

ZARUMA RESOURCES INC.

(\$0.295; ZMR: TSX)

Recommendation

Speculative Buy

Risk

High

Target Price

1-Year: \$0.70

3-Year: \$1.65

Price (May 21)

\$0.295

52-Week Range

\$0.45 - \$0.12

Potential Return

1 Year: 2.37x

3 Year: 5.59x

Shares O/S

116.76 million

Market Cap

\$34.45 million

Average Daily Volume

20-Day: 214,100

150-Day: 391,900

Year-End

December 31

\$	BVPS	EPS
2006A	\$0.05	(\$0.02)
2007A	\$0.05	(\$0.01)
2008E	\$0.04	(\$0.01)

BVPS: Book Value per Share

EPS: Earnings per Share

Analysts

Eric Eng, BA, MBA

Bob Weir, B.Sc., B. Comm, CFA



Data Source: www.BigCharts.com

DRILLING ACTIVITY AND Q1/08 RESULTS

1. NEW DRILLING RESULTS

Zaruma Resources Inc. recently reported drilling results from the Luz del Cobre Project in Sonora, Mexico. The drilling, completed at the end of February 2008, identified an extension of the Luz del Cobre mineralization to the south and found extensive copper mineralization in a new discovery (Calvario), which is 200 metres west of the planned Luz del Cobre pit.

The table below shows the results from 47 holes - a total of 4,309 metres drilled outside the planned Luz del Cobre pit.

Location	Measured		Indicated		Measured and Indicated		Inferred	
	Tonnes	Cu%	Tonnes	Cu%	Tonnes	Cu%	Tonnes	Cu%
Calvario Oxide			13,000	0.77	13,000	0.77	15,000	0.71
Calvario Mix			240,000	0.80	240,000	0.80	109,000	0.64
South Oxide			17,000	0.80	17,000	0.80	1,000	0.61
South Oxide	45,000	1.00	238,000	0.80	283,000	0.83	3,000	0.71
Total	45,000	1.00	508,000	0.80	553,000	0.81	128,000	0.64

The estimate is for resources within optimized pit shells, using current estimates of operating costs and a 24-month trailing average of US\$3.36 per pound for copper.

COMMENT: *In addition to proven and probable reserves of 4.3 million tonnes at 1% copper at the south to southwest corner of the Luz del Cobre orebody, the new resources could potentially increase the mineral resources at the Luz del Cobre project substantially. The location of the new resources is very significant because (1) exploration and future development costs are expected to remain low; and (2) it will make it easier for the Company to implement its additional operational activities. We believe that the new resources should add a meaningful value to the current Luz del Cobre Project.*

2. FIRST-QUARTER 2008 RESULTS

Zaruma's Q1/08 (ended March 31) results were as shown in the following table.

Income Statement (US\$)	31-Mar Q1-2008	31-Mar Q1-2007	Capital Structure (US\$)	31-Mar-08	31-Mar-07
Cash costs	151,621	147,343	Total debt	5,223,849	1,985,608
Interest income (net of expense)	(1,398)	(1,138)	Total equity	4,930,885	4,650,351
Exploration write off	126,683	243,192	Total capital	10,154,734	6,635,959
Foreign exchange loss	63,776	2,507			
Net loss	340,682	391,904	% Debt/Capital	51.4%	29.9%
			Cash	604,800	115,434
Capital expenditures					
Capex on Luz del Cobre	3,673,858	171,510			
Fixed assets	108,010				
	3,781,868				
Financing					
Equity issuance	602,099	9,570			
Long-term debt	3,238,241				
	3,840,340				

ANALYSIS

Zaruma incurred significant capital expenditures in Q1/08, reflecting increased activity as the Luz del Cobre project moves closer to production. The Company performed reasonably well, with Q1/08 cash costs showing only a modest increase over those of the previous quarter.

Total capital expenditures to bring the Luz del Cobre project into production are currently estimated at \$32 million. This amount could increase, as to date only approximately 50% of the costs have been committed through contract awards.

To fund the project costs, Zaruma has secured \$23.5 million in long-term debt with Glencore International AG, of which \$10.6 million has been drawn up to May 12, 2008.

We believe that additional funds could be raised with new equity issuances through options and warrants or private placements, given the recent increase in the Company's stock price. (The share price on our Initiating Report of February 27, 2008 was \$0.19, but it had increased to \$0.295 as at May 20, 2008.) It is expected that 1,646,500 share purchase warrants outstanding, exercisable at \$0.16, will be exercised by May 20, 2008 (for a total of approximately \$263,000).

We estimate that Zaruma needs to raise an additional \$8-10 million to bring the Luz del Cobre project into production.

It is likely that the Company has been holding discussions with Glencore concerning it funding all or a portion of the shortfall with additional debt. Although this would add significantly to Zaruma's debt load, the total debt would be manageable as once in production, the mine pay-off is quick, and substantial dilution would be averted. If the Company is to issue new equity at, say, \$0.30 per share, we estimate 33 million new shares will have to be issued. This would have a significant dilutive impact on the current stock price.

As the Luz del Cobre project is on schedule to be in production in January 2009, with the expectation of a moderate increase in costs (current total estimate of \$32 million), the Company should not have problems securing either additional debt financing and/or equity financing. Should additional debt financing be secured, the dilutive impact will be mitigated.

RECOMMENDATION

We are confirming our Speculative Buy Recommendation and Target Prices of \$0.70 (1-Year) and \$1.65 (3-Year), as set out in our Initiating Report on Zaruma.

PROFILE

Zaruma, based in Toronto, Canada is an advanced-stage exploration company with copper and gold properties in Mexico and a gold property in Venezuela. The copper project is nearing production (January 2009). Zaruma is managed by a team of mining professionals with international experience.

RATINGS HISTORY

Date	Report Type	Recommendation	Stock Price	Target Price
Feb. 27, 2008	Initiating	Speculative Buy	\$0.19	\$0.70 (1-Year); \$1.65 (3-Year)
Mar. 25, 2008	Bulletin	No Change	\$0.24	No Change
May 21, 2008	Commentary	No Change	\$0.295	No Change

NOTE: eResearch reports on Zaruma Resources and other companies are available FREE on our website at www.eresearch.ca.

NOTES

ANALYST CERTIFICATION

Each Research Analyst who was involved in the preparation of this Research Report hereby certifies that: (1) the views, opinions, and recommendations expressed in this Research Report reflect accurately the Research Analyst's personal views concerning any and all securities and issuers that are discussed herein and are the subject matter of this Research Report; and (2) the fees, earnings, or compensation, in any form, payable to the Research Analyst, is not and will not, directly or indirectly, be related to the specific views, opinions, and recommendations expressed by the Research Analyst in this Research Report.

eResearch analysts on this report: Eric Eng, BA (Acct., Econ.), MBA (Fin.) - Eric Eng worked at DBRS as a Analyst/Vice President for 10 years. He obtained a BA in Accounting and Economics and an MBA in Finance at the University of Toronto.

Bob Weir, B. Comm, B.Sc., CFA. - Bob Weir has 40 years of investment research and analytical experience in both the equity and fixed-income sectors, and in the commercial real estate industry. He was at Dominion Bond Rating Service (DBRS) from 1994 to 2001, latterly as Executive Vice-President responsible for conducting the day-to-day management affairs of the company. He joined eResearch in 2004.

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Strong Buy:	Expected total return within the next 12 months is at least 40%.
Buy:	Expected total return within the next 12 months is between 10% and 40%.
Speculative Buy:	Expected total return within the next 12 months is substantial, but Risk is High (see below).
Hold:	Expected total return within the next 12 months is between 0% and 10%.
Sell:	Expected total return within the next 12 months is negative.

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A company may have some, but not necessarily all, of the following characteristics of a specific risk rating to qualify for that rating:

High Risk:	<i>Financial</i> - Little or no revenue and earnings, limited financial history, weak balance sheet, negative free cash flows, poor working capital solvency, no dividends. <i>Operational</i> - Weak competitive market position, early stage of development, unproven operating plan, high cost structure, industry consolidating, business model/technology unproven or out-of-date.
Medium Risk:	<i>Financial</i> - Several years of revenue and positive earnings, balance sheet in line with industry average, positive free cash flow, adequate working capital solvency, may or may not pay a dividend. <i>Operational</i> - Competitive market position and cost structure, industry stable, business model/technology is well established and consistent with current state of industry
Low Risk:	<i>Financial</i> - Strong revenue growth and earnings over several years, stronger than average balance sheet, strong positive free cash flows, above average working capital solvency, company may pay (and stock may yield) substantial dividends or company may actively buy back stock. <i>Operational</i> - Dominant player in its market, below average cost structure, company may be a consolidator, company may have a leading market/technology position.

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