

Analyst

Stephen Thomas 618 9326 7647

Authorisation

David George 613 9235 1972

Crusader Resources (CAS)

Developing gold in Rio Grande north-east Brazil

Recommendation
Spec Buy (Initiation)
Price
\$1.33
Target (12 months)
\$1.74 (Initiation)

Expected Return

Capital growth	31%
Dividend yield	na
Total expected return	31%

Company Data & Ratios

Enterprise value	\$131m
Market cap	\$152m
Issued capital	114m
Free float	68%
Avg. daily vol. (52wk)	151k
12 month price range	\$0.44-\$1.50
GICS sector	Materials

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	1.29	1.26	0.51
Absolute (%)	2.33	5.18	158.82
Rel market (%)	7.01	13.60	162.55

Absolute Price



SOURCE: IRESS

Borborema approaching 2.0Moz of gold and counting

We regard CAS's Borborema deposit as a promising gold discovery, with similarities to the Garden Well discovery in WA (RRL). The deposit is located in the state of Rio Grande do Norte, with significant advantages of infrastructure.

CAS recently upgraded the JORC resource to 44.6mt grading 1.30g/t for 1.86Moz of gold (CAS 100%), and we expect this resource to grow as drilling continues. We are prepared to take an early view that the discovery is likely to be economic, based on the shallow, broad and consistent zones of gold mineralisation delineated to date.

Borborema should support gold production of ~120koz pa

We have carried out a "desk top" review of development of an open cut mine at Borborema. We estimate a 75% conversion of resources to a reserve of 0.9Moz (non-JORC), which should be adequate to support an open pit operation producing ~120koz of gold per annum, at moderate cash costs.

Potential for near term cash flow from iron ore project

CAS is also set to become Australia's next iron ore producer, with modest itabirite production (1mtpa) about to commence from the Posse project, in Minas Gerais, Brazil (subject to environmental permitting).

Solid financial position to fund growth

CAS has a solid balance sheet to support evaluation of Borborema with cash of \$21m, and no debt. The company recently completed a placement raising \$16.2m (at \$1.20 per share).

Investment view – Attractive speculative gold play

We regard CAS as one of the better quality emerging gold producers, representing good value in light of high potential for gold production from the Borborema project.

We are initiating coverage with a Speculative Buy recommendation, with an assessed value and Target Price of \$1.74, based on Enterprise Value (EV) multiples of resources and reserve ounces of peer group companies (Figure 1,2 & Appendix 1).

In view of the early stage of development of the Borborema gold project, where a formal Feasibility Study has not been carried out to demonstrate economic viability, an investment in CAS remains speculative in nature and more suitable for investors with a higher tolerance for risk.

Investment Summary & Valuation

Investment Highlight

Borborema has good growth potential; we expect ongoing drilling to increase the resource, with mineralisation open down dip. CAS has an exploration target of a further 0.5-0.75Moz, to take total potential resource to 2.4-2.6Moz of gold.

Attractive geometry for open pit mining; Borborema has shallow, broad and gently dipping zones of mineralisation (dipping at 40 degrees). This should translate to attractive open pit economics, even allowing for relatively low grades. Borborema has similar geological, geometrical and sizing to Regis Resources' Garden Well deposit (which has a resource of 49mt grading 1.36g/t for 2.14Moz of gold)

Well located relative to infrastructure; in contrast to a number of Brazilian gold projects being developed by TSX & ASX listed companies, the Borborema project has excellent infrastructure. The project is located just 150km from the coast of Brazil, providing substantial advantages (ie. access, power & water), and attracting a skilled work-force.

Valuation

Our "desk top" review expects a 75% conversion of the Central Zone resource of 1.3Moz to a reserve of approximately 1.1Moz grading 1.3g/t gold (non-JORC), which should be sufficient to support a modest open cut delivering ~120koz per annum, at moderate cash costs.

Our Borborema project valuation (\$363m) is based on the average EV multiples per ounce of resource and reserve, adjusted for cash (\$21m) (Figure 1, 2 & Appendix 1).

Figure 1 - Implied Market Value from peer group EV Multiples

	Tonnes (Mt)	Grade (g/t Au)	Ounces (Moz)	EV (\$/oz)	EV (\$M)	Market Value (\$M)*
Borborema - resource (JORC) <i>(manual polygonal estimate)</i>	26.25	1.54	1.30	179	233	254
Borborema - reserve (BP estimate) <i>estimated conversion to reserve 75%</i>	19.68	1.54	0.98	450	440	461
				AVERAGES	336	357

* Market Value (\$357M) is determined by adjusting EV (\$336M) for cash (\$21m)

SOURCE: BELL POTTER SECURITIES ESTIMATES

Figure 2 - Valuation Table

Asset	\$M	cps*
Borborema gold project (100%)	363	174
Feasibility Study drilling & Corporate OHs	-20	-10
Other projects - nominal	10	5
Cash	21	10
Options	5	3
Debt	0	0
Total	379	182

* expanded capital base (208M securities) includes equity raising for project funding (94M shares at \$120)

SOURCE: BELL POTTER SECURITIES ESTIMATES

Borborema gold project

Company & project background

Crusader Resources (CAS) has been active in Brazil for about 5 years, moving into the Borborema region on the back of significant historical production of tungsten. Borborema has become the company's flagship project, displacing the Posse iron ore project (which is awaiting final environmental permitting before commencing production) (Figure 3). Borborema has historical production of ~300koz of gold, from artisanal mining and a previous small campaign of open cut mining on oxide material.

Figure 3 – Borborema (gold) & Posse (iron ore) project locations



SOURCE: COMPANY DATA

Updated resource at Borborema delivered in June 2011

CAS updated the resource to 44.64mt grading 1.30g/t for 1.86Moz of gold (previously 0.84Moz). The Borborema resource is delineated over a 3,000m strike length, and to a depth of 215m below surface (Figure 4). The resource remains open in all directions, with mineralisation best developed in the central zone (Figures 5 and 6). The resource includes drilling up to March 2011 and is expected to be updated again in 1H12.

Figure 4 – Updated Borborema resource at 1.86Moz of gold

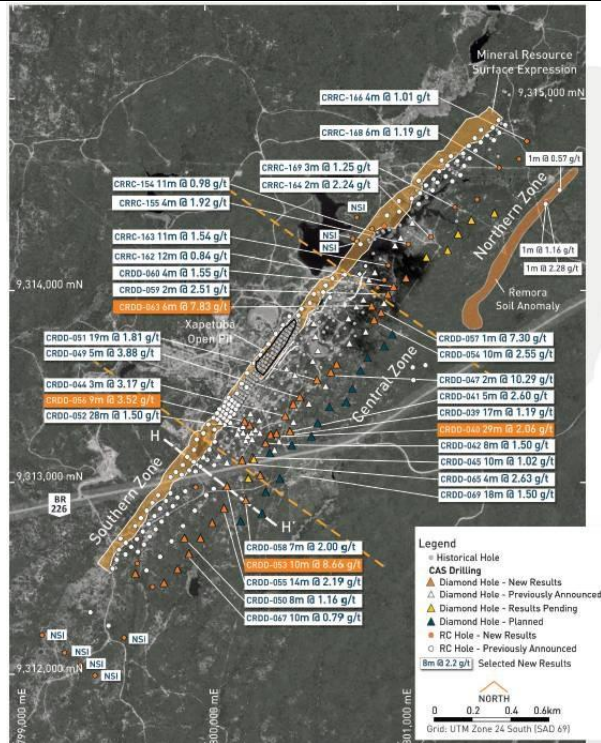
Borborema Project Mineral Resource (June 2011)									
Estimate by Ordinary Kriging, 12.5mN x 5mE x 5mRL Parent Cell									
Cut-off Grade Applied (g/t Au)	Indicated			Inferred			Total		
	Tonnes (Mt)	Average Grade (g/t Au)	Contained Gold (Moz)	Tonnes (Mt)	Average Grade (g/t Au)	Contained Gold (Moz)	Tonnes (Mt)	Average Grade (g/t Au)	Contained Gold (Moz)
0.5	21.49	1.32	0.91	23.16	1.28	0.95	44.64	1.30	1.86
1.0	12.51	1.75	0.70	12.40	1.75	0.69	24.91	1.75	1.40

SOURCE: COMPANY DATA

Pre-Feasibility Study underway

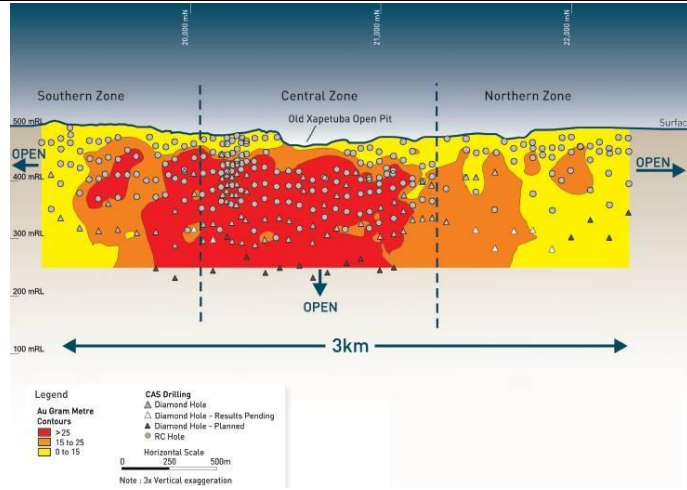
A Pre-Feasibility Study (PFS) into technical and economic viability has commenced, and is due for completion in the 1H12. The PFS will consider a 3mtpa open pit and Carbon-in-Leach (CIL) treatment route to potentially produce gold of 100ozpa+. The PFS will be managed in-house by COO Mike Schmulian, using external industry consultants (Figure 7).

Figure 5 - Borborema gold project drill hole location map



SOURCE: COMPANY DATA

Figure 6 - Borborema gold project long section of gold mineralisation



SOURCE: COMPANY DATA

Figure 7 - Borborema Pre-Feasibility Study responsibilities

Company	Scope
Onix Engenharia e Consultoria (Brazil)	Conceptual plant design and layout, estimate capital expenses, project layout, infrastructure and tailings disposal.
Hidrológica (Brazil)	Hydrology study
Auralia Mining Consulting (Australia)	Optimisation, scheduling and mine design
Testwork Desenvolvidos de Processo Itda (Brazil)	Metallurgical testwork and process route.
Progel Geologia e Meio Ambiental (Brazil)	Environment studies and project licensing
BVP Engenharia (Brazil)	Geotechnical study

SOURCE: COMPANY DATA

Other projects

Posse to deliver modest iron ore production

CAS is due to become Australia's next iron ore producer, when production commences at the Posse project, located in the Iron Quadrilateral region of the state of Minas Gerais, south east Brazil (Figure 2). The start of production has been delayed as CAS awaits approval after resubmitting its application for an environmental permit. The project has required modest capital to develop, and has no infrastructure bottlenecks and simple logistics. The project contains a modest itabirite type JORC resource of 36mt grading 43% iron (Figure 6), and is expected to produce high grade lump and fines products. CAS has in place off-take agreements for 50% of the products with the nearby Alterosa smelter.

Portfolio of projects

CAS has a portfolio of lesser gold (Juru-Belem), tin and tungsten projects in Brazil.

Board and management well known

A distinguishing feature of CAS is having the MD, COO and senior management resident in Brazil. The board includes Chairman David Archer (ex-Eastern Star Gas. Hillgrove Resources, InterMet Resources and Hostworks Group), MD Robert Smakman, Exec Director Paul Stephen, and Director David Netherway (an experienced mining engineer with 35 years of experience, including the development and operation of gold mines). The COO is Mike Schmulian (ex-WMC country manager), who is supervising the PFS.

Risks of Investment

Evaluation is at a formative stage; at this stage no formal Feasibility Study has been carried out to establish the economic viability of the Borborema project.

Project funding; in the event of completion of a successful Feasibility Study we estimate the capital costs for development of an open pit project at Borborema to be approximately \$160m. The source of project funding is not known at this stage.

Project permitting and mining lease approval (ML); although Borborema is partially on granted MLs, we understand the environmental permitting process in Brazil has become significantly tougher than in Australia (as demonstrated by the lengthy time to get permitting at the Posse iron ore project).

Appendix

Appendix 1 - Enterprise Value (EV) Multiples for Resources and Reserves								
Company	Share Price (\$)	Cap Struct (M sh)	MC (\$M)	adjusted MC* (EV) (\$M)	Attrib Resource (Moz)	Attrib Reserve (Moz)	EV/oz resource (\$/oz)	EV/oz reserve (\$/oz)
Ampella Mining (AMX)	2.24	215	481	438	2.2	0.0	197	0
Ausgold Ltd (AUC)	1.54	206	317	278	0.2	0.0	1150	0
Azimuth Resources (AZH)	0.35	370	128	116	0.3	0.0	401	0
Beadell Resources (BDR)	0.83	699	581	522	4.3	1.3	121	417
Castle Minerals (CDT)	0.35	118	41	33	0.2	0.0	206	0
Chalice Gold Mines (CHN)	0.33	256	83	71	0.5	0.5	141	155
Gold Road (GOR)	0.57	331	187	172	1.1	0.0	161	0
Gryphon Minerals (GRY)	1.63	300	489	439	2.0	0.0	224	0
Noble Minerals (NMG)	0.65	547	355	352	1.8	0.5	198	647
Papillon Resources (PIR)	0.48	282	247	252	0.3	0.0	835	0
Perseus Mining Ltd (PRU)	3.25	434	1411	1502	7.9	2.2	190	683
Red 5 (RED)	0.17	1278	217	165	1.2	0.7	143	227
Sihayo Gold (SIH)	0.15	721	105	89	1.1	0.4	84	228
Westgold Resources (WGR)	0.23	436	100	81	2.3	0.6	35	132
Weighted average EV per ounce of resource & reserve							179	450
<i>* adjusted market capitalisation (EV) is net of cash, plus debt.</i>								
SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES								

Crusader Resources

as at 19 August 2011

Recommendation

Spec Buy

Price

\$1.33

Target (12 months)

\$1.74

Table 1 - Financial summary

Copy your Excel data then click mouse here and run macro called Other Tasks, Insert Excel Model

SOURCE: BELL POTTER SECURITIES ESTIMATES

Recommendation structure

Spec Buy: Expect >30% total return on a 12 month view but carries significantly higher risk than its sector

Buy: Expect >15% total return on a 12 month view

Accumulate: Expect total return between 5% and 15% on a 12 month view

Hold: Expect total return between -5% and 5% on a 12 month view

Reduce: Expect total return between -15% and -5% on a 12 month view

Sell: Expect <-15% total return on a 12 month view

Bell Potter Securities Limited
ACN 25 006 390 7721

Level 32, Aurora Place
88 Phillip Street, Sydney 2000
Telephone +61 2 8224 2811
Facsimile +61 2 9231 0588
www.bellpotter.com.au

Research Team**Steve Goldberg**

Head of Research
T 612 8224 2809
E sgoldberg@bellpotter.com.au

Trent Allen

Resources Analyst
Emerging Growth
T 612 8224 2868
E tallen@bellpotter.com.au

Daniel Blair

Industrial Analyst
Telco/Media
T 612 8224 2886
E dblair@bellpotter.com.au

Peter Chapman

Resources Analyst
Gold/Uranium
T 612 8224 2847
E pchapman@bellpotter.com.au

David George

Resources Analyst
Diversified
T 613 9235 1972
E dgeorge@bellpotter.com.au

Fleur Grose

Resources Analyst
Iron Ore
T 613 9235 1678
E fgrose@bellpotter.com.au

Johan Hedstrom

Resources Analyst
Energy
T 612 8224 2859
E jhedstrom@bellpotter.com.au

Justin Hilford

Industrial Analyst
Emerging Growth
T 613 9235 1966
E jhilford@bellpotter.com.au

Stuart Howe

Resources Analyst
Coal
T 613 9235 1783
E showe@bellpotter.com.au

Judith Kan

Associate Resources Analyst
Energy
T 612 8224 2844
E jkan@bellpotter.com.au

TS Lim

Financials Analyst
Banks/Regionals
T 612 8224 2810
E tslim@bellpotter.com.au

Toby Molineaux

Associate Industrial Analyst
Retail
T 612 8224 2813
E tmolineaux@bellpotter.com.au

John O'Shea

Industrial Analyst
Emerging Growth
T 613 9235 1633
E joshea@bellpotter.com.au

Paresh Patel

Industrial Analyst
Retail/Beverages
T 612 8224 2894
E ppatel@bellpotter.com.au

Stuart Roberts

Industrial Analyst
Healthcare/Biotech
T 612 8224 2871
E sroberts@bellpotter.com.au

Emma Sellen

Executive Assistant
T 612 8224 2853
E esellen@bellpotter.com.au

Jonathan Snape

Industrial Analyst
Emerging Growth
T 613 9235 1601
E jsnape@bellpotter.com.au

Mathan Somasundaram

Quantitative Analyst
Head of Quant & Data Services
T 612 8224 2825
E mathan@bellpotter.com.au

Lafitani Sotiriou

Financials Analyst
Diversified Financials
T 613 9235 1668
E lsotiriou@bellpotter.com.au

Janice Tai

Quantitative & System Analyst
T 612 8224 2833
E jtai@bellpotter.com.au

Stephen Thomas

Resources Analyst
Emerging Growth
T 618 9326 7647
E sthomas@bellpotter.com.au

Sam Thornton

Associate Industrial Analyst
Telco/Media
T 612 8224 2804
E sthornton@bellpotter.com.au

Fred Truong

Associate Resources Analyst
Resources
T 613 9235 1629
E ftruong@bellpotter.com.au

Chris Whitehead

Associate Resources Analyst
Emerging Growth
T 612 8224 2838
E cwhitehead@bellpotter.com.au

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Fleur Grose owns 45,000 shares in CAS.