Syndicated Metals: A Copper "play" left behind in copper bull market, coming in from the cold

Syndicated Metals’ (ASX: SMD) high grade Barbara copper gold project in the Mount Isa region has been a developing story, unfolding with little fanfare, building its resource base and with exploration success at numerous targets.

Barbara's copper resource grew by 60% in 2010 to a total Indicated and Inferred Resource of 5.33 million tonnes at 1.4% copper, and 0.1 grams per tonne gold, 267 parts per million cobalt, and 2.5 grams per tonne silver, for 76,000 tonnes of copper, 25,000 ounces of gold, 430,000 ounces of silver, and 1,400 tonnes of cobalt for a copper equivalent of 89,000 tonnes insitu.

With a sufficient resource base and potential mine life, Barbara is likely to be highly economic given its grade and likely OPEX and CAPEX and its location in an established infrastructure and mining region.

We believe the company will increase significantly the contained copper at Barbara in 2011, expanding the resource base from the current 76,000 tonnes of copper to 125,000 to 150,000 tonnes, thereby removing a perception that Barbara does not have sufficient resources to move Barbara to development.

Syndicated also owns a 49% interest in the recent high grade discovery at Kalman South located just 60 kilometres southeast of Mount Isa.

Up till now Kalman South has been a “sleeper” in terms of project status and contribution to the valuation of Syndicated. No work has been carried out at Kalman by Syndicated's joint venture partner, Cerro Resources (51% interest) for the past two years while Cerro shifted its focus to a project in another part of the world.

We believe a restructure of the joint venture at Kalman South is likely to be achieved sooner rather than later, adding a further catalyst for a re-rating of Syndicated's share price.

Syndicated Metals Limited (ASX: SMD) is listed on the Australian Securities Exchange.

Syndicated Metals Limited is focused on the development of copper and associated metals from its large ground position in the Mount Isa mineral province, located near the mining centre of Mount Isa.

Recent significant discoveries in the Mount Isa region alongside Syndicated and Cerro Resources’ (ASX/TSX-V: CJO) Kalman South Project include: Ivanhoe's (ASX: IVA) Merlin Project, which is the world's highest grade molybdenum and rhenium deposit, Exco Resources (ASX: EXS) Cloncurry Copper Project and Cudeco’s (ASX: CDO) Rocklands Copper Gold Project.

Clearly, the Mount Isa region has a vast and established mining culture and access to infrastructure e.g. road, rail,
power, water, access to port facilities at Townsville.

Remarkably, in such a world renowned minerals region, parts of the Mount Isa province are still under-explored. Recent discoveries are a testimony to the continuing prospectivity and mineral endowment of the region.

The centre piece of Syndicated's current exploration and development effort is the Mount Remarkable Project which includes the Barbara copper-gold project. Mount Remarkable comprises mostly contiguous tenements covering around 1,100 square kilometres and is considered prospective for copper-gold, sediment hosted lead-zinc-silver and uranium mineralisation.

The Barbara deposit is located 50 kilometres northeast of Mount Isa and is easily accessible via the main Barkly Highway and the Lake Julius Road.

The project covers 75 kilometres of strike east of Mount Isa on the road to Cloncurry. The Mount Remarkable area is rapidly emerging as a target rich environment with the potential for open pit copper and gold resources located around the Barbara Copper Project. This includes a slew of exciting new prospects including Bloodwood, Ironbark and Mount Margaret identified at the northern end of the project area.

The Barbara copper project area straddles the 100% owned EPM 15564 and 51% owned EPM 16112 with the majority of the resource being on Syndicated's 100% ground.

In November 2010, Runge Limited (ASX: RUL), international mining consulting group provided an upgraded resource estimate for the Barbara South and North Deposits. The Barbara tenements have a total Indicated and Inferred Resource of 5.33 million tonnes at 1.4% copper, and 0.1 grams per tonne gold, 267 parts per million cobalt, and 2.5 grams per tonne silver, 25,000 ounces of gold, 430,000 ounces of silver, and 1,400 tonnes of cobalt for a copper equivalent of 89,000 tonnes. Syndicated's attributable share is 75,000 tonnes of contained copper equivalent.

The copper resource grew by 60% on the most recent upgrade completed at the end of calendar 2010. Mineralisation is currently defined within two adjacent ore zones known as the North and South Lodes, with additional ore potential contained between the blocks, along strike, and down dip.

Syndicated's aim is to delineate sufficient resources at the Barbara Project to justify a stand-alone mining and processing operation. Another possible option is toll treatment at one of the nearby processing plants.

The 2011 drill program is aimed at doubling the resource to 100,000 - 150,000 tonnes of in situ copper metal from a combination of down plunge extensions of the Barbara Project's North and South Zones and nearby exploration success from the pending 10,000 metre drill programme.

Drilling will continue throughout 2011 to expand the resource, and based on a simple review of the schematics from the company the tonnage growth could be substantial.

The Barbara deposit has a high grade core of +2.0% copper, most likely suitable for underground mining.

One hole at the end of the recent drilling campaign returned 11 metres of 2.16% copper and 0.16 grams per tonne gold from 37 metres at the northern end of South Zone, which will help boost grades on that section.

Additional ore resources are being defined 500 metres to the west on the Green Zone Shear, which cuts across the end of the fault hosting the Barbara copper resource. The Green Zone has been drilled over a distance of 400 metres and contains significant shallow copper values.

The nearby Greenback prospect which appears to be an off-set from the Barbara fault also carries copper mineralization, returning 9 metres of 0.98% copper from 58 metres, and 5 metres at 1.03% copper from 46 metres, from two drill holes.
These prospects and additional targets are scheduled for drilling and inclusion in the resource base in 2011.

Syndicated is cashed up to fast track the drilling and development of Barbara as an open pit copper and gold mine in 2011/12. It is still only in the opening stanza of unlocking the potential of the Mount Remarkable fault.

**Scoping Study and Environmental Study:**

Preliminary mining studies demonstrate the potential economic viability of the current resource.

Syndicated engaged mining consultants to commence an assessment of the potential of mining the Barbara resource. Indicative open-pit optimisations using what are considered to be reasonable assumptions on mining and treatment costs and metal prices have been undertaken.

The deeper section of the deposit which may not be recoverable by open-pit methods has also undergone some early-stage assessment for its potential for recovery by underground mining with encouraging results.

**Recoveries:**

Flotation testwork by AMDEL Mineral Laboratories indicates excellent recoveries of copper to concentrate. Preliminary flotation testwork was undertaken by AMDEL in Perth on two composite samples of sulphide with ore grading 3.5% copper and 4.9% copper respectively collected from Syndicated's diamond drilling program.

The test work included assessment of the effect of grind size on flotation performance and flotation cleaner tests. The results demonstrated that a saleable copper concentrate grade of 25% with copper recoveries of 91% and 96% could be achieved from these composites.

**Exploration:**

Exploration and resource expansion drilling programs are expected to commence in the March quarter of 2011 to test a pipeline of outstanding copper-gold targets.

Syndicated Metals has deployed a Versatile Time-Domain Electromagnetic survey (VTEM) to define electromagnetic anomalies from the air, as well as extensive soil and rock chip sampling across the Mount Remarkable Fault line. Early results are extremely encouraging.

New targets have also been delineated at Bloodwood, 20 kilometres north of Barbara and at Ironbark 30 kilometres to the northeast of Barbara. Sampling over magnetic highs has identified three anomalous copper gold zones with values up to 25% copper and 6 grams per tonne gold. Ironbark, which lies a further 11 kilometres to the northeast of Bloodwood, hosts a magnetic trend with rock chip values of 10% copper, and 12 grams per tonne gold over a 600 metres strike length.

Both Bloodwood and Ironbark will be priority drill targets Syndicated's 2011 program.

Reconnaissance work and early scout drilling at Mount Margaret, which is 10 kilometres north of Barbara, has identified "red rock" alteration and broad zones of anomalous copper mineralization over an area that is approximately 900 metres in length, and varies in width from 100 to 300 metres.

Very limited drilling at Mount Margaret has tested a number of magnetic and geochemical anomalies to very shallow depths. All of the test holes intersected altered red rock sediments with low grade copper and gold values reported across the length of the system.

This target carries significant quantities of hematite, sulphides and magnetite, which is common to large IOCG systems such as the nearby Ernest Henry copper and gold deposit owned by Xstrata (LSE: XTA.L, SSE: XTA.S).
By comparison, Ernest Henry was first discovered in 1993 and has produced in excess of 100 million tonnes of gold and copper ore to date. The mine commenced as an open pit operation and is now switching over to production from underground ore. That project still contains 72 million tonnes of 1.0% copper and 0.5% gold, down to a depth of 1,000 metres and will produce 6 million tonnes of ore on an annualised basis.

Some significant intersections at Mount Margaret include 27 metres at 0.12% copper and 20 metres at 0.25% copper with maximum gold values of 0.2 grams per tonne. Technical studies continue over the area in preparation for more concerted drilling campaigns and targeting of much deeper structures.

Work on priority drill targets in the 2011 program, which will include follow up of a number of significant copper-gold intersections drilled in 2010 including the new Blue Star discovery along with the drill testing of a number of new soil, rock chip and VTEM anomalies, is expected to add significantly to Syndicated’s resource inventory during the year.

Development Options: Standalone Development

The substantial resource upgrade achieved through the 2010 drilling program has demonstrated the potential of the Barbara deposits to form the basis of a copper-gold mining operation with a number of similar targets, including recent discoveries at Green Zone and Blue Star, located 20 kilometres from Barbara, slated for further drilling early in 2011 to add to the existing resource inventory.

Syndicated intends to continue to rapidly define additional open pittable sulphide copper-gold mineralisation at Mount Remarkable during 2011 as well as pursuing an extensive regional exploration program to ensure continuity of their pipeline of high quality drilling targets.

Preliminary pit optimisations indicate that a substantial part of the resource at Barbara may be able to be recovered by open pit mining with the higher grade deeper sections below the pit limits potentially recoverable by underground mining methods.

Further environmental, metallurgical and mining studies will be undertaken during 2011 to assist in determining the most advantageous development options for the Barbara Project.

A central milling facility is an option given the close proximity of Barbara to other targets 10-20 kilometres away such as; Blue Star, Bloodwood, Ironbark, Mt Margaret and Hutchison, Greenzone and North Gossan, Trey Bit and Bluestar.

A standalone development would be the preferred option, given the economics of the project at the grades of Barbara. This option would require an increase in the resource/reserve at Barbara. In our view it would need to reach 100,000-150,000 tonnes of contained copper metal, sufficient for an 8-10 year mine life at Barbara.

Toll Treatment:

Xstrata's Mount Isa concentrator is the nearest plant some 50 kilometres away and could afford an option. However, this is likely to be a "Plan B" given better economics of a standalone development and other factors.

Kalman South Project (49% owned)

Syndicated Metals holds a 49% interest in the Kalman South Project discovery, located 60 kilometres southeast of Mount Isa within EPM13870. This is a high grade molybdenum and rhenium, copper gold discovery with similarities to Ivanhoe's nearby Merlin deposit. Intersections include: 72 metres at 0.2% molybdenum, 4.4 grams per tonne rhenium, 0.5% copper and 0.7 grams per tonne silver and 33 metres at 0.32% molybdenum, 10 grams per tonne rhenium and high grade copper hits of: 9 metres at 20% copper.

Cerro Resources (ASX/TSX-V: CJO) has earned a 51% interest in the Kalman South Project as operator, with the right to advance to 70% on completion of a final feasibility study by July 2011. Syndicated also holds a 2% production royalty over Kalman South project.
The advanced Kalman South Project has an Inferred Resource of 36.7 million tonnes at 0.06% molybdenum, 1.5 grams per tonne rhenium, 0.3% copper and 0.15g/t gold containing a higher grade central core. Syndicated's 49% stake in Kalman South Project provides it with 55,076 tonnes of attributable contained copper and a copper equivalent of 120,000 tonnes.

A large number of additional targets have been identified along a 40 kilometre long strike length within the permit area of Kalman South. At present, the project is in a holding pattern - however this could soon be set to change.

Cerro is on record as seeking a "joint venture" or a "corporate transaction" for its stake in Kalman South as Cerro's major focus has shifted to its overseas project.

Syndicated has a total attributable copper equivalent resource of 195,982 tonnes from the Barbara Project and Kalman South (49% interest) projects.

Top Shareholders:

Syndicated's top 10 shareholders account for almost 55% of issued capital. Korea Zinc, which is one of the world's largest zinc producers, took part in the recent placement at $0.15 per share to maintain its equity interest in the company at 14.9%. Daily share turnover can tend to be on the low side. Managing director Russell Davis owns 6.7% of Syndicated. He has made a recent purchase at $0.16 per share.

Near term catalysts for valuation growth for Syndicated Metals

- Drilling results
- Kalman South Project resolution
- Barbara deposit economics
- Increase in resource base at Barbara/Mount Remarkable

Valuation guide:

With an undiluted market capitalisation of $14.6 million at $0.16, and cash of approximately $4.5 million, this implies 30% of the current Syndicated valuation is cash backing. This would value the rest of the company including copper resources at Barbara and the 49% share of Kalman South Project - at just $10.1 million or $0.11 per share.

Taking a line through Syndicated's current copper equivalent resource base equates to an Enterprise Valuation / Resource tonne copper equivalent of a miserly $63.60/resource tonne versus a sector average of over $350/tonne copper.

On this measure, Syndicated is clearly undervalued in a copper sector that has re-rated valuations of nearly all copper explorers and producers.

However, based on our research, we believe Syndicated's copper equivalent resource base will increase potentially up to 125,000 – 150,000 contained copper equivalent tonnes in 2011. This would turbo charge the undervaluation, underpinning development of Barbara and a higher valuation for the company.

Based on the forgoing, we could see a Syndicated Metals valuation and share price greater than $0.50 within six months and greater than $0.75 within 12 months based on the growing resource and undervaluation. Throw in resolution on Kalman South Project and the undervaluation of Syndicated becomes even greater.

**Share Price:** $0.16  
**Cash:** $4.5 million  
**Debt:** Nil  
**Issued Capital:** 91.7m ordinary shares  
**Market Cap:** $14.6 million
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