

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

Source: Company Reports

Figure 2: Aznalcollar Court Proceedings Timeline

Project	Event	Date
Aznalcollar	<b>Public Tender</b>	
	Public tender held on	Jan 2015
	Resolved in favour of Minorbis-Grupo Mexico	Feb 2015
	<b>Emerita appeals the public tender</b>	<b>Mar 2015</b>
	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 defendents 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
	<b>Provincial Court approves Oral Trial (sentencing) for criminal case</b>	<b>Oct 2021</b>
	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
Wolfden 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
<b>* Select Peer Group Average</b>				<b>\$285</b>	<b>\$243</b>		<b>9.7%</b>	<b>55%</b>	<b>6,163</b>	<b>\$0.05</b>	<b>0.51x</b>
<b>Emerita Resources Corp.</b> <i>(Clarus 'Base Case' Resource)</i>	<b>EMO-TSX.V</b>	<b>1.80</b>	<b>212</b>	<b>\$382</b>	<b>\$337</b>	<b>Spain</b>	<b>12.7%</b>	<b>50%</b>	<b>16,005</b>	<b>\$0.02</b>	<b>0.17x</b>

\* 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
				EV, C\$ MM	\$301

CAD MM except per share data, unless otherwise noted

CAPITAL STRUCTURE	Strike Price \$/share	Shares (MM)
<b>Basic Shares Outstanding</b>		<b>181</b>
ITM Warrants Outstanding	\$0.71	22
ITM Options Outstanding	\$0.18	8
Assumed Equity Funding		51
<b>FD Shares</b>		<b>263</b>

### NET ASSET VALUE (C\$)

	Discount rate	C\$ MM	Ownership Risk	C\$ MM	C\$/share
<b>Asset NAV</b>					
Aznalcollar (100.0%), Spain	5.0%	\$1,372	50.0%	\$686	\$2.61
IBW (100.0%), Spain	5.0%	\$799	0.0%	\$799	\$3.04
<b>Asset NAV Sub-Total</b>				<b>\$1,485</b>	<b>\$5.65</b>
Multiple to Development Assets			0.60x	\$891	\$3.39

### In-Situ Valuation (Inventory not incl. in mine model)

	ZnEq	Ownership Risk	C\$ MM	C\$/share
Aznalcollar	3,691MM lbs @ C\$0.07 /lb	50.0%	\$129	\$0.49
IBW	2,383MM lbs @ C\$0.07 /lb	0.0%	\$167	\$0.63
<b>In-situ Valuation Sub-total</b>			<b>\$296</b>	<b>\$1.13</b>

### Corporate Adjustments

Cash	\$27	\$0.10
Value of ITM Instruments	\$17	\$0.07
Long-term Debt	-\$240	-\$0.91
Estimated Working Capital Additions	\$400	\$1.52
<b>Corporate Adjustments Sub-total</b>	<b>\$204</b>	<b>\$0.78</b>
<b>Total Corporate NAV</b>	<b>C\$/share</b>	<b>\$1,391</b>

<b>Target Price</b>	<b>C\$/share</b>	<b>\$5.00</b>
PINAV		0.17x

### PRODUCTION ESTIMATES, MM lbs ZnEq

Fiscal Year	2025E	2026E	2027E	2028E	2029E
Aznalcollar	-	313	313	313	313
IBW	-	-	-	-	263
<b>Zinc Equivalent Production</b>	<b>-</b>	<b>313</b>	<b>313</b>	<b>313</b>	<b>576</b>

### COST ESTIMATES (US\$/oz)

Fiscal Year	2025E	2026E	2027E	2028E	2029E
Total Cash Costs (C1), net of by-prod.	-	(\$0.09)	(\$0.09)	(\$0.09)	(\$0.13)
<b>Total Cash Costs (C1), co-prod.</b>	<b>-</b>	<b>\$0.54</b>	<b>\$0.54</b>	<b>\$0.54</b>	<b>\$0.56</b>
Sustaining Capex	-	\$0.12	\$0.12	\$0.12	\$0.12
AISC (net of by-products)	-	\$0.03	\$0.03	\$0.03	(\$0.01)
<b>AISC (co-product)</b>	<b>-</b>	<b>\$0.61</b>	<b>\$0.61</b>	<b>\$0.61</b>	<b>\$0.62</b>

### FINANCIAL SUMMARY

Fiscal Year	2025E	2026E	2027E	2028E	2029E
Copper Price (US\$/lb)	\$3.75	\$3.75	\$3.75	\$3.75	\$3.75
Zinc Price (US\$/lb)	\$1.30	\$1.30	\$1.30	\$1.30	\$1.30
Gold Price (US\$/oz)	\$1,725	\$1,725	\$1,725	\$1,725	\$1,725
Silver Price (US\$/oz)	\$23	\$23	\$23	\$23	\$23

EPS	\$0.00	\$0.54	\$0.55	\$0.58	\$1.09
P/EPS	nm	3.4x	3.3x	3.1x	1.7x
Target/EPs	nm	7.0x	6.9x	6.6x	3.5x

CFPS	\$0.00	\$1.04	\$0.94	\$0.86	\$1.86
P/CFPS	nm	1.7x	1.9x	2.1x	1.0x
Target/CFPS	nm	3.6x	4.0x	5.8x	2.7x

### Income Statement

	MM
Revenue	\$0
Operating Expenses	(\$0)
Depreciation	(\$50)
General & Adm.	\$0
Other	\$0
Exploration Exp.	\$0
Net Interest Expense	(\$32)

Taxes Expense	\$0
Other	\$0
Net Income	\$0

### Cash Flow Statement

	MM
Operating CF	\$0
Repayments	\$0
Share Issuance	\$0
Financing CF	\$0
Investing CF	(\$200)
Change in Cash	(\$200)
Free Cash Flow (bef div and fin.)	(\$200)
Free Cash Flow Yield	-66%

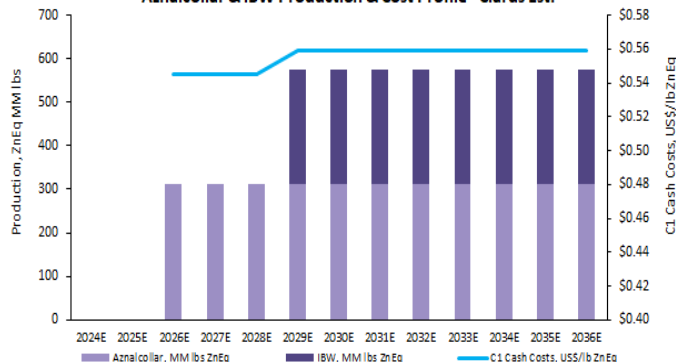
### Balance Sheet

	MM
Cash & Equivalents	\$9
Current Assets	\$9
Current Debt	\$0
Current Liabilities	\$0
Long-term Debt	\$266
Shareholder Equity	\$196

### MODELLED MINEABLE INVENTORY

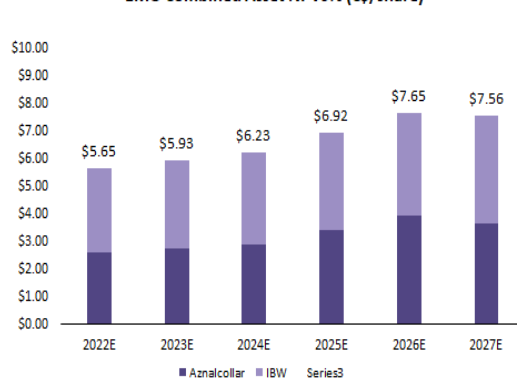
Zinc Equivalent	Mt	% ZnEq	MM lbs	Mine Life (yr)
Aznalcollar (100.0%), Spain	23	11.4%	5,821	15.0
IBW (100.0%), Spain	14	12.5%	3,957	12.0
<b>EMO Companywide</b>	<b>38</b>	<b>11.8%</b>	<b>9,778</b>	

Aznalcollar & IBW Production & Cost Profile - Clarus Est.



Source: Clarus Securities Inc.

EMO Combined Asset NPV5% (C\$/share)



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**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.

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