

Emerita Resources Corp.

Site Visit Provides Comfort to Move Infanta to DCF

ACTION: Reiterating SPECULATIVE BUY and Raising Target to \$5.10/sh

Last week we attended a site visit of Emerita Resources Corporation's (EMO) Iberia West Project (IBW) in Spain. The visit gave us the opportunity to review the core from the drilling at Infanta as well as visit Infanta, Romanera and El Cura. We were very impressed with the geological upside of the IBW project and the potential for EMO to make discoveries along the 10km trend from Infanta to Romanera.

The most relevant take-away that affects our valuation of EMO is the comfort we gained regarding the potential of Infanta which has led us to switch from an EV/lb valuation methodology to a discounted cash flow (DCF) valuation. As a result of this change, **our target price has increased to \$5.10/sh from \$3.70/sh, previously. We are maintaining our SPECULATIVE BUY rating.**

DETAILS: IBW Potential is Significant

The IBW project comprises, from west to east: Romanera, El Cura and Infanta (see Figure 1). Along this 10km trend lie a number of gravity anomalies (useful for identifying non-conductive sulphides such as the primary zinc mineral, sphalerite) and transient electromagnetic (TEM) anomalies that identify resistance and conductivity below the surface. Some of these anomalies are coincident with known mineral occurrences while others have yet to be explored. We believe there is a good chance that EMO makes at least one significant discovery along the IBW trend.

We reviewed, in detail, the drilling carried out at Infanta including the cross sections at various locations and the core.

At Romanera, the company has applied for many drill pad locations with the intention of carrying out a very aggressive drill program to prove up the historic resource of 34 million tonnes (and potentially defining a substantially larger resource). The permitting process appears to be taking longer than expected and we expect permits will be granted in early 2022.

El Cura lies 3.3 km to the west of Infanta and exhibits very similar geology and there are remnants of historical mining (which typically targeted high grades). We believe there is potential for EMO to define a deposit at El Cura, but it is too early to speculate on tonnage and grades.

There were no material updates provided on the ongoing tender dispute over the ownership of the Aznalcollar project. We visited the site from a distance (behind a fence) and, unfortunately, we were not permitted to see more of the project.

IMPACT: IBW Potential Could Support Current Valuation - With Time

In our opinion, EMO's market value is discounting a very high probability that the company wins the tender dispute for Aznalcollar. However, after visiting the IBW project, we believe that it could, with time and extensive exploration, support the current market value. Our valuation ascribes \$3.40 per share to the IBW project, cash, and cash from in the money instruments. The remaining \$1.84/sh is attributed to Aznalcollar at this time. However, should EMO win the tender for Aznalcollar, we will likely switch to a DCF valuation for that project which will most likely result in a very significant increase (switching to DCF for Infanta increased our valuation of the project by 73%).

We continue to recommend EMO for its exposure to excellent exploration projects in Spain as well as the potential for the company to win the Aznalcollar process. **We have increased our target price to \$5.10/sh and maintain our SPECULATIVE BUY recommendation.**

ANALYST INFORMATION

Adam Schatzker

416.860.6781

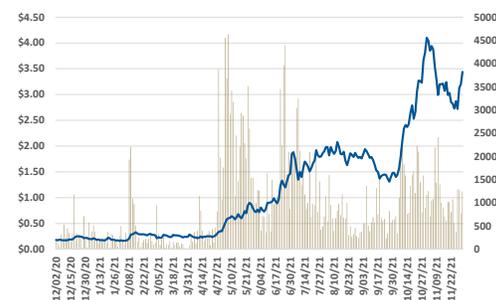
aschatzker@researchcapital.com

EMO - TSXV	\$3.20
TARGET:	\$5.10
PROJ. RETURN	59%
VALUATION	EV/lb & DCF

Share Data

Basic Shares O/S (M)	187.9
Fully Diluted (M)	238.2
Avg. Volume (K)	895
Basic Market Cap (\$M)	601
Net Cash (\$M)	27
Enterprise Value (\$M)	574
Dividend (\$/sh)	0
Yield (%)	0
Next Reporting Date	Nov

THOMSON CHART - ONE YEAR



COMPANY PROFILE

Emerita is a Canadian company focused on polymetallic exploration in the Iberian Pyrite Belt in Spain. The company has two projects, Infanta and Romanera, and hopes to acquire the Aznalcollar project through a long, complex tender process.

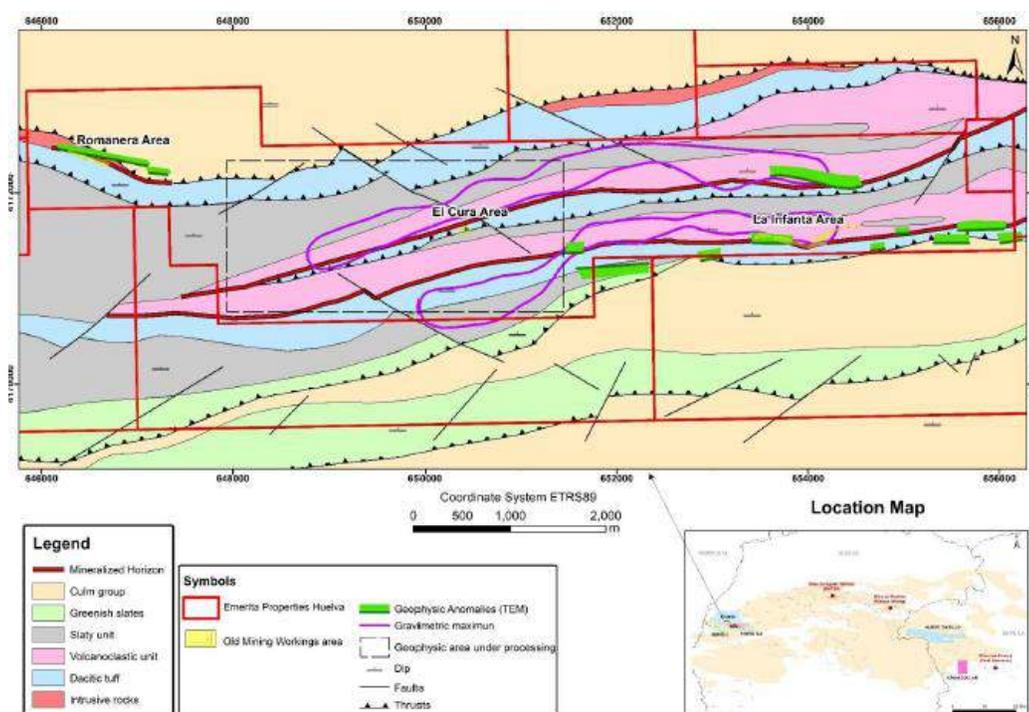
UPCOMING EVENTS/CATALYSTS

- Drill results from Infanta and Romanera
- Tender process/court proceeding results for the potential acquisition of the Aznalcollar project

INFANTA – BETTER THAN WE EXPECTED

The Infanta deposit is a volcanogenic massive sulphide (VMS) deposit that exhibits high grade zinc-lead-copper mineralization with associated silver and gold. The deposit currently has a strike length defined by drilling of approximately 650m and drilling to date has been fairly shallow. We expect that the depth potential of the deposit is significant as observed in many other VMS targets, globally. For our valuation, we have assumed a strike length of 800m, an average width (based on drill results) of 5m, a depth of 500m, and a specific gravity of 3.5 tonnes per cubic metre (which is conservative in our view, especially for the massive sulphide portions which would likely have a specific gravity above 4). Therefore, for our valuation, we have assumed a mineralized inventory of 7.1 million tonnes grading 1.69% copper, 12.97% zinc, 7.37% lead, 135 g/t silver and 0.43 g/t gold. We acknowledge that our mineralized inventory is somewhat simplistic compared to a 43-101 compliant resource estimate and does not include mining dilution – we have assumed a 100% underground project at this time.

Figure 1. IBW Property with Geology, Gravity Anomalies and TEM Anomalies



Source: Company Presentation

We have changed our valuation methodology from an EV/lb to DCF as we believe we have better information that allows us to make assumptions that we think lead us to a more accurate view of the project. Using a DCF valuation is, in our view, a far superior valuation methodology to EV/lb (which makes the assumption that all pounds are more-or-less equal) and dramatically better than an in-situ value which ignores all costs (capital and operating) involved to produce finished metal and always significantly overstates the value of a project – we recommend investors ignore in-situ valuations of mining projects and look to more rigorous methodologies for more realistic values.

Our main DCF assumptions are below (see Figure 2):

Figure 2. RCC Infanta DCF Assumptions

Infanta DCF Assumptions					
Tonnes	t	7,070,674			
Copper	%	1.7%			
Zinc	%	13.0%			
Lead	%	7.4%			
Silver	g/t	135.1			
Gold	g/t	0.43			
Capital Cost	US\$ 000	\$175,000			
Annual Sustaining Capital	US\$ 000	\$14,000			
Closure Cost	US\$ 000	\$75,000			
Construction Start Year		2025			
Mine Start Year		2028			
Tonnes per Day	tpd	1,500			
Days per Year	days	360			
Mine Life	years	14			
Mining Cost (underground)	US\$/t	\$100			
Milling Cost	US\$/t	\$30			
SG&A (Annual)	US\$ 000	\$3,000			
Copper Conc. Treatment Charge	US\$/DMT	\$90			
Copper Refining Charge	USc/lb	9c			
Zinc Treatment Charge	US\$/DMT	\$210			
Lead Treatment Charge	US\$/DMT	\$100			
Silver Refining Charge	US\$/oz	\$0.50			
Gold Refining Charge	US\$/oz	\$5.00			
Transportation	US\$/WMT	\$55			
			Total Recoveries to Concentrates		
			Copper	85%	
			Zinc	76%	
			Lead	75%	
			Silver	75%	
			Gold	60%	
			Smelter Payabilities		
			Copper	93%	
			Zinc	83%	
			Lead	80%	
			Silver	76%	
			Gold	71%	
			Price Assumptions		
			Copper	US\$/lb	\$3.50
			Zinc	US\$/lb	\$1.25
			Lead	US\$/lb	\$0.90
			Silver	US\$/oz	\$25.50
			Gold	US\$/oz	\$1,850
			Discount Rate	%	8%
			Annual Average Payable Metals		
			Copper	Mlbs	15.8
			Zinc	Mlbs	97.3
			Lead	Mlbs	23.5
			Silver	oz	1,339,304
			Gold	oz	3,192

Source: Company filings, RCC estimates

We have assumed that the mine construction starts in 2025 which we believe is a reasonable estimate given the amount of work required before construction may commence. There is a risk it could be delayed beyond that date, especially if additional discoveries are made or if the project is integrated with Romanera or El Cura and a larger, regional mill is required.

From drill core observations we noted that the two major rock units that host the mineralization exhibited somewhat poor competency and indicate, in our view, that ground support will be required which will result in higher mining costs than a mine with more competent host rocks. We have assumed US\$100/t mining costs which would include ground support (generally screening and bolting). We believe this cost estimate is a reasonable estimate given the jurisdiction, geometry of the deposit and backfill requirements.

We also noted that the lead and zinc mineralization (likely predominately sphalerite and galena) were quite fine grained which may reduce recoveries and affect the concentrate grades that we have included in our model. The copper mineralization appears to be hosted predominately in stringer zones which we believe will recover at a higher rate than zinc and lead. We have also assumed that the precious metals report to all concentrates, but not equally. We have used comparable projects to estimate how each metal reports to each concentrate. Clearly, extensive metallurgical testing will be required to determine the metallurgical response of the "ore". For now, we believe our assumptions are reasonable and conservative.

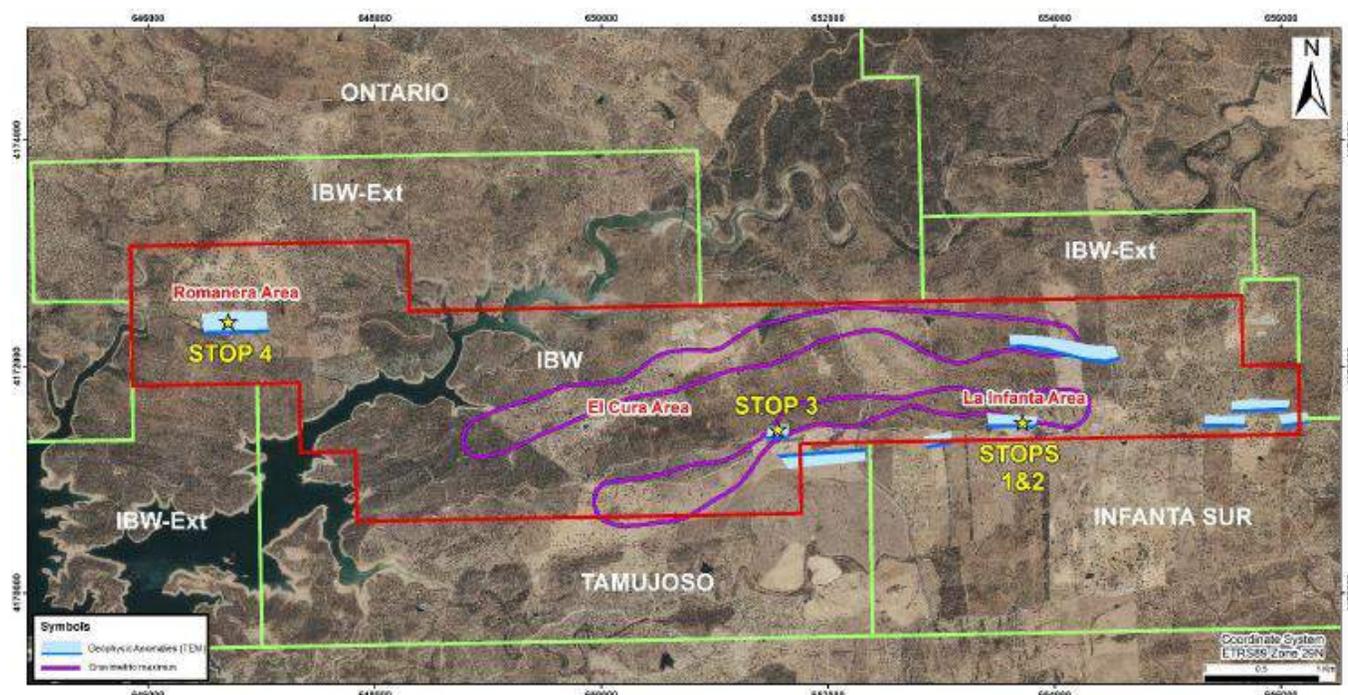
As a result of our DCF valuation, we estimate the value of Infanta at C\$416 million (assuming a CAD:USD exchange rate of 1.28).

The historic, 1984 resource estimate for Infanta is approximately 800,000 tonnes with grades very similar to those we have assumed. Clearly our estimate of +7 million tonnes is a substantial increase over the historic, Phelps Dodge estimate. However, the property footprint that Phelps Dodge had in 1984 was a tiny "postage stamp" compared to the very large land package that Emerita has assembled, and drilling was very shallow compared to the depth potential we believe is possible. Additionally,

Emerita has identified a number of geophysical anomalies (gravity and TEM) that indicate there is significant potential to expand the deposit.

One of the most interesting of the Infanta targets is a large TEM anomaly that lies to the north of the currently defined mineralization and runs in a sub-parallel direction. We expect EMO will test this target in early 2022 (see Figure 3)

Figure 3. IBW Project Highlighting Gravity and TEM Anomalies



Source: Company Presentation

ROMANERA AND EL CURA

To the west of Infanta lies the El Cura and Romanera deposits that are part of EMO's IBW project. El Cura is approximately 3km west of Infanta and massive sulphides were mined historically along the same geological contact as observed at Infanta. On the site visit, we observed these projects briefly, but no material additional information was provided. Hence our view of these projects is relatively unchanged.

We have, however, assumed that there is significant exploration potential over-and-above that which we have calculated for Infanta and Romanera. **Therefore, we have now included \$50 million in exploration upside to account for this potential.** Given the significant drilling that will be required at Infanta and Romanera, it may take some time to realize this value.

CONCLUSION

The site visit provided us with a very good overview of the IBW project and its potential. The company plans to increase the number of drill rigs and we expect there will be substantial new flow going forward. Looking to the long-term, we see Emerita as a potential takeover target regardless of whether it wins the Aznalcóllar tender (winning the tender would only make a takeover even more likely). We think the IBW property has excellent potential to host multiple economic deposits located in close proximity allowing for significant synergies and cost savings. For now, we are not valuing the company as a takeover target as we believe it premature to do so (the company has yet to publish a 43-101 resource and has only announced 27 drill holes at Infanta and none at Romanera or El Cura). However, it is hard to ignore the potential that the company has in its portfolio.

RISKS

EMO is exposed to a variety of business risks including, but not limited to, unexpected development or operating issues, permitting factors, and commodity and currency fluctuations. External financing requirements are also key risks, owing to the Company's lack of operating cash flow.

EXPLORATION RISKS | Exploration comes with the risks inherent with exploration activities. Exploration can provide significant upside for investors, but it can also disappoint.

TENDER PROCESS RISKS | EMO is awaiting the outcome of a tender process for the Aznalcóllar project. There is a risk that the company will not be successful.

COMMODITY RISKS | Like all exploration companies, EMO is subject to fluctuations in commodity prices, specifically zinc (and other metals). If the price of these commodities drops materially, future equity raises may come with higher than anticipated dilution and the development of the project may become more challenging as financing would be more difficult to arrange.

CURRENCY RISKS | EMO's functional currency is the Canadian dollar, while metals are priced in US Dollars and its exploration occurs in Spain. Changes in the exchange rates between these currencies may have a positive or negative impact on EMO.

FINANCIAL RISKS | We believe EMO is sufficiently financed to complete its 2021 exploration program with a cushion remaining at the end of the year. If the company is to maintain an aggressive exploration program and/or it wins the Aznalcóllar tender process, it will likely have to raise additional funds.

POLITICAL, SOCIAL AND ENVIRONMENTAL RISKS | EMO operates in Spain, a country with a well-developed mining culture and legislation. However, environmental concerns are taken very seriously and EMO will have to work diligently to maintain itself as a good corporate citizen.

RELEVANT DISCLOSURES APPLICABLE TO COMPANIES UNDER COVERAGE

1. Relevant disclosures required under IIROC Rule 3400 applicable to companies under coverage discussed in this research report are available on our web site at www.researchcapital.ca
2. This Issuer has generated investment banking revenue for RCC.
3. The analyst conducted a site visit to view operations in November 2021. Accommodations, meals, and the COVID PCR test were paid by the issuer.
4. The analyst does not own shares of EMO.

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