | | 462 kt | \$ 379/t | 0.89 % |
| Syndicated Metals | SMD.ASX | \$ 15m | \$ 3m | 1,823 km ² | 76 kt | \$ 158/t | 1.73 % |
| SMD - Intersuisse valuation | | | | 151 kt | \$ 286/t | 1.46 % | |
| SMD - total resources (49% EPM 13870) | | | | 273 kt | \$ 44/t | 1.08 % | |
| SMD, incl. 16 May | | \$ 29m | | 4,479 km ² | 459 kt | \$ 33/t | 0.89 % |

Source : ASX announcements by each company, Intersuisse

The acquisition reduces makes SMD even cheaper

Figure 5 also includes the announcement, on 20 April, by Exco Resources (EXS.ASX) that it was selling its Cloncurry copper project to Xstrata (XTA.L) for \$175m, in cash.

Note :

- The Enterprise Value is given per tonne of copper in the ground. However, higher grade ore should have a higher economic value;
- SMD 16 May takes SMD's current market capitalisation and adds the total \$14m cost, comprising \$11m in exploration expenditure plus \$3m in SMD equity issued to CJO, to move to 80% of the Mt Isa tenements held by CJO;

Points highlighted by Figure 5 include :

- SMD now has an area in the Mt Isa district which is nearly as large as that held by Ivanhoe Australia, which has a market capitalisation of over 40 times as much as SMD;
- The move to 80% of the CJO Mt Isa tenements has reduced the cost of SMD, in terms of enterprise value per tonne of copper equivalent in the ground, from \$44/t to \$33/t;
- Intersuisse's valuation of SMD was much less than the payment by XTA to EXS, and in line with other metrics, despite its much higher grade, and hence much higher value.

Intersuisse is confident that SMD will be able to increase its resources further; we are confident of an increase in the total quantity, while we understand that SMD will work focus on commercialisation of Kalman and Kalman South which will mean a higher grade though possibly over a smaller, shallower, part of the ore body.

Kalman Potential

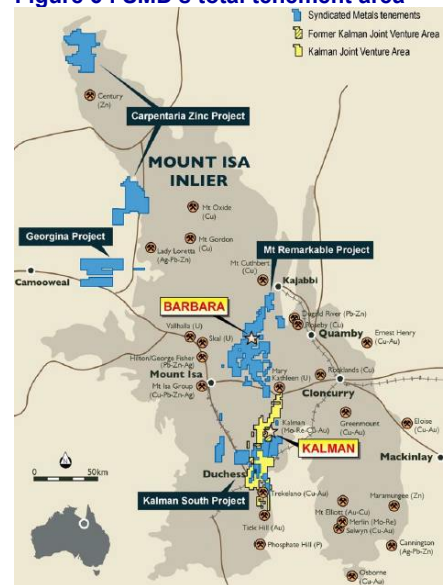
Figure 6 shows the total of the area under lease to CJO and SMD in the Mt Isa region. It shows that SMD will now manage a total area of 4,479km², comprising :

SMD now controls a total of nearly 4,500 km² near Mt Isa

- 1,152km² around SMD's 80km of the Mt remarkable fault, which contains the Barbara resource and many other areas of mineralisation;
- 671km², including Kalman South, held by SMD prior to 16 May;
- 712km² of tenements, excluding Kalman South, acquired pursuant to the agreement with CJO;
- 1,160km² in the Carpentaria zinc tenements; and
- 786km² in the Georgina Basin phosphate tenements.

It also shows the complementary fit of the CJO and the SMD tenements south of Cloncurry.

Figure 6 : SMD's total tenement area



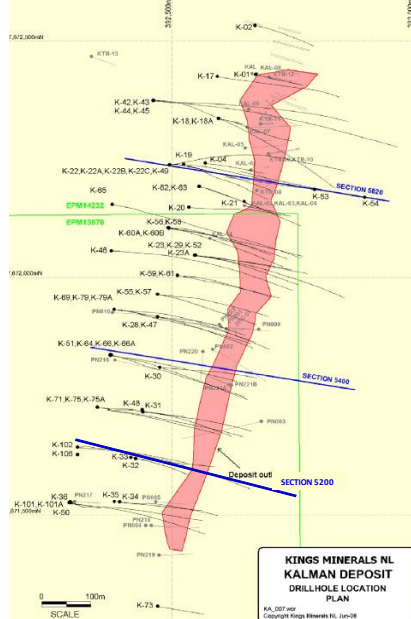
Source : SMD's 16 May 2011 ASX announcement

Figure 7 is a plan of the surface expression of the mineralised ore-body at Kalman. It shows that most of the defined ore-body is contained in EPM 13870, in which SMD held a 49% interest before the 16 May agreement.

On Figure 7 is marked the location of 3 sections, across the ore-body, as well as the location of the drilling which has been used in estimating the inferred resources, shown in Figure 2.

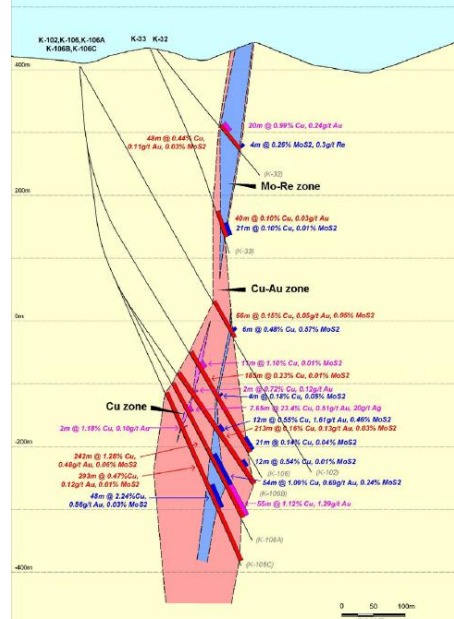
The Kalman ore-body is almost vertical, and the drilling has been focussed on establishing a very large ore-body, with over 60Mt in JORC Resources

Figure 7 : Plan of Kalman mineralisation



Source : KMN ASX announcement, 25 June 2008, Intersuisse

Figure 8 : Kalman, section 5200



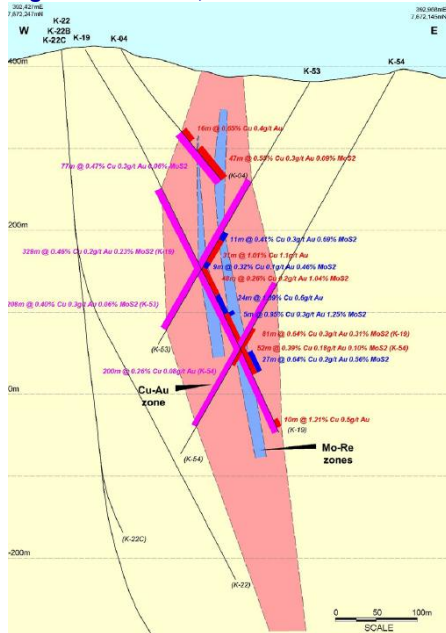
Source : KMN ASX announcement, 4 July 2008,

Figures 8, 9 and 10 show the interpreted shape of the ore-body from the drilling. These figures highlight

- The ore-body is nearly vertical in shape and is open at depth
- There are copper rich and molybdenum rich zones within the ore-body
- Some of the intersections have very attractive grades, even though the overall grade is modest
- There are no drill intercepts near surface, with the focus of the drilling being to establish a large ore-body, rather than focussing on near term, surface production.

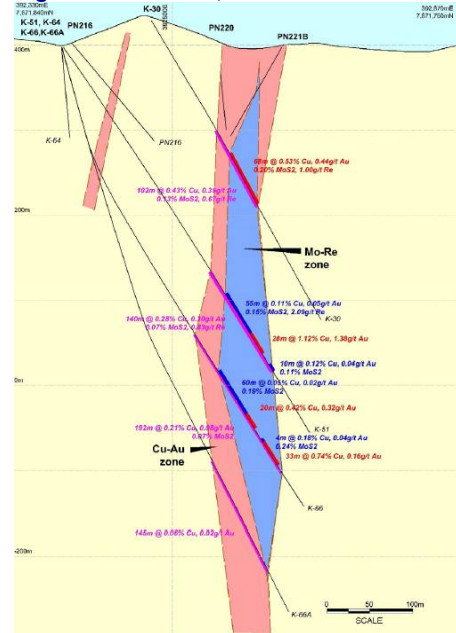
There is little shallow drilling, and SMD will focus on shallower potential to enable a smaller, higher grade open cut resource that is amenable to medium term exploitation

Figure 9 : Kalman, section 5400



Source : KMN ASX announcement, 25 June 2008

Figure 10 : Kalman, section 5820



Source : KMN ASX announcement, 25 June 2008

SMD has a development concept to drill near surface to be able to establish the feasibility of an open cut mine, focussing on higher grade mineralisation.

The focus of SMD's activity has been on their tenements north of Cloncurry; CJO was the manager of Kalman South.

SMD has mineralised areas south of Cloncurry that have not been the focus of their activity to date.

Intersuisse has established that SMD is very good value, and this acquisition has increased its value and also its potential.

SMD is a rare opportunity to get in early, at a very low cost, in what should develop into a major development.

Conclusion

Intersuisse understands that \$20m, and possibly more, has already been spent on exploration by CJO on its Mt Isa tenements. SMD can move to 80% of these tenements by spending a further \$11m, and issuing \$3m in SMD equity.

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.

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
 Callan Trew 03 9618 8255 Client Adviser
 Henry Vo 03 9618 8250 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
 Hulya Ozmen 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

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|---|---------------------------|---|---------------------------|
| INTERSUISSE LIMITED ABN 14 002 918 247, AFSL 246827 | | Market Participant of the ASX Group | |
| Melbourne Office: | | Sydney Office: | |
| Level 37, 530 Collins Street, Melbourne, Vic, Australia 3000 | | 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 | | | |