

Barbara : Even more upside potential
High grade intercepts down plunge of historic shallow mining; 3m at 7.4% Cu, 4km from Barbara

Recommendation
BUY

Price
3.4c

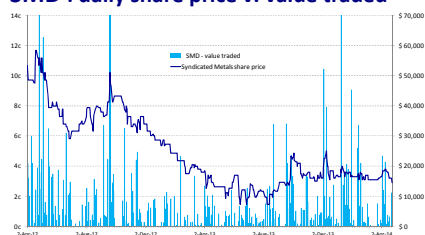
Valuation
8.5c

- SMD has announced assay results from RC drilling of four regional targets, near Barbara.
- Lillymay and Mt Oliver report high grade intercepts down-plunge from historic shallow mining (to 15m below surface)
- Vein and shear hosted sheets of high grade copper steeply plunging from surface show open cut potential, with underground at depth.
- Potential satellite feed to extend operations at Barbara.

Snapshot

Last Price	3.4c
Market Cap	\$9.3m
Cash on hand (31 Dec 2013)	\$2.8m
Shares on Issue	274.4m
52 Week High	5.0c
52 Week Low	1.5c
1 month / 6 month VWAP	3.53c / 3.66c

SMD : daily share price v. value traded



SMD has over 5.9Mt of Resources containing 83kt Cu, 27koz gold and over 400koz silver in its 2,469km² tenement package N-E of Mt Isa and N-W of Cloncurry.

SMD has executed a JV agreement with CopperChem, a subsidiary of SOL.ASX, to supply ore to their under-utilised mill at the Great Australian mine near Cloncurry.

SMD is currently undertaking a feasibility study, funded by CopperChem.

Beer & Co estimate that it will cost less than \$20m in capital (ie. \$10m for SMD) for SMD to be in production by 2014 Q4.

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Assays from 8 hole RC program at satellite targets

SMD has previously announced assays from infill drilling at its Barbara project.

SMD is now focussed on drilling satellite targets, seeking high grade supplemental feed for its Barbara project. It has drilled below historic small mines testing for depth extensions.

SMD has now reported high grade intercepts below 2 of the 4 historic mines tested, with down-hole electro-magnetic surveys showing further conductors to be tested.

High grade results reported

Ore grade results were reported from 2 of the 4 prospects drilled. The results show relatively narrow, but high grade, intercepts, from RC drilling including :

- 3m at 7.4% Cu, from 106m depth (85 - 90m below surface);
- 5m at 2.16% Cu from 99m depth (80 - 85m below surface); and
- 2m at 2.52% Cu from 83m (65m – 70m below surface).

The results suggest multiple veins intersected by a single drill hole.

Next steps

Surface sampling suggests a strike of at least 300m to 400m at Lillymay and 200m to 300m at Mt Olive.

Further drilling will test the DHEM targets and extensions along strike and also at other depths below the historic workings.

Beer & Co conclusions

Beer & Co confirms our current valuation, of 8.5c/share.

We have previously noted upside potential from lower costs, extensions of high grade mineralisation at depth at Barbara.

We now add upside potential from high grade satellite ore sources.

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Barbara : Even More Upside

Drilling satellite targets

Barbara currently has a JORC resource estimate of 5.3Mt at 1.4% Cu, of which 3.8Mt is Indicated, grading 1.5% Cu and 1.5Mt is Inferred grading 1.1% Cu.

Beer & Co’s base case valuation assumes a mining inventory, as shown in Figure 1, of 1.2Mt at 1.9% Cu, with an extension of 600kt at 1.6% Cu.

Figure 1 : Assumed mining inventory, Barbara

		grades			Contained metal		
		copper	gold	silver	copper	gold	silver
Base Case	1,200 kt	1.9 %	0.2 g/t	3.0 g/t	22.8 kt	7.7 koz	116 koz
Extension	600 kt	1.6 %	0.2 g/t	2.5 g/t	9.6 kt	2.9 koz	48 koz

Source : Beer & Co estimates

Having completed its infill drilling programme to upgrade its resource estimate, SMD has been drilling satellite targets to find supplemental, high grade feed.

SMD has just announced the assay results from RC drilling on targets near its Barbara mine development.

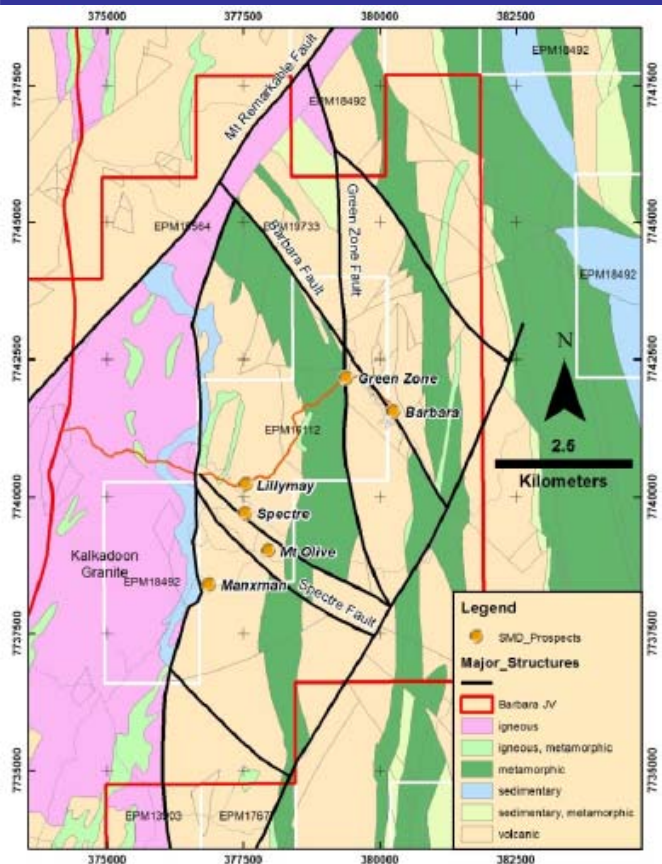
Figure 2 shows the location of four historic mining areas that SMD has tested in this round of drilling.

Figure 2 shows that the four areas tested, Lillymay, Spectre, Mt Olive and Manxman, are about 3km - 4km from Barbara.

These satellite targets are below historical workings, where high grade (above 5%) oxide ores have been extracted to depths of 10m – 15m.

Figure 3 shows that SMD has drilled below historic workings, where high grade (above 5% Cu) oxide ores have been extracted to depths of 10m – 15m.

Figure 2 : Satellite targets, 4km from Barbara



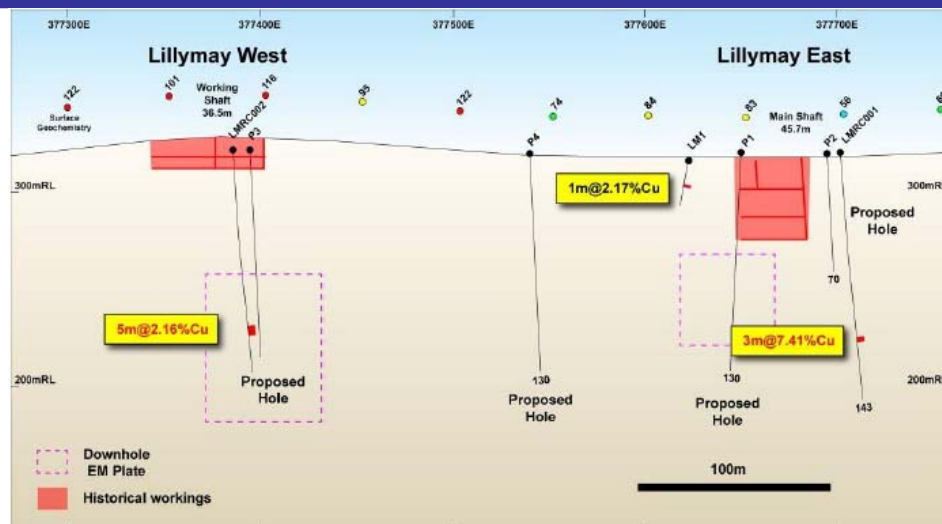
Source : SMD ASX announcement, 24 April 2014

Figure 3 : SMD's drilling at Lillymay

The drilling shows that the mineralisation continues at depth below historical workings.

Results included :

- 3m at 7.4% Cu, from 106m depth (85 - 90m below surface);
- 5m at 2.16% Cu from 99m depth (80 - 85m below surface); and
- 2m at 2.52% Cu from 83m (65m – 70m below surface).



Source : SMD ASX announcement, 24 April 2014

All the areas drilled have surface workings.

The reported results show that the mineralisation continues at depth. It also showed a number of intercepts for each drill hole suggesting a series of sheeted veins.

Surface expressions suggest 300m – 400m of strike for each of Lillymay and 200m to 300m at Mt Olive.

Figure 3 also shows down hole electro-magnetic conductors that are to be drill tested.

Conclusions

Beer & Co confirms our current valuation of 8.5c/share.

Beer & Co expects that we will upgrade our valuation when SMD publish information on their final project scope, before ore extraction commences before the end of 2014.

Beer & Co confirms our BUY recommendation.

SMD expects the feasibility study to be completed before the year end. The feasibility study is being funded by CopperChem to pay for their farm-in to 50% of the project.

These results indicate the potential for high grade copper supplemental feed.

Beer & Co expects that we will increase our current valuation, of 8.5c/share, when SMD makes the announcement on its increased Mineral Resource. We do not expect that this will be before mid year.

We also see the potential for supplemental feed, which will add extra value.

We confirm our BUY recommendation on SMD.

Beer & Co Research

Syndicated Metals (SMD.ASX)

April 2014

Year ended June

Section 1 - P&L

	2013	2014	2015	2016	2017	2018	
Sales revenue	\$Am	0	0	13	36	23	0
Interest revenue	\$Am	0	0	0	0	0	0
Other revenue	\$Am	0	0	0	0	0	0
Total Revenue	\$Am	0	0	13	36	23	0
Cost of Goods Sold	\$Am	0	0	6	15	10	0
Corporate Costs	\$Am	(1)	(1)	(1)	(1)	(1)	(1)
Royalties	\$Am	0	0	(1)	(2)	(1)	0
Exploration Expense	\$Am	(5)	(0)	(1)	(1)	(1)	0
Other Operating Expenses	\$Am	(0.1)	0.0	0.0	0.0	0.0	0.0
Total Operating Expenses	\$Am	(6)	(1)	4	11	8	(1)
EBITDA	\$Am	(6.4)	(1.4)	16.6	47.0	31.2	(0.8)
Dep'n & Amort'n	\$Am	0.0	(3.5)	(9.2)	(5.8)	0.0	0.0
EBIT	\$Am	(6.4)	(4.8)	7.4	41.3	31.2	(0.8)
Interest Expense	\$Am	0.0	(0.1)	(0.3)	(0.0)	0.0	0.0
Other	\$Am						
Pre-Tax Profit	\$Am	(6.4)	(4.9)	7.1	41.2	31.2	(0.8)
Tax Expense	\$Am	0.4	(0.4)	(2.2)	(1.3)	0.2	0.0
NPAT	\$Am	(6.0)	(5.3)	4.8	39.9	31.4	(0.8)
Reported NPAT	\$Am	(6.0)	(5.3)	4.8	39.9	31.4	(0.8)

Section 2 - Key Data

	2013	2014	2015	2016	2017	2018	
Ordinary shares - year end	m	177.9	274.4	417.5	417.5	417.5	417.5
Fully diluted shares on issue	m	177.9	274.4	417.5	417.5	417.5	417.5
Weighted #shares	m	177.9	256.2	417.5	417.5	417.5	417.5
Earnings per Share		(3.6c)	(0.3c)	0.2 c	1.2 c	0.8 c	(0.1c)
Dividends Per Share		0.0 c	0.0 c	0.0 c	0.0 c	0.0 c	0.0 c

Section 3 - Balance Sheet

	2013	2014	2015	2016	2017	2018	
Cash	\$Am	1	6	4	14	21	20
Receivables	\$Am	0	0	3	4	1	0
Other	\$Am	0	0	0	0	0	0
CURRENT ASSETS	\$Am	1	6	7	19	22	20
Receivables	\$Am	0	0	0	0	0	0
P, P & E	\$Am	0	0	8	3	0	0
Mining Properties / Exploration	\$Am	8	10	11	10	10	10
Other	\$Am	0	0	0	0	0	0
NON-CURRENT ASSETS	\$Am	9	10	19	14	10	10
TOTAL ASSETS	\$Am	10	16	26	32	32	30
Payables	\$Am	0	0	1	1	0	0
Debt	\$Am	0	0	3	1	0	0
Other	\$Am	0	0	0	0	0	0
CURRENT LIABILITIES	\$Am	0	0	3	1	0	0
Long Term Debt	\$Am	0	0	1	0	0	0
Deferred Tax Liability	\$Am	0	0	0	0	0	0
Other	\$Am	0	0	0	0	0	0
Provisions	\$Am	0	0	0	0	0	0
NON-CURRENT LIABILITIES	\$Am	0	0	1	0	0	0
TOTAL LIABILITIES	\$Am	0	0	4	1	0	0
NET ASSETS	\$Am	9	16	22	32	32	30
Accumulated Profit (Loss)	\$Am	(13)	(14)	(13)	(7)	(4)	(5)
Reserves	\$Am	3	3	33	38	36	35
Contributed Equity	\$Am	19	27	0	0	0	0
Minority Interest	\$Am	0	0	0	0	0	0
Total Equity	\$Am	9	16	21	30	32	30

Section 4 - Cashflow

	2013	2014	2015	2016	2017	2018	
Net Cashflow from operations	\$Am	0.0	0.0	6.6	18.9	11.8	0.0
Hedging	\$Am	0.0	0.0	0.0	0.0	0.0	0.0
Interest Paid	\$Am	(0.1)	0.1	0.3	0.0	0.0	0.0
Taxes Paid	\$Am	0.0	0.0	0.0	0.0	(0.9)	(0.1)
Change in Working Capital	\$Am	0.0	(0.1)	4.1	1.5	(4.1)	(1.5)
Other	\$Am						
OPERATING CASHFLOW	\$Am	(0.1)	0.0	11.0	20.5	6.8	(1.6)
Exploration Expenditures	\$Am	(2.9)	(1.4)	(2.4)	(4.0)	(2.0)	0.0
Maintenance Capex	\$Am	0.0	0.0	0.0	0.0	0.0	0.0
Expansion Capex	\$Am	0.0	0.0	(10.0)	0.0	0.0	0.0
PPE Acquisitions (Total Capex)	\$Am	(2.9)	(1.4)	(12.4)	(4.0)	(2.0)	0.0
PPE Divestments	\$Am	0.0	0.0	0.0	0.0	0.0	0.0
INVESTING CASHFLOW	\$Am	(2.9)	(1.4)	(12.4)	(4.0)	(2.0)	0.0
Change in Equity	\$Am	2.7	7.3	0.0	0.0	0.0	0.0
Dividends Paid	\$Am	0.0	0.0	0.0	0.0	0.0	0.0
Change in Debt	\$Am	0.0	(0.0)	4.2	(3.4)	(0.8)	(0.0)
Other	\$Am						
FINANCING CASHFLOW	\$Am	2.7	7.2	4.2	(3.4)	(0.8)	(0.0)
Free Cashflow	\$Am	(3.0)	(1.4)	(1.4)	16.5	4.8	(1.6)
Net Cashflow	\$Am	(0.3)	5.9	2.8	13.1	4.0	(1.6)

Commodity price assumptions

	2013	2014	2015	2016	2017	2018
AUD-USD	1.027	0.910	0.890	0.855	0.850	0.850
Copper US\$/t	7,713	6,900	6,600	6,500	6,750	6,750
Gold US\$/oz	1,658	1,281	1,338	1,350	1,350	1,350
Silver US\$/oz	30.6	20.5	22.4	22.5	22.5	22.5

Mine Production

	2013	2014	2015	2016	2017	2018
Ore processed '000 t	0	225	600	375	0	0
Copper grade	1.90 %	1.90 %	1.90 %	1.90 %	0.00 %	0.00 %
copper recovery	90 %	90 %	90 %	90 %	90 %	90 %
Gold grade	0.20g/t	0.20g/t	0.20g/t	0.20g/t	0.00g/t	0.00g/t
gold recovery	50 %	50 %	50 %	50 %	50 %	50 %
Silver grade	3.0g/t	3.0g/t	3.0g/t	3.0g/t	0.0g/t	0.0g/t
silver recovery	50 %	50 %	50 %	50 %	50 %	50 %

Attributable production

	2013	2014	2015	2016	2017	2018
Copper '000 t	0	1,924	5,130	3,206	0	0
Gold oz	0	362	965	603	0	0
Silver oz	0	5,426	14,469	9,043	0	0

Resources

	Copper	Gold	Silver
Barbara			
EPM 15564 & EPM 16112 (50% SMD)			
Indicated	3,778	1.5%	59 kt
Inferred	1,553	1.1%	17 kt
Blue Star (100% SMD)			
Inferred	177	2.3%	4 kt
Green Zone (50% SMD)			
Inferred	430	0.9%	4 kt
TOTAL	5,938	1.40 %	83 kt

Assumed mining inventory

	2013	2014	2015	2016	2017	2018
Base Case	1,200 kt	1.9 %	0.2 g/t	3.0 g/t	22.8 kt	7.7 koz
Extension	600 kt	1.6 %	0.2 g/t	2.5 g/t	9.6 kt	2.9 koz

Asset based Valuation

	discount rate = 12.0 %	30-Jun-13	24-Apr-14
Barbara	85 %	\$ 18m	\$ 15m
extension	75 %	\$ 12m	\$ 9m
Blue Star	50 %	\$ 8m	\$ 4m
Franking credits	60 %	\$ 2m	\$ 1m
Corporate	100 %	(\$3m)	(\$3m)
Exploration	100 %	\$ 0m	\$ 0m
Cash / debt	100 %	\$ 1m	\$ 1m
Cash to be raised	100 %	\$ 6m	\$ 6m
TOTAL		\$ 43m	\$ 33m
Shares on issue		274.4m	FPO shares
		143.1m	Issued
			options exercised

Assumed Cash Costs, US c/lb

	LoM	2014	2015	2016	2017	2018
Waste	28	23	26	34	0	0
Mining	8	8	8	8	0	0
Site Admin	39	42	38	39	0	0
Processing	42	47	40	43	0	0
Transport	2	2	2	2	0	0
TC/RC	36	35	36	37	0	0
net by-product credit	(5)	(5)	(5)	(5)	0	0
Royalties	12	12	12	12	0	0
TOTAL		162 c/lb	164 c/lb	157 c/lb	170 c/lb	0 c/lb

Financial Ratios

	2013	2014	2015	2016	2017	2018
Revenue	\$Am	0.1	0.0	13.0	35.6	23.3
EBITDA	\$Am	(6.4)	(1.4)	16.6	47.0	31.2
EBIT	\$Am	(6.4)	(4.8)	7.4	41.3	31.2
NPAT (reported)	\$Am	(6.0)	(5.3)	4.8	39.9	31.4
Adjusted EPS (cps)		(3.6c)	(0.3c)	0.2 c	1.2 c	0.8 c
EPS Growth (%)			90 %	168 %	426 %	(40%)
DPS (c)		0.0 c	0.0 c	0.0 c	0.0 c	0.0 c
Dividend Yield (%)		0 %	0 %	0 %	0 %	0 %
PE adj. (x)	x	(0.5)	(9.8)	14.3	2.7	4.5
EV / EBITDA (x)	x	(0.4)	(2.3)	0.6	(0.1)	(0.4)
EV / EBIT (x)	x	(0.4)	(0.6)	1.3	(0.1)	(0.4)
Gearing (%)		0 %	0 %	16 %	2 %	0 %
Return on Assets		(67%)	(30%)	29 %	128 %	96 %
Return on Equity		(65%)	(33%)	23 %	131 %	98 %
EBITDA Margin (%)		(53%)	n/a	n/a	128 %	132 %
Interest Cover (x)	x	(9.4)	n/a	(42.6)	24.4	n/a

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The analyst responsible for this research report certifies that all of the views expressed reflect his personal views about the securities and the issuer.

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