

A strike far from the madding taxman

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Australia's next iron ore producer is **Crusader Resources (ASX:CAS)**, not in Australia, but in Brazil. Brazil is a long way from Canberra and the proposed resources rent tax that could take effective tax rates on mining projects here to as high as 57 per cent.

Not that Crusader's Brazilian iron ore ambition is going to have much of an impact on the Brazilian economy, the world's 10th biggest - fifth biggest by 2016 if you believe the International Monetary Fund.

Still, the 34 per cent effective tax rate Crusader will be facing on profits from its Posse project in Brazil will be easier to swallow.

Posse should start production in the next couple of weeks and starts out as a 300,000 tonne-a-year operation, rising to 1 million tonnes-a-year from 2011 from a 36-million-tonne resource base. At an expected selling price of \$A55-\$A60 a tonne for lump ore to nearby steelworks, Posse is capable of generating free cash flow of upwards of \$A5 million in its first year.

Not big by any means. But with Crusader's market capitalisation of \$16 million (26¢ a share), it does not need to be.

But if it is some real excitement potential you are looking for in Crusader, look no further than its option over the Borborema gold project in north-east Brazil. It was added to the portfolio only six months ago and it's a fair bet that there is nothing in Crusader's share price to reflect its potential.

Borborema was mined for its oxide material in the 1980s and early '90s, yielding about 100,000 ounces of gold. Then a private Brazilian group did some drilling in 2006-07 which returned some decent hits.

Crusader reckons it is on to a cheap entry to a significant gold deposit, one that has the potential to be become a development project some time next year. A stock exchange-compliant resource estimate is expected in June and it would not surprise if it was kicked off with 500,000 ounces of gold.

The exercise of the option will cost \$A2.4 million in stage payments. Ideally, the expected cash flows from Posse will help cover the cost. But with cash on hand sitting at only \$A1.95 million at the end of March, a placement to raise some extra cash would seem to be on the cards.

On that score, Crusader is in the neat position of not having blown its capital base since listing in 2004. It has only 59.65 million shares and 15.26 million shares on issue. The recent entry of some notable institutions on to register also suggests that if Borborema shapes up as expected, raising extra cash won't be an issue.