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Syndicated Metals - New Kalman Arrangement Should See Company Into Production. Speculative Buy with A\$0.24 Target

Australian exploration company Syndicated Metals announced a major breakthrough in May, when a renegotiation of terms on its joint ventured Kalman project saw Syndicated taking over operatorship and consequently prioritising this as the company's focus. Syndicated's other main target Barbara will still receive attention, but with the company now able to dictate Kalman's operations, this new level of control could see combined operations established earlier than that previously afforded.

Syndicated has over 4,000 square kilometres of EPM (Exploration Permit for Minerals) near the town of Mount Isa in North West Queensland, Australia. The two major projects, Mount Remarkable (Barbara deposit) and Kalman, each has a JORC compliant resource estimated but combine for a total of 473,000 tonnes of copper equivalent at an average grade of 0.83%. At the current copper price of US\$8,978 per tonne, this represents US\$4.25 billion of metal in the ground.

Kalman

This project consists of 19 EPM's covering 700 square kilometres located 60 kilometres southeast of Mount Isa. A recent agreement with majority holder Cerro Resources NL (formerly Kings Minerals) will see Syndicated potentially earning a 100% interest in any of the EPMs including the Kalman (EPM 14232) and Kalman South (EPM13870) tenements. The earn-in agreement is staged with stage 1 requiring Syndicated to issue A\$2 million in shares to Cerro and spend A\$4 million in exploration by May 2013 to earn a 60% interest in all EPMs. Stage 2 requires the further issue of A\$1 million shares to Cerro and spending of A\$7 million by November 2014 to take its total EPM interest to 80%. Syndicated will manage the new joint venture and has a final option to take its interest to 100% in any individual deposit once a bankable feasibility study has been produced and a decision to mine made. The option's exercise price is open to negotiation, but with Cerro now a major shareholder in Syndicated, both companies objectives are aligned.

In September 2008, Cerro produced a JORC Compliant Inferred resource estimate covering both the Kalman (EPM 14232) and Kalman South (EPM 13870) areas. The combined resource was estimated at 60.8 million tonnes at 0.32% copper, 0.05% molybdenum, 1.19g/t rhenium and 0.15g/t gold for a total of 194,700 tonnes of copper, 30,400 tonnes of molybdenum, 2,326,200 ounces of rhenium and 294,900 ounces of gold. In copper equivalent terms, the two EPM's combine for a total of 384,000 tonnes of copper at an average grade 0.63%.

With Cerro having concentrated on drilling at depth to define a large underground mining resource, one of Syndicated's first priorities as operator is to drill out the near-surface mineralisation (down to 100 metres) with the aim of defining an economic open pittable copper-gold resource. Such a resource has the potential to be mined in conjunction with Barbara which hastens the ability to generate revenue from both projects. Beyond the 5,000 metres of shallow drilling, Syndicated will then proceed to drill out the existing resource (down to 400 metres) to better define the high grade core and update the resource statement.

Further targets in the 700 square kilometre licence area have only had preliminary drill testing completed along strike from Kalman, and thus are obvious locations for further work. For example 8 metres at 1.8% copper and 0.5 g/t gold

Key Data	
EPIC	SMD
Share Price	A\$0.15
Spread	A\$0.145 - A\$0.155
Total no of Shares	104.25 million
Market Cap	A\$15.6 million
12 Month Range	A\$0.145 - A\$0.225
Listed Option Price	A\$0.06
Market	ASX
Website	www.syndicatedmetals.com.au
Sector	Mining Exploration
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was found at Pelican and 50 metres at 0.48 g/t gold was found at Serendipity.

Mount Remarkable

Located 60 kilometres northeast of Mount Isa, the Mount Remarkable tenements contain a number of copper prospects, Barbara currently being the most advanced. Barbara is split into 2 EPMs with Syndicated owing a 100% interest in EPM 15564 and a 51% interest (Mt Isa Metals holds 49%) in EPM 16112. The two EPM's are contiguous, with near surface mineralisation and the prospect of connecting the two resources and extending at depth.

Runge Limited estimated a JORC Indicated and Inferred Resource in November 2010 of 5.33 million tonnes at 1.4% copper, 0.1 g/t gold, 2.5 g/t silver and 267 ppm cobalt for 76,000 tonnes copper, 25,000 ounces gold, 430,000 silver and 1,400 tonnes cobalt. Translating this into a copper equivalent produces a grade of 1.7% and quantity of 89,000 tonnes, of which 61,000 tonnes are in EPM 15564 and 28,000 tonnes are in EPM 16112.

Syndicated is already conducting a rolling series of scoping studies on Barbara, looking at both an open pit and underground mining operation. A conceptual mine plan has been developed, baseline environmental studies are now underway and further metallurgical test work will also begin shortly. While studies have shown the deposit to be economically robust, the current Barbara resource does not yet contain sufficient tonnes of copper to justify the capital expense of a standalone operation. However, with the developments at Kalman, expectations are that a twin open-pit mine operation would justify such capital expense.

In addition to Barbara, Syndicated's 2011 exploration programme is looking at defining additional open pit resources with 10,000 metres planned for the year. In March 9 holes totalling 676 metres were drilled and assayed at Blue Star (20 kilometres southeast of Barbara) with highlights of 9 metres at 6.12% copper and 0.69 g/t gold from 85 metres, 14 metres at 1.1% copper from 23 metres and 7 metres at 1.55% copper from 38 metres in depth. A follow up drilling program continued to return encouraging results with significant intercepts of up to 8 metres @ 1.41% copper and 0.11g/t gold from 155 metres in BSRC022. Resource estimates are currently underway for Blue Star and another deposit, Green Zone (located just 400 metres from Barbara) both 51% Syndicated/ 49% Mount Isa Metals following the completion of recent drilling programs. It is anticipated that these estimates will be completed by the end of July.

GE&CR's valuation of Syndicated is based on an in-situ model of the company's currently defined and attributable JORC resources at Kalman and Barbara. Beginning with Kalman, where we assume an 80% interest is acquired through the requisite payment of shares and exploration funds; we have attributed a 1% value to the Inferred resource and applied a 10% discount to the current spot commodity prices – i.e. US\$8,080 per tonne of copper, US\$29,475 per tonne of molybdenum, US\$115 per ounce of Rhenium and US\$1,366 per ounce of gold. Using an AUD/USD exchange rate of A\$0.95, we derive a risked net value to Syndicated of US\$10.4 million, or A\$9.9 million.

Applying a similar logic and methodology at Barbara, but attributing a 3% value to the Indicated resource and noting the 100% interest in EPM15564 and 51% interest in EPM16112, we derive a risked value to Syndicated of US\$15.9 million or A\$15.1 million. A silver price of US\$31 per ounce and cobalt price of US\$31,500 per tonne was used.

Combining our respective project values and dividing by the 104.25 million ordinary shares in issue, we derive a target price of A\$0.24. Obvious upside to our valuation comes from moving the existing resources into higher JORC classifications and increasing the quantity of resources, and while material downside risk is apparent from both the current high level of commodity prices and vagaries of project development, Syndicated is mitigating these risks by expediting development of open pit mining, sourcing material from multiple mines and the production of at least 6 different metals. At \$0.155 we rate the shares as a **speculative buy** with an A\$0.24 target price.

Data Table

Year to 30 th June	Turnover (A\$ Million)	Pre-tax Profit (A\$ Million)	Earnings Per Share (cents)	Price Earnings Ratio (x)	Dividends Per Share (cents)	Dividend Yield (%)
2009A	0.24	(1.01)	(1.76)	NA	0.0	0.0
2010A	0.17	(1.63)	(2.27)	NA	0.0	0.0

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