

Company Review

Ord Minnett Research

Tuesday, 25 January, 2011

Crusader Resources Limited

Initiating coverage

Crusader Resources Limited (CAS) is an advanced explorer and developer of mining projects in Brazil. It has a rapidly advancing gold project, Borborema, and a near-term production asset in the Posse iron ore mine. Both projects have significant potential, providing shareholders with a two-asset, two-commodity junior resource company.

OML initiates coverage of Crusader with an **Accumulate** recommendation and a high risk rating. We believe Crusader is currently under appreciated in the market and this is likely to change over the course of 2011 for a number of reasons:

- The Borborema gold project currently has a resource of 836,000 ounces which is likely to increase well beyond a million ounces before April 2011. An increased and upgraded resource will lead to a completed pre-feasibility study by June 2011.
- The Posse Iron Ore project is a near-term production asset. Should final approvals be forthcoming in March 2011, Posse will provide significant cash flow for Crusader from the June 2011 quarter, taking advantage of the current high iron ore prices.
- Senior management based in Brazil: three of the executive team including the managing director and chief operating officer have lived in and been active in Brazil for past four years and are fluent in Portuguese, resulting in a material competitive advantage.

OML's base case valuation for Crusader is \$1.35 per share with an upside valuation of \$1.70 per share. **OML's 12-month price target is \$1.35 per share**, taking into account the elevated risk associated with the Posse iron ore project approval process.

Key Financials

Year-end June (A\$)	FY10A	FY11E	FY12E	FY13E	FY14E
Gold Price (\$US/oz)	na	1,374	1,444	1,369	1,250
Sales Revenue (\$M)	0.0	4.0	43.3	133.9	176.1
Mining Op. Profit Before Tax ¹ (\$M)	0.0	2.7	30.6	74.8	84.4
Reported NPAT (\$M)	(1.3)	(0.3)	15.4	49.5	51.6
Normalised NPAT (\$M)	(1.3)	(0.3)	15.4	49.5	51.6
Reported EPS (¢)	(2.1)	(0.4)	13.1	34.4	35.8
Normalised EPS (¢)	(2.1)	(0.4)	13.1	34.4	35.8
Op. Cash Flow Per Shr (¢)	(1.7)	0.8	15.1	40.9	45.1
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	163%	4%
Normalised P/E (x)	nm	nm	9.5	3.6	3.5
EV/EBITDA	na	nm	3.3	1.3	1.1
Price/Op. Cash Flow (x)	na	na	5.2	1.9	1.7
Normalised ROE (%)	na	-2%	18%	36%	27%

Source: Iress, Company Data, Ord Minnett Est. Share price: \$1.25 25 January, 2011

CAS \$1.25

Recommendation
Accumulate

Risk Assessment
High

Resources – Gold and Iron Ore

Luke Smith

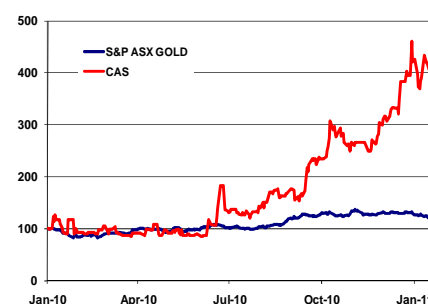
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Crusader Resources Limited

ASX Code	CAS
52 week range	\$0.25 - \$1.40
Market Cap (\$M)	110
Shares Outstanding (M)	88.2
Av Daily Turnover (\$M)	0.2
ASX All Ordinaries	4909.0
S&P ASX Gold	7469.6
Net Cash Dec10 (\$M)	10

Relative price performance



Source: Iress

Consensus earnings

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

Source: Iress

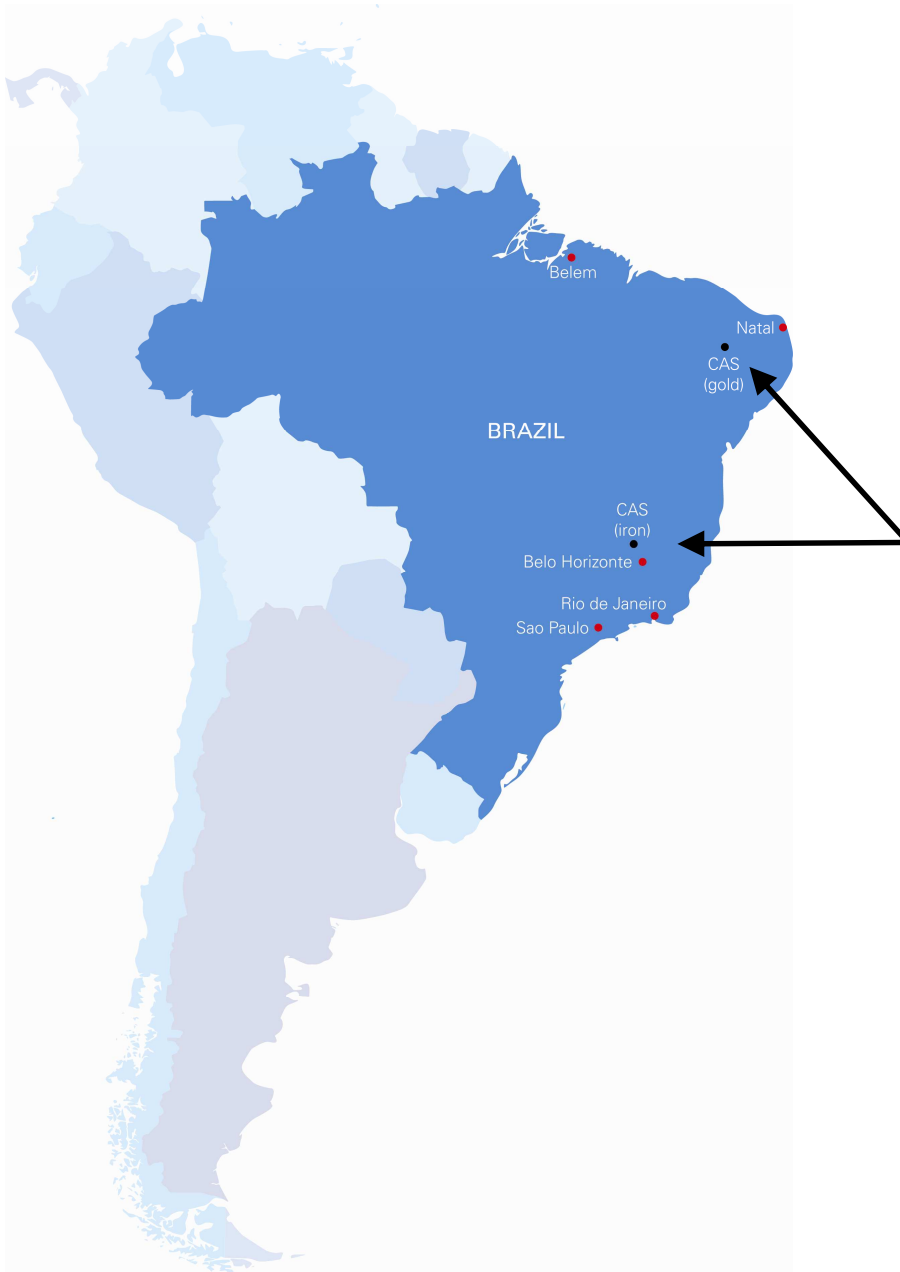
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Executive summary

Crusader Resources Limited (CAS) is an advanced explorer and developer of mining projects in Brazil. It has a near-term production asset in the Posse Iron Ore mine and an advanced gold project, Borborema. Both projects have significant potential, providing shareholders with a two-asset, two-commodity junior resource company.

OML initiates coverage of Crusader with an **Accumulate** recommendation and a high risk rating. Our base case valuation is \$1.35 per share using a discounted cash flow methodology with an upside case of \$1.70 per share. Taking into account the continuing lengthy environmental approval process for the Posse project and associated risk we have a 12-month price target of \$1.35 per share.

Figure 1: Location map of CAS's projects in Brazil



Source: OML

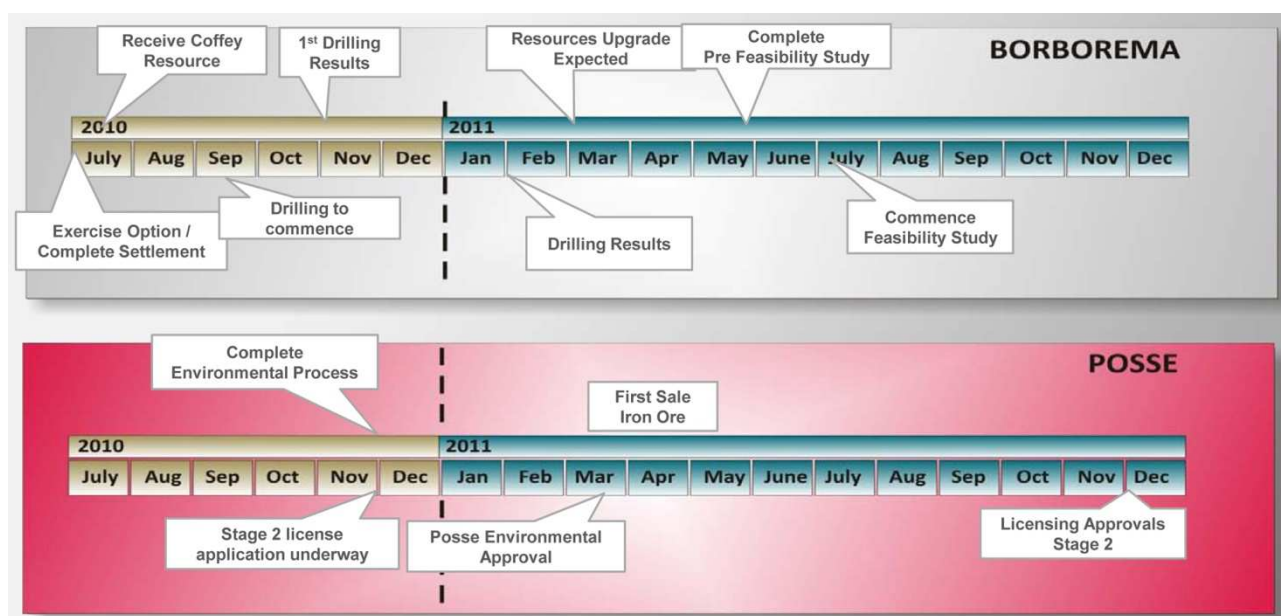
Advanced explorer and developer of mining projects in Brazil with a near-term production asset in the Posse Iron Ore mine and an advanced gold project, Borborema.

OML initiates coverage of CAS with an Accumulate recommendation, high risk and price target of \$1.35 per share.

Competitive advantage

- Senior management based in Brazil:** Three of the executive team including the managing director and chief operating officer have lived in and been active in Brazil for at least the past four years and are fluent in Portuguese, resulting in a material competitive advantage.
- Rapidly advancing gold project:** The JORC resource at Borborema has doubled in past six months with the likelihood of another significant increase in near term (less than six months)
- Near-term iron ore production asset:** Potential to provide significant cashflow with current high iron ore prices delaying requirement for a near to medium term capital raising
- Two assets:** Resulting in diversification of commodities and mitigation of single asset risk.

Timeline



Source: Crusader

Valuation

A discounted cashflow methodology was used to value the Borborema Gold Project along with the Posse Iron Ore Project in conjunction with a sum of the parts to compile a valuation. The Borborema Gold Project valuation is modelled on a 2mpta mining operation commissioned at the end of 2012 and early 2013 with positive cashflow reached in the June 2013 quarter. Beyond 2013 we have a long-term gold price of US\$1150 and a long-term exchange rate of 0.75 AUD:USD. Other key parameters are a strip ratio in the early years of 2:1 and progress out to 5:1 (waste:ore) by year 4. Steady state production has been modelled on 100,000oz a year with cash costs ranging from US\$550–700 per ounce.

Table 1: Key assumptions

Assumptions	FY10A	FY11E	FY12E	FY13E	FY14E
Gold Price (US\$/oz)	na	1,374	1,444	1,369	1,250
Brazilian domestic iron ore price (US\$/t) (+63% Fe lump product)		79	85	81	67
US\$/A\$	na	0.94	0.99	0.93	0.89
Production Profile	FY10A	FY11E	FY12E	FY13E	FY14E
<u>Borborema Gold Project</u>					
Borborema Gold (koz)	0.0	0.0	0.0	62.6	100.8
Cash Cost incl royalty (US\$/oz)	na	na	na	568	579
<u>Posse Iron Ore Project</u>					
Posse Iron Ore (kt)	0.0	50.0	500.0	500.0	500.0
Cash Cost incl royalty (US\$/t)	na	23.34	24.56	24.92	24.63

Source: OML

There are a number of risks to the recommendation. The key risk is regulatory risk surrounding the environmental approval for the Posse Iron Ore Project. Posse was to originally begin production in July 2010 and was delayed within weeks of reaching that milestone when Crusader was informed it required a variation to its environmental licence to begin production. The process of acquiring the necessary approvals to formalise the new environmental permit is underway and currently expected to be completed by March 2011.

There is significant value in the Posse Iron ore project but OML see the lack of an environmental permit as a substantial risk and have adjusted the valuation for Posse accordingly. We have given a nominal \$15 million valuation to Posse in our base case or a 75% discount to our discounted cash flow valuation. Should the environmental permit be approved this would substantial increase our base case valuation. If there are further delays to the approval we see little downside to our current base case as a result.

Table 2: 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	123	0.85	123	0.85
Posse Iron Ore Mine	15	0.10	60	0.42
Borborema Regional Exploration	5	0.03	10	0.07
Lake Throssell	3	0.02	3	0.02
Corporate	(10)	(0.07)	(10)	(0.07)
Options	4	0.03	4	0.03
Cash	55	0.38	55	0.38
Total	194	1.35	245	1.70

Source: OML

While the nature and extent of any potential mining and processing operation at Borborema is still speculative, OML has modelled capital expenditure of US\$100 million for a 2mtpa plant and associated infrastructure. Our valuation assumes an equity capital raising in 2012 of \$50 million followed by a \$50 million debt facility being secured.

OML has forecast a \$50M capital raising in 2012 at \$1.10 per share (a 12% discount to the current share price) issuing 45.5 million shares. OML's valuation summary in Table 2 incorporates the present value of the cash from such a raising along with the fully diluted per share valuation. Table 3 provides a matrix of the base case valuations depending on the capital raising price.

Table 3: Base case valuation sensitivity to pricing of forecast capital raising

Equity Raising (\$/share)	\$1.00	\$1.10	\$1.20	\$1.30
Base Case Valuation (\$/share)	\$1.31	\$1.35	\$1.39	\$1.42

Source: OML

Peer comparison

The following peer comparison table is of gold explorers, developers and producers. The peer group is of gold-focused companies only; importantly, OML has not extracted value for Crusader's near-term iron ore production asset. It could be argued that for a gold company comparative, Crusader's enterprise value should be reduced to take into account our valuation for Posse which is \$15 million. This would reduce Crusader's enterprise value per resource ounce to approximately \$100 per ounce and would be close to Beadell Resources at A\$96/oz.

Table 4: Comparison of gold project explorers, developers and producers

Company	ASX code	Status	Price	Mkt cap	Net Cash	EV	Resource (koz) (equity)	EV/Resource A\$/oz (equity)
Ampella Mining	AMX	Explorer	\$2.91	\$585m	\$44m	\$541m	1,194	453
Gryphon Res	GRY	Developer	\$1.60	\$466m	\$60m	\$406m	1,500	270
Troy Res	TRY	Producer	\$3.40	\$299m	-\$3m	\$302m	1,745	173
Papillon Res	PIR	Explorer	\$0.58	\$108m	\$15m	\$93m	522	177
Adamus Res	ADU	Developer	\$0.78	\$346m	-\$2m	\$349m	1,899	184
Perseus Mining	PRU	Developer	\$2.87	\$1208m	\$130m	\$1078m	7,900	136
Crusader Res	CAS	Developer	\$1.25	\$110m	\$10m	\$100m	839	119
Azumah Res	AZM	Developer	\$0.62	\$169m	\$40m	\$129m	1,200	107
Beadell Res	BDR	Developer	\$0.78	\$485m	\$42m	\$443m	4,624	96

Source: OML, Iress, Date: 25 January 2011

At around \$100 per ounce Crusader is undervalued by the market compared to its peers on this multiple. OML envisages a re-rating for Crusader once it breaks the million-ounce resource nominal barrier and the Borborema project reaches a size where potential development and economic viability are serious considerations.

SWOT for Crusader

Strengths

- Senior management team including MD, COO and exploration manager all based in Brazil for at least the past four years (valuable local experience).
- Two advanced projects including JORC indicated resources.
- Two projects and two-commodity exposure providing diversity and reduced risk.
- Borborema gold project has potential to be a relatively low cost operation.
- Potential near-term (less than six months) producer from Posse Iron Project.
- Small team (all fluent in Portuguese) with small overheads.

Weaknesses

- Lacks profile and presence in Australian market with most senior management based in Brazil, although Paul Stephens has recently joined as an Australian based executive director.
- Small iron project and production rate providing a relatively weak marketing position for offtake arrangements.
- Two projects combined with a small management team leaves a thin management structure and possible longer time frames for development of projects.
- Board lacks an engineer and an accountant, which will become more pertinent as company advances to production.

Opportunities

- Lacks profile and presence in the Australian market currently, which could be quickly rectified.
- Further drilling (currently underway) could add significantly more value to the Borborema Gold Project.
- Bringing Posse Iron Ore Project into production in 1H 2011 will provide material cashflow, negating any requirement for a capital raising in the short to medium term.

Threats

- Environmental approvals for the Posse Iron Ore Project are further delayed.
- Approvals for Borborema become delayed.
- Hostile corporate action before full value accretion is achieved.

History

Crusader Resources Limited (Crusader/CAS) was incorporated in October 2003 (as Crusader Holdings NL) and listed on the ASX in February 2004 raising \$2.4 million with a strategy of advancing through exploration its then suite of Western Australian gold and base metals projects.

In September 2004 CAS entered into an agreement with Geoconsult to form a strategic alliance which would focus on gold and base metal exploration in Brazil. In early 2005 CAS acquired its first gold exploration projects in the state of Goias, north west of Brasilia. During the second half of 2005 CAS applied for and was granted a number of prospective gold exploration tenements in north-east Brazil (Paraiba State) which included the Jurú-Belém Gold project that had an estimated historical gold production of 200,000 ounces from localised (garimpeiro) mining. At the same time, Rob Smakman was appointed a director in August 2005 and shortly thereafter became Managing Director. David Archer was appointed to the board and nominated Chairman in April 2006.

During 2006 and 2007 the Jurú-Belém Gold project became Crusader's flagship project. In June 2007 Crusader entered into an option agreement to acquire 100% of the Posse Iron Ore Project in Brazil for A\$3.4 million. It subsequently raised \$7.1 million at 75 cents per share in July and exercised the option in September 2007.

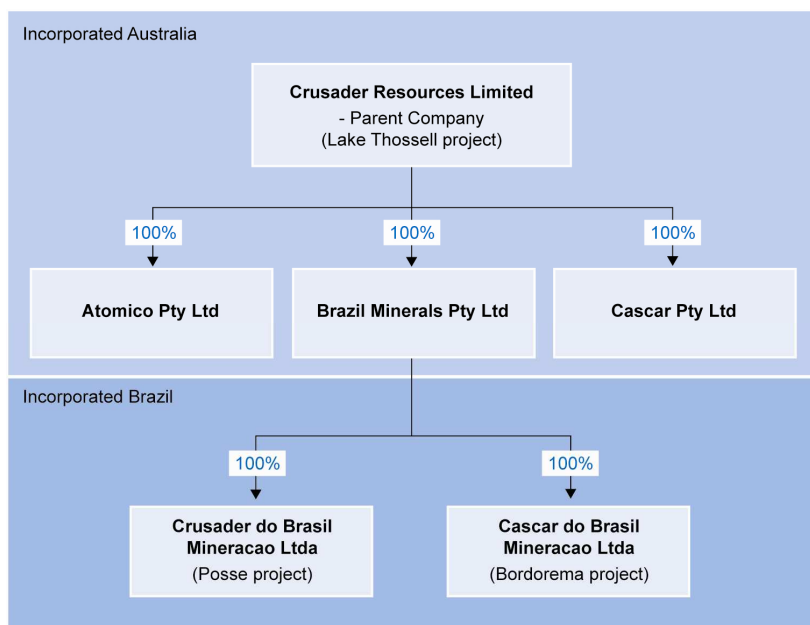
In December 2009 Crusader entered into a six-month option agreement to acquire the Borborema Gold Project and subsequently exercised the option to purchase 100% of the mineral rights and freehold land in July 2010 for \$2.4 million.

Over the past five years Crusader's history illustrates management's ability to identify good projects at an early stage and acquire them relatively cheaply.

Business structure and corporate strategy

Crusader is an explorer and developer of resource projects. Its key focus is on advanced projects in Brazil and currently has an advanced gold project, Borborema, and a near-term iron ore mine, Posse.

Crusader corporate structure



Source: OML and Crusader

October 2003: Crusader was incorporated

February 2004: listed on the ASX

September 2004: CAS enters into an agreement with Geoconsult to form a strategic alliance focusing on gold and base metal exploration in Brazil

Early 2005: CAS acquires first gold exploration projects in Goias, north west of Brasilia.

Current Crusader capital structure

Class	Number
Ordinary Shares	88.2 million
Options	10.3 million
Fully Diluted	98.5 million

Crusader has a tight capital structure providing significant leverage to positive news flow

Substantial shareholders

Shareholder	Shares Held (million / %)
Copulos Group	16.7 million / 189%
Dundee Corporation	13.1 million / 14.9 %

Source: IRESS

- Copulos Group is a privately owned investment company based in regional Victoria.
- Dundee Corporation is a Canadian based resource company that directly invests in mining companies and projects.
- In addition the board holds 8.9 million shares or 10.0% of the undiluted issued capital.

Board

David Archer (Non-Executive Director and Chairman) is a barrister (non-practising) of the Supreme Court of New South Wales and has extensive experience in the Australian resources industry. In 1985 he founded Savage Resources Limited which had a portfolio of assets including Ernest Henry copper gold project (Qld) and the Liddell coal mine in the Hunter Valley (NSW). More recently he was managing director of Hillgrove Resources Limited from 2003 to July 2010.

Justin Evans (Non-Executive Director) is managing director of Sigma Companies Group, a Perth-based manufacturer and supplier of chemicals. Prior to joining Sigma he was a founding shareholder of Montagu Stockbrokers where he worked for 12 years.

Murray Hodges (Non-Executive Director) is a geologist with extensive experience in minerals exploration, primarily for base metals and gold.

Executives

Person	Role	Experience (years)
Rob Smakman	Managing Director	A geologist (honours graduate from Monash University) with 19 years' experience in Australia and overseas. As MD of CAS, he has been based in Brazil for past five years and was instrumental in securing both the Posse and Borborema projects. Fluent in Portuguese.
Mike Schmulian	Chief Operating Officer	A geologist with significant management roles at WMC, AngloGold Ashanti and Mundo Minerals an ASX listed junior with gold mines in Brazil. Responsible for the development and management of the Posse Iron Ore Project. Fluent in Portuguese and Spanish.
Paul Stephen	Executive Director – Corporate	Has 17 years' experience in financial services including as a portfolio manager at Perpetual Trustees and as a private client advisor with Porter Western and Macquarie Bank.
Aidan Platel	Exploration Manager	Joined CAS in August 2010 having previously been based in Brazil for over six years with ASX listed Mirabella Nickel (not rated). Fluent in Portuguese.

Source: OM analysis and Crusader

Projects

Borborema Gold Project

Crusader secured a six-month option to acquire the Borborema Gold Project in December 2009 and subsequently exercised the option to purchase 100% of the mineral rights and freehold land in July 2010. The total cost of the acquisition was approximately \$2.4 million spread over the option period.

The Borborema Gold Project is in Rio Grande do Norte state in north-east Brazil. The project is 140km (less than a two-hour drive) along a bitumenised federal highway from Natal, the state capital with an international airport and population of 3 million. It consists of three granted mining leases covering a total area of 29 km² plus freehold title to the property over the main prospect area. Having freehold title along with previously granted mining leases provides a considerable advantage when proceeding through the approvals process.

Geology and exploration

Gold mineralisation is hosted in biotite schists and generally associated with grey-white quartz veins of one millimetre to one centimetre scale. The main project area consists of a 200m-wide shear zone and a total length in excess of 4.5km. Thin bands within this shear zone commonly host sulphides, mainly pyrite and pyrrhotite and these host the higher concentrations of gold mineralisation.

Surface mineralisation has been mapped over a 3.5km strike trending north-east-south-west and remains open in both directions. Previous owners of the project had completed more than 200 RC drill holes and 20 diamond holes between 1980 and 2000 including approximately 90 holes within the existing open pit.

Drilling has confirmed the geological model of a relatively shallow dip (~35°) structure with widths averaging 20–30m.

Subsequent to acquiring Borborema, Crusader secured a further 85km² of tenements surrounding the project, providing further exploration upside.

Resources

Upon acquisition the reported (non-JORC) resource was 5.3Mt @ 1.9g/t Au for 325,000 ounces of gold at a 1g/t cut. An initial JORC resource was calculated by independent consultants Coffey in August 2010 following the first round of drilling which more than doubled the resource to 728,000oz. Following an internal Coffey review in November 2010 the JORC resource was re-estimated and updated, increasing the ounces by a further 15% to a total of 839,000. Importantly, the Indicated ounces were increased by more than 240% to 653,000 of the total 839,000 providing a material increase in confidence of the resource and allowing studies to be fast tracked.

Crusader acquired Borborema in 2010 for \$2.4 million following a six-month due diligence and option agreement

An increase and upgrade to the resource is due in March 2011

Table 1 Borborema Project - Mineral Resource (August 2010) Ordinary Kriged Estimate (0.5g/t Au cut off) 10mEx 20mN x 10mRL Parent Cell.										
Category		Indicated			Inferred			Total		
	Cut off	Tonnes (Mt)	Au g/t	Contained Gold (kOz)	Tonnes (Mt)	Au g/t	Contained Gold (kOz)	Tonnes (Mt)	Au g/t	Contained Gold (kOz)
Oxide	0.5	0.52	1.58	26	-	-	-	0.52	1.58	26
Fresh	0.5	11.64	1.67	627	3.23	1.79	186	14.87	1.70	813
Sub Totals		12.16	1.67	653	3.23	1.79	186	15.39	1.70	839
Total at 0.5 g/t cut off								15.39	1.70	839

Source: Crusader

The current Inferred resource is down to a maximum depth of 150m with significant potential for the resource to be expanded at depth. The company is in the middle of a major 10,000m drilling campaign aimed at increasing the resource base with two diamond rigs and one RC rig working 24 hours a day.

The current program of extensional drilling is targeted at extending the resource to a depth of 180m. In addition, extensional drilling is continuing along strike to the north-east and south-west. An increase and upgrade to the resource is due in February/March 2011. The company has indicated the optimal cut-off grade from early-stage studies is likely to be 0.5g/t gold.

Development

Following the likely resource increase and upgrade, Crusader will undertake a pre-feasibility study which is expected to take four months and be completed by June 2011. Should the results of the study be positive the company will move straight into a full feasibility study which is likely to take a further six months.

At this early stage it is envisaged mining would be by opencut methods with a relatively shallow pit and average strip ratio of 4–5:1 with a head grade of 1.6g/t gold. OML has conceptually modelled a 2mtpa operation producing approximately 100,000 ounces per annum for an initial 10-year mine life.

Metallurgy

Borborema historically was one of the largest gold operations in north-east Brazil with previous production being from oxide ores and recovered via heap leach.

Early stage metallurgical testing has confirmed the ore is not refractory and is free milling providing encouragement that a traditional CIL (carbon in leach) processing route will be amenable. Test results returned a 94.6% recovery through a gravity circuit followed by a CIL circuit with cyanide and lime consumption below average indicating the potential for lower processing costs.

Infrastructure

The location of Borborema is a significant advantage for any mine development, with a sealed highway running through the lease area as well as high voltage power running adjacent and to the north of the main project area. There is a distinct possibility that power will be secured on a relatively cheap contract due to a significant amount of power generation in the state sourced from wind generation.

Site facilities are well established with offices, amenities and a small workshop and core farm included in the purchase price.

In addition, the historical mining centre of Currais Novos is only 25km to the west of the project along the federal highway providing a ready source of local labour and skilled professionals.

Posse Iron Ore Project

The Posse Iron Ore Project is located 30km from Belo Horizonte, the capital city of Minas Gerais state. A highway runs through the tenement and adjacent to the mine site. In addition there is ready access to power and water. Importantly, the project is easy trucking distance to a number of potential customers.

In June 2007 Crusader entered into an option to purchase 100% of the project for total payments of 5,500,000 reais (approximately \$3.4m) over a 90-day option period. Exploration started in late 2007 and in May 2008 a maiden JORC resource was completed of 7.7Mt @ 45% Fe.

Crusader continued drilling and announced a much larger resource in January 2009 of 36Mt at 44% Fe which was then followed by a positive scoping study in May 2009.

The current Inferred resource is down to a maximum depth of 150 metres with significant potential for the resource to be expanded at depth

Crusader will undertake a pre-feasibility study which is expected to take four months and be completed by June 2011

The Posse Iron Ore Project is located 30km from Belo Horizonte, the capital city of Minas Gerais state

The company first lodged mining licence applications for stage 1 mining in August 2008 (a 300ktpa operation) and received approval in December 2009 to proceed with production. In early 2010 earth works commenced followed by the construction of a 1Mtpa crushing and screening plant in anticipation of mining. The plant was effectively ready for commissioning when in July 2010 the company received notice from the state environmental agency that its environmental licence for the project had been mistakenly granted and would be withdrawn immediately. The Posse project is situated within a "buffer zone" around a national park and therefore requires a particular environmental licence process including public consultation which Crusader was not made aware of when it initially submitted the licence application.

The project is now ready to practically complete commissioning upon the environmental approval (expected March 2011) quickly followed by production.

Geology

The Posse Project is on a small tenement of only 109Ha with the northern-most section of the tenement covered by itabirite ore from surface including small lenses of hematite within the larger itabirite mineralisation. Mineralisation has been mapped over 750m of strike with a varying width up to 80 metres.

Posse itabirite ore (metamorphosed banded iron formation) has been folded and affected by thrust and shear zones. The ore is composed of compact rich itabirite, compact low grade itabirite, friable rich itabirite and friable low grade itabirite. Drill results have returned grades of itabirite between 30 and 68% Fe averaging between 40 and 50% Fe with typical levels of silica and very low levels of alumina and phosphorus.

Typical intersections of the high grade hematite include:

PODH008 – 11m @ 62% Fe, 6.7% SiO₂, 2.3% Al₂O₃ and 0.03% P. from 19m.

Resource

The last JORC Resource for Posse was released in January 2009.

	Tonnes	Fe	SiO ₂	Al ₂ O ₃	Mn	P	LOI*
	(Mt)	(%)	(%)	(%)	(%)	(%)	(%)
Indicated Resources	4.83	47.39	27.56	1.82	0.25	0.020	1.38
Inferred Resources	31.18	42.89	36.17	0.61	0.17	0.026	0.73
Total	36.02	43.50	35.02	0.77	0.18	0.024	0.82

Source: Crusader

The resource is unlikely to be increased as it hugs the northern boundary of the tenement and has been closed by drilling and geography in other directions.

Beneficiation

The itabirite mineralisation with typically high silica is readily beneficiated due to the quartz (main siliceous mineral) being relatively coarse resulting in easy liberation through crushing and separation.

The resource grade of 43.5% Fe is relatively high for itabirite iron ore and results in a higher mass recovery of beneficiated product. The low deleterious elements result in the Posse product becoming highly desirable amongst the local pig iron producers.

Drill results have returned grades of itabirite between 30 and 68%.

The resource grade of 43.5% Fe is relatively high for itabirite iron ore

Development

Stage 1 of the development plan was reviewed in late 2010 following the withdrawal of the environmental licence and is now targeting run rate of 1mpta producing a lump product through dry processing of ROM ore. Stage 1 will target the high grade hematite lenses (>60% Fe). The strip ratio for Stage 1 is less than 1:1. It is estimated by CAS that 50% of the ROM ore will report as lump product. Fines will be stockpiled on site or sold. If the fines product is stockpiled it will be retreated in stage 2.

Stage 1 operating costs are currently forecast by Crusader to be around R19/t ROM ore or approximately R35/t of lump ore (US\$20/t).

Crusader has spent approximately \$2 million on building the crushing and screening plant along with other related site works. The plant is now effectively fully commissioned and is ready to start stage 1 production with no further capital required.

Stage 2 will involve expanding the processing plant to include a wet beneficiation loop resulting in a sinter feed also being produced due to introducing the itabirite ore in conjunction with the hematite. The Life of Mine strip ratio is approximately 1.5:1.

We envisage stage 2 will cost approximately US\$10 million and take three months to construct. This will be predicated on licensing approval for stage 2 and we estimate that Crusader has some flexibility on the timing of commissioning depending on the success of stage 1. At this stage it is likely to be developed in 2012 or early 2013.

Marketing

Crusader envisages stage 1 initially selling a lump product and the company has signed a letter of intent with domestic smelting company Siderugica Alterosa SA (Alterosa). Alterosa is a respected local operator that has been continuously operating for over 40 years and is credited with the internationally recognised ISO 9001:2000 standard. Alterosa's pig iron smelter is to the west of Belo Horizonte and approximately 80km by road from Posse although the point of sale is at the mine gate.

Current domestic market price (Dec 2010) for similar lump ore to Posse is R\$80–150/t (US\$50–90/t).

The plant is now effectively fully commissioned and is ready to start stage 1 production with no further capital required.

Crusader envisages stage 1 initially selling a lump product and has signed a letter of intent with domestic smelting company Siderugica Alterosa SA (Alterosa)

Financial forecasts

Crusader raised \$8.6 million in November 2010 at 75 cents per share and OML estimates the cash position as at 31 December 2010 to be approximately \$10 million. The company is spending approximately \$1 million per quarter on exploration and studies at Borborema and this will, subject to continued positive results, accelerate in FY12.

Negligible cash outflow is forecast for Posse until licensing approval (expected March 2011) upon which the current cash position will provide adequate working capital to reach positive cashflow from Posse. In addition, Crusader is likely to receive \$2 million over the next six months from the exercise of 7.8 million options (exercise prices 25 – 82c).

OML estimates Crusader is unlikely to require further equity until any development decision is reached on Borborema during the first half of 2012. We have modelled a equity capital raising of \$50 million in March quarter 2012 at \$1.10 per share (12% discount to current share price). This would entail 45.5 million shares issued taking the issued capital to approximately 144 million shares post the raising including options exercised in the intervening period.

OML estimates Crusader is unlikely to require further equity until any development decision is reached on Borborema during the first half of 2012

Major share price risks and drivers

Share price risks

OML identifies the major risks for Crusader as follows:

- Downgrades to Borborema resource through infill drilling
- 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.

Share price drivers

OML sees the following as the major drivers of the Crusader share price over the next 12 months:

- Mining and cashflow beginning at Posse
- Increase in JORC resource at Borborema to greater than 1 million ounces
- Upgrading resource to JORC Measured and Indicated status at Borborema
- JORC reserves delineated at Borborema.
- Pre-feasibility study results at Borborema.

Financial summary

Crusader Resources Limited (CAS)

Year ending June

Profit & Loss Statement (\$M)	FY10A	FY11E	FY12E	FY13E	FY14E
Operating Revenue	0	4	43	134	176
Operating Expenses	0	(1)	(13)	(59)	(92)
Mining Operating Profit Before Tax ¹	0	3	31	75	84
Other Income - Asset Sales & Rent	0	0	1	(0)	0
Other Expenses	(1)	(3)	(5)	(5)	(5)
EBITDA	(1)	(0)	26	69	80
Depreciation & Amortisation	0	(0)	(0)	(7)	(12)
EBIT	(1)	(0)	26	62	68
Net Interest Income	0	0	0	(3)	(0)
Pre-Tax Profit	(1)	(0)	26	59	67
Tax Expense	0	0	(10)	(9)	(16)
Reported NPAT	(1)	(0)	15	50	52
Adjustments (after-tax)	0	0	0	0	0
Normalised NPAT	(1)	(0)	15	50	52
EBITDA Margin (%)	na	na	60%	46%	38%
Effective tax Rate (%)	0%	0%	40%	16%	23%
EPS Reported (cps)	(2.10)	(0.42)	13.10	34.40	35.81
EPS Normalised (cps)	(2.10)	(0.42)	13.10	34.40	35.81
EPS growth (%)	na	na	na	163%	4%
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)	1	26	68	80
Tax Paid On Operating Activities	0	0	(5)	(9)	(16)
Operating Cash Flow	(1)	1	21	58	64
Exploration & Development	(1)	(4)	(5)	(3)	(2)
Property, Plant & Equipment	(1)	(2)	(21)	(97)	(6)
Tax Paid On Investment Activities	0	0	1	(0)	0
Other Investing Items	0	0	1	(0)	0
Investing Cash Flow	(2)	(6)	(25)	(100)	(8)
Inc/(Dec) in Equity	3	14	52	1	0
Dividends Paid	0	0	0	0	0
Financing Costs	(0)	0	0	0	0
Debt Draw down/(Repayment)	0	0	0	30	(30)
Financing Cash Flow	3	14	52	31	(30)
Inc/(Dec) in Cash	(1)	9	48	(12)	26

Balance Sheet (\$M)	FY10A	FY11E	FY12E	FY13E	FY14E
Cash & Deposits	1	10	59	47	73
Receivables	0	1	5	16	21
Other Current Assets	0	0	5	16	21
Property, Plant & Equipment	1	1	21	111	105
Exploration & Development	4	7	11	13	15
Investments	0	0	0	0	1
Other Non Current Assets	0	1	2	2	3
Total Assets	6	21	103	206	239
Payables and other current Liabilities	1	0	6	20	23
Short Term Debt	0	0	0	6	0
Long Term Debt	0	0	0	24	0
Other Non Current Liabilities	0	0	5	13	21
Total Liabilities	1	1	11	63	44
Total Equity	6	20	92	143	195
Net Debt (Cash)	(1)	(10)	(59)	(47)	(73)

Major Shareholders	Million	(%)	Date
Copulos Group	16.7	18.9%	Dec-10
Dundee Corporation	13.1	14.9%	Dec-10
Board	8.9	10.0%	Dec-10

Source: Crusader Resources Limited, Ord Minnett estimates.

Assumptions	FY10A	FY11E	FY12E	FY13E	FY14E
Gold Price (US\$/oz)	na	1,374	1,444	1,369	1,250
Brazilian domestic iron ore price (US\$/t)		79	85	81	67
(+63% Fe lump product)					
US\$/A\$	na	0.94	0.99	0.93	0.89
Production Profile	FY10A	FY11E	FY12E	FY13E	FY14E
Borborema Gold Project					
Borborema Gold (koz)	0.0	0.0	0.0	62.6	100.8
Cash Cost incl royalty (US\$/oz)	na	na	na	568	579
Posse Iron Ore Project					
Posse Iron Ore (kt)	0.0	50.0	500.0	500.0	500.0
Cash Cost incl royalty (US\$/t)	na	23.34	24.56	24.92	24.63

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.	-	653	186	839
Posse Iron Ore (mt)	Mine	5	31	36	

*As at November 2010

Leverage	FY10A	FY11E	FY12E	FY13E	FY14E
Net Debt/Equity	-10%	-50%	-63%	-33%	-38%
Net Debt/Total Assets	-9%	-48%	-57%	-23%	-31%
Interest Cover (x)	na	na	na	20.6	na

Valuation Ratios (x)	FY10A	FY11E	FY12E	FY13E	FY14E
Normalised P/E	nm	nm	9.5	3.6	3.5
Price/Op Cash Flow	na	na	5.2	1.9	1.7
EV/EBITDA	nm	nm	3.3	1.3	1.1
EV/EBIT	nm	nm	3.4	1.4	1.3

Valuation	Base Case		Upside Case	
	\$M	\$ per share ²	\$M	\$ per share ²
Borborema Gold Mine	123	0.85	123	0.85
Posse Iron Ore Mine	15	0.10	60	0.42
Borborema Regional Exploration	5	0.03	10	0.07
Lake Throssell	3	0.02	3	0.02
	0	0.00	0	0.00
	0	0.00	0	0.00
Corporate	(10)	(0.07)	(10)	(0.07)
Options	4	0.03	4	0.03
Cash ³	55	0.38	55	0.38
Total	194	1.35	245	1.70

Valuation	Base:	\$1.35	Upside:	\$1.70
Discount of share price to valuation		8%		36%

Per share valuation sensitivity to:

+/- 10% move in gold price **\$0.39**
+/- 10% move in the \$US/\$A rate **\$0.06**

Current price **\$1.25**
Recommendation **Accumulate**
Risk rating **High**
12-month price target **\$1.35**

Notes: 1. Mining operating profit before tax is the direct mining contribution.
2. May not add because of dilution effects.
3. Including a forecast \$50m capital raising in 2012.

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ASX Market Participant

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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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