

ZARUMA RESOURCES INC.

(\$0.20; ZMR: TSX)

Recommendation: Speculative Buy (No Change)
Target Price: 1-Year: \$0.70 (No Change);
 3-Year: \$1.65 (No Change)

RECENT DEVELOPMENT: FIRST-HALF RESULTS

Zaruma reported results for the first-half of 2008 as shown below.

	<u>30-Jun-08</u>	<u>30-Jun-07</u>		<u>30-Jun-08</u>	<u>30-Jun-07</u>
Income Statement (US\$)	6 months	6 months	Capital Structure (US\$)		
Cash costs	(291,124)	(330,218)	Total debt	16,571,162	1,985,608
Interest income (net of expense)	3,849	1,694	Total equity	4,593,143	4,650,351
Exploration and mining project	(396,515)	(362,101)	Total capital	21,164,305	6,635,959
Stock option compensation	(125,990)	(24,660)			
Foreign exchange loss	(238,484)	(3,754)			
Net loss	(1,048,264)	(719,039)	Cash	3,260,208	716,322
Capital expenditures					
Capex on Luz del Cobre	9,487,632	171,510	% net Debt/Capital	74.35%	21.44%
Fixed assets	355,712		% Debt/Capital	78.30%	29.92%
	9,843,344	171,510			
Financing			Monthly cash burn (operating)	48,521	55,036
Equity issuance	865,006	647,023	Monthly cash burn (exploration)	66,086	60,350
Long-term debt	14,585,554		Monthly cash burn (capex)	1,581,272	28,585
	15,450,560	647,023	Total month cash burn	1,695,879	143,972

ANALYSIS

Cash Costs

Zaruma performed reasonably well in H1/08 by reducing cash costs compared with the same period in the previous year. Cash costs associated with exploration and mining project administration were essentially in line with the same period a year earlier at \$66,000 per month, showing only a modest increase (see above).

Capital Expenditures

Significant capital expenditures were incurred in H1/08, reflecting increased activities as the Luz del Cobre copper project in Mexico approaches production - expected in Q1/09. Capital expenditures for the period were \$9.8 million, of which over 96% was spent on the Luz del Cobre project. The total cost estimate of bringing the project into production is approximately \$35 million, a moderate increase from \$32 million as reported in our May 20, 2008 Bulletin. This new estimate could increase if the number of units of production to be completed is higher than expected (since mine development costs are based on units of production). To fund the project costs, Zaruma has secured \$23.5 million in long-term debt with Glencore International AG (Glencore), of which \$21 million has been drawn up to August 12, 2008

Additional Financing

We estimate that Zaruma needs to raise an additional \$10-12 million to bring the project into production. The Company is currently in negotiations with Glencore for further financing. Zaruma has reported that “Glencore has indicated a willingness to consider providing short-term funding in addition to the long-term debt until such time that the Company successfully obtains alternate financing.”

The currently tight credit market has reduced or shut down access to funding for most junior mining companies. However, we believe that Zaruma can obtain additional financing because: (1) The Luz del Cobre project is on schedule to be in production in Q1/09, subject to sufficient financing; (2) Glencore is a financially strong partner and is willing to consider providing further financing; (3) Although the \$35 million estimate of capital expenditures could increase, the increase should be modest as most budget items have been committed through contract awards; and (4) EBITDA from the copper mine is projected to be sufficient to cover capital costs for the first two years of production.

THE COMPANY

Zaruma Resources Inc., 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. Zaruma is managed by a team of mining professionals with international experience.

RECOMMENDATION

We continue to rate Zaruma shares as a Speculative Buy, with Target Prices of \$0.70 (1-Year) and \$1.65 (3-Year).

RATINGS HISTORY

<u>Date</u>	<u>Report Type</u>	<u>Recommendation</u>	<u>Stock Price</u>	<u>Target Price</u>
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
June 19, 2008	Bulletin	No Change	\$0.29	No Change
Aug. 14, 2008	Bulletin	No Change	\$0.20	No Change

High-Low Since Initiating: \$0.45-\$0.19.

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

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