

Building blocks in Brazil

Cabral Resources (CBS) is rapidly growing its already substantial portfolio of projects in the emerging iron ore province near Brumado in Bahia state, Brazil. Initial assay results from its maiden 3,000m diamond drilling programme at Morro do Gergelim, once complete, will be an important step towards defining the in-ground resource for the company. Cabral's 465km² tenement holding has potential for coarse-grained magnetite ore, itabirite ore and high-grade direct shipping hematite ore, and is close to government-funded export infrastructure, currently under construction.

Year end	Revenue (A\$m)	PBT* (A\$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
06/10	0.3	(0.4)	(0.4)	0.0	N/A	N/A
06/11	0.0	(1.8)	(0.8)	0.0	N/A	N/A
06/12e	0.0	(1.8)	(0.7)	0.0	N/A	N/A
06/13e	0.0	(2.1)	(0.8)	0.0	N/A	N/A

Note: *PBT and EPS are normalised, excluding intangible amortisation and exceptional items.

Morro do Gergelim: First interim drill results

CBS started its maiden 3,000m drilling programme at the Morro do Gergelim prospect in May 2012, after been granted an environmental licence by the Brazilian Environmental Agency (INEMA) a month earlier. The prospect is c 12km from the FIOLE heavy gauge rail line (under construction) and represents between 200Mt and 400Mt of the exploration target tonnage identified to date. First interim drilling results were announced on 6 September 2012, for six drill holes out of 11 completed. The results included readings of magnetite ranges as determined by Satmagan (magnetite analyser) of up to 35.2% and 40.5% respectively in several holes. Initial observations are that the silicate-rich BIF rock type predominates but is yet to be confirmed.

Nearby export infrastructure falling into place

Infrastructure in terms of rail and road is a key success factor for Cabral's enterprise, given its tenements are 447km by rail from the coast. In March 2012, CBS signed a protocol of intentions with the Bahia state government, securing access of up to 15Mtpa rail and port infrastructure on the US\$5bn publicly funded FIOLE rail line and the proposed Porto Sul development. The heavy gauge FIOLE rail line is under construction, with the latest commissioning timetable cited as 2014. This coincides with the company's potential project development schedule.

Valuation: Base case of A\$0.09/share

We have used a conservative comparable EV/resource multiple approach to calculate an implied value per Cabral share of \$0.09. This is derived using the midpoint of Cabral's stated exploration target of 331Mt to 644Mt of magnetite iron ore of 487.5Mt @32% Fe, for an estimate for Fe contained of 156Mt, to which we apply a peer group EV/tonnes of Fe contained multiple of 0.15x.

Mining

12 September 2012

Price **A\$0.025**

Market cap **A\$6m**

Shares in issue 259.3m

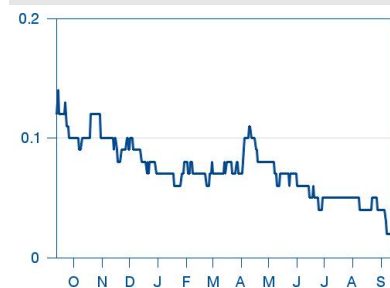
Free float 78%

Code CBS

Primary exchange ASX

Other exchanges N/A

Share price performance



%	1m	3m	12m
Abs	(37.5)	(56.1)	(80.8)
Rel (local)	(38.3)	(58.6)	(81.1)
52-week high/low	A\$0.13	A\$0.02	

Business description

Cabral Resources, formerly RIM Capital, is an ASX-listed iron ore explorer focused on the Brumado region of Bahia, Brazil. It holds 465km² of tenement area in Brazil and has several uranium tenements in Western Australia.

Next events

Metallurgical test results Q213

Analysts

Chris Kallos +61 (2) 2 9258 1160

Charles Gibson +44 (0)20 3077 5724

mining@edisoninvestmentresearch.co.uk

Investment summary: Aspiring iron ore producer

Company description: Early-stage iron ore explorer

CBS is an ASX-listed iron ore explorer focused on the Brumado region in the south-west of Bahia state, Brazil. CBS also holds several uranium tenements in Western Australia. The company is rapidly growing its already substantial portfolio of projects in the emerging iron ore province near Brumado in Bahia, which currently stands at 465km² in tenement holdings, up from 140km² in March 2011. The tenement portfolio contains ground with potential for coarse-grained magnetite ore, itabirite ore and high grade direct shipping hematite ore.

Valuation: EV/resource

In the absence of a JORC compliant resource, and not including the company's dormant uranium tenements in WA, we believe a peer-group comparable enterprise value to resource-based multiple approach is the best way to assess the company's value. This calculates the value of a tonne of iron within the ore resource specified in relation to its holding company's enterprise value. This is then compared to a reference peer group. We distinguish between those iron ore companies with JORC compliant resources and those with only exploration targets, and adjust the former by applying a 50% discount to the sub-group's EV/Fe contained (t) multiple. Our total EV/Fe contained (t) multiple of 0.15x comes from the average of both sub-groups. Using the midpoint of Cabral's stated exploration target of 331Mt to 644Mt of magnetite iron ore of 487.5Mt containing an average grade of 32% Fe, we have an estimate for Fe contained of 156Mt. Applying the peer group multiple of 0.15x to our estimate of Cabral's Fe contained generates an implied value per share of A\$0.09.

Sensitivities: Macro, technical and regulatory

- **Macro issues:** Iron ore pricing is the most important macro issue for Cabral, and one that has been highlighted recently by the decline in iron ore spot prices largely due to concerns over slowing construction activity and subsequent demand for iron ore in China.
- **Technical issues:** Exploration risk aside, project economics are subject to several company-specific technical issues. Most importantly, alleviating potential high transportation costs given the 447km by rail distance to the proposed Port Sul relies heavily on the successful and timely completion of the FIOL rail line. That said, project valuation is subject to the potential delineation and characterisation of the resource, which has yet to be established.
- **Regulatory issues:** Regulatory approval through the INEMA granting environmental licences is required before drilling and testing for potential resources. Applications currently take up to five months to process and are made on a per-tenement basis. Aside from Morro do Gergelim, the company has two other tenements (Fazendo Pinhero and Fazendo Lagao Do Recanto) for which environment reports have been prepared but not yet granted.

Financials: A\$11m cash as at June

Cabral's net cash outflow over the past 18 months is consistent with the evolution of the company with c A\$1m per quarter spent on exploration and evaluation of prospects out of a total average quarterly burn of A\$1.5m until Q212. This increased to A\$1.97m in Q412, primarily as a result of higher exploration and evaluation costs associated with the start of drilling at the Morro Do Gergelim prospect. Cash as at 30 June 2012 was A\$10.77m with no debt.

Company description: Brazilian iron ore explorer

CBS is an ASX-listed iron ore explorer focused on the emerging iron ore province in the Brumado region of Bahia, Brazil. The company holds 465km² of tenements, up from 140km² in March 2011, which contain prospective ground for coarse-grain magnetite ore, itabirite ore and high grade direct shipping hematite ore.

CBS was formed following the 100% acquisition of then unlisted Perth-based resource company, Cabral Resources Pty Ltd, by the mining and investment company RIMCapital (RMC) completed on 22 February 2011. RMC subsequently changed its name to Cabral Resources and resumed trading under the ASX ticker of CBS on 1 March 2011. At the time of acquisition, Cabral's main asset consisted of an option agreement over a 140km² portfolio of nine prospective iron ore exploration tenements in the Lagoa Real region near the township of Brumado in the state of Bahia, Brazil, from the Brazilian based vendor, MSA Mineracao (MSA).

The company raised \$25m via an equity placement on 22 February 2011, which funded the exercise of the Cabral option agreement for a cash consideration of A\$7.2m; aeromagnetic surveys later undertaken to identify initial drill targets; and the commissioning of conceptual economic modelling by Promet Engineers. In late 2012 due diligence began on the original portfolio of nine tenements, and later incorporated both acquired regional geophysical survey and high-resolution aeromagnetic survey data commissioned by the company. This indicates a total exploration target tonnage of between 331Mt and 644Mt of medium- to coarse-grained magnetite iron ore. This does not include itabirite and DSO hematite potential, which has also been identified within the tenement holding.

Since 30 June 2011, CBS has grown its strategic tenement footprint aggressively through a staged acquisition process involving option agreements, which allow it to evaluate and acquire prospective areas from local landowners over extended periods. Areas of interest targeted were originally identified from the aeromagnetic survey data collected in Q411. The survey, by Fugro-LASA (FUGRO), covered 1,720 km² across three main target areas and largely underpins the company's current expansion/consolidation strategy in the region. The purchase of the Canabrava tenements in August 2011 added 191.8km², more than doubling the portfolio that now stands at 465km². Cabral's current landholding forms essentially a three-hub configuration: the Lagoa Real Group, the Itaquarai Group and the Canabrava Group. The target tonnage range, as shown below, remains unchanged since the debut tenement portfolio was first acquired in February 2011 and does not include itabirite and DSO hematite.

Exhibit 1: Exploration target tonnage estimates (magnetite iron ore only)				
Tenement group	Area (km ²)	Target tonnage range (Mt)		
		Low	High	
Lagoa Real	64.4	234		517
Itaquarai	50.4	54		54
Ibiasucce	3.8	<13		<13
Canabrava	213.7	N/A		N/A
Total	332.3	331Mt		644Mt

Source: Cabral Resources

Location

Cabral's entire portfolio of iron ore tenements spanning 465km² is located in the state of Bahia, and 447km by rail inland from the east coast of Brazil. The company's main tenement hub at Lagoa Real is approximately 40km from the township of Brumado, population c 64,400, in south-western Bahia,

where the company has established an exploration office and workshop for storing and logging drill cores and samples. The state of Bahia is the fourth-largest state in terms of population in Brazil and, like other north-eastern states, has long lagged behind the rest of the country in terms of socioeconomic development, with a GDP per capita of R\$9,364 (source: World Bank), approximately 56% of the national average. As a result, in recent years the Bahia state government has moved towards more direct policy interventions designed to encourage economic development, including promoting regional investment by foreign companies, primarily mining, through financial incentives and tax concessions. A recent initiative includes the construction of a heavy haulage rail line (the FIOIL rail line) dedicated to bulk commodities, such as iron ore, which is now under way. The FIOIL will link directly with a proposed deep-water port that will be north of the existing port of Ilhéus on the east coast of the state. In March 2012, Cabral signed a protocol of intentions (POI) with Bahia state, securing allocation capacity of up to 15Mt per year of iron production in the use of both the FIOIL rail line and proposed port facility.

Geology

Geophysical data from the aeromagnetic survey commissioned by Cabral in Q411 suggest the geology of the tenement portfolio is comprised of magnetite-rich meta-BIF (banded iron-formation), marble, amphibolites, ultramafics and quartzites, which form part of an inlier of the Neoproterozoic Brumado Complex. These occur within an Archaean basement sequence of magmatic orthogneisses and tonalite-trondhjemite-granodiorites of the Gavião Complex with remnant ultramafic and mafic supracrustal rocks. Assay results for field surface samples taken during geological mapping of select tenements in the Lagoa Real area in Q112 identified oxidised magnetite-BIF profiles of iron in ranging from 20% to 40% Fe, with silica between 40% and 70% SiO₂.

Exploration strategy: Focus on magnetite iron ore

Cabral's exploration strategy continues to focus on assessing the high grade, coarse-grained magnetite iron ore (c 32% Fe) first identified within its debut nine tenement portfolio during a consulting geologist's field trip in August 2010. In November 2010, Cabral's exploration and technical director Chris Robinson also conducted a field visit of all tenements in Brazil. This led to the exploration target tonnage estimates of the potential resource ranging from 331Mt to 644Mt through interpretation of assays of chip samples taken across strike. Cabral intends increasing this tonnage to over 1bt of beneficiable magnetite iron ore through targeted consolidation of additional land identified through geophysical surveys of the region, primarily the FUGRO aeromag survey commissioned by the company. Cabral recently engaged the services of Metal Data to render specialised technical and geological services to supplement its own exploration team based in Brumado and coincide with drilling at Morro do Gergelim.

Projects

Morro do Gergelim: Maiden drilling programme

Morro do Gergelim is part of the Lagoa Real group of tenements and covers c 16.7km². With 200Mt to 450Mt of its exploration target tonnage identified to date at Morro, the site is a major focus for the company. Aeromagnetic reconnaissance mapping data gathered in 2011 confirmed the presence of BIF first identified in assay samples from field trips in 2010. Upgrade of local access roads required for earthmoving equipment and two drill rigs at the site was carried out through a joint initiative between Cabral and the local municipality of Livramento de Nossa Senhora. Cabral began its maiden 3,000m drilling programme at the prospect in May 2012, after INEMA granted an environmental licence. The

project is situated approximately 12km from the government-funded US\$5B FIOL rail line, under construction.

The geology of the Lagoa Real area is dominated by granitic intrusives and related rocks. At Morro do Gergelim there is evidence of medium- to coarse-grained crystallised magnetite banded iron formation hosted by metasediments including marble and quartzites. Assay results and petrology reports on samples taken during Cabral's field inspection in late 2010 indicate a high-grade (+32% Fe) beneficiable magnetite ore with liberation grind size estimated at >75 microns, which bodes well for potentially low cost beneficiation downstream.

First interim drill results

Diamond drilling at the site using two rigs has completed 1,810 metres (11 drill holes) of the planned 1,955 metres (12 drill holes). On 6 September 2012, Cabral announced its first interim drill results from Morro do Gergelim after receiving core logging and assay results for six drill holes out of the 11 completed. Initial observations are that the silicate-rich BIF rock type predominates but this is yet to be confirmed. The results included readings of magnetite ranges as determined by Satmagan (magnetite analyser) of up to 35.2% and 40.5% respectively in several holes. Overall grades varied between 28% and 30%, but more work is scheduled by management once all drilling data is received, then it will prepare an initial geological interpretation of the Morro do Gergelim mineralisation.

Ibitira tenement (Lagoa Real group): Second potential drill target

The Ibitira target is also located within the Lagoa Real hub and is close to both Morro do Gergelim and the FIOL rail line. A review of the FUGRO aeromagnetic survey data combined with geological mapping of the area indicated an iron formation covering 1.27 km² that is 2.3 km long, trending approximately WNW-ESE with an average dip of 70 degrees to the north. Two BIF layers were mapped on the eastern portion of the area; the southern one presents discontinuous outcrops. The thickness of the outcropping iron formation varies from five to 30 metres. BIF was composed mainly of quartz (sometimes very thin), magnetite and grunerite. Ibitira contains between 20Mt and 50Mt of target tonnage and conveniently is 45km west of the company's exploration base at Brumado. This makes it an attractive next drill target pending the granting of environmental licences, which we expect in Q212.

Magnetism in hand specimens was generally medium to strong, with chemical assays of chip samples indicating iron concentrations of between 23.3% and 39.3%. Management has cited Ibitira as the next potential site for drilling pending regulatory approval.

Exhibit 2: Ibitira tenement hand samples collected and available assay results

Waypoint	Reference_N	Fe (%)	SiO2 (%)	Al2O3 (%)	P (%)	Mn (%)	LOI (%)	Sample Type
RG007	639728	31.82	49.8	0.13	0.017	0.169	2.14	Chip
RL030a	639729	23.28	62.7	0.09	0.031	0.307	2.15	Chip
RL030b	639729	23.28	62.7	0.09	0.031	0.307	2.15	Chip
RL022	639730	39.26	40.9	0.72	0.014	0.108	0.25	Chip
L579a	188371	27.56	57.5	0.08	0.017	0.14	2.42	Chip
L579b	188371	27.56	57.5	0.08	0.017	0.14	2.42	Chip
LSW00627a	188372	27.05	59.9	0.16	0.022	0.137	1.67	Chip
LSW00627B	188372	27.05	59.9	0.16	0.022	0.137	1.67	Chip
LSW00670	188373	32.8	49.1	0.17	0.022	0.125	2.27	Chip
LSW00673	188374	33.28	50.3	<0.01	0.023	0.147	0.37	Chip
LSW00673	188374	33.28	50.3	<0.01	0.023	0.147	0.37	Chip
LSW00689	188375	25	62.1	0.08	0.014	0.146	2.02	Chip
LSW00741	188379	23.3	63.5	0.16	0.024	0.083	2.65	Chip

Source: Cabral Resources

Serra do Tigre tenements (Itaquarai Group)

The Serra do Tigre tenements cover c 20.7km² and are in the district of Livramento de Nossa Senhora, c 19km from the FIOLE rail line and 62km from Brumado. An anomaly in the centre of the tenement identified in the FUGRO aeromagnetic survey is the principal location of iron-formation occurrence. The first reconnaissance stage showed the area presents an intercalation of granites (isotropic and foliated, some with magnetite, mafic rocks and biotite-gneisses, and quartzite). At the biggest anomaly, a large amount of rolled cobbles of iron formation (with a few of granites, mafic and ultramafic rocks) are seen throughout the ascent of the hill. At the top an iron formation subcrop was identified, where the iron formation is banded, folded and has magnetite, quartz and amphibole in varying proportions. There are small outcrops on the slopes of the hill, with most layers containing large magnetite (0.5cm) crystals.

Canabrava tenements

The Canabrava tenements comprise a group of 12 tenement areas, located north-east of Brumado in Rio de Contas and Ituaçu districts, c 35km from the FIOLE rail line. The area was first identified from the FUGRO aeromagnetic survey data, which indicated strong first vertical derivative magnetic anomaly, partly continuous, elongated north-south and covering most of the area. Subsequent geological surveys of the terrain found outcrops and blocks of granite comprising highly variable facies, consisting of both very thin and foliated granites, augengneiss with feldspars up to 7cm and homogeneous granite. These rocks are shown by a strong hydrothermal alteration including epidotization, carbonation and chloritization, with the presence of chlorite, biotite, amphibole and sulfides. The terrain also comprised variable amounts of magnetite clusters, which contributed to the magnetic anomalies first detected in the FUGRO aeromagnetic survey. Evidence of regional uranium anomalies at Canabrava were also identified by the FUGRO survey, prompting the company to assess the potential uranium mineralisation with a ground radiometric survey in Q412 using a portable scintillation counter.

A strong uranium anomaly was identified in the NW portion of the Canabrava area and aligned NS along with a less-pronounced thorium anomaly. However, under Brazilian law, only the Brazilian government is authorised to mine and exploit uranium. That said, Cabral intends to dispose of these tenements in H212.

Further ground consolidation

Serra Das Almas in Canabrava Group

These tenements cover an area of 48.1km² and are located on faulted Paleoproterozoic rocks of the Serra das Almas and adjacent Archean greenstones. Itabiritic, magnetite and hematite mineralisation has been observed in the northwest structural trend and within the tenement boundaries. Data from the FUGRO aeromagnetic survey showed a strong magnetic anomaly within the tenement application area. The tenements lie approximately 25km to the north of the FIOLE rail line and are as yet waiting further exploration by the company.

Lagoa Funda in Itaquarai Group

This tenement covers 20.0km² and is within 1 mile of the FIOLE rail line. The area lies on faulted Archean gneiss and greenstone terrain. The main lithotypes on the property are quartzite, mafic rocks, ultramafic rocks, iron formation and gneiss, all within the boundaries of the tenement.

Other assets: Uranium tenements in Western Australia

Cabral's other major assets are three granted exploration tenements (EL 53/1414, EL 53/1415 and EL 53/1416) covering approximately 470km² in the northern Yeelirrie region of Western Australia, which are considered prospective for uranium, and held through a wholly-owned subsidiary.

The holding is within a province of calcrete-hosted uranium deposits comprising Yeelirrie (BHP), Lake Maitland (Mega Uranium), Lake Way – Centipede (Toro Energy), Thatcher Soak (Uranex NL) and Dawson Hinkler Well (U3O8). Reported resources within calcrete-hosted uranium deposits in the province have a combined endowment of over 70m pounds of uranium oxide. Nonetheless, the most significant target of Yeelirrie has not a yet reported JORC compliant resource.

The company's tenement interests are situated directly north of and adjacent to BHP Billiton's Yeelirrie Uranium Project, which was recently sold to Cameco Corporation (TSX: CCO, NYSE: CCJ) for US\$430m, reportedly Australia's second-largest undeveloped uranium target.

Logistics: Protocol of intention signed with Bahia government

The Cabral tenements are 447km by rail from the coast and on the proposed rail and port infrastructure corridor, which is being funded by the Brazilian Federal Government. In March 2012 CBS signed a protocol of intentions with the Bahia state government for access of up to 15Mtpa rail and port infrastructure on the US\$5bn publicly funded FIOIL rail line and the Porto Sul development. The FIOIL rail line is under construction with the latest commissioning timetable cited as 2014. This coincides with the company's potential project development schedule given its stated objective of becoming a 5Mtpa to 15Mtpa iron ore producer by 2015. The agreement with the government also gives CBS assistance with road infrastructure, water, power, potential project funding from Brazilian agencies, tax concessions and financial incentives in exchange for creating local employment opportunities through its projects. The proposed port of Porto Sul will be largely dedicated to handling bulk commodities such as iron ore with commissioning expected in 2015, but a project development schedule has yet to be released. The open access deep-water port will be built approximately 20km north of Ilheus in the State of Bahia.

Strategic inroads into China: The opportunity

Cabral's predecessor RIMCapital, a resources investment company, was actively engaged in fostering several major transactions between Chinese consortiums and Australian parties. Although ultimately they did not proceed, they did forge valuable inroads into China. Further to Cabral's joint venture partnership with China Railway Materials Commercial Corporation Group, CRMSC (Australia) Pty Ltd, a resources investment company, Cabral has also established strategic contacts within Chinese state-owned and private entities. These contacts include Tier 1 Chinese steel mills, policy banks and Chinese state-owned port and rail construction enterprises. When coupled with the company's close partnership with local Brazilian groups, we feel these create the potential opportunity to significantly advance the company's projects in the future, through sourcing project finance and securing iron ore off-take agreements.

Experienced senior management team

Cabral's experienced senior management team contains a solid blend of technical and financial expertise with key personnel from Brazil, Australia and China.

- **Michael Bogue, managing director and CEO.** Mr Bogue has over 19 years' M&A and corporate finance experience in the natural resources sector including as former co-head of mining and metals, Asia Pacific and Australian oil and gas for JPMorgan Chase & Co, and as part of the business development and finance departments of gold major Newcrest Mining.
- **Bruno Ribeiro, country manager Brazil.** Mr Ribeiro has previously participated in numerous investment projects focused on the Brazilian resources sector. He has also been engaged as a consultant in the development of risk management solutions for major banks and corporations in Brazil.
- **Paulo Ribeiro, head of exploration.** Mr Ribeiro is a Brazilian citizen with over 25 years' experience as a geologist. He graduated in geological engineering and has a postgraduate degree in mineral science on crustal evolution and natural resources: structural geology and geotectonics.
- **James Li, executive general manager (Asia)** has the operational responsibility for the JV entity with CRM. He is a metallurgist by background with strong business links within Chinese state-owned enterprises and the policy banks.

Sensitivities

Aside from the inherent exploration, technical, operational, currency and geopolitical risks common to all early-stage mining companies operating in developing countries, we believe it is worth considering the following risks/opportunities for Cabral:

- **Iron ore prices**, although not a key input to our valuation method, have a direct impact on investor sentiment and sector appeal. The significant decline in iron ore prices in recent months due to concerns over slowing demand of major iron ore importer China have brought this issue clearly into focus.
- **Property title** and land tenure issues arising from third-party claims to several tenements in the original portfolio, although resolved, highlight the risk not only of the security of tenure and related mineral rights, but also the importance of gaining adequate access to existing tenements on a cost-effective basis. Management's strategy of using option agreements to conduct due diligence, followed by staged payments to vendors, mitigates this issue to some extent.
- **Resource definition** if established may prove uneconomical to develop due to costly processing requirements or inadequate volumes. Cabral's aggressive acquisition/consolidation strategy is increasing the potential for resource discovery and the opportunity for economies of scale.
- **Infrastructure** required for local operations, power and electricity and export to shipping routes is critical (a POI was signed with the Bahia state government in March 2012). There is potential for delays in construction and/or congestion at port facilities if Cabral reaches production. Given the distance from the coast and railway tariffs in Brazil, the cost of transport could be a significant part of the overall cash costs.
- **Regional mining tax environment** issues given recent activity in Para and neighbouring state of Minas Gerais are a low-order risk for Bahia, but worth noting.
- **Key personnel risk** is also a relevant issue for Cabral given its strategic intent to potentially leverage its existing business relationships between the members of the management team and parties in China as various projects move forward.

Iron ore prices: All eyes on China

While the iron ore price has no direct impact on our Cabral valuation given that we employ the resource-based approach, it still affects investor sentiment and the overall sector appeal.

As at 7 September 2012, iron ore was trading below US\$90/t compared with a peak for the year in April of US\$147/t, a drop of 38%. Aside from the ongoing eurozone crisis and a sluggish US economy, major drivers of this decline point to signs of slowing economic activity in China, currently the largest consumer of iron ore globally, and the knock-on effect on steel makers there. As most of China's steel producers are state-owned entities whose primary objective is to meet government production targets, lower demand has resulted in rising stockpiles, now up 26% year-on-year according to the China Iron and Steel Association. This adds to downward pricing pressure on iron ore. According to the statistics released by the China Steel Logistics Committee, the Purchasing Managers Index, a key economic indicator of the Chinese steel sector, was 39.9 in August, the lowest level since December 2008. But at current levels, the iron ore price seems to be trading close to the ex-China marginal cash cost of production, which limits the downside risk and lends support to our short-term view that prices are close to the bottom. Our medium- to long-term view on iron ore remains positive, given the continuing momentum and scale of Chinese urban residential construction. This is a major contributor to economic activity, which is less aggressive than in recent years but remains high.

Valuation

In the absence of a JORC compliant resource, and not including the company's dormant uranium tenements in Western Australia, we believe a peer-group comparable resource-based multiple approach is the best way to assess the value of the company. This method calculates the value of a tonne of iron within the ore resources specified in relation to its holding company's enterprise value. It is then compared to a reference peer group as shown in Exhibit 3, using closing prices as of 7 September 2012. We distinguish between those iron ore companies with JORC compliant resources and those with only exploration targets, and adjust the former by applying a 50% discount to the sub-group's EV/Fe contained (t) multiple. Our total EV/Fe contained (t) multiple of 0.15x is then derived from the average of both sub-groups.

Exhibit 3: Comparable EV/contained tonne of iron ore for Cabral Resources, as at 7 September 2012

Stage	Location	JORC Status	Company	ASX code	Market cap (A\$m)	EV (A\$m)	Resource (Mt)	Fe (%)	Contained Fe (Mt)	EV/Resource
Producer	Brazil	JORC Resource	South American Ferro Metals	SFZ	67.5	62.1	230.6	44.5%	102.7	0.60
Developer	Brazil	JORC Resource	Centaurus Metals	CTM	34.7	25.9	125.2	26.7%	33.4	0.77
Explorer	Australia	JORC Resource	Iron Road	IRD	80.9	74.4	2104	16.2%	340.8	0.22
Explorer	Australia	JORC Resource	Ironclad	IRE	35.1	20.7	226.31	27.1%	61.4	0.34
Explorer	Australia	JORC Resource	Lincoln Minerals	LML	11.8	10.7	122.5	26.4%	32.3	0.33
Subtotal weighted average										0.44
Discounted at 50%										0.22
Explorer	Brazil	Exploration target	Brazilian Mining Group	BMG	2.0	1.9	57.5	40%	23.0	0.08
Explorer	West Africa	Exploration target	Equatorial Resources	EQX	201.5	121.5	4850	35%	1697.5	0.07
Subtotal weighted average										0.07
Total average										0.15

Source: Edison Investment Research, company releases

Using the midpoint of Cabral's stated exploration target of 331Mt to 644Mt of magnetite iron ore of 487.5Mt containing an average grade of 32% Fe, we derive an estimate for Fe contained of 156Mt. Applying the peer group multiple of 0.15x to our estimate of Cabral's Fe contained generates an implied value per share of A\$0.09.

Exhibit 4: Cabral implied valuation

Average exploration target	487.5
Assumed Fe grade	32%
Implied contained Fe	156.00
Applied multiple	0.15
Implied EV	22.7
Less net debt / (cash)	0
Implied equity	22.7
Shares on issue (m)	259.3
Implied value per share A\$	0.09

Source: Edison Investment Research

On a conservative basis, assuming all cash on hand is used to delineate a potential resource, our comparable multiples method generates an implied value per Cabral share of A\$0.09, which we propose as a base case.

Regional iron ore activity

Cabral's closest neighbour, and the most active consolidator of underdeveloped iron ore projects in the region, is Kazakh-based mining group – Eurasian Natural Resources Corporation (LSE: ENRC, KASE: GB_ENRC). The following table lists significant acquisitions in the region and their associated implied USD/Fe (t) multiples, although these were all executed some time ago. The locations and sizes of these transactions support the view that the region surrounding the Cabral tenements will remain a focus of mining and exploration activity in the near term, raising the possibility of the company itself becoming an acquisition target pending the delineation of a resource.

Exhibit 5: Regional iron ore transactions

Location	Dates	Parties	Acquisition price (US\$m)	Ownership	JORC tonnage or target (Mt)	Fe Grade	Contained Fe (Mt)	US\$/ Fe content (t)
Minas Gerais, Brazil	01-Nov-10	Eurasian/MIBA	304	1	2,500	30%	750.0	0.41
Bahia, Brazil	01-Sep-10	Eurasian /BML	670	0.5	1,808	32%	578.6	2.32
Bahia, Brazil	01-Sep-10	Eurasian/Greystone option	150	1	335	32%	106.4	1.41
Minas Gerais, Brazil	01-Mar-11	Honbridge/Salinas	430	1	2,841	20%	579.6	0.74

Source: Company updates/Edison Investment Research

Financials

On 22 February 2011, Cabral raised \$25m via an equity placement that funded: the exercise of the Cabral option agreement for a cash consideration of A\$7.2m; aeromagnetic surveys later undertaken to identify initial drill targets; and the commissioning of conceptual economic modelling and pre-scoping study by Promet Engineers. Since the start of trading on the ASX as CBS, net cash outflow has tracked the evolution of the company's operations with c A\$1m per quarter spent on exploration and evaluation of prospects out of a total average quarterly burn of A\$1.5m. The cash burn increased to A\$1.97m in Q412, as a result of higher exploration and evaluation costs associated with the start of drilling at the Morro Do Gergelim prospect. Cash on hand as at 30 June 2012 was A\$10.77m with no debt. In contrast to our more conservative approach in valuing the company, we assume a notional A\$500k outlay to achieve a resource position at Morro do Gergelim, which is factored into our year-end 30 June 2013 cash-on-hand forecast of A\$5.6m.

Exhibit 6: Financials

	A\$'000s	2008	2009	2010	2011	2012e	2013e
30-June		UK GAAP	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS							
Revenue		0	0	332	0	0	0
Cost of Sales		0	0	0	0	0	0
Gross Profit		0	0	332	0	0	0
EBITDA		(197)	(2,430)	(394)	(2,043)	(2,614)	(2,516)
Operating Profit (before amort. and except.)		(209)	(2,439)	(401)	(2,060)	(2,715)	(2,633)
Intangible Amortisation		0	0	0	0	0	0
Exceptionals		5,993	(8,648)	(85)	0	0	0
Other		(796)	(361)	(196)	311	918	0
Operating Profit		4,988	(11,448)	(682)	(1,749)	(1,797)	(2,633)
Net Interest		114	(4)	(19)	272	955	521
Profit Before Tax (norm)		(94)	(2,443)	(419)	(1,788)	(1,760)	(2,112)
Profit Before Tax (FRS 3)		5,103	(11,452)	(701)	(1,477)	(842)	(2,112)
Tax		(1,737)	1,820	0	0	0	0
Profit After Tax (norm)		(1,777)	(623)	(418)	(1,788)	(1,760)	(2,112)
Profit After Tax (FRS 3)		3,365	(9,631)	(701)	(1,477)	(842)	(2,112)
Average Number of Shares Outstanding (m)		88.0	88.5	90.7	199.5	257.9	259.3
EPS - normalised (c)		(2.0)	(0.7)	(0.5)	(0.9)	(0.7)	(0.8)
EPS - normalised and fully diluted (c)		(2.0)	(0.6)	(0.4)	(0.8)	(0.7)	(0.8)
EPS - (IFRS) (c)		3.8	(10.9)	(0.8)	(0.7)	(0.3)	(0.8)
Dividend per share (p)		0.0	0.0	0.0	0.0	0.0	0.0
Gross Margin (%)		N/A	N/A	N/A	N/A	N/A	N/A
EBITDA Margin (%)		N/A	N/A	N/A	N/A	N/A	N/A
Operating Margin (before GW and except.) (%)		N/A	N/A	N/A	N/A	N/A	N/A
BALANCE SHEET							
Fixed Assets		2,694	1,489	1,587	5,186	11,046	14,079
Intangible Assets		0	62	65	3,353	9,142	12,142
Tangible Assets		44	35	29	305	666	699
Investments		2,649	1,392	1,493	1,529	1,238	1,238
Current Assets		11,446	1,604	351	19,889	10,945	5,800
Stocks		0	0	0	0	0	0
Debtors		16	6	6	149	170	170
Cash		734	103	344	19,737	10,772	5,627
Other		10,696	1,495	0	4	4	4
Current Liabilities		(850)	(800)	(148)	(497)	(323)	(323)
Creditors		(374)	(81)	(64)	(373)	(200)	(200)
Short term borrowings		0	0	0	0	0	0
Other		(477)	(718)	(84)	(123)	(123)	(123)
Long Term Liabilities		(1,825)	(6)	(7)	(8)	(8)	(8)
Long term borrowings		0	0	0	0	0	0
Other long term liabilities		(1,825)	(6)	(7)	(8)	(8)	(8)
Net Assets		11,465	2,287	1,784	24,571	21,699	20,135
CASH FLOW							
Operating Cash Flow		(1,010)	(1,173)	(686)	(1,934)	(2,520)	(1,995)
Net Interest		114	(4)	(19)	129	955	521
Tax		(13)	(70)	(360)	(27)	4	4
Capex		(19)	(54)	(3)	(100)	(463)	(150)
Exploration expenditure		0	0	0	(2,362)	(5,780)	(3,000)
Acquisitions/disposals		(511)	267	1,410	(39)	0	0
Financing		0	403	(100)	23,727	(9)	0
Dividends		0	0	0	0	0	0
Net Cash Flow		(1,439)	(631)	242	19,392	(7,814)	(5,145)
Opening net debt/(cash)		(2,173)	(734)	(103)	(344)	(19,737)	(10,772)
HP finance leases initiated		0	0	0	0	0	0
Other		0	0	0	0	(1,151)	0
Closing net debt/(cash)		(734)	(103)	(344)	(19,737)	(10,772)	(5,627)
Source: Edison Investment Research, company data							

Contact details	Revenue by geography
Suite 2, Level 5 20 Bond Street Sydney NSW 2000 Australia +612 9232 0211 www.cabralresources.com.au	N/A

CAGR metrics	Profitability metrics	Balance sheet metrics	Sensitivities evaluation
EPS 11-12e	N/A ROCE 11	N/A Gearing 11	N/A Litigation/regulatory ●
EPS 11-12e	N/A Avg ROCE11-12e	N/A Interest cover 11	N/A Pensions ○
EBITDA 11-12e	N/A ROE 11	N/A CA/CL 11	N/A Currency ◐
EBITDA 11-12e	N/A Gross margin 11	N/A Stock turn 11	N/A Stock overhang ○
Sales 11-12e	N/A Operating margin 11	N/A Debtor days 11	N/A Interest rates ◐
Sales 11-12e	N/A Gr mgn / Op mgn 11	N/A Creditor days 11	N/A Oil/commodity prices ●

Management team
Managing director and CEO: Michael Bogue Previous roles include executive director of APAC Resources, a Hong Kong-listed entity focused on the resources sector. Currently, he is also chairman of CRMSC (Australia) Pty Ltd, Cabral's associate company, with China Railway Materials Corporation Group.
Executive general manager (Asia): James Li Mr Li oversees operations for the JV entity with CRM. He is a metallurgist by background and has strong relationships within Chinese state-owned enterprises and the policy banks.

Head of exploration: Paulo Ribeiro	Country manager, Brazil: Bruno Ribeiro
Previous roles include exploration manager of Bahia Mineracao, now controlled by Eurasian Natural Resources Corporation, which has iron ore projects in close to Cabral in the state of Bahia, Brazil.	Previous roles include consulting and the development of risk management solutions for major banks and corporations in Brazil. Mr Ribeiro has participated in numerous investment projects focusing on the Brazilian resources sector.

Principal shareholders	(%)
Sun Hung Kai Investment Services	5.90
HSBC Custody Nominees (Australia)	4.83
Sun Hung Kai Investment Services	4.29
HSBC Custody Nominees	4.26
Citicorp Nominees Pty	3.88
JP Morgan Nominees Australia	3.31

Companies named in this report
Eurasian Natural Resources Corporation; South American Ferro Metals; Centaurus Metals; Iron Road; Ironclad; Lincoln Minerals; Brazilian Mining Group; Equatorial Resources, Cameco Corporation.

EDISON INVESTMENT RESEARCH LIMITED

Edison Investment Research is a leading international investment research company. It has won industry recognition, with awards both in Europe and internationally. The team of 95 includes over 60 analysts supported by a department of supervisory analysts, editors and assistants. Edison writes on more than 400 companies across every sector and works directly with corporates, fund managers, investment banks, brokers and other advisers. Edison's research is read by institutional investors, alternative funds and wealth managers in more than 100 countries. Edison, founded in 2003, has offices in London, New York and Sydney and is authorised and regulated by the Financial Services Authority (www.fsa.gov.uk/register/firmBasicDetails.do?sid=181584).

DISCLAIMER

Copyright 2012 Edison Investment Research Limited. All rights reserved. This report has been commissioned by Cabral Resources and prepared and issued by Edison Investment Research Limited for publication in the United Kingdom. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of Edison Investment Research Limited at the time of publication. The research in this document is intended for professional advisers in the United Kingdom for use in their roles as advisers. It is not intended for retail investors. This is not a solicitation or inducement to buy, sell, subscribe, or underwrite securities or units. This document is provided for information purposes only and should not be construed as an offer or solicitation for investment. A marketing communication under FSA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. Edison Investment Research Limited has a restrictive policy relating to personal dealing. Edison Investment Research Limited is authorised and regulated by the Financial Services Authority for the conduct of investment business. The company does not hold any positions in the securities mentioned in this report. However, its directors, officers, employees and contractors may have a position in any or related securities mentioned in this report. Edison Investment Research Limited or its affiliates may perform services or solicit business from any of the companies mentioned in this report. The value of securities mentioned in this report can fall as well as rise and are subject to large and sudden swings. In addition it may be difficult or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance. This communication is intended for professional clients as defined in the FSA's Conduct of Business rules (COBs 3.5).

Registered in England, number 4794244. Edison Investment Research is authorised and regulated by the Financial Services Authority.
www.edisoninvestmentresearch.co.uk

London +44 (0)20 3077 5700
Lincoln House, 296-302 High Holborn
London, WC1V 7JH, UK

New York +1 212 551 1118
380 Lexington Avenue, Suite 1724
NY 10168, New York, US

Sydney +61 (0)2 9258 1162
Level 33, Australia Square, 264 George St,
Sydney, NSW 2000, Australia