

Emerita Resources Corp.

EMO-TSX.V: \$1.81 (mid-market)

Rating: Speculative Buy

Target: \$5.00

Emerita Resource Corp. (EMO-TSX.V)	
Stock Data	
Previous Close (C\$)	\$1.81
52-Week High-Low	\$4.14 / \$0.35
Avg. Daily Volume (3M)	518,418
Basic SO (MM)	181
Fully Diluted SO (MM)	16.6 MM / 8.4 MM
Market Cap. (C\$ MM)	\$328
Cash (C\$ MM)	\$27
ITM Options & Warrants (C\$ MM)	\$17
Debt (C\$ MM)	\$0
Enterprise Value (C\$ MM)	\$301
Company Information	
Projects	IBW (100%) / Aznalcollar (ongoing legal dispute)
Project Location	Iberian Pyrite Belt, Spain
Clarus Estimates	
Implied return to target price	176%
Clarus Est. Resources (MM lbs ZnEq)	16,005
EV/lb Valuation (C\$/lb ZnEq)	\$0.02
Combined LOM Production (MM lbs ZnEq/year)	576
LOM Cash Costs (co-product), US\$/lb ZnEq	\$0.56
P/NAV	0.17x
Management	
CEO	David Gower
President	Joaquin Merino-Marquez
Shareholders (source: Refinitiv Eikon)	
Eric Sprott	11.2%
Palos Management Inc.	0.3%
Management & Insiders	6.6%



Company

Emerita currently owns 100% of the IBW project on the Spanish side of the Iberian Pyrite Belt (IPB). The project has been drilled extensively (~25,000 m) by credible operators such as Phelps Dodge and Rio Tinto in 1970s and 1980s. This resulted in a 34.8 Mt historic resource with a high grade subset of 12 Mt at 12.9% ZnEq. Emerita will be focusing on validating and growing this high grade portion at IBW while also exploring for new targets on the property. The Company is also in the process of acquiring the past-producing Aznalcollar project that is also located in Spain and in the IPB. Aznalcollar public tender is currently the subject of an ongoing legal dispute in the Spanish courts. We believe a final resolution is in sight and court proceedings to date are pointing to the potential for a favourable outcome for EMO.

Maintaining Conviction in Emerita's Ability to Deliver on Aznalcollar

May 3, 2022

Emerita achieves milestones under Spanish system and law

In the figures 1 and 2 (page 2), we highlight the consistent progress EMO has made towards delivering on milestones in respect to the IBW (now 100% owned) and Aznalcollar projects. **We believe the progress to date firmly validates two critical points:**

1. The Spanish legal system works;
2. *Emerita management's ability to successfully navigate the Spanish legal system.*

Overall, the company's progress to-date gives us confidence in the Spanish judicial system with regard to the Aznalcollar case and in Emerita's ability and strategy to resolve the legal dispute under Spanish law.

In Figure 1 (IBW) and Figure 2 (Aznalcollar), we lay out the progression of events to date. As a reminder, the prevailing market/investor opinion at the start of these journeys was very cynical, with Emerita not expected to win either of these projects. We highlight that Emerita was awarded the IBW project in Sep. 2020, after a six year long legal administrative dispute against the then Junta government. While the wheels of justice grind slower than anticipated in Spain, we believe the Aznalcollar case is in its final stages of Oral hearings (read sentencing) in the Criminal Court case, with a date for the hearings expected to be announced in the 'Spanish' near-term. The process so far has been delayed due to COVID and several judges taking early retirement. Importantly, a lead judge (Ángel Márquez Romero) has now been assigned for the criminal case, indicating that this final process is now well underway. If any of the 16 individuals are found guilty, the original tender will be disqualified, and the property will be awarded to the next qualified bidder at the time of the initial tender, which is Emerita in this case.

The Criminal Court is the higher court vs Administrative Court. As a result, we feel it was a prudent strategy for Emerita to request the Administrative Court to align its ruling with the Criminal Court to minimize risk on the final outcome of the dispute (refer Clarus note dated May 2, 2022). We further note that all levels of the Criminal Court to date have ruled in Emerita's favour, confirming criminal charges on the members of the former Junta gov and Minorbis – a trend we firmly believe will continue.

As investors wait for the court decisions, drilling/exploration news flow will be ramping up from the recently permitted Romanera and El Cura projects as well as from the 100% owned Neuvo Tintillo asset located near Aznalcollar.

Figure 1: Milestones Achieved at IBW

Project	Event	Date
IBW	Public Tender	
	Public tender held on	Feb 2014
	Resolved in favour of Matsa (Trafigura)	June 2014
	Emerita appeals the public tender	H2/2014
	Upper Court rules in favour of Emerita (Junta appeals in Supreme Court)	Sep 2017
	Supreme court confirms ruling in favour of Emerita	Oct 2019
	Emerita announced the winning bidder by Regional Ministry of Industry	Jun 2020
	Emerita formally awarded mineral rights by Mining Department in Huelva	Sep 2020
	Permitting	
	La Infanta	
	Emerita files work program with Mining Department for drilling at La Infanta	Oct 2020
	Mining Department accepts drill program (processing delayed due to COVID)	Nov 2020
	Drill program for La Infanta approved and start of 30 day consultation window	Jan 2021
	Drilling commences at La Infanta	Apr 2021
	IBW West (IBW - ex. La Infanta)	
	Application for AAU (environmental impact study) submitted by Emerita	Apr 2021
	Mining Department approves, subject to Environmental Department approval	May 2021
	Analyst & Investor site visit with Mayors of both municipalities present	Nov 2021
	Environmental Department issues drill permits, subject to 30-day window	Jan 2022
	Drilling commences at Romanera	Apr 2022

Source: Company Reports

Figure 2: Aznalcollar Court Proceedings Timeline

Project	Event	Date
Aznalcollar	Public Tender	
	Public tender held on	Jan 2015
	Resolved in favour of Minorbis-Grupo Mexico	Feb 2015
	Emerita appeals the public tender	Mar 2015
	Seville court/police announce criminal charges against members of Junta Andalusia	Aug 2015
	Seville court charges 7 gov. officials and finds Grupo Mexico not a participant in original tender	Oct 2015
	Emerita initiates legal process in administrative court on Seville court recommendation	Nov 2015
	Appeals court rules in favour of Emerita confirming criminal act and orders reopening criminal case	Oct 2016
	Several appeals by the defendants to dismiss charges denied by Appeals court, siding with Emerita	2016 - 2019
	Superior Court concludes crimes committed	Nov 2020
	Lower Court includes new charges and increases people accused from 9 to 16	Jul 2021
	Administrative Court announces it will make unilateral ruling in the admin case	Oct 2021
	Emerita appeals Administrative Court's decision for unilateral ruling	Oct 2021
	Provincial Court approves Oral Trial (sentencing) for criminal case	Oct 2021
	Seville Court appoints lead judge in the criminal case	Mar 2022
	Administrative Court agrees to Emerita's appeal to withhold resolution pending criminal resolution	May 2022

Source: Company Reports

Recommendation:

Emerita offers a rare combination of significantly de-risked, world-class polymetallic projects and excellent infrastructure. Its assets are located in the Spanish side of the Iberian Pyrite Belt (IPB), which is one of the largest VMS mining camps globally with numerous majors currently operating in the region. We expect the excellent high-grade (~14% ZnEq) resource growth potential at the 100% owned IBW project to drive significant value creation and M&A appeal. We believe the big prize for EMO will be the awarding of the world-class, past-producing Aznalcollar mine that is the subject of an ongoing criminal legal dispute. As a past-producing mine, Aznalcollar is significantly de-risked and can be swiftly advanced to production in the next five years in a high-grade (~12.6% ZnEq) underground mining scenario. We expect the two assets to produce at a combined rate of 550 – 600MM lbs ZnEq/year at the lowest quartile costs, generating +US\$300 MM/year in FCF.

Under our estimates (Clarus 'Base Case'), EMO is trading at C\$0.02/lb ZnEq and 0.17x P/NAV, a significant discount to the Select Peer Group average of C\$0.05/lb and 0.51x, respectively. We believe continued drilling success will drive continued re-rating while a favourable resolution on Aznalcollar will drive a step-change in the valuation. We maintain our SPECULATIVE BUY rating and our target price of \$5.00 per share that is based on a 0.6x combined NPV5% for 100% of IBW and 50% of Aznalcollar.

Milestones

1. Aznalcollar resolution – 2022 (Clarus expectation);
2. Drill results from drill program at La Infanta – ongoing;
3. Drilling at Romanera commenced with 4 rigs.

Figure 3: EMO Comps

Zn-Polymetallic Explorers / Developers												
Company	Ticker	Price Per Share (Local)	S/O (MM)	Mkt. Cap. (C\$MM)	EV (C\$MM)	Project Location	Grade ZnEq %	Zn % of ZnEq Resource	Attri. ZnEq MM lbs	EV/lb ZnEq (C\$/lb)	P/NAV	
Adriatic Metals PLC	ADT-ASX	2.42	266	\$585	\$464	Bosnia	13.2%	31%	3,486	\$0.13	0.57x	
Arizona Metals Corp (1)	AMC-TSX.V	5.70	105	\$626	\$570	Arizona, US	14.4%	21%	8,042	\$0.07	0.41x	
Ascendant Resources Inc	ASND-TSX	0.20	112	\$22	\$22	Portugal	5.2%	30%	2,430	\$0.01	0.36x	
Foran Mining Corp	FOM-TSX.V	2.24	211	\$473	\$389	Sask.	7.2%	37%	5,419	\$0.07	0.69x	
Fireweed Zinc Ltd	FWZ-TSX.V	0.60	89	\$53	\$45	Yukon	9.4%	64%	10,450	\$0.004	NA	
Group Eleven Resources Corp	ZNG-TSX.V	0.13	158	\$21	\$20	Ireland	9.7%	84%	1,531	\$0.01	NA	
Kutcho Copper Corp	KC-TSX.V	0.47	116	\$54	\$77	BC	7.4%	29%	5,212	\$0.01	0.20x	
Norzinc Ltd	NZC-TSX	0.04	757	\$27	\$21	NWT	20.8%	50%	7,222	\$0.00	0.13x	
Osisko Metals Inc	OM-TSX.V	0.56	202	\$113	\$107	NWT	6.4%	75%	7,153	\$0.01	NA	
Pan Global Resources Inc	PGZ-TSX.V	0.60	205	\$123	\$107	Spain	NA	NA	NA	NA	NA	
Solitario Zinc Corp	SLR-TSX	0.90	65	\$58	\$50	Peru	11.1%	88%	1,273	\$0.04	NA	
Tinka Resources Ltd	TK-TSX.V	0.18	341	\$60	\$57	Peru	6.4%	92%	8,015	\$0.01	NA	
Wolfsen Resources Corp	WLF-TSX.V	0.25	153	\$37	\$34	Maine, US	19.8%	48%	1,956	\$0.02	NA	
ZincX Resources Corp	ZNX-TSX.V	0.16	178	\$28	\$26	BC	9.6%	83%	6,400	\$0.004	NA	
Group Average				\$163	\$142		10.6%	56%	5,276	\$0.03	0.39x	
* Select Peer Group Average				\$285	\$243		9.7%	55%	6,163	\$0.05	0.51x	
Emerita Resources Corp. (Clarus 'Base Case' Resource)		EMO-TSX.V	1.80	212	\$382	\$337	Spain	12.7%	50%	16,005	\$0.02	0.17x

* Select Peer Group is based on comparable Zn contribution to global resource, favourable location for development and favourable permitting environment

(1) We cover AMC-TSX.V with a SPECULATIVE BUY rating and a target price of \$10.00 per share

Note: EMO market cap and EV based on FD shares & value of ITM options & warrants

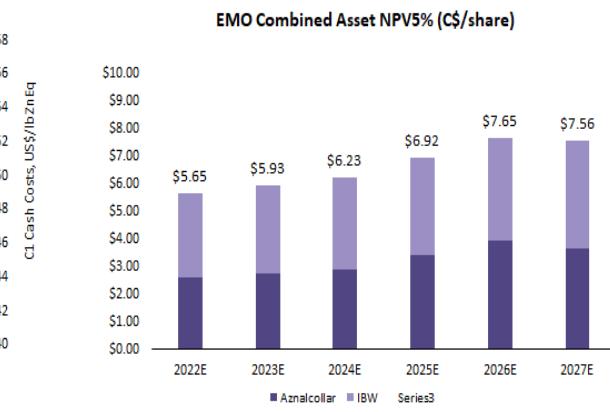
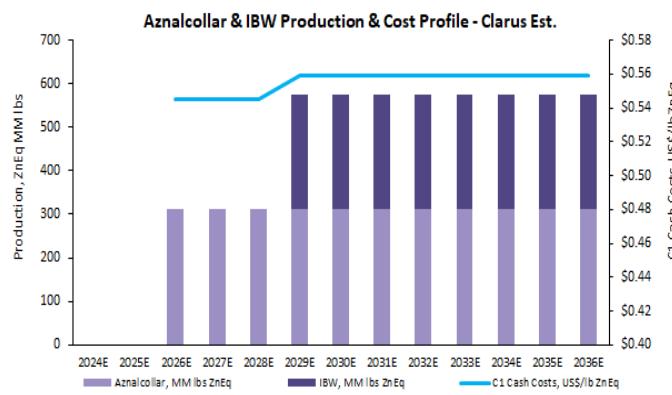
Source: Refinitiv Eikon, Clarus Securities Inc.

Price Target Calculator: Our 12-month target price is based on a 0.6x combined NPV5% of IBW and 50% of Aznalcollar. We also account for in-situ valuation for ~17 Mt at ~16% ZnEq valued at C\$0.07/lb ZnEq at IBW & Aznalcollar (50%) to account for the estimated resource that is not included in our mine model. In addition, we account for corporate adjustments, including our long-term debt assumption and ITM options and warrants.

Key Risks to Target Price: Please refer to the risks disclosed in the initiating report dated July 23, 2021.

Emerita Resources Corporation (EMO-TSX.V), SPECULATIVE BUY, Target: C\$5.00

Rating	SPECULATIVE BUY		Target Price	\$5.00	Basic Shares O/S	181.3					
12-Month Return	176%		Previous Close	\$1.81	Market Cap., C\$ MM	\$328					
<i>CAD MM except per share data, unless otherwise noted</i>				<i>CAD</i>							
CAPITAL STRUCTURE				FINANCIAL SUMMARY							
Strike Price \$/share				Fiscal Year	2025E	2026E	2027E	2028E	2029E		
Basic Shares Outstanding				Copper Price (US\$/lb)	\$3.75	\$3.75	\$3.75	\$3.75	\$3.75		
ITM Warrants Outstanding				Zinc Price (US\$/lb)	\$1.30	\$1.30	\$1.30	\$1.30	\$1.30		
ITM Options Outstanding				Gold Price (US\$/oz)	\$1,725	\$1,725	\$1,725	\$1,725	\$1,725		
Assumed Equity Funding				Silver Price (US\$/oz)	\$23	\$23	\$23	\$23	\$23		
FD Shares				EPS	\$0.00	\$0.54	\$0.55	\$0.58	\$1.09		
NET ASSET VALUE (C\$)				P/EPs	nm	3.4x	3.3x	3.1x	1.7x		
Discount rate				Target/EPs	nm	7.0x	6.9x	6.6x	3.5x		
Asset NAV				CFPS	\$0.00	\$1.04	\$0.94	\$0.86	\$1.86		
Aznalcollar (100.0%, Spain)	5.0%	\$1,372	50.0%	P/CFPS	nm	1.7x	1.9x	2.1x	1.0x		
IBW (100.0%, Spain)	5.0%	\$799	0.0%	Target/CFPS	nm	3.6x	4.0x	5.8x	2.7x		
Asset NAV Sub-Total				Income Statement							
Multiple to Development Assets				Revenue	\$0	\$473	\$473	\$473	\$868		
In-Situ Valuation (<i>Inventory not incl. in mine model</i>)	<i>ZnEq</i>			Operating Expenses	\$0	(\$198)	(\$198)	(\$198)	(\$373)		
Aznalcollar	3,691MM lbs @ C\$0.07/lb	50.0%	\$129	Depreciation	\$0	(\$50)	(\$50)	(\$50)	(\$97)		
IBW	2,383MM lbs @ C\$0.07/lb	0.0%	\$167	General & Adm.	\$0	\$0	\$0	\$0	(\$1)		
In-situ Valuation Sub-total			\$296	Other	\$0	\$0	\$0	\$0	\$0		
Corporate Adjustments				Exploration Exp.	\$0	\$0	\$0	\$0	(\$0)		
Cash				Net Interest Expense	\$0	(\$32)	(\$29)	(\$18)	(\$7)		
Value of ITM Instruments				Taxes Expense	\$0	(\$67)	(\$68)	(\$72)	(\$136)		
Long-term Debt				Other	\$0	\$0	\$0	\$0	\$0		
Estimated Working Capital Additions				Net Income	\$0	\$125	\$127	\$134	\$253		
Corporate Adjustments Sub-total				Cash Flow Statement							
Total Corporate NAV				Operating CF	\$0	\$242	\$217	\$200	\$431		
		C\$/share		Repayments	\$0	\$0	(\$109)	(\$109)	(\$119)		
Target Price		C\$/share		Share Issuance	\$0	\$0	\$0	\$0	\$0		
P/NAV				Financing CF	\$0	\$0	(\$109)	(\$99)	(\$119)		
				Investing CF	(\$200)	(\$24)	(\$174)	(\$174)	(\$42)		
PRODUCTION ESTIMATES, MM lbs ZnEq				Change in Cash	(\$200)	\$219	(\$66)	(\$73)	\$269		
Fiscal Year	2025E	2026E	2027E	2028E	2029E						
Aznalcollar	MM lbs	-	313	313	313	Free Cash Flow (def div and fin.)	(\$200)	\$219	\$44	\$26	\$389
IBW	MM lbs	-	-	-	263	Free Cash Flow Yield	-66%	73%	14%	9%	129%
Zinc Equivalent Production	MM lbs ZnEq	-	313	313	313	Balance Sheet					
COST ESTIMATES (US\$/oz)						Cash & Equivalents	\$9	\$228	\$162	\$89	\$358
Fiscal Year	2025E	2026E	2027E	2028E	2029E	Current Assets	\$9	\$228	\$162	\$89	\$358
Total Cash Costs (C1), net of by-prod.	US\$/lb Zn	-	(\$0.09)	(\$0.09)	(\$0.09)	Current Debt	\$0	\$27	\$109	\$119	\$82
Total Cash Costs (C1), co-prod.	US\$/lb ZnEq	-	\$0.54	\$0.54	\$0.54	Current Liabilities	\$0	\$109	\$109	\$119	\$0
Sustaining Capex	US\$/lb Zn	-	\$0.12	\$0.12	\$0.12	Long-term Debt	\$266	\$268	\$191	\$72	\$0
AISC (net of by-products)	US\$/lb Zn	-	\$0.03	\$0.03	(\$0.01)	Shareholder Equity	\$196	\$445	\$698	\$966	\$1,472
AISC (co-product)	US\$/lb ZnEq	-	\$0.61	\$0.61	\$0.61						
MODELED MINEABLE INVENTORY							Mine				
Zinc Equivalent											
Aznalcollar (100.0%, Spain)						Mt	% ZnEq	MM lbs	Life (yr)		
IBW (100.0%, Spain)						23	11.4%	5,821	15.0		
EMO Companywide						14	12.5%	3,957	12.0		
						38	11.8%	9,778			



Source: Clarus Securities Inc.

Clarus Securities Equity Research Disclosures

Within the last 24 months, Clarus Securities Inc. has managed or co-managed a public offering of securities of this company. Within the last 24 months, Clarus Securities Inc. has received compensation for investment banking services with respect to the securities of this company.

General Disclosure

The information and opinions in this report were prepared by Clarus Securities Inc. ("Clarus Securities"). Clarus Securities is a wholly-owned subsidiary of Clarus Securities Holdings Ltd. and is an affiliate of such. The reader should assume that Clarus Securities or its affiliate may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

The opinions, estimates and projections contained in this report are those of Clarus Securities as of the date of this report and are subject to change without notice. Clarus Securities endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, Clarus Securities makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to Clarus Securities or its affiliate that is not reflected in this report. This report is not to be construed as an offer or solicitation to buy or sell any security. No part of this report may be reproduced or re-distributed without the written consent of Clarus Securities.

Conflicts of Interest

The research analyst and/or associates who prepared this report are compensated based upon (among other factors) the overall profitability of Clarus Securities and its affiliate, which includes the overall profitability of investment banking and related services. In the normal course of its business, Clarus Securities or its affiliate may provide financial advisory and/or investment banking services for the issuers mentioned in this report in return for remuneration and might seek to become engaged for such services from any of such issuers in this report within the next three months. Clarus Securities or its affiliate may buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. Clarus Securities, its affiliate, and/or their respective officers, directors or employees may from time to time acquire, hold or sell securities discussed herein, or in related securities or in options, futures or other derivative instruments based thereon.

Analyst's Certification

Each Clarus Securities research analyst whose name appears on the front page of this research report hereby certifies that (i) the recommendations and opinions expressed in the research report accurately reflect the research analyst's personal views about the Company and securities that are the subject of this report and all other companies and securities mentioned in this report that are covered by such research analyst and (ii) no part of the research analyst's compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed by such research analyst in this report.

Equity Research Ratings

Buy: Attractively valued and expected to appreciate significantly from the current price over the next 12-18 months.

Speculative Buy: Expected to appreciate significantly from the current price over the next 12-18 months. Financial and/or operational risk is high in the analyst's view.

Accumulate: Attractively valued, but given the current market price, is expected to appreciate moderately over the next 12-18 months.

Hold: Fairly valued and expected to trade in line with the current price over the next 12-18 months.

Sell: Overvalued and expected to decline from the current price over the next 12-18 months.

Under review: Pending additional review and/or information. No rating presently assigned.

Tender: Company subject to an acquisition bid: accept offer.

A summary of our research ratings distribution can be found on our website.

Dissemination of Research

Clarus Securities' Equity Research is available via our website and is currently distributed in electronic form to our complete distribution list at the same time. Please contact your Clarus institutional sales or trading representative or investment advisor for more information. Institutional clients may also receive our research via THOMSON and REUTERS.

For additional disclosures, please visit our website <http://www.clarussecurities.com>.

© Clarus Securities Inc. All rights reserved. Reproduction in whole or in part without permission is prohibited.