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## Cap-Ex Ventures Ltd. (CEV-V)

### New Journal Review

After three decades as a forgotten mining region, the iron ore belt straddling the Quebec-Labrador boundary is being revitalized by high iron ore prices. Cons Thompson (CHL-T), our first choice in the region, is being acquired in a friendly takeover. We looked for an early stage “iron ore spec” to complement Champion Minerals (CHM-T), the pre-development level iron ore company on the HRA list. The concept of a speculative level Iron Ore explorer was unheard of until recently. It’s a measure of how much the resource business has changed in the past few years that juniors would even consider entering the concentrated and capital intensive iron ore sector.

Cap-Ex became an iron ore speculation when it agreed this month to acquire three projects near and north of Schefferville, the former production hub for the belt’s high grade DSO (direct shipping ore). These are well located grass roots projects that need exploration to determine quality and scale potential. They are however “on trend” and have the sort of strong magnetic anomalies associated with the iron formations. DSO targeting will be part of the work up to drill testing, and if successful could garner a quick repricing. There is also potential for more acquisitions as the management continues to hunt for more iron ore exploration projects.

The proposed deal is not yet approved, so there is regulatory risk until that is done. Initial drill testing would not be expected much before the end of Q2, which means there could be some slack in the CEV market, which has already run up strongly on the acquisition announcement, between now and then. However, our timing is based on an assumption that this distinct will remain hot and it may be prudent to begin accumulation sooner rather than later.

Accumulate in the current range and/or try to bid for better priced shares prior to the start of drill testing in late Q2 2011.

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### CORPORATE SUMMARY

Cap-Ex Ventures is a new deal in most meaningful senses of the word. The project acquisition it is completing includes new management that has iron ore background that is coming in with the deal. Iron ore is hot which has enabled the market to absorb what selling there has been since the transaction was announced.

CEV is acquiring three claim blocks in the belt, two of which are close to the Schefferville infrastructure. None have resources at this stage so this remains a speculative story.

It’s a very cold winter in Schefferville, which is saying something. A 43-101 report on the projects required to close the transaction is be-

ing completed. That report will lay out a work schedule but we don’t expect drilling until well into Q2. More acquisitions could be a near term catalyst but for now the play is the projects described below.

CEV listed as a Capital Pool Company and completed a “qualifying transaction” in

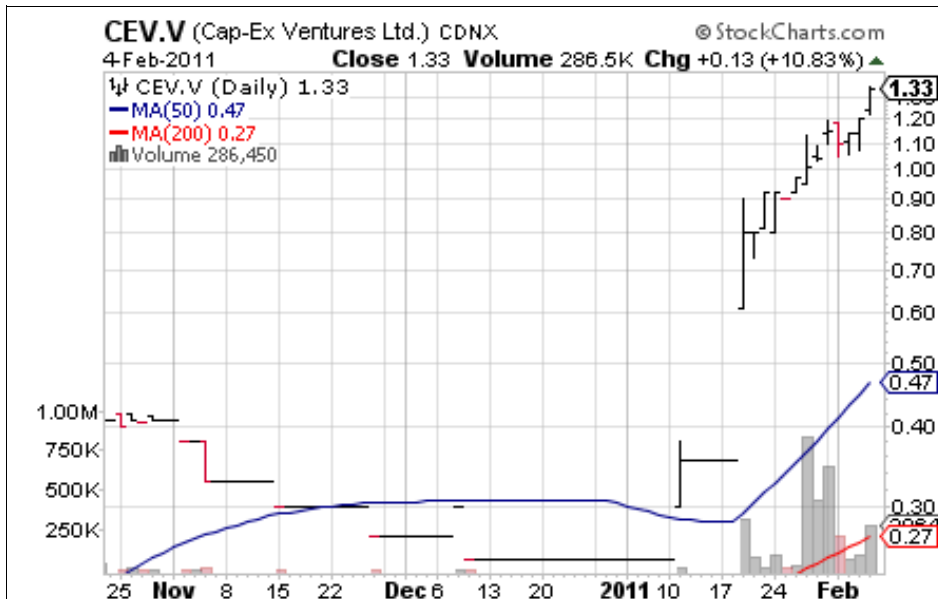
mid 2010. The transaction was an option agreement to earn 50% of the Tay-LP gold copper project in the Yukon. Cap-Ex hasn't updated its plans for Tay-LP but, given the market reaction to the company's new direction we are not expecting much focus on it.

The Tap-LP option was financed with a 4.8 million unit placement at 11 cents, with an attached warrant at 15 cents. Management bought close to half this placement.

The iron ore acquisitions are being funded with a concurrent financing of 6 million units at 30 cents and 1.5 million flow-through units at

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40 cents in which we are participating in a small way. This provides sufficient funds to get initial targeting work done.

Company insiders held just over 7 million shares before the iron ore transaction. New shares for the property acquisition and existing warrant exercise would bring the control block to 14 million shares. This amounts to roughly 40% of the fully diluted share total. Full dilution brings in another \$3.6 million.

CEV has traded just under 4 million shares at an average price of \$1.08 since the transaction was announced. This is out of a 10 million share float, assuming all outstanding 15 cent warrants are getting exercised.

The share turn over has increased dramatically since announcing the transaction, which indicates the interest level an iron ore speculation now gets. That should con-

tinue, but there may still be periods of weaker turn over until the deal is finalized and plans confirmed.

At current prices CEV has about one tenth the price of development level companies in the Belt. This implies upside room, though that upside only materializes if the company succeeds in discovering a large resource.

Results that start to determine whether a resource exists won't arrive for a few months. It may be a good short term trade but there should be time to accumulate it without feeling the need to chase the price.

### Management

The property transaction included the addition to management of an experienced iron ore explorer. **Brett Matich** joined the Cap-Ex board in conjunction with the iron ore acquisition. He will be directing the exploration efforts going forward. Matich helped build several

public companies in Australia before moving to Canada. Of particular note is Aztec Resources where he was Managing Director while it redeveloped a dormant iron ore mine and was taken over by a company that now has the mine in production.

**Graham Harris**, Director, worked as a senior VP for a couple of brokerage houses before moving on to help structure and finance a number of public companies. **Andrew Bowering** specializes in corporate administration and has held executive positions with a number of different resource companies. The board is rounded out by **Chris Farber** a corporate lawyer in private practice.

## PROJECT SUMMARY

### Background

There was a massive expansion of global iron ore production in the last decade. Based on figures compiled by South Africa's Creamer Media, iron ore production rose 65% between 2003 and 2008 to over 1.7 billion tonnes (Gt). Estimates called for iron ore output to top 1.9 Gt by the end of last year. By comparison, copper *mine* output rose 5% during '03-'08 to 15.5 million tonnes (Mt) (but 20% in total). China managed to triple iron ore output to 366 Mt during that period, India better than doubled output to 217 Mt, and the balance of the expansion came largely from Australia and Brazil. Most smaller

### Briefing Book

(amounts in \$CAD)

Listed: TSX: CEV

Share Issue: 27 MM; 37 MM F.D. \*

Share Float: 16 MM

\* Assumes current financing completed

Working Capital:

\$2.5 MM, \$6 MM F.D.

52 Week High-Low: \$1.35-0.15

Recent Price: \$1.20

Av Daily Volume: 250,000 shs.

Phone #: 1-604-669-2279

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Website:

<http://www.cap-ex.ca>

players had some gain, but Canada's iron ore tonnage actually dropped during this major expansion. Canada's main iron ranges in the east are too distant from Asia to have participated in that surge, until now.

The first 8 Mt/year phase of the Cons Thompson operations by itself represented 25% of Canada's total iron ore output in 2008. Arcelor Mittal (MT-N), now the world's biggest steel maker, is expanding in the district, as is Cliffs Natural Resources (CLF-N) that is taking over Cons Thompson. Rio Tinto (RIO-N) also operates out of Labrador City. All of this activity, and Champion's resource expansion has been in the southern Fermont part of the belt

The Fermont district work has been about filling up the ex-

isting rail infrastructure to expanding port facilities on the Gulf of St. Lawrence. This district ships concentrate and pellets (to coarsen material from ore that requires fine grinding) from deposits grading around 30% iron. Fermont, which eked out a living during low iron prices with an assist from low power costs in this hydro rich region, is now highly profitable.

The Labrador Trough's other main output came from the Schefferville area at the northern end of the rail line. The Schefferville area generated direct shipping ore (DSO) prior to 1983, and is expected to begin shipping again this year. The early period of DSO mining was of 55% iron in magnetite material to "in-house" smelters, but the camp does have +60% material.

Several current projects focus on large scale and long term growth in extension of the belt north of Schefferville. India's Tata Steel (TATASTL-Bombay) recently penned an LOI with New Millennium (NML-V) for deposits north of Schefferville. Last month two deals were announced with China's WISCO. One of these is outlined in the Champion update. The second is \$120 of funding to earn 60% of ground held by Adriana Resource (ADI-V) in the northern extension of the district.

These are longer term projects that will require a major expansion of the region's in-

infrastructure to move to their potential full scales.

The ground that Cap-Ex is picking up might be added to this mix, or it may contain DSO close enough to existing infrastructure for a nearer term production scenario.

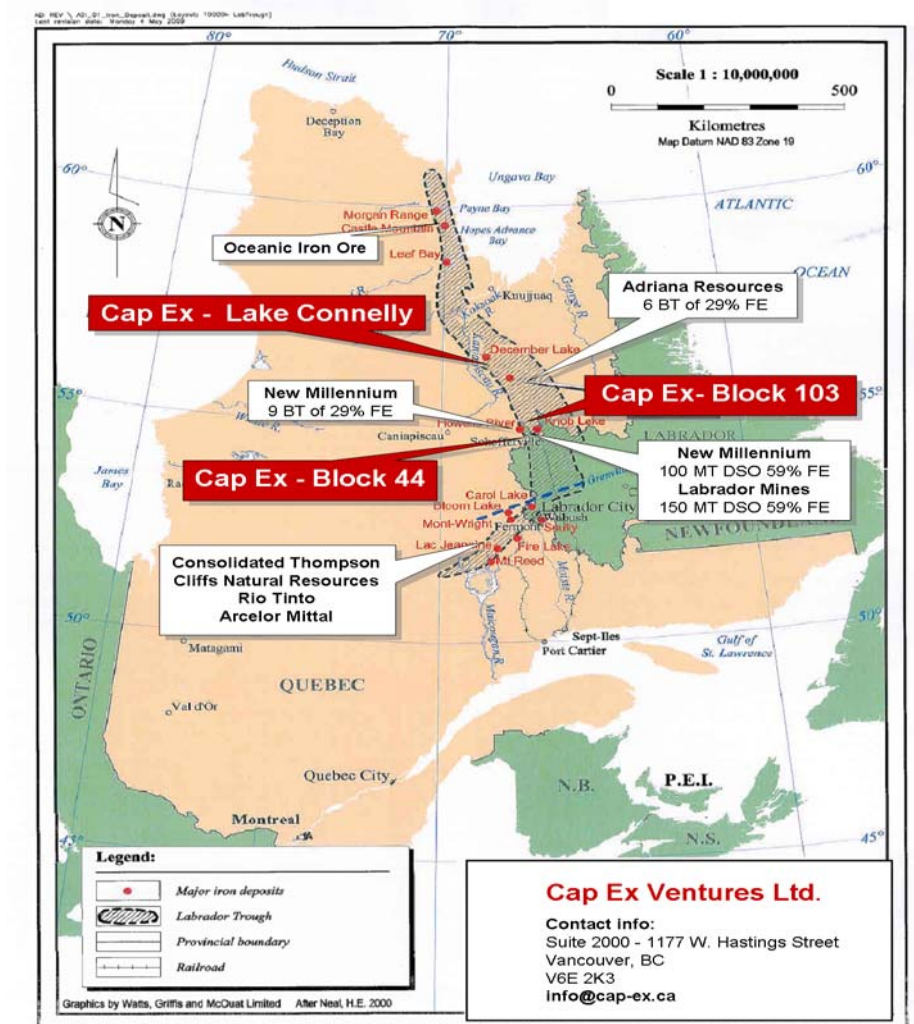
## Project Summary

Cap-Ex is picking up three separate blocks, with the larger Block 103 to the north of Shefferville and the smaller and well positioned Block 44 on the rail line 15 Km south of the town being the two primary target areas. These are early phase projects and amount to iron ore speculations. That said, iron formation runs through the blocks and the testing will be for quality and quantity.

Block 103, about 20 km on trend north of railhead, is the largest holding. It contains several 10s of km of high magnetic response that marks the iron formation, and is within the area of known magnetite DSO deposits. It will be tested for both DSO and larger scale taconite resources. There is enough recent geophysical work to suggest it is a prime target for DSO discovery.

The smaller Block 44 to the south is less well established in terms of recent targeting, but is in the trend extension and we would still consider it a high potential speculation.

A third more northern pro-



ject, the Lac Connelly Block, is the trend extension to the north of Adriana's ground. Reports from the early history of the district indicate this block contains high-grade material that has never been drill tested.

Current planning calls for refinement of the geophysical targeting, followed by initial drill testing before the end of Q2. Assuming early success with the drilling., this should allow for sufficient testing this year to establish initial resource estimates. Given the interest in the belt and the amount of new testing in

it that has established resource estimates, we would expect the Cap-Ex market to react to results as they come out.

That may not sound different than other speculations we have talked about. However, prior to the middle of last year we wouldn't have assumed that would be the case about a Canadian iron project. We now think the market is looking forward to a many fold expansion of Canada's iron ore output from +30 Mt in 2008. A great deal of work is needed to confirm that potential, but

the geology allows for it and market expansion makes it seem likely.

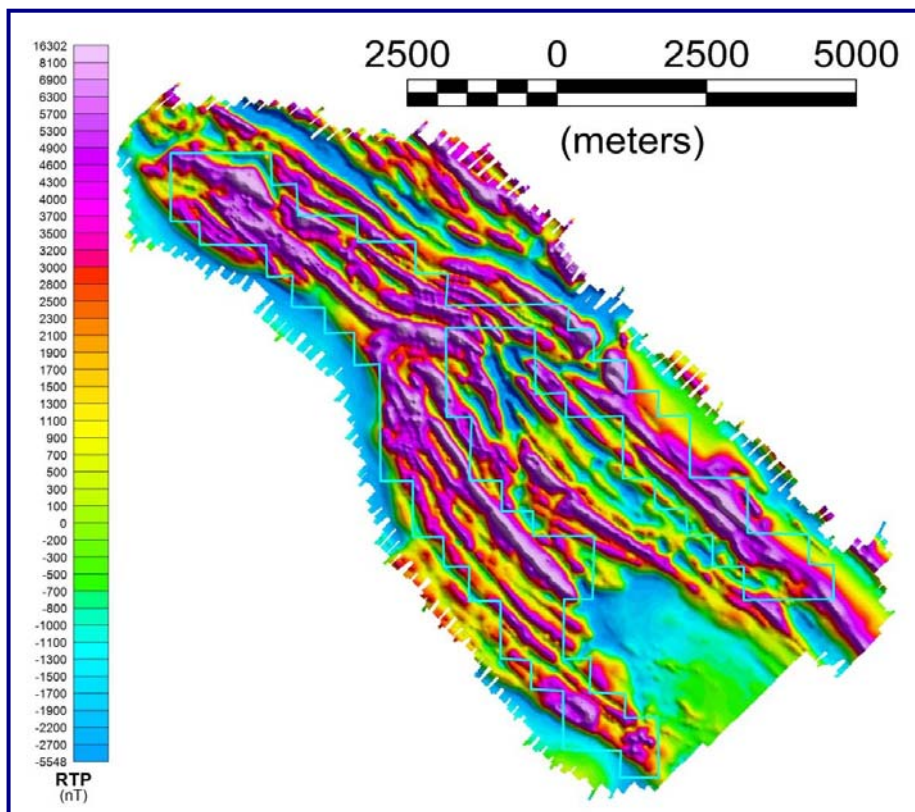
Discoveries by Cap-Ex will get noticed.



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Magnetic intensity based on the 2008 airborne survey of Block 103. High positive magnetic response (mauve) may represent areas of magnetite iron ore. DSO grade hematite, FeO, is non-magnetic. Discovery of DSO in bulk would be the shortest path to a higher market value but these deposits are harder to target efficiently and often located initially through prospecting.

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