

Cap-Ex Ventures (CEV-TSX.V)

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Initiating Coverage

Cap-Ex Ventures has recently acquired an extensive property position in the most important iron producing region of Canada. As part of that transaction, the company brought on a new president with successful experience in the mining industry, and in particular with iron. The company is just closing a \$11 million financing that will fund an aggressive exploration and development program on the newly acquired properties.

Brett Match, the new president, was the managing director of an Australian company that acquired a dormant iron ore mine. Under his direction, a feasibility study was completed and the company was then taken over by a larger company that developed a successful iron mine. He also brought a nickel mine back into production.

Brett recognized the potential in the Canadian iron properties. He worked with the management of Cap-Ex to acquire the properties and then came on board to lead the exploration and development program.

The Cap-Ex properties are in a region known as the Labrador trough, which produces most of the iron mined in Canada. The region extends north from the Gulf of St. Lawrence, generally along the border between Quebec and Labrador. Two of the largest mining companies in the world and other large miners are either operating mines and/or developing mines in the Labrador trough. Two railways connect the mines in the region to ports on the Gulf of St. Lawrence.

Much of the early mining in the region was centered on Schefferville, beginning in the 1950s. The early focus was mining high-grade ore that was direct-shipped. More recently, attention was directed at larger, but lower grade

deposits closer to the Gulf. The huge increases in iron ore prices have led to a revitalization of the entire Labrador trough.

Some of the iron deposits around Schefferville have very high grades, in the order of 55% to 60% iron. Those deposits are not large by iron ore standards, typically measuring tens to low hundreds of millions of tonnes. The advantage is that the ore requires only minimal processing, so mines can be developed for a modest capital expenditure.

Typically, iron ore deposits are measured in the billions of tonnes. With an iron content in the order of 25 or 30%, the ore from those large deposits requires upgrading. The capital expenditure required to develop those deposits is measured in the billions of dollars.

Cap-Ex has acquired four blocks of mineral claims around Schefferville and further to the north. All of those properties have seen enough historic work to demonstrate the presence of iron deposits. However, the properties have seen little exploration in recent years. The properties were tied up by an iron ore development company. When that company turned its focus to the development of another large-scale project, those properties were returned to the underlying owner. Cap-Ex recently agreed to acquire the properties for a cash payment of \$275,000 and the issuance of five million common shares of Cap-Ex to the vendors.

There are existing processing plants in the Schefferville area for direct shipping ore (DSO). The near-term objective for Cap-Ex is to develop deposits on its properties that can be treated at the existing plants. There is additional potential to identify and delineate deposits that could become stand-alone mining operations.

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RB LAWRENCE ROULSTON'S **RESOURCE OPPORTUNITIES**

The Cap-Ex Block 103 property is located 25 km north of Schefferville. Spanning 50 square kilometers, that property is in close proximity to properties being developed by other companies. New Millennium, in joint venture with Tata Steel (one of the largest iron miners in the world) are developing two direct shipping ore deposits. A deposit of 66 million tonnes grading 59% iron is located just north of Cap-Ex; a deposit of 34 million tonnes at a similar grade is located to the south. Those companies are also developing a 9 billion tonne deposit of 30% iron located just two kilometers west of the Cap-Ex Block 103. That operation is scheduled to commence in 2012.

Historic reports from Iron Ore Company of Canada (IOC) state that Block 103 may contain hundreds of millions of tons of magnetite (that is iron ore that would require concentrating). Other reports suggest that the region may contain direct shipping ore. The previous operator of that Block carried out a helicopter-borne magnetic survey over the property in 2008. That survey identified wide-spread areas of magnetic response, including the most intense magnetic readings in the belt.

Cap-Ex plans a drilling program this summer to test the historic high-grade magnetite occurrence as well as the newly identified magnetic targets. The areas where potential direct shipping ore were identified will also be delineated with drilling. The company also plans further geophysical work to identify additional targets. Importantly, they will be doing metallurgical test work on both deposit types. They anticipate a preliminary resource estimate this year for both the direct shipping ore and the high-grade magnetite zones.

The Redmond claims are just 5 km south of Schefferville. That property produced 35 million tonnes of direct shipping ore. Old reports from IOC show a number of iron ore occurrences identified from surface sampling, trenching and drilling.

Labrador Iron Mines' direct shipping ore plant is just two kilometers from the Redmond claims. The company plans drilling this summer to delineate DSO ore deposits that could feed the LIM plant. Further geology and geophysical work will be conducted to identify additional iron deposits on that property.

Block 44, located 15 km southeast of Schefferville, encompasses extensive areas with iron formation. The company plans to conduct exploration this summer, including geology, geophysics, trenching and drilling.

The Lac Connelly claims are 250 kilometers north of Schefferville in Quebec. At this time, the property is somewhat remote. However, Adriana is planning to develop a six million tonne deposit grading 29% iron. A rail line to serve that deposit would pass near the Cap-Ex claims.

A report from the 1950s notes a large undrilled iron deposit with grades of 46% to 61% iron. Historic reports also note a second, larger area with grades of 38% iron. The dimensions of that occurrence provide scope for a deposit that could be well in excess of a billion tonnes. The company plans fieldwork this summer to further investigate the iron deposits on that property identified in the historic reports.

Six other companies operating in the Labrador trough have market values from \$120 million to \$700 million. Consolidated Thomson, which is mining iron at Fermont, was taken over by Cliffs Naturals for \$4.9 billion.

Cap-Ex is at an earlier stage than those other companies, but those valuations serve to demonstrate the upside potential as Cap-Ex advances its projects. Building on the extensive work that has already been carried out on the Cap-Ex properties, this company should be able to quickly advance the projects and add shareholder value.

On closing of the current financing, the company will have ample cash with which to carry out an aggressive exploration and development program. The management team has the skill and experience to move those projects ahead. In the near-term, I expect Cap-Ex to gain a lot more investor recognition for the enormous potential of its holdings.

Cap-Ex is still a newly reorganized company. There is not a lot of liquidity in the stock, as the prior financing is still in a hold period.

The present financing will also be subject to a four-month hold. It is hard to know how much stock will be available near the current price. Be patient and try to accumulate a position near the current price.