

# Fundamental Research Corp.

Investment Analysis for Intelligent Investors

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January 19, 2013

## Carmax Mining Corp. (TSXV: CXM) – Promising Initial Resource Estimate on the Eaglehead Cu-Mo Property

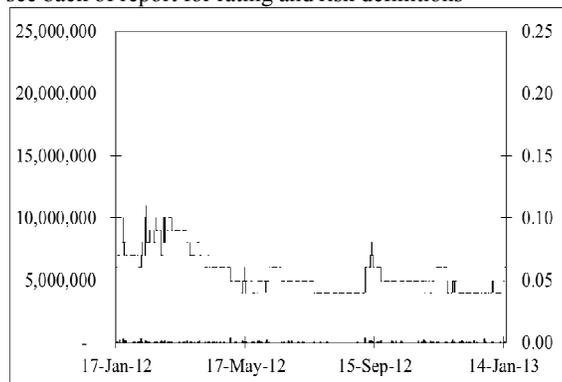
Sector/Industry: Junior Exploration/Mining

[www.carmaxmining.com](http://www.carmaxmining.com)

### Market Data (as of January 17, 2013)

Current Price	C\$0.05
Fair Value	C\$0.38 (↓)
Rating*	BUY
Risk*	5 (Highly Spec)
52 Week Range	C\$0.04 - C\$0.11
Shares O/S	27.52 mm
Market Cap	C\$1.38 mm
Current Yield	N/A
P/E (forward)	N/A
P/B	0.2x
YoY Return	-16.7%
YoY TSX	-20.4%

\*see back of report for rating and risk definitions



### Investment Highlights

- Initial resource estimate for the Eaglehead property totals 103 million tonnes at 0.37% copper equivalent in the inferred category.
- The total resource is low for a porphyry deposit but it is an initial estimate and includes only 2 of the 6 mineralization targets on the Eaglehead property. We believe there is potential for the resources to be increased with further drilling.
- Carmax plans to perform step-out drilling around the current resource estimate area in 2013.
- We expect near-term catalysts to be the start of the next phase of drilling on the Eaglehead property and the subsequent release of results.
- Our revised fair value estimate on CXM is \$0.38 per share versus our previous estimate of \$0.10 per share (prior to a 10:1 share consolidation).

### Key Financial Data (FYE - July 31)

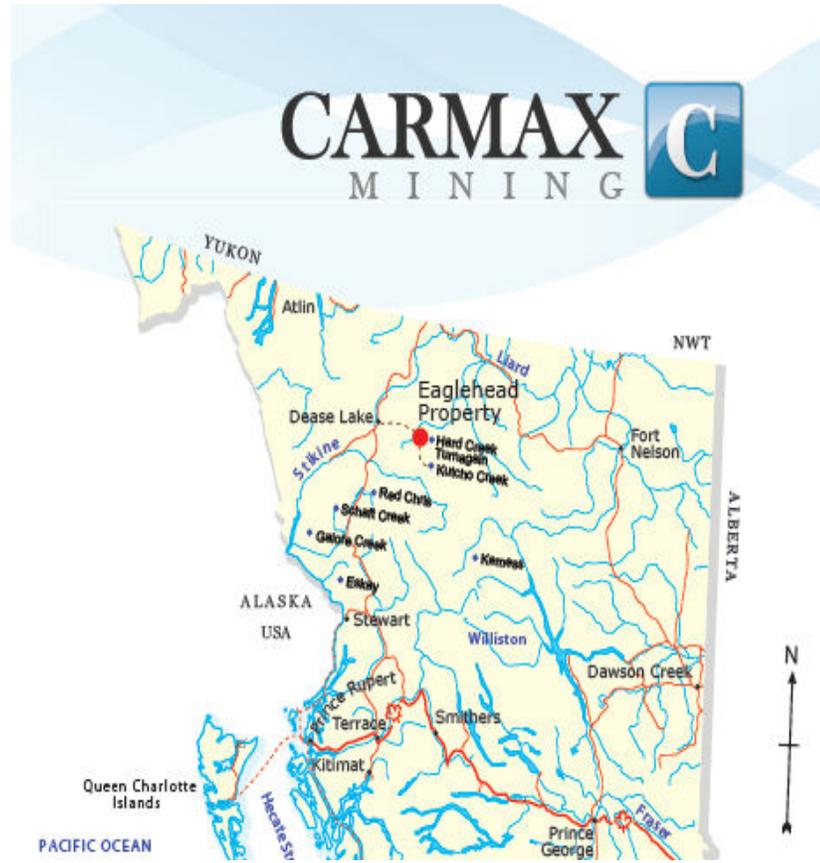
(C \$)	2012	Q1-2013
Cash	771,530	705,841
Working Capital	1,215,862	1,136,724
Mineral Assets	7,474,947	7,487,191
Total Assets	8,859,050	8,795,307
Net Income	(743,679)	(67,532)
EPS	(0.03)	(0.00)

Carmax Mining is focused on exploring their flagship Eaglehead property in British Columbia, Canada. The Eaglehead property has a 2012 resource estimate totaling 103 million tonnes of material with a copper equivalent of 0.37%. The company is planning to drill beyond this resource in 2013.

**Overview**

Carmax Mining Corp. (“CXM” or “the company”) is a Vancouver base junior mineral exploration company. The flagship project is the Eaglehead Cu-Mo property in northern BC. It is located approximately 1,100km north of Vancouver, 48km to the east of Dease Lake. The property has been shown to host 6 areas with potential for porphyry type copper-molybdenum-gold mineralization over an area of 11,410 hectares.

The map below shows the location of the Eaglehead property;



In 2011, exploration and development expenditures on the Eaglehead property pushed past the \$6 million mark, allowing CXM to earn the remaining 40% interest in the property. The company now owns 100% of Eaglehead, subject to a 2.5% net smelter return royalty.

CXM also holds a 50% interest in the Whiskey Jack Creek property in the Larder Lake Mining District, Ontario. Alexandria Minerals Corporation (TSXV: AZX) owns the remaining portion of the property and is the current operator. The two companies are in discussions regarding the formation of a joint venture for the property.

**Eaglehead Resource Estimate**

During 2011, CXM completed 25 drill holes (8,300m) on the Eaglehead property in Northern BC. A total of 120 holes have now been completed on the property, including 61 drilled by CXM.

The most recent drilling was in 2011 and focused on the East and Bornite Zones. Drilling has shown that the East Zone hosts ten west-northwest trending, sub vertical mineralized zones. The Bornite Zone hosts eight areas with a similar orientation to those at the East Zone. Each section of mineralization is estimated to have a thickness of 5-80m. Results of 0.16-3.33% copper over intervals of 3-161m of core were returned from the 2011 drill program. Both infill and expansion drilling was completed and provided data that allowed for the completion of the initial NI 43-101 resource estimate.

CXM released an initial resource estimate and supporting technical report in July 2012. The estimated resources total 103Mt with a copper equivalent of 0.37% in the inferred category.

The table below shows the inferred resource estimate;

Zone	Tonnage (Mt)	Cu Grade (%)	Contained Cu (Mlbs)	Mo Grade (%)	Contained Mo (Mlbs)	Au Grade (g/t)	Contained Au (oz)	Cu Eq (%)
East	61.6	0.28	376	0.011	14.9	0.06	126,000	0.35
Bornite	40.9	0.32	287	0.008	7.17	0.11	139,000	0.40
<b>Total</b>	<b>103</b>	<b>0.29</b>	<b>662</b>	<b>0.010</b>	<b>22.0</b>	<b>0.08</b>	<b>265,000</b>	<b>0.37</b>

*Source: Technical Report on the Eaglehead Property, June 29, 2012.*

The resource estimate shows average grades for copper and slightly low grades for molybdenum along with minor gold. Overall, **the results are typical for porphyry type mineralization.**

In our previous reports, we discussed a historical resource estimate for the Eaglehead property. This totaled 53.5 million tonnes grading 0.44% Cu. In addition, the company had completed a conceptual target for the East Zone of 34 million tonnes grading 0.347% Cu (historical estimate - 9 million tonnes at 0.4% Cu). Overall, the total historical/conceptual estimate for the East and Bornite Zones was 64 million tonnes grading 0.38% Cu. **The initial NI 43-101 resource estimate is 61% larger (in terms of tonnage) than the historical/conceptual estimates.** The copper grade, however, is 24% lower.

**Since the resource estimate includes only the East and Bornite Zones, there exists the opportunity for expansion of the resources in the future as these are only two out of five zones which have been drilled and defined by CXM.**

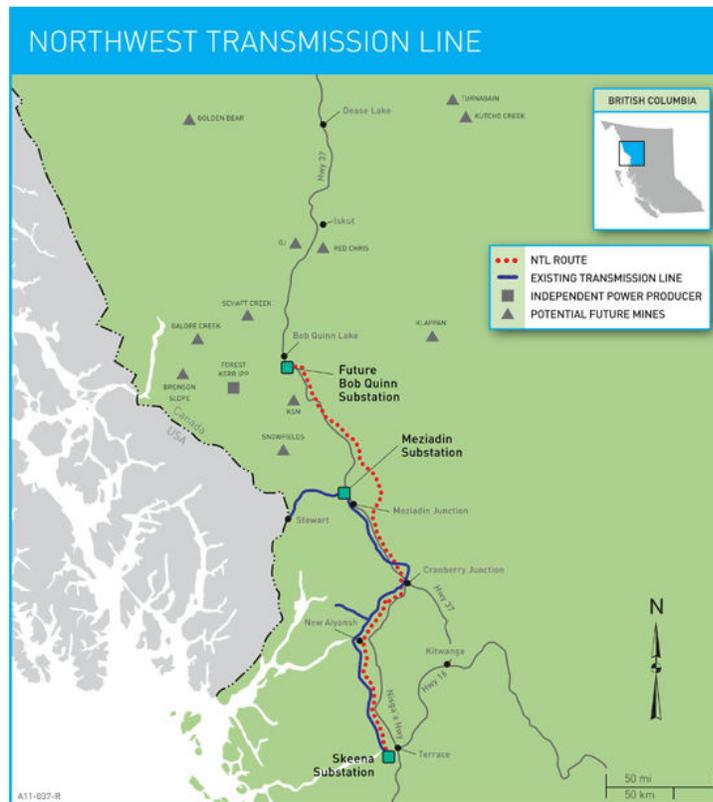
***Future Development***

In 2013, the company plans to focus drilling on the gap between the East and Bornite Zones, and on extension of the mineralization towards the west. Management has indicated that they suspect the two zones may be connected as they are only 500m apart. The structures are also striking in the same west-northwest direction and the zones are situated in line along this strike. **We believe that if the zones are found to be continuous, it shows the potential for the development of a larger porphyry target.**

In our previous report, we discussed the lack of power supply to Northwestern BC. Since

then, the BC government has begun work on the Northwest Transmission Line (“NTL”) along Highway 37, with completion expected in the spring of 2014. Once completed, the line will run from Terrace to Bob Quinn Lake, a distance of approximately 344km. Although this is positive for some northern communities and projects, it will not immediately affect the power needs at the Eaglehead property. Bob Quinn Lake is about half way between Terrace and Dease Lake, and therefore, the power line would need to be doubled in length in order to benefit the property.

The map below shows the route of the new transmission line (the dotted red line);



Source: bchydro.com

Under the NTL funding agreement between the provincial and federal governments, there is a clause requiring extension of the line a further 100km north to the town of Iskut. Plans for the construction of the Iskut extension are yet to be released, although BC hydro is obligated to provide electricity to Iskut within a year of the NTL completion. The Iskut extension would also benefit the Red Chris project (*owned by Imperial Metals (TSX: III)*) which is in the developmental stage. However, Imperial is currently planning to source power from the substation at Bob Quinn and is not counting on the Iskut extension.

The Iskut extension could bring the transmission line within approximately 130km of the Eaglehead property. In order for the Eaglehead property to fully benefit from the transmission line, **we believe that the line would need to be extended as far north as Dease Lake.**

At this time, primary power to the town of Dease Lake is provided by a hydro-electric generating station with a 3 megawatt (“MW”) capacity. Thus, the town has an independent and reliable source of energy, so we do not believe that the transmission line will be extended to the Dease Lake area in the near-term. Also, we do not believe that the company would be able to source power from the Dease Lake generating station as operating mines can have power demands in the 10’s to 100’s of MW.

### ***Changes to Management***

Since our previous report there has been a changeover of management and the board of directors of CXM. According to the company, the new management and board hold 15-20% of the outstanding shares. Biographies of the company’s management team and board of directors, as provided by the company, are below:

#### **Jevin Werbes; President, CEO and Director**

Jevin Werbes brings more than 17 years of experience in the mining industry in British Columbia, Canada and Nevada, United States. More recently in his career, he has been successful in acquiring strategic mineral properties as a property vendor and actively involved in corporate development, finance and investor relations with success in assisting juniors with financings. Mr. Werbes also currently acts as president and a director for Ansell Capital Corp.

#### **Jeff Poloni, VP Exploration and Director**

Jeff Poloni has been involved in mineral exploration for 30 plus years. He first began working on the projects to later directing them in both North and South America. Mr. Poloni is also the CEO of JCMP Management Corp.

#### **Matthew G. Wright, C.A., Chief Financial Officer**

Matthew G. Wright has been a Chartered Accountant for over 20 years. He moved to Vancouver, Canada from the United Kingdom in 1995 and successfully reacquired his Canadian CA designation in 1997. Mr. Wright worked in public practice in both the UK and Canada until 2005 at which time he established his own accounting firm where he now provides accounting and consultancy services to over 100 personal tax clients and numerous companies both publically listed and private.

Mr. Wright commenced assisting various TSX venture issuers with the preparation of quarterly and annual filings in 2005, and in November 2010 was appointed CFO of Galaxy Capital Corp, Carmax Mining Corp. and Ansell Capital Corp.

#### **Chris Healey, P.Geo, Director**

Chris Healey is a licensed professional geologist in British Columbia with over 43 years of experience in the natural resources industry, specializing in uranium exploration and extraction. He has held senior positions with Cameco Corporation, the world's largest uranium producer, where he managed its US operations as well as the acquisition process for several major uranium properties that hosted in excess of 50 million pounds of resources. Mr. Healey was involved in the discovery of the two world's largest high grade deposits:

Cigar Lake and McArthur River. He has also worked on uranium projects around the world including Canada, United States, Paraguay, Kazakhstan, Mongolia, Australia and Malawi.

Mr. Healey holds a Bachelor of Science degree in Geology from the University of Wales, Swansea, and served as the national president for the Geological Society of Canadian Institute of Mining, Metallurgy and Petroleum. In addition to belonging to several key industry associations, he has also published several scientific papers on resource and reserve evaluations.

**Hrayr Agnerian, M.Sc. (Applied), P.Geo., Director**

Hrayr Agnerian has extensive geological consulting experience and is currently president of Agnerian Consulting Ltd., an independent geological consulting firm. He is also an associate of Scott Wilson Roscoe Postle Associates Inc. (Scott Wilson RPA) with previous experience working with Saskatchewan Mining Development Corporation (SMDC) now CAMECO Corp., and as a board member for a variety junior mining companies.

Mr. Agnerian has more than 40 years of experience in the mineral industry, with expertise in exploring for precious metals (including platinum group elements), base metals, industrial minerals, rare earth elements, and uranium. He has worked in a variety of geological environments around the world and is fluent in English, Armenian, French and Spanish, and has a working knowledge in Arabic, Dutch, Italian, Portuguese, Russian and Turkish.

Mr. Agnerian has a B.Sc. degree in Geology from the American University of Beirut, Lebanon, a Diploma in Mining Exploration, ITC, Delft, The Netherlands, and a M.Sc. (Applied) degree in Geological Sciences, McGill University, Montréal. He has published on mineral resource estimations, on lithological guides to unconformity-related uranium mineralization, and on valuation of exploration properties. Mr. Agnerian is a member of professional associations in Ontario, Québec, and Saskatchewan.

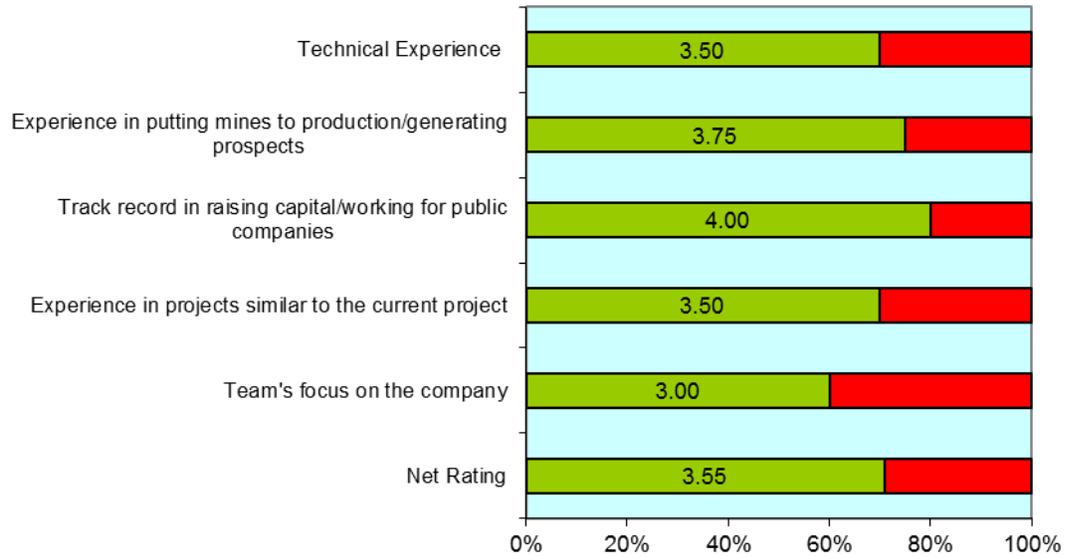
**Bev Funston, Corporate Secretary**

Bev has over 20 years of office administration experience with 13 of those years in regulatory compliance. Ms. Funston oversees the general administration for Carmax Mining Corp. and serves as Corporate Secretary and a director on the board of a number of resource companies.

***Management Rating***

We believe that one of the most important aspects of a junior mining company is its management. Therefore, we have developed a management rating system as a quantitative way to rate management based on a number of factors, including technical experience, the ability to raise financing, and management's time commitment to the company. Our net rating for CXM's new management team is 3.5 out of 5.0.

**Management Rating**



**Strength of Board**

We believe that the Board of Directors of a company should include independent or unrelated directors who are free of any relationships or business that could materially interfere with the director's ability to act in the best interest of the company. An unrelated/independent director can be a shareholder.

	Poor	Average	Good
One out of four directors is independent	X		
None of the directors have filed for personal bankruptcy			X
All of the directors hold shares in the company			X
The Audit committee is composed of three board members, one of which is independent	X		
The company does not have a Compensation committee	X		

**Financials**

At the end of Q1-2013 (October 2012), the company had **\$0.71 million and \$1.14 million in cash + short-term investments and working capital, respectively**. The company posted a net loss of \$0.07 million (EPS: -\$0.00) in Q1-2013. The table below shows a summary of the company's cash and liquidity position.

(C\$) - FYE July 31	2012	Q1-2013
Cash + ST Investments	771,530	705,841
Working Capital	1,215,862	1,136,724
Current Ratio	26.5	26.5
LT Debt/ Assets	-	-
Burn Rate (incl exploration costs)	(162,503)	(22,418)
Cash from financing activities	-	-

**The company's current cash position is approximately \$0.70 million.** CAPEX budget for the next 12 months is \$2.8 million – which implies the company will have to raise approximately \$2.5 million in 2013.

***Stock Options and Warrants***

We estimate the company has 2.91 million options (weighted average exercise price - \$0.22) and 13.84 million warrants (weighted average exercise price – \$0.40) outstanding. None of the options/warrants are in the money.

***Valuation & Rating***

The company completed a 10 for 1 share consolidation in 2010. Our revised fair value estimate on CXM is \$0.38 per share versus our previous estimate of \$0.10 per share (pre-consolidation). We based our fair value estimate on a comparables average value of \$0.02 per copper equivalent lb. We used junior porphyry copper players as the comparables. The valuation dropped due to share dilution – 27.52 million versus 9.63 million (adjusted for consolidation) at the time of our previous report in March 2009.

**We reiterate our BUY rating and adjust our fair value from \$0.10 per share (pre-consolidation) to \$0.38 per share.**

***Risks***

The following risks, though not exhaustive, may cause our estimates to differ from actual results:

- The success of drilling, expansion, and delineation of favorable resource estimates are important long-term success factors for the company
- Access to cheap and reliable power supply.
- The value of the company depends on copper, molybdenum, silver and gold prices
- The company is subject to delays that are affecting the entire mining industry
- Access to capital and share dilution

**Fundamental Research Corp. Equity Rating Scale:**

**Buy** – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk

**Hold** – Annual expected rate of return is between 5% and 12%

**Sell** – Annual expected rate of return is below 5% or the expected return is not commensurate with risk

**Suspended or Rating N/A**— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

**Fundamental Research Corp. Risk Rating Scale:**

**1 (Low Risk)** - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

**2 (Below Average Risk)** - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

**3 (Average Risk)** - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

**4 (Speculative)** - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

**5 (Highly Speculative)** - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues, and may rely on external funding. These stocks are considered highly speculative.

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The distribution of FRC's ratings are as follows: BUY (67%), HOLD (8%), SELL (5%), SUSPEND (20%).

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