

Company Review

Ord Minnett Research

Wednesday, 15 June, 2011

Crusader Resources Limited

Resource increase surprises on the upside

Crusader Resources Limited (Crusader) has announced a more than doubling of the resource at its 100% owned Borborema Gold Project in Brazil.

- Crusader has announced an increase in JORC resources of more than 1 million ounces to 1.86 million ounces (OML estimate was 1.3-1.4Mozs in resource) at a cut-off grade of 0.5g/t. The new resource at a 1.0g/t cut-off has increased to 1.4 million ounces at a grade of 1.75g/t gold.
- This is a 120% increase in gold ounces at the 0.5g/t cut-off and a 92% increase in gold ounces at a 1.0g/t cut-off over the previous November 2010 JORC resource. The overall grade of the resource has reduced by 23% though at a 0.5g/t cut-off.
- Importantly the resource was based on drilling up to March 2011 with more than 11,000 metres of infill and extensional drilling completed since March, with drilling continuing on site. A further updated resource is due by September 2011 and OML estimate that Borborema's JORC resource could now grow to well over 2 million ounces.
- The significant increase in tonnage and ounces will likely result in the pre-feasibility study (PFS) focusing on a larger than previously estimated throughput. A possible production scenario of 3 million tonnes per annum, to yield an average of over 150,000 ounces per year for the first few years from FY14 is now regarded by OML as likely.

OML has revised its valuation for Crusader taking into account the significant increase in the resource base and the influence this is likely to have on potential project economics. The revised equity diluted base case valuation is \$2.05 per share (previously \$1.45) with an upside valuation of \$2.50 per share (previously \$1.80). **We maintain our Buy recommendation with High Risk and have a 12-month price target of \$2.05 per share.**

Key Financials

Year-end June (A\$)	FY10A	FY11E	FY12E	FY13E	FY14E
Gold Price (\$US/oz)	na	1,271	1,458	1,448	1,313
Sales Revenue (\$M) (incl. iron ore)	0.0	0.0	30.3	70.3	253.5
Mining Op. Profit Before Tax ¹ (\$M)	0.0	0.0	20.3	46.2	146.3
Reported NPAT (\$M)	(1.3)	(4.0)	9.6	26.7	117.3
Normalised NPAT (\$M)	(1.3)	(4.0)	9.6	26.7	117.3
Reported EPS (¢)	(2.1)	(4.1)	9.5	16.6	72.9
Normalised EPS (¢)	(1.5)	(2.9)	6.6	11.6	51.0
Op. Cash Flow Per Shr (¢)	(1.7)	(3.0)	12.6	18.1	84.6
Total Dividends (¢)	0.0	0.0	0.0	0.0	0.0
Net Yield (%)	na	na	na	na	na
Franking (%)	na	na	na	na	na
EPS Growth (%)	na	na	na	75%	339%
Normalised P/E (x)	nm	nm	15.1	8.6	2.0
EV/EBITDA	na	na	5.3	5.2	0.7
Price/Op. Cash Flow (x)	na	na	7.4	3.1	0.7
Normalised ROE (%)	na	na	34%	23%	50%

Source: Iress, Company Data, Ord Minnett Est. Share price: \$1.00 15 June, 2011

CAS \$1.00

Recommendation
Buy

Risk Assessment
High

Resources – Gold and Iron Ore

Luke Smith

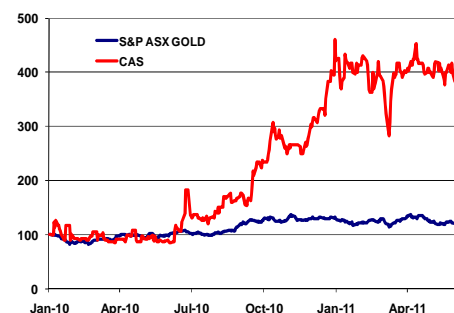
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Crusader Resources Limited

ASX Code	CAS
52 week range	\$0.25 - \$1.40
Market Cap (\$M)	90
Shares Outstanding (M)	90.3
Av Daily Turnover (\$M)	0.2
ASX All Ordinaries	4651
S&P ASX Gold	7275
Net Cash Mar11 (\$M)	6.8

Relative price performance



Source: Iress

Consensus earnings

	FY11F	FY12F
NPAT (C)	-	-
NPAT (OM)	(4.0)	9.6
Estimates	0	0

Source: Iress (No other analyst coverage)

Borborema Gold Project Resource Increase

Crusader has announced a major resource increase for its Borborema Gold Project in Brazil. The resource has pushed well beyond a million ounces at both key cut off grades, having surprised on the upside. The JORC resource at a 0.5g/t cut-off is 1.86 million ounces (OML estimate 1.3-1.4 million ounces 17/3/2011) with a grade of 1.3 g/t gold. The JORC resource at a 1.0g/t cut off is 1.4 million ounces with a grade of 1.75 g/t. Key points of the JORC resource include:

- Half of the increased resource is now in the Indicated category.
- Resource remains open in both directions along strike and at depth.
- The resource at the higher cut-off grade (1.0g/t) is considerably larger than previously estimated. This provides the opportunity for the project to commence with a higher head grade in the early years whilst maintaining a large throughput producing 150,000 ounces per annum from our estimate production in FY14.
- Importantly this resource was based on drilling up to March 2011 with an additional 11,000 metres of infill and extensional drilling completed since March with drilling continuing on site. A further updated resource is due by September 2011. OML forecasts that within the next three months Borborema's JORC resource could grow to in excess of 2 million ounces.
- Results (announced 9 May 2011) have confirmed mineralisation extends beyond this updated resource. OML believes that the strike extent of mineralisation and final continuous resource envelope could be in excess of 3km.
- Should the resource continue to be expanded, a possibility exists for the PFS and subsequent Bankable Feasibility study to also consider a 5 million tonne per annum processing facility producing up to 200,000 ounces per annum.

This interim resource increase has added significant value to Crusader, providing the critical mass of project size to complete the PFS. A further updated resource due is expected in the third quarter and this will likely result in the completion of the pre-feasibility study being pushed out to the end of September.

Figure 1: Borborema JORC Resource (June 2011)

Table 1 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: Crusader Resources

Revised Valuation

Following the significant resource increase we have revised our modelling inputs and valuation for the Borborema Gold Project and the near and regional exploration.

With a resource strike length now greater than 2km and deeper drilling also highlighting mineralisation continues at depth we have revised our modelled theoretical in pit inventory to 1.5 million ounces. We are comfortable with the final resource to reserve conversion being extremely high based on the shallowness and overall geometry of the likely orebody.

We have increased the mill through put to a 3 million tonne per annum operation (previously 2mpta). Forecast mine life is 11 years averaging 150,000 ounces per annum in the first four years of production from FY14. In addition we have adjusted the strip ratio, pushing out to a maximum of 11:1 in the later years as the pit becomes deeper than previously forecast.

We have also increased our estimated capital expenditure for Borborema to US\$150 million (previously \$110m) for a 3 million tonne processing plant and associated infrastructure. With the increase in capital we have modelled a commensurate increase in equity capital required during the second half of 2012.

Table 1: OML valuation summary based on forecasts of additional share capital

Valuation	Base Case		Upside Case	
	\$M	\$ per share ²	\$M	\$ per share ²
Borborema Gold Mine	231	1.44	231	1.44
Posse Iron Ore Mine	15	0.09	47	0.29
Borborema Exploration	28	0.17	68	0.42
Lake Throssell	3	0.02	3	0.02
Corporate	(10)	(0.06)	(10)	(0.06)
Options	3	0.02	3	0.02
Cash	59	0.37	59	0.37
Total	330	2.05	402	2.50

Source: OML, 2: equity diluted per share valuation applied

With the current drilling campaign having proven a significant value add to Crusader we have further assessed the more recent drilling results (announced May 9, 2011). In particular the increase in strike extent and mineralisation at depth provides confidence that a further resource increase is likely, resulting in a revised exploration valuation for our base case of \$28m (previously \$5m).

Posse iron Ore Project

There is significant value in Crusader's 100% owned Posse Iron ore project but OML see the lack of an environmental permit as a substantial risk and have kept the base case valuation unchanged. We have given a nominal \$15 million valuation to Posse. Should the environmental permit be approved this would substantially increase our base case valuation. If there are further delays to the approval we see little downside to our current base case as we view the project having some intrinsic value.

We have increased the production profile to 3 million tonnes per annum averaging 150,000 ounces pa in the first four years from FY14.

Stock Drivers

OML considers the following factors are likely to be the principal drivers of the Crusader stock price over the next year or so:

- Further gold resource growth at Borborema in second half of 2011.
- A positive pre-feasibility result in the third quarter of calendar 2011.
- Further metallurgical test work on Borborema confirming robust gold recoveries are achievable.
- Approval of environmental permit for Posse iron Ore project in coming months.

Major share price risks

Share price risks

OML identifies the major risks for Crusader as follows:

- Downgrades to Borborema resource through subsequent infill drilling
- Access to further capital and dependent of markets
- Further delays in regulatory approvals process for Posse
- Delays in studies and the approvals process for Borborema
- Operating costs being different to OML's forecasts
- Gold price and exchange rates moving adversely
- Regulatory changes adversely impacting the fiscal regime in Brazil.
- Adverse weather effects

Financial summary

Crusader Resources Limited (CAS)

Year ending June

Profit & Loss Statement (\$M)	FY10A	FY11E	FY12E	FY13E	FY14E
Operating Revenue	0	0	30	70	253
Operating Expenses	0	0	(10)	(24)	(107)
Mining Operating Profit Before Tax ¹	0	0	20	46	146
Other Income - Asset Sales & Rent	0	0	0	1	1
Other Expenses	(1)	(4)	(5)	(5)	(5)
EBITDA	(1)	(4)	15	43	142
Depreciation & Amortisation	0	0	(0)	(3)	(18)
EBIT	(1)	(4)	15	40	125
Net Interest Income	0	0	0	(4)	(2)
Pre-Tax Profit	(1)	(4)	15	36	123
Tax Expense	0	0	(6)	(10)	(6)
Reported NPAT	(1)	(4)	10	27	117
Adjustments (after-tax)	0	0	0	0	0
Normalised NPAT	(1)	(4)	10	27	117
EBITDA Margin (%)	na	na	50%	57%	49%
Effective tax Rate (%)	0%	0%	37%	26%	5%
EPS Reported (cps)	(2.10)	(4.10)	9.46	16.58	72.86
EPS Normalised (cps)	(1.47)	(2.87)	6.62	11.61	51.00
EPS growth (%)	na	na	na	75%	339%
DPS - Total (cps)	0	0	0	0	0
Payout Ratio - Ordinary Divs (%)	na	na	na	na	na
Franking - Total (%)	na	na	na	na	na

Cash Flow Statement (\$M)	FY10A	FY11E	FY12E	FY13E	FY14E
Pre-Tax Operating Cash Flow	(1)	(3)	16	38	140
Tax Paid On Operating Activities	0	0	(4)	(10)	(6)
Operating Cash Flow	(1)	(3)	12	29	135
Exploration & Development	(1)	(5)	(5)	(3)	(2)
Property, Plant & Equipment	(1)	(3)	0	(168)	(7)
Tax Paid On Investment Activities	0	0	0	1	1
Other Investing Items	0	0	0	1	1
Investing Cash Flow	(2)	(8)	(5)	(169)	(8)
Inc/(Dec) in Equity	3	15	2	63	0
Dividends Paid	0	0	0	0	0
Financing Costs	(0)	0	0	0	0
Debt Draw down n/(Repayment)	0	0	0	70	(70)
Financing Cash Flow	3	15	2	133	(70)
Inc/(Dec) in Cash	(1)	4	9	(8)	57

Balance Sheet (\$M)	FY10A	FY11E	FY12E	FY13E	FY14E
Cash & Deposits	1	5	15	7	64
Receivables	0	0	4	9	31
Other Current Assets	0	0	4	9	31
Property, Plant & Equipment	1	2	2	167	156
Exploration & Development	4	8	12	14	16
Investments	0	0	0	0	1
Other Non Current Assets	0	1	1	2	4
Total Assets	6	16	37	207	301
Payables and other current Liabilities	1	0	4	11	33
Short Term Debt	0	0	0	14	0
Long Term Debt	0	0	0	56	0
Other Non Current Liabilities	0	0	3	7	31
Total Liabilities	1	0	8	88	64
Total Equity	6	16	30	119	237
Net Debt (Cash)	(1)	(5)	(15)	63	(64)

Major Shareholders	Million	(%)	Date
Copulos Group	16.7	18.9%	Dec-10
Dundee Corporation	13.1	14.9%	Dec-10
Board	8.9	9.8%	Dec-10

Source: Crusader Resources Limited, Ord Minnett estimates.

Assumptions	FY10A	FY11E	FY12E	FY13E	FY14E
Gold Price (US\$/oz)	na	1,271	1,458	1,448	1,313
Brazilian domestic iron ore price (US\$/t)	86	76	78	64	
(+63% Fe lump product)					
US\$/A\$	na	0.96	1.05	1.01	0.92

Production Profile	FY10A	FY11E	FY12E	FY13E	FY14E
Borborema Gold Project					
Borborema Gold (koz)	0.0	0.0	0.0	18.4	154.7
Cash Cost incl royalty (US\$/oz)	na	na	na	502	450
Posse Iron Ore Project					
Posse Iron Ore (kt)	0.0	0.0	412.5	600.0	500.0
Cash Cost incl royalty (US\$/t)	na	na	24.77	20.71	24.61

JORC Resource Estimates	Status	Proved	Probable	Total
Reserves				
Borborema Gold Project	Mine	na	na	na

Resources (Includes Reserves)*	Measured	Indicated	Inferred	Total
Borborema Gold (koz)	Expl.	-	910	950
Posse Iron Ore (mt)	Mine		5	31

*As at 15 June 2011

Leverage	FY10A	FY11E	FY12E	FY13E	FY14E
Net Debt/Equity	-10%	-31%	-49%	53%	-27%
Net Debt/Total Assets	-9%	-31%	-39%	30%	-21%
Interest Cover (x)	na	na	na	11.0	na

Valuation Ratios (x)	FY10A	FY11E	FY12E	FY13E	FY14E
Normalised P/E	nm	nm	15.1	8.6	2.0
Price/Op Cash Flow	na	na	7.4	3.1	0.7
EV*	na	85	82	222	96
EV/EBITDA	na	na	5.3	5.2	0.7
EV/EBIT	na	na	5.4	5.6	0.8

*Enterprise value forecasts for each financial period inclusive of any forecast issued capital increases

Valuation	Base Case		Upside Case	
	\$M	\$ per share ²	\$M	\$ per share ²
Borborema Gold Mine	231	1.44	231	1.44
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Options	3	0.02	3	0.02
Cash ³	59	0.37	59	0.37
Total	330	2.05	402	2.50

Valuation	Base:	\$2.05	Upside:	\$2.50
Discount of share price to valuation		105%		150%

Per share valuation sensitivity to:

+/- 10% move in gold price (LOM)

\$0.46

+/- 10% move in the \$US/\$A rate

\$0.12

Current price

\$1.00

Recommendation

Buy

Risk rating

High

12-month price target

\$2.05

Notes: 1. Mining operating profit before tax is the direct mining contribution.

2. May not add because of dilution effects.

3. Including a forecast \$60m capital raising in 2012.

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Guide to Ord Minnett Recommendations

BUY	The stock's total return (nominal dividend yield plus capital appreciation) is expected to exceed 15% over 12 months.
ACCUMULATE	The stock's total return is expected to be between 5% and 15%. Investors may add to existing holdings, or initiate holdings on share price weakness.
HOLD	The stock is fairly priced, and its total return is expected to be between 0% and 5%.
LIGHTEN	The stock's total return is expected to be less than 0% and possibly down 15%. Investors should consider selling into share price strength.
SELL	The stock's total return is expected to lose 15% or more.
RISK ASSESSMENT	Classified as High, Medium or Low, denotes the relative assessment of an individual stock's risk based on an appraisal of its disclosed financial information, volatility, nature of its operations and other relevant quantitative and qualitative criteria.

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