

Production deferred 12 months
Much higher return expected for small increase in risk

Recommendation

Strong BUY
High Risk

Price

2.0c

Valuation

12c

- On 21 January SMD announced that the feasibility study that had been expected for December 2014 had been expanded, so that first product has been delayed from mid 2015.
- The delay was caused by the development of an Exploration Target of 2.5 to 4.0Mt @1.5 to 2.5% Cu beneath the Barbara open cut. This gives enough mine life to shift the milling operations from Cloncurry to Barbara, saving c. \$A 12m/yr.
- Beer & Co's revised valuation, incorporating the delay and the expected savings, and using a L-R AUD-USD rate of 0.750, is now 12c/share

Snapshot

Last Price	2.0c
Market Cap	\$5.5m
Cash on hand (31 Dec 2014)	\$1.06m
Shares on Issue	274.4m
52 Week High	7.0c
52 Week Low	1.9c
1 month / 6 month VWAP	2.1c / 3.4c

First sales delayed

The original plan, when the JV agreement was first announced in September 2013, was for ore from Barbara to be processed through CopperChem's mill near Cloncurry from 2014 Q4. That was later revised to completing a feasibility study by end 2014.

Exploration Success

However, the mill closed earlier than originally expected and as SMD found more high-grade mineralisation, the economics of shifting the processing plant to the mine site became more attractive as mine life increased.

In addition to the exploration target of 2.5Mt to 4.0Mt below the planned open cut at Barbara, SMD has 225kt in Resources at nearby Lillymay, plus a further exploration target of 400kt – 800kt, and 177kt in Resources at SMD's 100% owned Blue Star project.

A much better project

Beer & Co expects the project capital cost to increase from \$20m to \$27m, allowing for the sulphide circuit to be relocated from Cloncurry to Barbara. Our estimated cash cost was Aus 226c/lb and is now Aus 212c/lb, or a total saving of \$24m for the \$7m higher capital cost.

We also now use a AUD-USD rate of 0.750, so our all-in cash costs are now US 160c/lb, with annual average production of just over 25Mlb/yr.

Beer & Co valuation

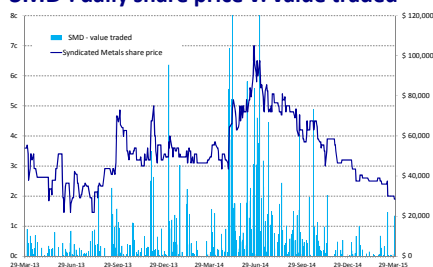
Beer & Co's previous valuation assumed a 4 year mine life. We now expect a mine life of nearly 7 years.

SMD is presently undertaking an under-written rights issue to raise \$2m. We have allowed for a further raising of nearly \$5m late in 2015, after the DFS has been completed.

Beer & Co conclusions

Our valuation is revised to 12c/share. We affirm our Strong BUY recommendation, High Risk

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-W of Cloncurry.

SMD has a JV with CopperChem, a subsidiary of SOL.ASX, to supply ore to their recently closed mill.

On 21 Jan 2015, SMD announced that the JV has decided to expand the feasibility study, to increase the volume of mining inventory so that the plant could be shifted to near the mine, saving US 32c/lb in cash costs for minimal capital to SMD.

However first product is delayed by 12 months from the original projection.

Author : Pieter Bruinstroop
pbruinstroop@beerandco.com.au

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Project Delayed

Share price weakened

Beer & Co initiated research on SMD in December 2013 (see link below).

http://beerandco.com.au/wp-content/uploads/2013/12/SyndicatedMetals_2013Dec02-2.pdf

At that time

- The SMD share price was 3.2c/share;
- Our valuation was 8.5c/share; and
- Our expectation was for first product by December 2014.

Since then, however, the timing has been pushed back

- The feasibility study was expected by December 2014; and now
- The feasibility study has been expanded.

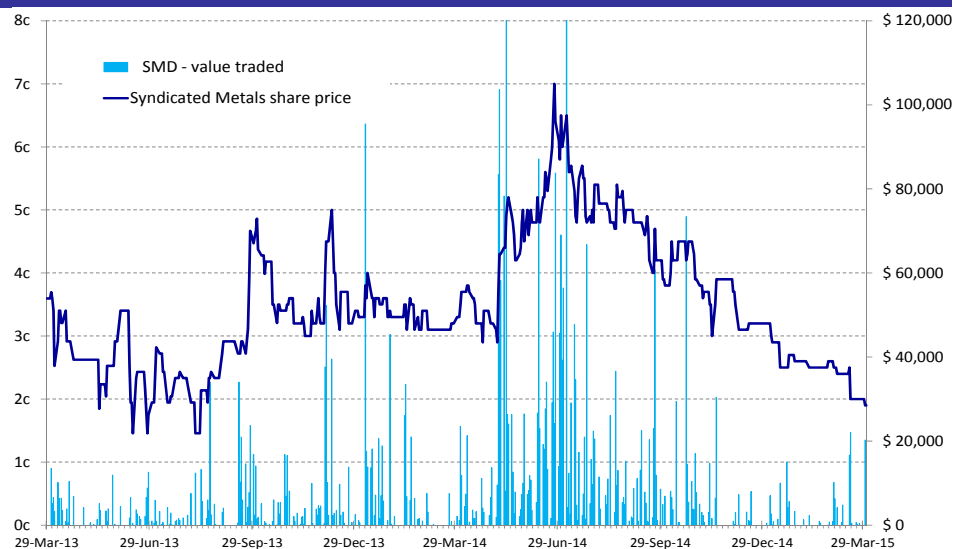
The expansion of the feasibility study is due to :

- CopperChem's milling operations in Cloncurry were closed in November 2014, earlier than was expected; and
- SMD has continued to have exploration success.

Combined, these mean that there is good reason to expect enough mine life to make it worthwhile to shift, at least the volume intensive, early stage, parts of the processing operations to the Barbara mine site.

As shown in Figure 1, the SMD share, and trading volumes, climbed until July as the time for production drew nearer, and then fell away as the prospect of near term production receded.

Figure 1 : SMD share price and trading volume since 1 January 2014



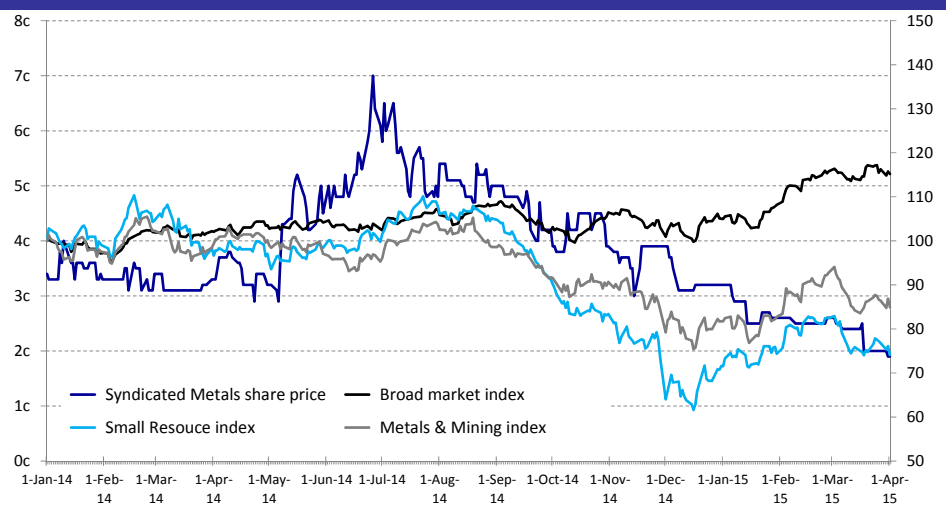
Source : IRESS, Beer & Co

Peers have bounced

Figure 2 shows that the SMD share price weakened with the metals and mining index and also the small resources index.

It also shows that these have bounced the start of 2015, while SMD has not.

Figure 2 : SMD share price v. broader market and mining

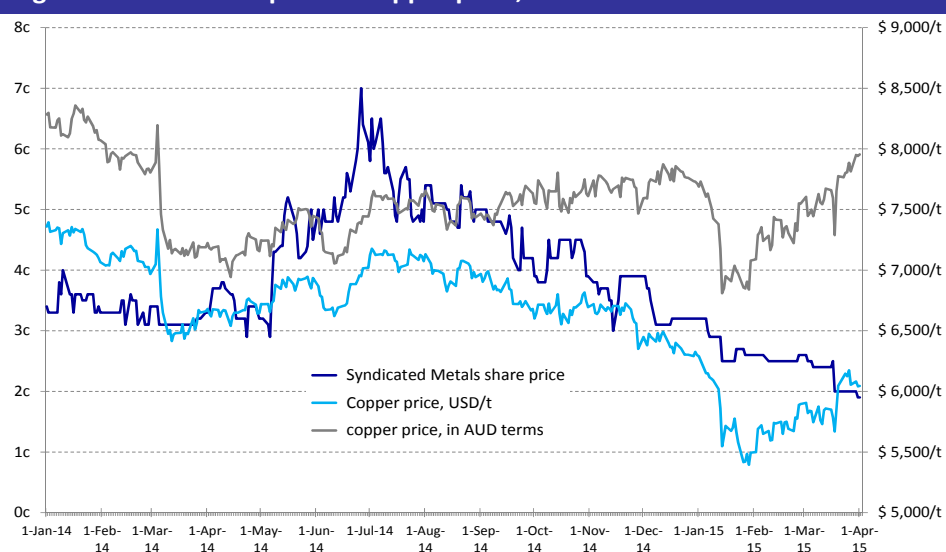


Source : IRESS, Beer & Co

Copper price has softened

Finally, figure 3 shows that a weakening copper price has contributed to the softness in the SMD share price. It also shows that the copper price in AUD terms, has been relatively flat over the period and the SMD share price has little relation to the copper price in AUD terms.

Figure 3 : SMD share price v. copper price, in USD and AUD terms



Source : IRESS, Beer & Co

Delay is the problem

Beer & Co concludes that the general market weakness and softness in the copper price have contributed to the poor performance, of the SMD share price, but the pattern indicates that project delay is the major factor.

A Better Project

Project delay is often associated with problems. However, in the case of SMD, the delays are to achieve a project with a much higher NPV due to :

- Longer project life; and
- Lower operating costs.

Longer Project Life

SMD has continued to report exploration success. Figure 4 shows the resource estimate at the time of our original research, while Figure 5 shows the mining inventory assumed at that time.

Figure 4 : Original Resource estimates

	0.5% Cu c/o		copper	gold	silver	cobalt	copper	gold	silver	cobalt
EPM 15564	Indicated	2,977 kt	1.6 %	0.2 g/t	2.7 g/t	270 ppm	47.3 kt	15 koz	258 koz	800 t
(50% SMD/ 50% C	Inferred	362 kt	1.3 %	0.1 g/t	2.4 g/t	296 ppm	4.7 kt	1 koz	28 koz	110 t
	TOTAL	3,339 kt	1.6 %	0.2 g/t	2.7 g/t	273 ppm	52.0 kt	17 koz	286 koz	910 t
EPM 16112	Indicated	801 kt	1.4 %	0.1 g/t	2.7 g/t	270 ppm	11.2 kt	3 koz	70 koz	220 t
(50% SMD/ 50% C	Inferred	1,191 kt	1.0 %	0.1 g/t	1.9 g/t	296 ppm	11.9 kt	5 koz	73 koz	350 t
	TOTAL	1,992 kt	1.2 %	0.1 g/t	2.2 g/t	286 ppm	23.1 kt	8 koz	142 koz	570 t
BARBARA TOTAL		5,331 kt	1.4 %	0.1 g/t	2.5 g/t	278 ppm	75.2 kt	25 koz	429 koz	1,480 t
BLUE STAR (EPM 16197)										
(100% SMD)	Inferred	177 kt	2.3 %	0.3 g/t			4.0 kt	1.5 koz		
GREEN ZONE (EPM 16112)										
(50% SMD/ 50% C	Inferred	430 kt	0.9 %	0.01 g/t			4.0 kt	0.2 koz		
NORTHERN HUB TOTAL		5,938 kt	1.4 %	0.14 g/t			83.1 kt	27 koz		

Source : AMD ASX announcements, 17 November 2010 (Barbara) and 24 October 2011 (Blue Star), Beer & Co

Figure 5 : Barbara potential mining inventory, December 2013

		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

Beer & Co's valuation rose when under-ground potential became apparent in June 2014, adding 400kt at 2.5% Cu for Barbara under-ground and 200kt for under-ground at satellites.

Since then, SMD has announced :

- An exploration target for Lillymay of 400kt – 800kt at 2% - 3% Cu;
- An exploration target for Barbara under-ground of 2.5Mt – 4.0Mt at 1.5% - 2.5% Cu; and
- A resource estimate for Lillymay of 225kt, containing 5.2kt of copper, grading 2.33%, as shown in Figure 6.

Fig. 6 : Lillymay Resource estimate

Inferred Resource	grades	
	copper	gold
West Lode	65 kt	1.83 %
East Lode	160 kt	2.53 %
TOTAL	225 kt	2.33 %

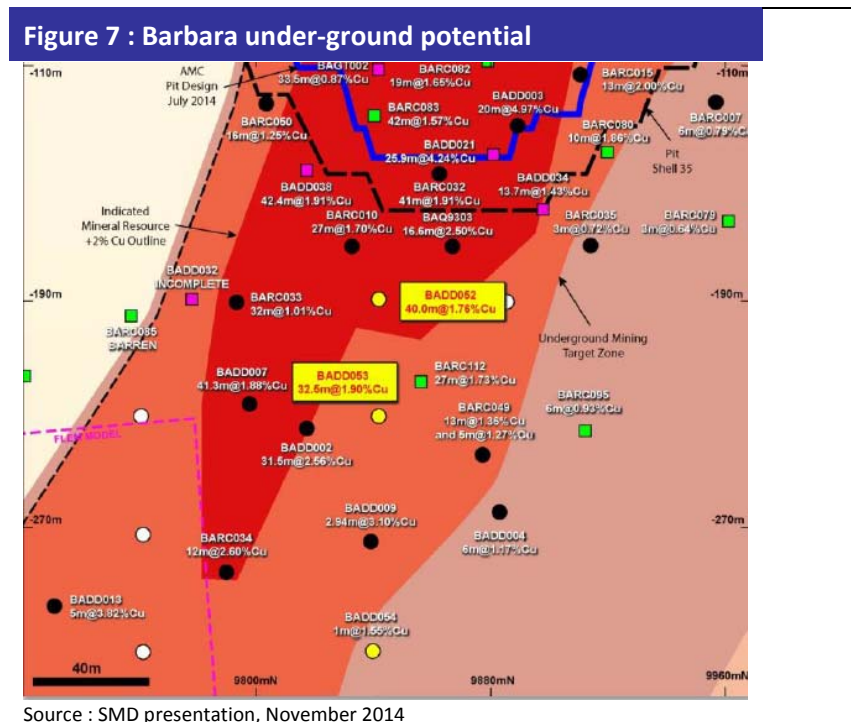
Source: SMD, 16 December 2014

SMD has also announced an exploration target for Blue Star of 500kt – 800kt at 2% - 3% Cu.

Clearly, Barbara under-ground is the key. Figure 7 shows that 2 of the 3 holes that were drilled during the recent drill programme achieved very strong returns :

- 40m at 1.76% Cu, including 9m at 4.0% Cu; and
- 32.5m at 1.90% Cu, including 14m at 2.73% Cu.

Figure 7 shows a high grade mineralisation is open down plunge.



Source : SMD presentation, November 2014

Figure 8 shows Beer & Co’s updated assumed mining inventory for the Barbara.

Figure 8 : Revised assumed mining inventory

		grades			contained metal		
		copper	gold	silver	copper	gold	silver
Barbara Oxides	150 kt	2.0 %			3.0 kt		
Barbara Open Cut	1,050 kt	2.0 %	0.2 g/t	3.0 g/t	21.0 kt	6.8 koz	101 koz
Barbara under-ground	1,500 kt	2.5 %	0.2 g/t	3.0 g/t	37.5 kt	9.6 koz	145 koz
Lillymay oxides	100 kt	2.0 %	0.0 g/t		2.0 kt	0.0 koz	
Lillymay open cut	300 kt	2.3 %	0.0 g/t		6.9 kt	0.0 koz	
Lillymay under-ground	200 kt	2.5 %	0.0 g/t		5.0 kt	0.0 koz	
Blue Star oxides	100 kt	2.0 %	0.2 g/t		2.0 kt	0.6 koz	
Blue Star open cut	300 kt	2.0 %	0.2 g/t		6.0 kt	1.9 koz	
Blue Star under-ground	200 kt	2.5 %	0.2 g/t		5.0 kt	1.3 koz	
Trey Bit	0 kt	0.0 %			0.0 kt		
TOTAL	3,900 kt	2.27 %			88.4 kt	20.3 koz	246 koz

Source : Beer & Co estimates

CopperChem’s plant has a rated capacity of 600kt/yr of sulphidic ore.

SMD’s 21 January 2015 announcement, expanding the feasibility study, gives a target of 5 to 7 years for the plant to be shifted to the mine site.

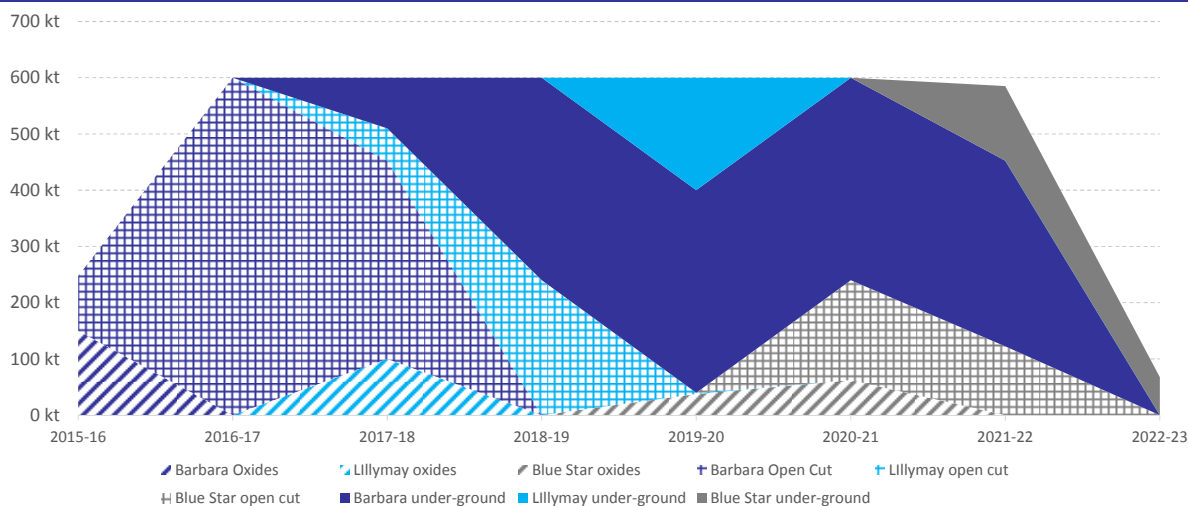
Figure 8 shows over 6 years of primary material, which justifies the cost of shifting the plant from Cloncurry to Barbara, though we expect that the oxide material will be crushed and then trucked to CopperChem’s Cloncurry operations.

Operations

Figure 8 shows that SMD has 9 different ore sources, with relatively small differences in grade and trucking distance, as well as oxide v sulphide ores.

Figure 9 shows Beer & Co’s projected mine plan, which shows the mix of ores, partly constrained by an assumed under-ground capacity of 350kt/yr for Barbara and 300kt/yr for Lillymay and Blue Star, and the logical need to mine the oxide ore to reach the sulphide ore, and also to nearly complete the open-cut before being able to develop the under-ground off the open-cut.

Figure 9 : Beer & Co’s projected mine plan for SMD



Source : Bee & Co estimates

Lower operating costs

The original plan, based on a 2 to 3 year mine life at Barbara, was to do a primary crush on site at Barbara and then truck the ore 140km to CopperChem’s plant at Cloncurry.

This is an annual cost of about \$12.6m.

Figure 9 shows the impact on Beer& Co’s estimated costs, including royalties and sustaining capital, of the changes in operations.

Figure 10: Lower operational costs

AISC	June 2014	6 year life	Mill shifted	oil price
US c/lb	190 c/lb	188 c/lb	162 c/lb	160 c/lb
Aus c/lb	A 226 c/lb	A 223 c/lb	A 214 c/lb	A 212 c/lb

Source : Beer & Co estimates

Figure 10 shows that the impact of lower oil prices, from \$110 to \$75/bbl, is not great when the amount of material trucked is reduced.

In this analysis, we have assumed a copper price of \$5,500/t (\$2.50/lb) in the current period, rising to \$6,725/t, or \$3.05/lb, by March 2017. We have assumed \$1200/oz gold price and silver 1/65 of the gold price.

Our earlier analyses assumed an AUD-USD rate of 0.850. Figure 11 shows the impact of differing assumptions on the AUD-USD rate.

It shows US costs falling as the AUD-USD rate falls, but the AUD costs rising as some costs, particularly TC/RCs, are set in USD terms, while most other costs are in AUD terms.

Figure 11 : Lower operational costs

AUD-USD	0.850	0.800	0.750
US c/lb	172 c/lb	166 c/lb	160 c/lb
Aus c/lb	A 202 c/lb	A 207 c/lb	A 212 c/lb

Source : Beer & Co estimates

Figure 12 shows the detail of Beer & Co's revised cash cost estimate. Figure 13 shows the same information, but in US terms.

It shows significant variability as operations move between under-ground and open cut ore sources.

Figure 12 : Detailed cash cost estimate, in AUD terms

AUD c/lb	LoM	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Waste	34	23	40	50	18	2	12	11	0
Mining	35	37	10	38	69	84	78	82	148
Site Admin	8	10	8	8	7	7	7	7	10
Processing	45	90	44	50	27	24	35	24	33
Transport	18	11	19	17	19	19	18	19	19
TC/RC	44	27	66	57	66	63	61	66	66
net by-product credit	(3)	(3)	(5)	(3)	(0)	(0)	(2)	(1)	(1)
Royalties	19	18	19	19	19	19	19	19	19
Sustaining Capital	12	0	0	16	11	0	0	12	0
TOTAL	212	213	201	254	236	217	229	238	294

Source : Beer & Co estimates

Figure 13 : Detailed cash cost estimate, in USD terms

US c/lb	LoM	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Waste	25	17	30	38	14	2	9	8	0
Mining	27	28	7	21	39	47	44	46	83
Site Admin	6	8	6	6	5	5	6	5	7
Processing	33	67	33	38	20	18	26	18	24
Transport	13	8	14	13	14	14	14	14	14
TC/RC	33	15	37	32	37	35	34	37	37
net by-product credit	(2)	(2)	(4)	(2)	(0)	(0)	(1)	(1)	(1)
Royalties	14	13	14	14	14	14	14	14	14
Sustaining Capital	9	0	0	12	8	0	0	9	0
TOTAL	160	155	138	173	152	136	146	151	180

Source : Beer & Co estimates

Revised Valuation of SMD

Figures 10 & 11 show that the revisions of operations and changes in the oil price and AUD-USD have reduced Beer & Co's estimated costs from 172c/lb to 160c/lb.

Project Value

Figure 13 shows Beer & Co's projected cashflows for the Barbara project.

It shows that Beer & Co project capital cost is now assumed to be \$27m; The 21 January 2015 announcement stated that the plant will remain the property of CopperChem.

Figure 14 : Beer & Co's projected cashflows, Barbara project

AUD m	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Copper - USD/t	\$ 6,228/t	\$ 6,669/t	\$ 6,724/t	\$ 6,724/t	\$ 6,724/t	\$ 6,724/t	\$ 6,724/t	\$ 6,724/t
Copper - TC / RC	\$ 95/t	\$ 95/t	\$ 95/t	\$ 95/t	\$ 95/t	\$ 95/t	\$ 95/t	\$ 95/t
AUD/USD	0.750	0.750	0.750	0.750	0.750	0.750	0.750	0.750
Copper cathode t	0 t	2,250 t	0 t	1,500 t	0 t	563 t	938 t	0 t
Copper in conc t	0 t	1,638 t	10,665 t	9,560 t	13,068 t	12,652 t	11,295 t	12,611 t
Gold produced (oz)	0 oz	314 oz	1,929 oz	1,423 oz	1,158 oz	1,158 oz	1,728 oz	1,881 oz
Silver produced (oz)	0 oz	4,703 oz	28,939 oz	21,342 oz	17,363 oz	17,363 oz	17,363 oz	15,916 oz
Copper Revenue	0.0	33.1	94.8	99.2	117.2	118.5	109.7	113.1
Cu TC / RC	0.0	(1.8)	(11.6)	(10.4)	(14.2)	(13.8)	(12.3)	(13.7)
By-products, net	0.0	0.2	1.2	0.7	0.0	0.0	0.5	0.4
Cash Costs	0.0	(11.0)	(24.5)	(34.5)	(35.4)	(33.9)	(35.2)	(35.0)
Royalties	0.0	(1.4)	(3.8)	(4.0)	(4.6)	(4.7)	(4.4)	(4.5)
Dep'cn & Amort'sn	0.0	(4.7)	(10.7)	(13.8)	(5.0)	0.0	0.0	0.0
E B I T	0.0	14.4	45.6	37.2	57.9	66.1	58.3	60.3
Project Cap.Ex	0.0	(27.0)	0.0	0.0	0.0	0.0	0.0	0.0
Sus. Cap. Ex	0.0	0.0	0.0	(4.0)	(3.2)	0.0	0.0	0.0
Exploration	(0.8)	(0.8)	(4.0)	(4.0)	(4.0)	0.0	0.0	0.0
Net Cashflow	0.0	(12.2)	42.6	35.8	42.3	46.3	40.8	39.0

Source : Beer & Co estimates

The net cashflow assumes that 70% of the \$27m project capital is debt financed, and the net cashflow is the cashflow to equity so includes repayment of principal plus interest.

It also includes the impact of working capital. It shows that the Barbara project has a very high return.

SMD Value

SMD has a 50% share in the project. CopperChem earn their 50% interest by funding the feasibility study. Hence this extension is at virtually no cost to SMD.

SMD is raising equity for working capital purposes and also to explore in areas that are 100% SMD and not part of the joint venture, but are expected to supply ore.

Beer & Co has adjusted our model to assume :

- Feasibility study now completed mid 2015
- Financing in September quarter;
- Mine construction completed by end 2015, with first ore in early 2016.

Figure 13 : Beer & Co's valuation of SMD is now 12c/share

discount rate = 12.0 %	risk :	30-Jun-14		2-Apr-15	
		100%	Product per share		
Barbara Open Cut	80 %	\$ 12m	\$ 9m	1.8 c	1.7 c
Barbara under-ground	70 %	\$ 38m	\$ 27m	5.1 c	4.7 c
Satellites Open Cut	75 %	\$ 20m	\$ 15m	2.9 c	2.7 c
Satellites under-ground	50 %	\$ 20m	\$ 10m	1.9 c	1.8 c
Franking credits	30 %	\$ 15m	\$ 4m	0.9 c	0.8 c
Corporate	100 %	(\$5m)	(\$5m)	(0.9c)	(0.7c)
Exploration	100 %	(\$9m)	(\$9m)	(1.7c)	0.0 c
Cash / debt	100 %	\$ 2m	\$ 2m	0.4 c	0.3 c
Cash to be raised	100 %	\$ 5m	\$ 5m	1.0 c	0.7 c
TOTAL		\$ 98m	\$ 59m	11.4 c	11.9 c
Shares on issue		274.4m	FPO shares	30.9m	options
		232.5m	to be issued	10.9m	op. ex'd

Source : Beer & Co estimates

Beer & Co assume that SMD raises nearly \$5m in equity in September 2015, in addition to the current raising.

Figure 13 shows that Beer & Co's valuation of SMD has been revised to 12c/share.

Conclusions

Beer & Co's valuation of SMD has been revised in a number of ways :

- Longer mine life, due to exploration success;
- Lower costs due to the mill being sited at the mine, saving about \$12m in trucking costs;
- Slightly lower costs due to lower oil price assumptions;
- Higher margins, as our assumed AUD-USD rate has been reduced from 0.850 to 0.750;
- Lower valuation as we now assume \$5m in equity raised at current prices, allow for a higher risk margin and deferral of production by one year.

While the market reaction has been negative, our valuation has increased significantly, though we expect it will take time to see the revised feasibility before the SMD share price responds.

Beer & Co confirms our BUY, High Risk rating.

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Report prepared by : Pieter Bruinstroop pbruinstroop@beerandco.com.au

BEER & CO PTY LTD ABN 88 158 837 186,
AUTHORISED REPRESENTATIVE MELBOURNE VENTURE SECURITIES PTY LTD AFSL No. 224 313

Melbourne Office:

Suite 4, Level 2, Bank House

11 - 19 Bank Place,

Melbourne, Vic, Australia 3000

Telephone: (+613) 9600 3599

Facsimile: (+613) 9602 2291

Email: info@beerandco.com.au

Web: www.beerandco.com.au