

## Zimtu Capital Corp. (TSXV: ZC/ Frankfurt: ZCT1)

Trading at Just 0.21x Market Value of its Investments - Initiating Coverage

Sector / Industry: Junior Mining/Technology

[Click here for more research on the company and to share your views](#)

**BUY**

Current Price: C\$0.22

Fair Value: C\$0.69

Risk: 4

### Highlights

- Zimtu Capital, based in Vancouver, Canada, is focused on creating, investing in, and growing junior resource/technology companies.
- In addition to providing exposure to a diverse portfolio of early-stage junior resource companies, **Zimtu offers investors a unique opportunity to participate in the value created during a public-company building process.**
- Zimtu has funded and created several companies. Management has been operating in the space since the 1990's.
- At the end of Q1, the company's investments (95% in publicly listed companies) were valued at \$16M, implying that **Zimtu's shares are trading at just 0.21x of the value of its investments.** We note that investment funds typically trade at 2.6x.
- Investments **increased in value by \$6.9M in Q1 (quarter ended February 2021),** and \$4.3M in FY2020 (full-year).
- The top six holdings currently account for 76% of the total portfolio.
- We note that ZC is a high-beta stock as it is focused on early-stage juniors. ZC's three-month, six-month, and one-year returns outperformed the TSXV, but longer-term returns were weaker. **As we are expecting near-term catalysts for shares of all of its top six holdings, we are expecting ZC to outperform the TSXV this year.**

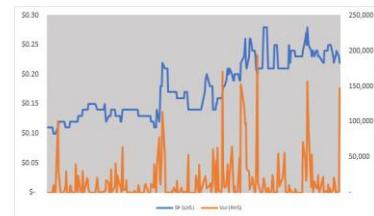
### Risks

- Junior exploration is a highly speculative industry.
- **The mining industry is cyclical; a slowdown in the resource sector will affect Zimtu's returns.**
- Fluctuations in commodity prices.
- Concentration risk; the top six investments account for 76% of the total portfolio.

**Sid Rajeev, B.Tech, MBA, CFA**  
Head of Research

**Nina Rose Coderis, B.Sc (Geology)**  
Equity Analyst

### Price and Volume



	YTD	12M
Ret.	22%	100%
TSXV	8%	72%

### Company Data

52 Week Range	\$0.10 - \$0.29
Shares O/S	16M
Market Cap.	C\$3.5M
Yield (forward)	N/A
P/E (forward)	N/A
P/B	0.21x

Key Financial Data (FYE - Nov 30) (C\$)	2020	Q1-2021
Cash	\$218,933	\$316,400
Investments	\$8,759,117	\$16,228,824
Working Capital	\$9,393,576	\$16,950,043
Total Assets	\$10,576,608	\$18,086,803
Revenue	\$1,386,669	\$549,209
Net Income (Loss)	\$3,700,427	\$7,437,802
EPS	\$0.23	\$0.46

See last page of this report for important disclosures, rating and risk definitions. All figures in C\$ unless otherwise specified.

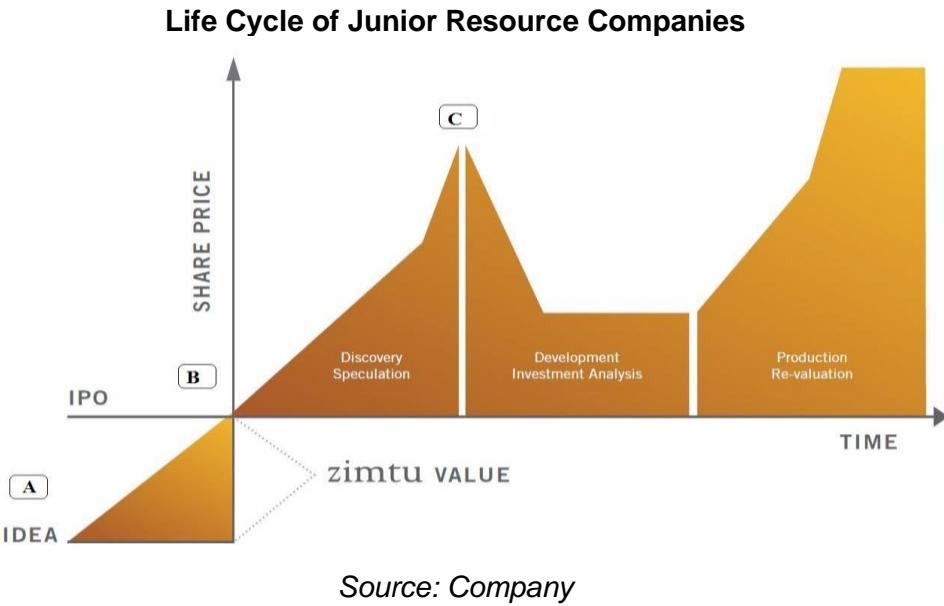
## Company Overview

Incorporated in 2006, Zimtu is focused on creating and investing in micro/small-cap companies. Its main focus is on building resource exploration and technology companies from seed-level, identifying/acquiring promising early-stage mineral properties, and selling them to resource companies.

*Focused on  
creating  
companies*

**Significant value is often created in a public company building process (property identification to IPO stage).** Early-stage resource projects are typically purchased/sold for tens or hundreds of thousands of dollars. However, these same projects tend to trade at millions of dollars when they are incorporated in publicly listed companies with good management teams. This significant increase in value associated with the public company creation/building process, along with the upside potential of early-stage exploration projects, is what Zimtu tries to capture.

The chart below shows the life cycle of a typical early-stage junior resource stock. Zimtu's strategy is to **capture the value created during the public company building process** (point A to B in the chart below), and the upside potential during discovery/exploration stages (point B to C) of resource projects. Most investors only have access to post-IPO stage investments (point B to C), and rarely have the opportunity to access the company building phase (point A to B), or pre-IPO phase.



Junior exploration/mining is a highly risky business. Very few exploration projects end up as operating mines, and/or get acquired. Zimtu's business model mitigates some of the sector-specific risks through the following ways:

- As Zimtu works on multiple projects/deals at the same time, the company

tends to hold a **diversified portfolio** of shares of junior resource companies (targeting different commodities), thereby reducing overall risk levels.

- As the focus is on early-stage projects, Zimtu's **initial capital investment is typically very low**. This allows Zimtu to invest in multiple deals without any need to raise significant amounts of capital. As its portfolio grows, the probability of one or more properties being a success increases.

## Business Model

Zimtu's wide network of contacts in the junior resource space enables it to connect companies with mineral properties of interest. Funds received from such services are usually reinvested in companies, offering Zimtu equity exposure to its transactions/services. Zimtu also generates about \$1.5-\$2M in annual revenues for providing advisory, administration, consulting, and marketing services to investee companies.

*Long track record*

Zimtu has a long operating history in the resource sector. Management has been operating in the space since the 1990s. The company's two key strategies are listed below:

**1. Company Creation and Project Generation** - Acquire promising properties and setup companies with an ultimate goal of taking them public, or selling them at attractive valuations. Zimtu usually follows the following steps:

- 1) Identify and acquire/option early-stage projects with potential.
- 2) Install an experienced management team.
- 3) Provide technical, financial, and administration expertise.
- 4) Assisting management to advance projects, and/or provide corporate finance expertise to take the company public.

**2. "Hands-on" Consulting and Marketing Services** - Zimtu typically takes a more active hands-on approach to its investments, and provides technical/financial/office administration/marketing expertise to investee companies. Among its services, Zimtu's marketing program (**ZimtuADVANTAGE**) is its flagship offering, which includes the following key services:

- Assisting companies with building financial and business networks primarily in North America and Europe
- Shared office space and office administration
- Conference opportunities
- Digital marketing, including email and social media campaigns, online events, blog posts, and ads
- Through Rockstone Research (a third-party research firm) and other media outlets, Zimtu also publishes research reports on all of its equity holdings to provide additional market exposure to investee companies, and give investors a deeper understanding of each company.

*ZimtuAdvantage –  
Flagship Offering*

Select few marketing services offered by Zimtu

## Marketing Services

### 'Zoom With Zimtu' Product Features

**'Zoom with Zimtu' Presentation**

Your company will be given a dedicated 1 hour 'Zoom with Zimtu' video conference to present new investment opportunities to a large group of active & eager investors. You'll be given plenty of time to present and we encourage attendees to ask questions directly in the presentation

**Facebook Event**

You'll receive dedicated event on Facebook where attendees can RSVP, find more info, and post questions prior to the Zoom call.

**HD Video File**

After your event, we'll provide a custom video recording of your presentation, including custom thumbnail images. In addition to providing an HD video, we'll post it to our social accounts (over 8000 followers)

**Zimtu Connect**

Zimtu's been around for a while, and as such we have deep connections within the investment community. We'll send your event to over 5000 Zimtu Connect members, ready to invest.

**Promotional Giveaway**

To promote your event, each attendee will be entered to win a promotional gift, valued at over \$200!

**Advertising**

Our team of digital marketing specialists will create highly engaging ads for your 'Zoom with Zimtu' event, and deliver those ads to over 5000 potential investors.

**Custom Graphics & Social Media**

We'll design a custom graphic for your 'Zoom with Zimtu' event to showcase to potential attendees. We'll post this content to over 8000 Zimtu followers on social media, as well as provide a high-quality version for use on your own company's various channels.

**Custom Event Landing Page**

We'll develop a user friendly landing page (single page website) that provides details on the event, a link to add the event directly in their calendar, the link to the zoom meeting, and a form to RSVP.

**Email Campaign**

Once attendees have expressed interest, we'll send them a brief email campaign to advise them of their automatic entry into the giveaway, as well as a brief summary of the company and presenters.

**Media Partners**

Our extensive network of media partners will distribute your event to their mailing lists, located around the world. Our media network consists of highly targeted investor publications and news, and the audience they reach is extremely valuable.

**Custom Reporting**

After your event, we'll provide detailed information regarding the number of RSVPs, attendees and how long they stayed in the meeting.

Source: Company

**Through ZimtuADVANTAGE, the company generates recurring revenues from its investee companies, with potential to generate capital gains, if and when the share prices of investee companies increases in value.**

## Current Holdings

The table below shows the company's current holdings. We note that the portfolio is diversified across target commodities and geographical focus.

*Investments in publicly listed companies (excluding warrants) totaled \$12.86M as of June 10, 2021*

*The top six holdings accounted for 76% of the total portfolio*

*Zimtu also holds shares in several private companies*

PUBLIC HOLDINGS						
	SYMBOL	STOCK	# OF SHARES	SHARE PRICE	IMPLIED MARKET VALUE	% OF TOTAL HOLDINGS
1	ZAIR	Zinc8 Energy Solutions	6,367,361	\$0.52	\$3,311,028	25.75%
2	CCE	Commerce Resources	6,821,599	\$0.30	\$2,046,480	15.92%
3	ADD	Arctic Star Exploration	6,835,964	\$0.19	\$1,264,653	9.84%
4	CC	Core Assets Corp	8,250,000	\$0.15	\$1,237,500	9.62%
5	ACT	Aduro Clean Technologies	1,314,444	\$0.80	\$1,051,555	8.18%
6	EMO	Emerita Resources	1,254,286	\$0.81	\$1,015,972	7.90%
7	ARS	Ares Strategic Mining	1,250,000	\$0.62	\$775,000	6.03%
8	SRE	Saville Resources	13,260,500	\$0.05	\$596,723	4.64%
9	MGM	Maple Gold Mines	1,199,000	\$0.47	\$557,535	4.34%
10	USCU	US Copper Corp	570,000	\$0.26	\$145,350	1.13%
11	KBG	Kings Bay Resources	810,000	\$0.13	\$105,300	0.82%
12	NBLC	Nobel29 Resources	250,000	\$0.42	\$105,000	0.82%
13	LWR	Lake Winn Resources	1,076,000	\$0.09	\$91,460	0.71%
14	PEI	Prospera Energy	1,400,000	\$0.07	\$91,000	0.71%
15	MARV	Marvel Discovery	850,000	\$0.10	\$85,000	0.66%
16	PEGA	Pegasus Resources	1,300,000	\$0.06	\$78,000	0.61%
17	OPHR	Ophir Gold Corp	400,000	\$0.19	\$76,000	0.59%
18	XIM	Ximen Mining Corp.	166,667	\$0.29	\$48,333	0.38%
19	IMCX	Interra Copper	208,333	\$0.23	\$47,917	0.37%
20	FG	Falcon Gold Corp	332,500	\$0.09	\$28,263	0.22%
21	SUV	Suvo Strategic Minerals	120,000	\$0.18	\$21,199	0.16%
22	CRV	Cresval Capital Corp	500,000	\$0.04	\$17,500	0.14%
23	VCV	Vatic Ventures	46,760	\$0.30	\$14,028	0.11%
24	IXI	Indigo Exploration	119,167	\$0.09	\$10,725	0.08%
25	DIA	Margaret Lake Diamonds	160,000	\$0.07	\$10,400	0.08%
26	BEA	Belmont Resources	140,000	\$0.07	\$9,100	0.07%
27	STA	Sanatana Resources	50,000	\$0.13	\$6,500	0.05%
28	VPLM	VOIP-PAL	226,000	\$0.03	\$5,650	0.04%
29	GPO	Gold Port Corporation	18,906	\$0.15	\$2,836	0.02%
30	ALLI	Alpha Lithium	2,250	\$0.80	\$1,800	0.01%
31	PNTR	Pantera Silver Corp	2,000	\$0.25	\$490	0.00%
32	NOUV	Nouveau Life Pharmaceuticals	230,000	\$0.00	\$23	0.00%
<b>TOTAL</b>			<b>55,531,737</b>		<b>\$12,858,318</b>	

TOP SIX HOLDINGS						
	SYMBOL	STOCK	# OF SHARES	SHARE PRICE	IMPLIED MARKET VALUE	% OF TOTAL HOLDINGS
	ZAIR	Zinc8 Energy Solutions	6,367,361	\$0.52	\$3,311,028	25.75%
	CCE	Commerce Resources	6,821,599	\$0.30	\$2,046,480	15.92%
	ADD	Arctic Star Exploration	6,835,964	\$0.19	\$1,264,653	9.84%
	CC	Core Assets	8,250,000	\$0.15	\$1,237,500	9.62%
	ACT	Aduro Clean Technologies	1,314,444	\$0.80	\$1,051,555	8.18%
	EMO	Emerita Resources	1,254,286	\$0.81	\$1,015,972	7.90%
<b>TOTAL</b>			<b>31,279,210</b>		<b>\$9,766,453</b>	<b>75.78%</b>

	STOCK	# OF SHARES
Private	Eagle Bay Resources	20,500,000
Private	Zambezi Sports	11,855,000
Private	1233719 BC Ltd.	1,218,059
<b>TOTAL</b>		<b>33,573,059</b>
<b>OTHER PRIVATE EQUITY HOLDINGS COMBINED SHARES</b>		<b>2,579,859</b>

*Source: Company*

Investments in private companies were valued at \$0.82M in the company's Q1-FY2021 financial statements. We note that, typically, book values do not capture

*ZC's three-month, six-month, and one-year returns outperformed the benchmark*

*Longer-term returns were weaker*

*The entire process is considered to be environmentally friendly and safe*

*We believe lithium-ion batteries will dominate the short duration (small scale) energy storage segment, including electric vehicles and personal devices*

any upside potential. Zimtu recently assisted three companies with going public – 1) Aduro Clean Technologies (CSE: ACT/MCAP: \$26M), 2) Core Assets (CSE: CC/MCAP: \$5M), and 3) Saville Resources (TSXV: SRE/MCAP: \$4M). Zimtu's investments in these three companies are currently valued at \$2.9M, which is significantly higher than their original investment (book value).

The following table shows ZC's historical returns vs the benchmark (TSXV). We note that ZC is a high-beta stock as it is focused on early-stage juniors.

	Historical Returns						
	1 Mo	3 mo	6 mo	1 yr	3 yr	5 yr	10 yr
ZC	-4%	10%	64%	109%	-21%	-18%	-82%
TSXV	0%	-4%	15%	68%	25%	32%	-50%

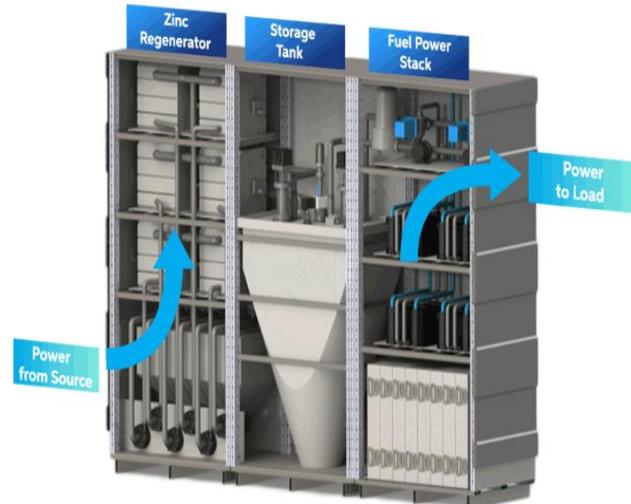
Source: Yahoo Finance / FRC

In the following section, we highlight key aspects of a few of Zimtu's top holdings.

### 1. Zinc8 Energy Solutions Inc. (CSE: ZAIR/MCAP - \$72M)

Zinc8 has developed, and is currently in the process of validating, and commercializing, a cost-effective long duration battery technology that uses zinc and air as fuel (Zinc-Air Flow Battery). Approximately \$72M has been spent on the technology since 2002. This technology has 21 U.S. patents, and three pending applications. The following image summarizes the Zinc-Air Flow Battery technology.

- 1 Power from the grid or renewable source is used to generate zinc particles in the **Zinc Regenerator**. Oxygen is released to the atmosphere as a by-product.
- 2 The zinc particles are flowed to the **Storage Tank** and maintained in potassium hydroxide (KOH) electrolyte until required.
- 3 Whenever power is needed, the zinc particles are delivered to the **Power Stack**, recombining them with oxygen to generate electricity. The zinc oxide (ZnO) by-product is returned to the storage tank for later regeneration.



Source: ZAIR

ZAIR is targeting to be a leader in the long duration (utility/large-scale) energy storage segment



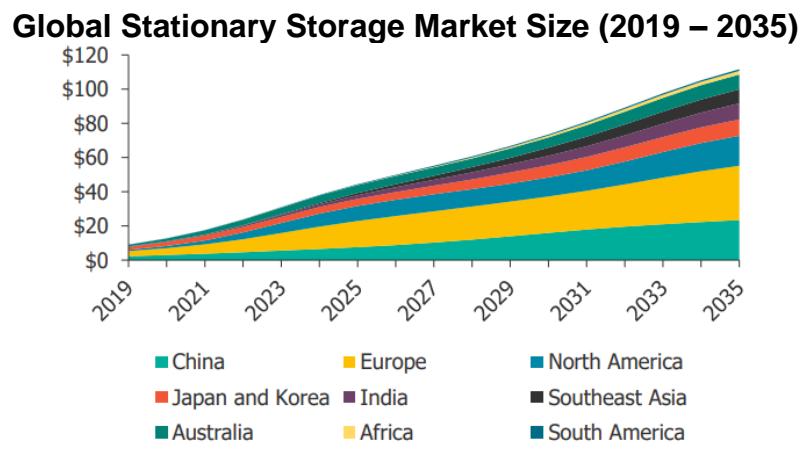
Source: ZAIR

**The Zinc-Air Flow Battery is targeting stationary/ long-duration storage applications.**



Source: ZAIR

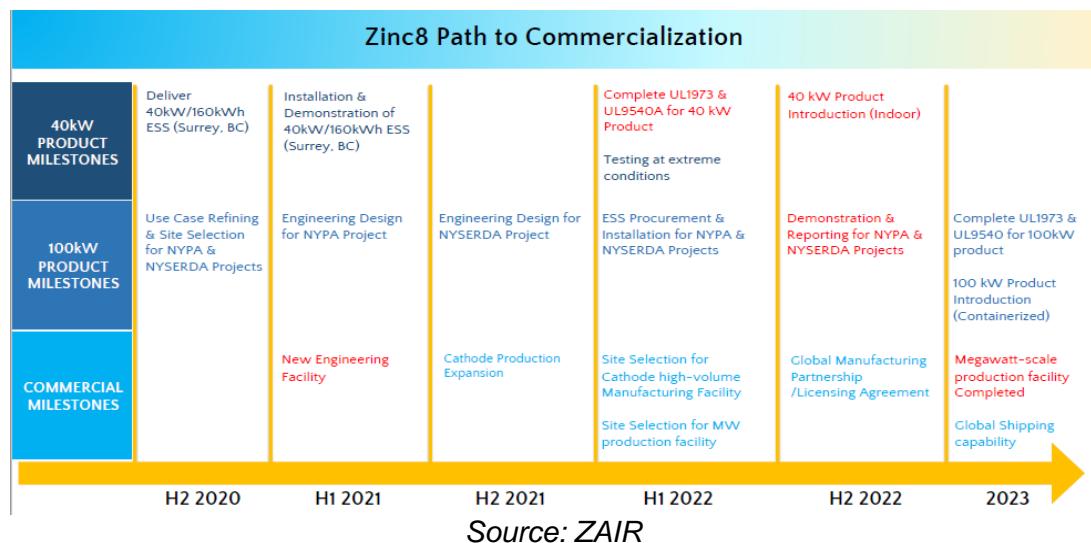
According to Lux Research, the global stationary storage market is expected to grow from US\$9.1B in 2019, to US\$111.8 billion by 2035, reflecting a CAGR of 17%.



Source: Lux Research

Growing stationary storage market

**ZAIR is advancing multiple demonstration projects, and expects to achieve commercialization by 2023**



## 2. Commerce Resources Corp. (TSXV: CCE/MCAP: \$24M)

CCE is developing its **Ashram Rare Earth and Flourspar deposit** in Quebec. The deposit holds all of the primary feed for permanent magnets, which is the largest market for rare earth elements.

*Ashram holds one of the largest rare earth and fluorspar deposits in the world*

### 2012 Resource Estimate

- Measured: 1.6 Mt averaging 1.77% REO and 3.8% F (7.7%CaF2)
- Indicated: 27.7 Mt averaging 1.90% REO and 2.9% F (5.9%CaF2)
- Inferred: 219.8 Mt averaging 1.88% REO and 2.2% F (4.5%CaF2)

### High Percentage of Feed for Magnets



Source: Commerce Resources

*Robust PEA*

A Preliminary Economic Assessment (PEA) showed robust economics based on a 4,000 tonne per day open-pit operation, with a 25-year mine life. The PEA returned a **pre-tax NPV10% of \$2.32B**, and a pre-tax IRR of 44%, with a pre-tax payback period of just 2.25 years. The initial CAPEX estimate is \$763M.

CCE also owns the **Blue River Tantalum and Niobium project** located in B.C. This project hosts a carbonatite deposit. A PEA was completed in 2011, and a

resource update was completed in 2015.

Ta price [US\$/kg]	Confidence Category	Tonnes	Ta2O5 [ppm]	Nb2O5 [ppm]	Contained Ta2O5 [1000s of kg]	Contained Nb2O5 [1000s of kg]
381	Indicated	48,410,000	197	1,610	9,560	77,810
	Inferred	5,400,000	191	1,760	1,000	9,600

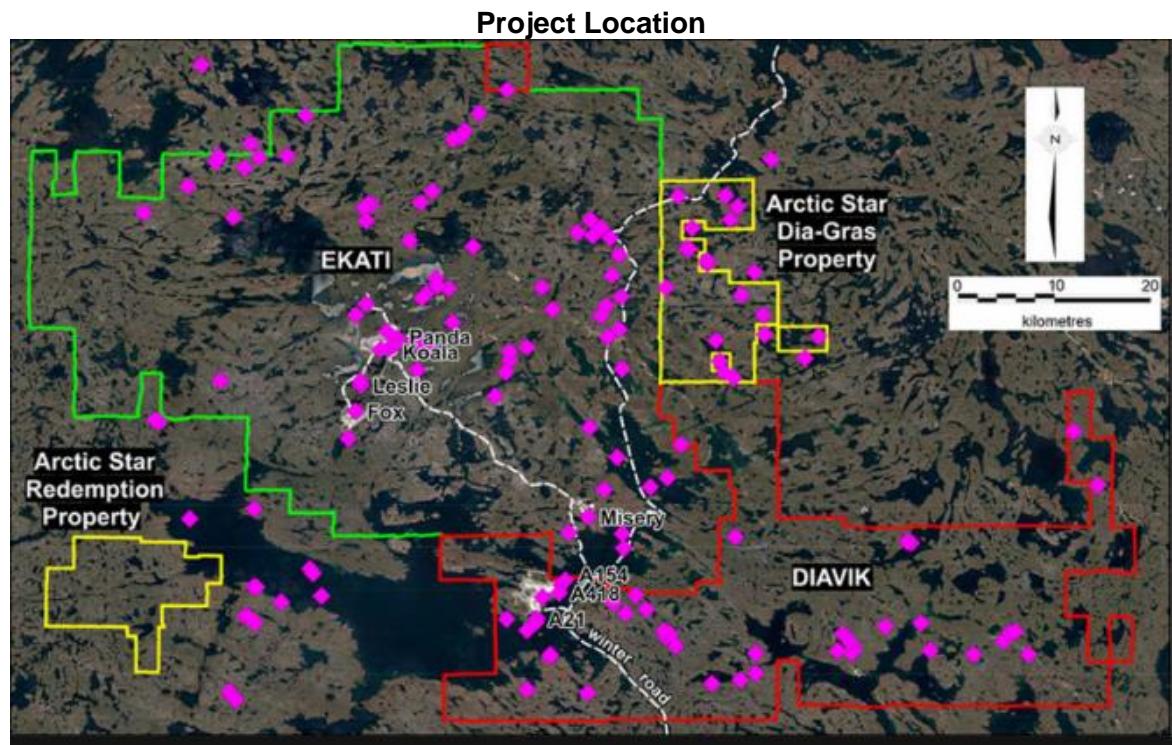
Source: Commerce Resources

CCE is almost entirely focused on completing a PFS on the Ashram deposit, which we believe will be the next major catalyst for CCE's shares.

### 3. Arctic Star Exploration Corp. (TSXV: ADD/MCAP: \$24M)

ADD is a diamond explorer. The company's senior management and advisors have been involved in the discovery of the Diavik diamond mine in Canada (one of the largest diamond mines in the country), and the Grib diamond mine in Russia (one of the largest diamond mines in the world).

**ADD's Diagras property (flagship asset) is located next to the producing Diavik and Ekati diamond mine projects.** 13 kimberlites were discovered by DeBeers in the 1990s. A recent exploration program resulted in the discovery of five new kimberlites.



ADD also holds the Timantti diamond project in Finland, which is located in the

same geological belt of rock as the Grib diamond mine. Management is focused on advancing exploration at Diagras, and delineating a maiden resource estimate.

#### 4. Core Assets Corp. (CSE: CC/MCAP: \$6M)

Core is focused on the Blue property in B.C., which consist of two high-grade prospects located 10 km apart: Laverdiere (skaryn/porphyry) and Silver Lime (carbonate replacement). The prospects lie within the prolific Atlin Mining District.

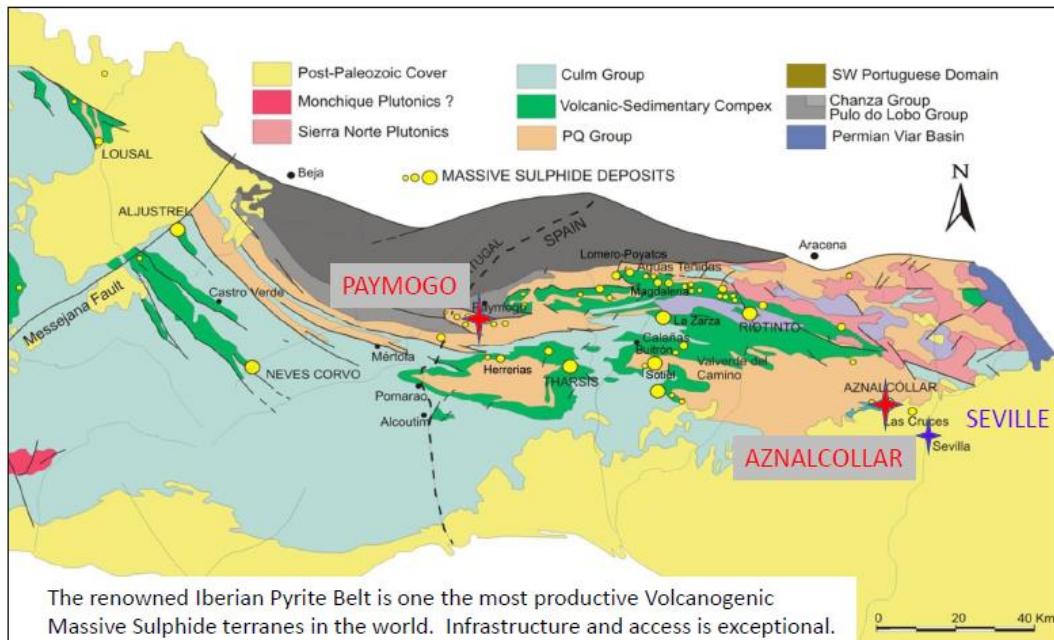
*Two promising prospects 10 km apart*

- At Laverdiere, 15 of 18 grab samples returned copper values of 1.25% to 8.36%. Drilling has returned 0.27% Cu over 173.2 m from surface, 1.60% Cu from 173.2 to 179.2 m, 1.40% Cu from 186.2 to 194.0 m.
- Silver Lime has never been drilled, but sampling has returned 2.2 meters of 3.3 g/t Au, 85 oz/t Ag, 0.15% Cu, 2.5% Pb and 3.32% Zn.

A VTEM geophysical survey covering >2,000 line kms is set to start this month. **A drill program is planned later in the year.** Management is testing the potential for a high-grade district scale polymetallic discovery. The project is fully permitted for drilling.

#### 5. Emerita Resources Corp. (TSXV: EMO/MCAP: \$134M)

Emerita is a zinc explorer with multiple projects in Spain. Its Plaza Norte project is immediately adjacent to the high-grade zinc/lead Reocin mine. EMO is also in the process of staking/obtaining exploration concessions for the Aznalcollar (historic producer) and Paymogo (IBW) deposits, both located in the Iberian Pyrite Belt (IPB) - one the most productive VMS terranes in the world.



Source: Emerita Resources

Two high-grade zinc-lead projects

Aznalcollar - Historic Resource					
	Tonnes (M)	Zn%	Pb%	Cu%	Ag g/t
Open Pit Reserve	71	3.87	2.18	0.34	60
High Grade	20	6.65	3.87	0.29	84

IBW – Historic Resource									
Project	Company	Tonnage (Mt)	Ore Type	Cu (%)	Pb (%)	Zn (%)	S (%)	Ag (g/t)	Au (g/t)
La Infanta	Asturiana da Zinc-Phelps D. JV (1984)	0.8	Polymetallic	1.77	6.91	12.66	–	148.00	–
Romanera	Rio Tinto Minera	34.0	Total	0.42	1.10	2.30	–	44.00	0.80
	including	11.2	Polymetallic	0.40	2.47	5.50	–	64.00	1.00

Source: Emerita Resources

**Eric Sprott recently invested \$3M in Emerita.** The company is planning a drill program to complete a maiden NI43-101 resource estimate at IBW.

## Management and Directors

Management and Board	Shares	% of Total
David Hodge - President, CEO & Director	1,116,099	6.93%
Sean Charland, Director	-	-
Chris Grove, Independent Director	-	-
Kevin Bottomley, Independent Director	66,000	0.41%
<b>Total</b>	<b>1,182,099</b>	<b>7.34%</b>

Source: Management Information Circular

Brief biographies of the management team, as provided by the company, follow:

### David Hodge, President and Director

Mr. David Hodge, President and Director of Zimtu Capital Corp. has an extensive background in business that includes over 25 years of experience in the management and financing of publicly-traded companies. Mr. Hodge has been a director of mineral exploration companies since 1996, and currently also serves on the board of Commerce Resources Corp. Mr. Hodge's strengths lie in leadership and imaginative direction. His success has been founded on a belief in team building, consultation and strong leadership, as well as a willingness to incorporate expert advice into a viable working enterprise.

### Sean Charland, Director

Mr. Sean Charland is a seasoned communications professional with experience in raising capital and marketing resource exploration companies. His network of contacts within the financial community extends across North America and Europe. Mr. Charland also serves as a Director of Maple Gold Mines Ltd., Arctic Star Exploration Corp., Eyecarrot Innovations Corp. and Alpha Lithium.

### Chris Grove, Director

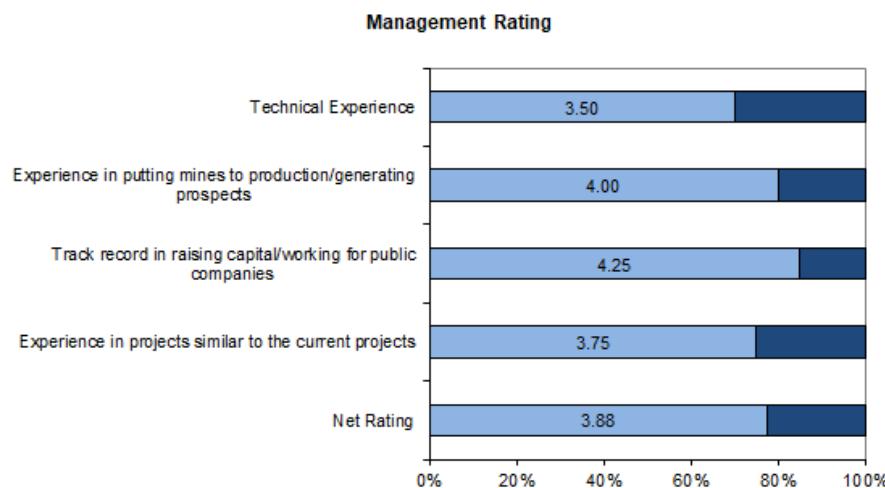
Christopher Grove has significant contacts within the financial communities in

North America and Europe, and considerable experience with publicly traded companies. Mr. Grove is also President of Commerce Resources Corp., an exploration and development company with a particular focus on deposits of rare earth elements and rare metals.

### **Kevin Bottomley, Director**

Kevin Bottomley is an accomplished capital markets advisor with a key focus on public venture capital. He is the founder of Corvidian Capital Inc. and is the CEO of King's Bay Resources Corp. Kevin has been instrumental in raising over \$100M for early to mid stage ventures and has a strong network of global investors spanning from North America to Europe & Asia. Kevin also serves as a Director to Genix Pharmaceuticals Corp.

**Our net rating on the company's management team is 3.9 out of 5.0 (see below).**



### **Strength of Board**

	Poor	Average	Good
Two out of four directors are independent		X	
Directors' share ownership		X	
The Audit committee is composed of three board members, two are independent		X	
Management compensation will be decided by the board.		X	

Source: FRC

## Financials

\$16.2M in investments at the end of Q1

Investments increased in value by \$6.9M in Q1, and \$4.3M in 2020 (full-year)

\$0.55M in revenue in Q1; CFO yet to be positive

(in C\$)	2020	Q1-2021
Cash	\$218,933	\$316,400
Investments	\$8,759,117	\$16,228,824
Working Capital	\$9,393,576	\$16,950,043
Current Ratio	11.43	18.57
Revenue	\$1,386,669	\$549,209
Net Income (Loss)	\$3,700,427	\$7,437,802
EPS	\$0.23	\$0.46
Cash from Financing Activities	-\$106,484	-\$17,560
Cash Spent on Investing Activities	\$648,947	-\$128,193

Source: FRC / Company

**Stock options and Warrants:** The company has 2.86M options (weighted average exercise price of \$0.26), and 0.71M warrants (\$0.20) outstanding. 2.01 M options and all of the warrants are in-the-money (\$0.59M).

## Valuation

We compared Zimtu's P/B with investment funds in North America

Zimtu is trading at just 0.21x vs the sector average of 2.6x

Company	P/B
1 Pzena Investment Management	6.60
2 BrightSphere Investment Group	6.10
3 AllianceBernstein Holding	2.80
4 Noah Holdings Limited	2.70
5 Manning & Napier Inc.	1.80
6 Westwood Holdings Group Inc	1.50
7 Pinetree Capital	0.80
8 Onex Corporation	0.90
9 Zimtu Capital	0.21
<b>Average</b>	2.60
Discounted P/B for Zimtu (average discounted by 75%)	0.65
Fair Value of Zimtu - \$M	\$11.11
No. of Shares (treasury stock method) - millions	16.13
<b>Value per Share</b>	<b>\$0.69</b>
Fair Value as a % of Book Value	65%

Source: FRC / S&P Capital IQ

Considering Zimtu's micro-cap status, we are applying a 75% discount to the sector average P/B for conservatism. Based on a discounted P/B of 0.65x, we are assigning a fair value estimate of \$0.69 per share on Zimtu. **We are initiating**

**coverage with a BUY rating.** Note that our fair value is conservative as it only reflects 65% of the market value of its investments. **We are expecting near-term catalysts for shares of all of its top holdings.**

## Risks

We believe Zimtu is exposed to the following key risks:

- Exploration and development risks.
- Zimtu's value is highly dependent on the overall health of the junior resource industry. A slowdown in the resource sector will affect Zimtu's returns.
- Investments are exposed to commodity price fluctuations.
- Concentrated portfolio – Zimtu's top six investments represent 76% of the net asset value of its investment portfolio.

**We are assigning a risk rating of 4.**

**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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