

# 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 <sup>1</sup> (\$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

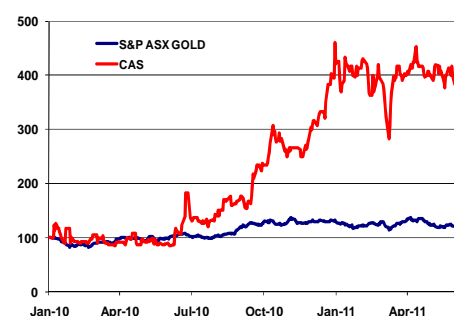
Senior Research Analyst

lsmith@ords.com.au

#### 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 <sup>2</sup>	\$M	\$ per share <sup>2</sup>
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
<b>Total</b>	<b>330</b>	<b>2.05</b>	<b>402</b>	<b>2.50</b>

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 <sup>1</sup>	0	0	20	46	146
Other Income - Asset Sales & Rent	0	0	0	1	1
Other Expenses	(1)	(4)	(5)	(5)	(5)
<b>EBITDA</b>	<b>(1)</b>	<b>(4)</b>	<b>15</b>	<b>43</b>	<b>142</b>
Depreciation & Amortisation	0	0	(0)	(3)	(18)
<b>EBIT</b>	<b>(1)</b>	<b>(4)</b>	<b>15</b>	<b>40</b>	<b>125</b>
Net Interest Income	0	0	0	(4)	(2)
<b>Pre-Tax Profit</b>	<b>(1)</b>	<b>(4)</b>	<b>15</b>	<b>36</b>	<b>123</b>
Tax Expense	0	0	(6)	(10)	(6)
Reported NPAT	(1)	(4)	10	27	117
Adjustments (after-tax)	0	0	0	0	0
<b>Normalised NPAT</b>	<b>(1)</b>	<b>(4)</b>	<b>10</b>	<b>27</b>	<b>117</b>
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)
<b>Operating Cash Flow</b>	<b>(1)</b>	<b>(3)</b>	<b>12</b>	<b>29</b>	<b>135</b>
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
<b>Investing Cash Flow</b>	<b>(2)</b>	<b>(8)</b>	<b>(5)</b>	<b>(169)</b>	<b>(8)</b>
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)
<b>Financing Cash Flow</b>	<b>3</b>	<b>15</b>	<b>2</b>	<b>133</b>	<b>(70)</b>
<b>Inc/(Dec) in Cash</b>	<b>(1)</b>	<b>4</b>	<b>9</b>	<b>(8)</b>	<b>57</b>

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
<b>Total Assets</b>	<b>6</b>	<b>16</b>	<b>37</b>	<b>207</b>	<b>301</b>
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
<b>Total Liabilities</b>	<b>1</b>	<b>0</b>	<b>8</b>	<b>88</b>	<b>64</b>
<b>Total Equity</b>	<b>6</b>	<b>16</b>	<b>30</b>	<b>119</b>	<b>237</b>
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
<b>Borborema Gold Project</b>					
Borborema Gold (koz)	0.0	0.0	0.0	18.4	154.7
Cash Cost incl royalty (US\$/oz)	na	na	na	502	450
<b>Posse Iron Ore Project</b>					
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
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 <sup>2</sup>	\$M	\$ per share <sup>2</sup>
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 <sup>3</sup>	59	0.37	59	0.37
<b>Total</b>	<b>330</b>	<b>2.05</b>	<b>402</b>	<b>2.50</b>

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.

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](http://www.ords.com.au)

Ord Minnett Limited

ABN 86 002 733 048

ASX Market Participant

AFS Licence Number 237121

[www.ords.com.au](http://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.

**Disclosure:** Ord Minnett is the trading brand of Ord Minnett Limited ABN 86 002 733 048, holder of AFS Licence Number 237121 and an ASX Market Participant. Ord Minnett Limited and/or its associated entities, directors and/or its employees may have a material interest in, and may earn brokerage from, any securities referred to in this document. Further, Ord Minnett and/or its affiliated companies may have acted as manager or co-manager of a public offering of any such securities in the past two years. Ord Minnett and/or its affiliated companies may provide or may have provided corporate finance to the companies referred to in the report. This document is not available for distribution outside Australia and New Zealand and may not be passed on to any third party or person without the prior written consent of Ord Minnett Limited. From time to time OML receives assistance and access to CAS sites. This access may include site transport, incidental expenses and equipment access and management access. Where practical, OML policy is to pay for all travel and accommodation expenses.

**Disclaimer:** Ord Minnett Limited believes that the information contained in this document has been obtained from sources that are accurate, but has not checked or verified this information. Except to the extent that liability cannot be excluded, Ord Minnett Limited and its associated entities accept no liability for any loss or damage caused by any error in, or omission from, this document. This document is intended to provide general securities advice only, and has been prepared without taking account of your objectives, financial situation or needs, and therefore before acting on advice contained in this document, you should consider its appropriateness having regard to your objectives, financial situation and needs. If any advice in this document relates to the acquisition or possible acquisition of a particular financial product, you should obtain a copy of and consider the Product Disclosure Statement for that product before making any decision.

**Analyst Certification:** The analyst certifies that: (1) all of the views expressed in this research accurately reflect their personal views about any and all of the subject securities or issuers; and (2) no part of their compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed herein and (3) the analyst presently does not hold an interest in the securities referred to in this document, including CAS and will not benefit from any increase in the price of these securities.