

Company Review

Ord Minnett Research

Thursday, 17 March, 2011

Crusader Resources Limited

Site Visit and Drill Results

OML recently visited both Crusader Resources Limited (CAS) projects in Brazil, namely the Borborema Gold Project and Posse Iron Ore Project.

- The Borborema gold project currently has a resource of 836,000 ounces. OML estimate the resource increase due mid April may now likely surprise on the upside with our revised estimate of 1.3 to 1.4 million ounces.
- It is important to note that this will be an interim resource increase with a further updated resource due in July 2011. OML estimate that within the next four months Borborema's JORC resource could grow to in excess of 1.5 million ounces.
- This will likely result in the completion of the pre-feasibility study being pushed out to the September Quarter. (previously expected to be completed in June).
- At Posse, progress on the environmental approval process has been slower than anticipated but a number of key permits have been received (8 of 10). OML envisage that both the remaining items will be permitted prior to the end of March at which point Crusader can submit the final environmental approval application and associated permits.
- Crusader expects formal approval will be granted by the end of April and mining to commence as soon as approval is received.

OML has revised its valuation for Crusader taking into account an estimated larger gold project than previously envisaged. The revised equity diluted base case valuation is \$1.45 per share with an upside valuation of \$1.80 per share. **We have revised our recommendation to "Buy" from "Accumulate" with High Risk and have a 12-month price target of \$1.45 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	3.8	41.0	130.2	170.4
Mining Op. Profit Before Tax ¹ (\$M)	0.0	2.5	28.0	78.0	91.0
Reported NPAT (\$M)	(1.3)	(1.0)	14.2	53.7	58.6
Normalised NPAT (\$M)	(1.3)	(1.0)	14.2	53.7	58.6
Reported EPS (¢)	(2.1)	(1.1)	11.9	37.1	40.4
Normalised EPS (¢)	(2.1)	(1.1)	11.9	37.1	40.4
Op. Cash Flow Per Shr (¢)	(1.7)	0.4	13.6	43.2	49.4
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	212%	9%
Normalised P/E (x)	nm	nm	8.7	2.8	2.6
EV/EBITDA	na	nm	3.1	1.0	0.8
Price/Op. Cash Flow (x)	na	na	4.7	1.5	1.3
Normalised ROE (%)	na	-5%	17%	38%	29%

Source: Iress, Company Data, Ord Minnett Est. Share price: \$1.04 17 March, 2011

CAS \$1.04

Recommendation

Buy – Previously Accumulate

Risk Assessment

High

Resources – Gold and Iron Ore

Luke Smith

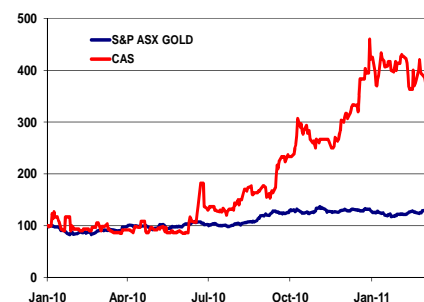
Senior Research Analyst

lsmith@ords.com.au

Crusader Resources Limited

ASX Code	CAS
52 week range	\$0.25 - \$1.40
Market Cap (\$M)	92
Shares Outstanding (M)	88.3
Av Daily Turnover (\$M)	0.2
ASX All Ordinaries	4638
S&P ASX Gold	7089
Net Cash Dec10 (\$M)	9

Relative price performance



Source: Iress

Consensus earnings

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

Source: Iress (No analyst coverage)

Borborema Site Visit

OML visited the Borborema Gold Project on 10 March 2011, having previously visited site in July 2010. Since the last visit a significant amount (13,000 metres) of drilling has been completed and a JORC resource delineated in August 2010. OML view Borborema as the vast majority of inherent value in Crusader and as a result see it as the key driver of share price value. The key take outs from the site visit include:

- Activity on site has increased markedly with drilling from multiple rigs around the clock and results along strike remaining consistent with previous drilling results. Visual core from holes underway to the north of the current resource re-affirmed strike extension.
- Results from the southern extension (announced 2 March 2011) have confirmed mineralisation extends beyond the current resource to the south. OML believes that the strike extent of mineralisation and resultant resource could be at least 2km with the current resource over 1.2km only.
- Drilling density observed on site may result in a portion of the updated resource being upgraded to the Measured status.
- Recent drilling of oxide material in the footwall of the current resource has also highlighted economic gold mineralisation exists. This has the potential to assist in project economics by increasing the width of the mineralised zone.
- In addition testing of the historical leach dumps is to be conducted. OML envisage a small additional resource is likely to be added from this material of possible 1 million tonnes at 0.6 – 0.8 g/t gold.

In summary OML estimate the resource increase due in April may surprise on the upside with our revised estimate of 1.3 to 1.4 million ounces. (current resource is 836,000oz) It is important to note that this will be an interim resource increase with a further updated resource due in July. This will likely result in the completion of the pre-feasibility study being pushed out to the September Quarter.

OML estimate that within the next four months Borborema's JORC resource could grow to in excess of 1.5 million ounces and provide the catalyst for a bankable feasibility study on the project.

OML visited the Borborema Gold Project on 10 March 2011

OML estimate the resource increase due in April may surprise on the upside with our revised estimate of 1.3 to 1.4 million ounces

Figure 1: Drilling at Borborema



Source: OML

Posse Iron Ore Project Site Visit

OML visited the Posse Iron ore Project on 13 March 2011, nine months after the previous visit. OML view Posse as only a small portion of inherent value in Crusader and see it effectively as a free option. The key take outs were:

- The crushing and screening plant and associated infrastructure is now constructed and fully commissioned. Product stockpiles were inspected and mine design and detailed scheduling have been completed. The project is effectively on care and maintenance whilst Crusader awaits environmental approval to allow commercial mining to commence.
- Following the site visit OML now estimates approval is likely to be received at the end of April. (previously March)
- Progress on the environmental approval process has been slower than anticipated but a number of key permits have been received (8 of 10). OML understands there remains two outstanding permits to be issued prior to the granting of environmental approval, namely the archaeological and roads permits. OML envisage that both the remaining items will be permitted prior to the end of March at which point Crusader can submit the final environmental approval application and associated permits. Should these be lodged before early April, Crusader expects formal approval will be granted by the end of April.
- The Posse project is ready to commence mining as soon as approval is received. Practically mining will commence within two to three weeks of approval.
- With ore faces exposed and mine scheduling refined the strip ratio in the first couple of years will be very close to zero allowing for slightly lower costs than modelled by OML.
- Should approvals be forthcoming by the end of April, OML estimates that Posse will be cashflow positive by July.

There exists significant inherent value in Posse and once in production will provide substantial cashflow for Crusader. Yet the environmental approval remains a considerable risk. Until approval is received OML maintains its 75% discount to the \$60 million valuation of Posse.

Figure 2: Crushing and Screening plant at Posse



Source: Crusader

The crushing and screening plant and associated infrastructure is now constructed and fully commissioned.

OML now estimates approval is likely to be received at the end of April

There exists significant inherent value in Posse and once in production will provide substantial cashflow for Crusader.

Revised Valuation

Following the recently announced drill results (2 March 2011) and subsequent site visit to Borborema and we have revised our modelling inputs and valuation for the Borborema Gold Project.

With recent drilling envisaging a strike length of a possible resource now 2km and deeper drilling also highlighting mineralisation continues at depth we have revised our modelled theoretical in pit inventory to 1.2 million ounces at an average grade of 1.55g/t. We have maintained a 2 million tonne per annum operation with an expanded mine life of 12 years at an average of 100,000 ounces per annum. The strip ratio we have also adjusted to push out to a maximum of 9:1 in the later years as the pit pushes deeper than previously modelled.

We have also increased our estimated capital expenditure for Borborema by 10% to \$110 million for a 2 million tonne per annum processing plant and associated infrastructure.

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	140	0.97	140	0.97
Posse Iron Ore Mine	15	0.10	60	0.41
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	53	0.37	53	0.37
Total	210	1.45	260	1.80

Source: OML

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 kept the valuation unchanged. 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.

We have maintained a 2 million tonne per annum operation with an expanded mine life of 12 years

Changed Recommendation

OML has changed its recommendation to “**Buy**” from “Accumulate” with High Risk. Reasons for this include:

- Further encouraging results from drilling at Borborema pointing to a larger resource base than previously modelled.
- Early stage exploration results on a parallel structure at Borborema showing potential for regional exploration success.
- Gold price and exchange rates have remained robust and OML continues to have a positive outlook for gold prices.

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:

- Gold resource growth at Borborema in April 2011 and then July 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 infill drilling
- Will require 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.

Financial summary

Crusader Resources Limited (CAS)

Year ending June

Profit & Loss Statement (\$M)	FY10A	FY11E	FY12E	FY13E	FY14E
Operating Revenue	0	4	41	129	170
Operating Expenses	0	(1)	(13)	(52)	(79)
Mining Operating Profit Before Tax ¹	0	3	28	77	90
Other Income - Asset Sales & Rent	0	0	1	(1)	0
Other Expenses	(1)	(4)	(5)	(5)	(5)
EBITDA	(1)	(1)	23	71	86
Depreciation & Amortisation	0	(0)	(0)	(7)	(12)
EBIT	(1)	(1)	23	65	74
Net Interest Income	0	0	0	(3)	(0)
Pre-Tax Profit	(1)	(1)	23	62	74
Tax Expense	0	0	(9)	(9)	(16)
Reported NPAT	(1)	(1)	14	53	58
Adjustments (after-tax)	0	0	0	0	0
Normalised NPAT	(1)	(1)	14	53	58
EBITDA Margin (%)	na	na	56%	50%	44%
Effective tax Rate (%)	0%	0%	39%	15%	21%
EPS Reported (cps)	(2.09)	(1.09)	11.90	36.25	39.98
EPS Normalised (cps)	(2.09)	(1.09)	11.90	36.25	39.98
EPS growth (%)	na	na	na	205%	10%
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)	0	24	70	86
Tax Paid On Operating Activities	0	0	(5)	(9)	(16)
Operating Cash Flow	(1)	0	19	61	70
Exploration & Development	(1)	(5)	(5)	(3)	(2)
Property, Plant & Equipment	(1)	(2)	(31)	(97)	(6)
Tax Paid On Investment Activities	0	0	1	(1)	0
Other Investing Items	0	0	1	(1)	0
Investing Cash Flow	(2)	(7)	(35)	(101)	(7)
Inc/(Dec) in Equity	3	15	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	15	52	31	(30)
Inc/(Dec) in Cash	(1)	9	36	(9)	33

Balance Sheet (\$M)	FY10A	FY11E	FY12E	FY13E	FY14E
Cash & Deposits	1	9	45	36	69
Receivables	0	1	5	15	20
Other Current Assets	0	0	5	15	20
Property, Plant & Equipment	1	1	32	122	116
Exploration & Development	4	8	12	14	16
Investments	0	0	0	0	1
Other Non Current Assets	0	1	2	2	3
Total Assets	6	21	101	206	245
Payables and other current Liabilities:	1	0	6	19	22
Short Term Debt	0	0	0	6	0
Long Term Debt	0	0	0	24	0
Other Non Current Liabilities	0	0	4	13	20
Total Liabilities	1	1	10	62	43
Total Equity	6	20	90	144	203
Net Debt (Cash)	(1)	(9)	(45)	(36)	(69)

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	1,281	1,450	1,388	1,250
Brazilian domestic iron ore price (US\$/t)		88	83	85	67
(+63% Fe lump product)					
US\$/A\$	na	0.95	1.02	0.95	0.92

Production Profile	FY10A	FY11E	FY12E	FY13E	FY14E
Borborema Gold Project					
Borborema Gold (koz)	0.0	0.0	0.0	59.4	100.3
Cash Cost incl royalty (US\$/oz)	na	na	na	501	488
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	24.02	26.02	26.55	26.23

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%	-46%	-50%	-25%	-34%
Net Debt/Total Assets	-9%	-44%	-45%	-18%	-28%
Interest Cover (x)	na	na	na	21.4	na

Valuation Ratios (x)	FY10A	FY11E	FY12E	FY13E	FY14E
Normalised P/E	nm	nm	8.7	2.9	2.6
Price/Op Cash Flow	na	na	4.8	1.5	1.3
EV/EBITDA	nm	nm	3.1	1.0	0.9
EV/EBIT	nm	nm	3.2	1.1	1.0

Valuation	Base Case		Upside Case	
	\$M	\$ per share ²	\$M	\$ per share ²
Borborema Gold Mine	140	0.97	140	0.97
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Corporate	(10)	(0.07)	(10)	(0.07)
Options	4	0.03	4	0.03
Cash ³	53	0.37	53	0.37
Total	210	1.45	260	1.80

Valuation	Base:	\$1.45	Upside:	\$1.80
Discount of share price to valuation		40%		73%

Per share valuation sensitivity to:

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

Current price	\$1.04
Recommendation	Buy
Risk rating	High
12-month price target	\$1.45

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.

Please contact your Ord Minnett Adviser for further information on our document.

Research			
Stephen Scott	Head of Research	Sydney	sscott@ords.com.au
Peter Arden	Senior Research Analyst	Melbourne	parden@ords.com.au
Richard Ivers	Senior Research Analyst	Melbourne	rivers@ords.com.au
James Lennon	Senior Research Analyst	Sydney	jlennon@ords.com.au
Luke Smith	Senior Research Analyst	Melbourne	lsmith@ords.com.au
Brad Dunn	Analyst	Sydney	bdunn@ords.com.au

Ord Minnett Branches

Sydney (Head office)

Level 8
NAB House
255 George Street
Sydney NSW 2000
Tel: (02) 8216 6300
Fax: (02) 8216 6311

Gold Coast

Level 7,
50 Appel St
Surfers Paradise QLD 4217
Tel: (07) 5557 3333
Fax: (07) 5574 0301

Mackay

45 Gordon Street
Mackay QLD 4740
Tel: (07) 4969 4888

Wollongong

3/55 Kembla Street
Cnr Market and
Kembla Streets
Wollongong NSW 2520
Tel: (02) 4226 1688
Fax: (02) 4226 1604

Adelaide

Level 11
11-19 Grenfell Street
Adelaide SA 5000
Tel: (08) 8203 2500
Fax: (08) 8203 2525

Caloundra, Sunshine Coast

79-81 Bulcock Street
Caloundra QLD 4551
Tel: (07) 5491 3100
Fax: (07) 5491 3222

Melbourne

Level 23
120 Collins Street
Melbourne VIC 3000
Tel: (03) 9608 4111
Fax: (03) 9608 4142

Brisbane

Level 10, Waterfront Place
1 Eagle St
Brisbane QLD 4000
Tel: (07) 3214 5555
Fax: (07) 3214 5550

Canberra

101 Northbourne Avenue
Canberra ACT 2600
Tel: (02) 6206 1700
Fax: (02) 6206 1720

Newcastle

41-45 Newcomen Street
Newcastle NSW 2300
Tel: (02) 4910 2400
Fax: (02) 4910 2424

Buderim

Sunshine Coast
84 Burnett Street
Buderim QLD 4556
Tel: (07) 5430 4444
Fax: (07) 5430 4400

Coffs Harbour

Suite 4
21 Park Avenue
Coffs Harbour NSW 2450
Tel: (02) 6652 7900
Fax: (02) 6652 5716

Tamworth

Suite 3
344-346 Peel Street
Tamworth NSW 2340
Tel: (02) 6761 3333
Fax: (02) 6761 3104

www.ords.com.au

Ord Minnett Limited

ABN 86 002 733 048

ASX Market Participant

AFS Licence Number 237121

www.ords.com.au

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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