

Zimtu Capital Is Worth More Dead Than Alive

David Desjardins • Chicoutimi (Quebec) • (418) 290-6165 • d.d.95@hotmail.com

This is not a recommendation to buy or sell the stock. It is my own opinion only based on my own and independent analysis. I am an undergraduate student, not a financial advisor. I am long Zimtu Capital. I am not receiving any compensation for writing this analysis.

It is cheaper to drill for mineral resources on Bay Street than anywhere else. Irrational undervaluation as dramatic as it is the case with Zimtu Capital (TSXV: ZC) is often a short-term anomaly. Extrapolation is instinctive while mean reversion is counterintuitive.

By discounting Zimtu Capital to the current ridiculous valuation, the shareholders have implicitly expressed their extreme displeasure with the current situation of the business. The management should take corrective action to reduce the massive discount. At the current valuation, a liquidation of the company would generate a decent profit for the shareholders. As of January 2017, Zimtu Capital is worth more dead than alive. It does not make any sense in my mind.

It would cost to the firm \$300,000 to buy back 10% of the shares outstanding based on a market capitalization of \$3,000,000. In other words, it would cost around 3.6% of the net current asset value (Current Assets – Total Liabilities) to redeem 10% of the float. Moreover, unearned revenue represents 71.4% of the total liabilities. The firm just have to fulfill its obligations to extinguish the quasi-totality of its liabilities. A share buyback would be the best possible way to deploy capital.

In my opinion, a normal course issuer bid (NCIB) would be sufficient to reduce the huge discount of 64% versus the net current asset value and send a clear signal to the market. Instead, the management issued in June 2016 1,955,000 stock options representing 10% of the fully diluted share outstanding. The strike price of \$0.28 is well below the net current asset value per share of \$0.61 and the net value per share of the publicly traded investments. It is unacceptable to set the exercise price at this level. The board members does not have to create any value to exercise their stock options.

Fully Diluted Shares Outstanding		
Security	October 19, 2016	November 30, 2015
Common Shares	15,394,483	15,394,483
Stock Options	2,955,000	1,100,000
Warrants	529,456	2,758,146
Finders Warrants	84,908	144,588
Fully Diluted Shares Outstanding	18,963,847	19,397,217

Source: MD&A August 31, 2016 - Page 13

Net Current Asset Value Per Share		
Variable	August 31, 2016	November 30, 2015
Current Assets	9,899,756	7,889,468
Total Liabilities*	472,130	615,471
Net Current Assets Value	9,427,626	7,273,997
Shares Outstanding	15,394,483	15,394,483
NCAV Per Share	\$0.61	\$0.47

Source: Condensed Interim Financial Statements August 31, 2016

*Total Liabilities Excluding Unearned Revenue

Net Value Per Share Of Investment In Listed Stocks		
Variable	August 31, 2016	November 30, 2015
Investment In Listed Stocks	5,404,489	4,235,239
Total Liabilities*	472,130	615,471
Net Value Of Listed Stocks	4,932,359	3,619,768
Shares Outstanding	15,394,483	15,394,483
Net Value Investment Per Share	\$0.32	\$0.24

Source: Condensed Interim Financial Statements August 31, 2016

*Total Liabilities Excluding Unearned Revenue

It is worth mentioning that Zimtu Capital carries a market capitalization of \$2,924,951 based on a share price of \$0.19. On a fully diluted basis, the market capitalization is equal to \$3,603,131 which is well below the net current asset value and the value of the publicly traded stocks owned by the firm.

No value at all is attributed by the market to the 7,436,182 shares of Voltaic Minerals (TSXV: VLT) owned by Zimtu Capital and classified under the non-current asset section of the balance sheet. Based on the current share price of Voltaic Minerals of \$0.08, this holding is worth around \$594,894 or 20% of the current market capitalization. Considering a share price of \$0.03, which is commensurate with the private transaction announced in July 2016, the shares of Voltaic Minerals are worth a minimum of \$223,085 or 7.6% of the current market capitalization. This holding is valued at \$2,599,664 on the balance sheet which is clearly overvalued and not realistic in my opinion. (Investment in equity method investees – Note 7)

Zimtu also owns 17 different mineral properties classified as non-current assets and valued at \$0 by the market. Considering a selling price of \$25,000 per property which is overly pessimistic, these properties are worth at least \$425,000 of 14.5% of the market capitalization.

No value is attributed to the investment in 10 different private companies. They are included in the current assets section of the balance sheet and carried at a cost of \$410,163 considering an impairment provision of \$394,750. It is certainly worth more than \$0.

What about the investment in 38 different warrants expiring between 2017 and 2020? They are valued with the Black & Scholes formula and their carrying amount is \$2,105,985 as of August 31, 2016. It represents around 72% of the market capitalization. Ironically, the market participants see absolutely no value in these warrants even if many of them are in the money. Thanks to the efficient market theory.

The biggest asset of Zimtu is its investment in 52 different public micro-cap stocks. Based on the market prices prevailing on August 31, these stocks are worth \$5,404,489. However, their valued recently declined due to the contraction in the mining industry following the boom at the beginning of 2016. As of January 13, the portfolio is worth approximately \$4,897,029.

As of January 2017, the value of the 15 biggest investments is around \$3,838,071. If we remove the total liabilities excluding the unearned revenue, it is possible to calculate a net value of \$3,365,941 which is still 15% above the current market capitalization. As a bonus, you are getting for free a basket of mineral properties, stocks and warrants.

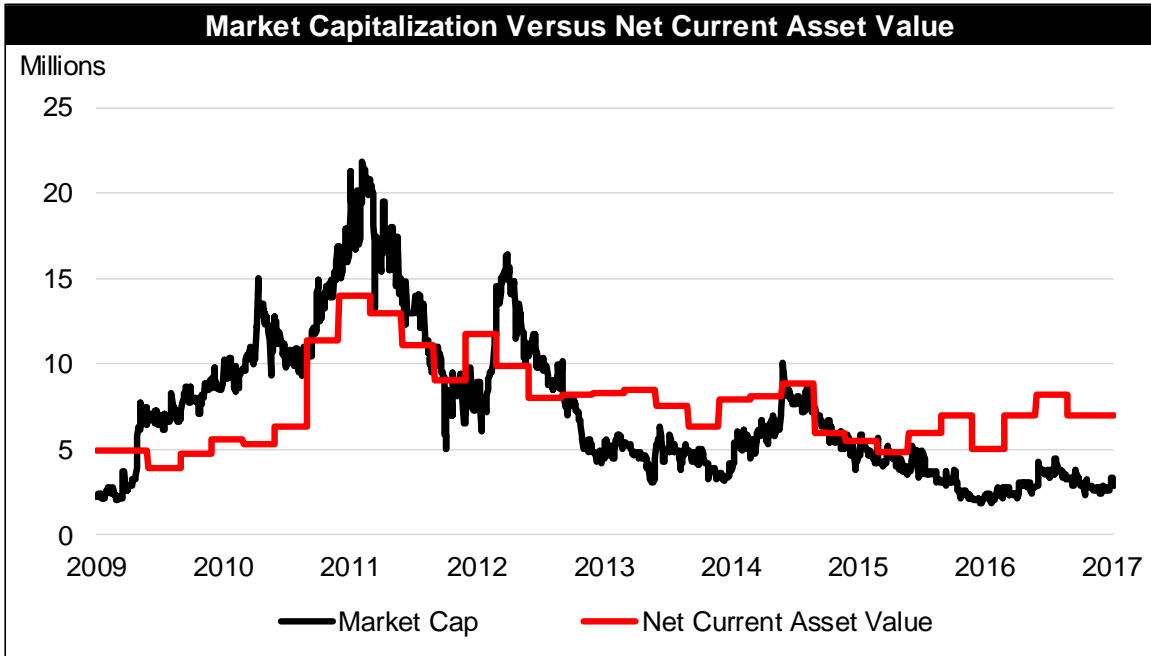
Value Of 15 Biggest Investments In Listed Stocks - As Of January 13, 2017				
Company	Ticker	Shares Owned	Market Price	Value
TrueLeaf Medicine	MJ	2,611,563	0.2	522,313
King's Bay Gold	KBG.V	3,983,432	0.1	398,343
Arctic Star Exploration	ADD.V	3,250,556	0.115	373,814
ALX Uranium	AL.V	2,568,998	0.135	346,815
MGX Minerals	MGXMF	763,833	0.43	328,448
Aurvista Gold	AVA.V	1,039,000	0.23	238,970
Pistol Bay	PST.V	3,560,000	0.065	231,400
Electra Stone	ELT.V	6,672,674	0.03	200,180
92 Resources	NTY.V	1,796,720	0.115	206,623
Commerce Resources	CCE.V	3,584,178	0.06	215,051
Dunnedin Ventures	DVI.V	750,000	0.23	172,500
Emerita Gold	EMO.V	1,200,000	0.14	168,000
Vatic Resources	VCV	1,700,000	0.09	153,000
Equitas Resources	EQT.V	606,583	0.23	139,514
NRG Metals	NGZ.V	1,210,000	0.11	133,100
Value Of 15 Biggest Investments - As Of January 13, 2017			3,828,071	

Source: Condensed Interim Financial Statements, TMX Money

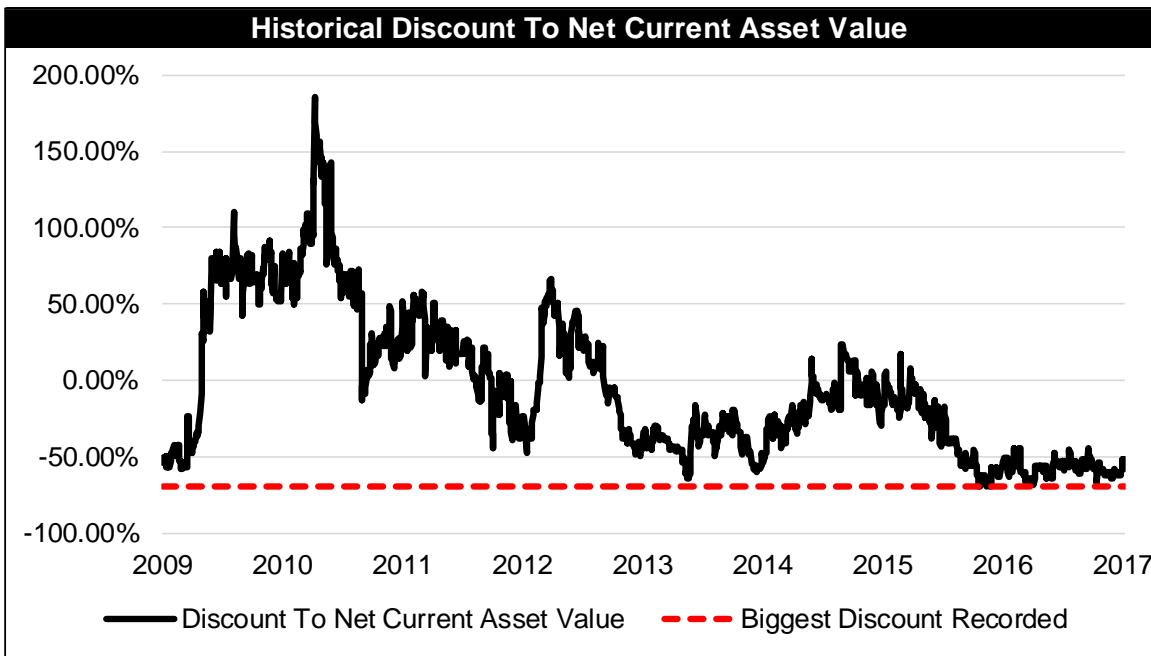
The market participants attribute no value to many assets of Zimtu Capital. Any logic individual knows that these assets are not worth nothing. The management should sell these "worthless" assets and buyback shares with the proceeds. The economic environment for exploration companies is probably the worst in decades. Abnormally good or abnormally bad conditions do not last forever. Stocks appear most attractive on a fundamental basis at the peak of their business cycle when they present the worst risk-reward. The insane current spectacle with

Zimtu Capital is a clear evidence that there is a problem. The market or the management have to be wrong. The market looks wrong, but the management should be more aggressive.

Historically, Zimtu Capital trades at a huge discount versus its net current asset value during a downturn and at a huge premium during a booming market for the mining sector. The mining industry is characterized by severe cycle and it should not be different this time.



Source: Condensed Interim Financial Statements, Yahoo Finance



Source: Condensed Interim Financial Statements, Yahoo Finance

Zimtu traded at the lowest valuation in its history at the beginning of 2016. At its lowest point, Zimtu was trading at a discount of 70% versus its net current asset value. In January 2017, the discount is now around 60%. The margin of safety is huge. As Warren Buffett said, the figures should hit you over the head with a baseball bat. Moreover, the administrative fees generated are enough to cover the expenses resulting in a very low burn rate.

Historical Burn Rate				
Variable	August 31, 2016	February 29, 2016	August 31, 2015	May 31, 2015
Administrative Fees	368,930	361,430	348,930	353,930
Corporate Services	782,608	146,145	330,027	95,919
Revenue*	1,151,538	507,575	678,957	449,849
G&A Expenses**	854,332	730,389	692,358	651,092
Burn Rate	297,206	-222,814	-13,401	-201,243

*Revenue Excluding Gain & Loss On Sale Of Investment And Income From Property Sale

**G&A Expenses Excluding Amortization And Share-Based Payments

Despite having a poor history of value creation, the management continue to earn excessive compensation versus the value delivered to the shareholders. The total compensation of the NEO's and directors in 2015 was equal to \$842,127 according to the information circular of March 30, 2016. The remuneration in 2015 alone represents 28.79% of the current market capitalization. Considering the current discount in the share price, it is hard to justify this remuneration. Again, the management should take action immediately to reduce the discount. As I said earlier, a share buyback is the best use of capital at the moment in my opinion.

NEO's And Directors' Compensation - 2015			
Name	Total Compensation	Shares Owned	% Share Out
David Hodge	186,493	1,000,254	6.50%
Jody Bellefleur	153,253	Unknown	Unknown
Sven Olsson	132,816	90,333	0.59%
Sean Charland	99,247	0	0.00%
Christopher Grove	157,065	0	0.00%
Frances Petryshen	113,253	40,000	0.26%
Total Remuneration	842,127	1,130,587	7.34%

Source: Information Circular March 30, 2016

In conclusion, Zimtu Capital is trading at a ridiculous valuation and the market capitalization does not reflect at all the value of the underlying assets. A share buyback would act as a catalyst for a re-rating of the share price. The 15 biggest stock investments of Zimtu minus the liabilities excluding the unearned revenue is 15% higher of the current market capitalization leaving any buyer with a large basket of assets for free. The portfolio of warrants may become extremely valuable assuming improving conditions in the industry. Sadly, I don't have enough capital to buy a controlling position in the stock to force the management to address the current situation.

David Desjardins (418) 290-6165
January 13, 2017