

Emerita Resources Corp.

EMO-TSX.V: \$1.14 (mid-market)

Rating: Speculative Buy

Target: \$5.00

Emerita Resource Corp. (EMO-TSX.V)

Stock Data

Previous Close (C\$)	\$1.14
52-Week High-Low	\$4.14 / \$0.84
Avg. Daily Volume (3M)	333,199
Basic SO (MM)	181
Fully Diluted SO (MM)	16.6 MM / 8.4 MM
Market Cap. (C\$ MM)	\$207
Cash (C\$ MM)	\$20
ITM Options & Warrants (C\$ MM)	\$5
Debt (C\$ MM)	\$0
Enterprise Value (C\$ MM)	\$187

Company Information

Projects	IBW (100%) / Aznalcollar (ongoing legal dispute)
Project Location	Iberian Pyrite Belt, Spain

Clarus Estimates

Implied return to target price	339%
Clarus Est. Resources (MM lbs ZnEq)	16,050
EV/lb Valuation (C\$/lb ZnEq)	\$0.01
Combined LOM Production (MM lbs ZnEq/year)	576
LOM Cash Costs (co-product), US\$/lb ZnEq	\$0.56
P/NAV	0.10x

Management

CEO	David Gower
President	Joaquin Merino-Marquez

Shareholders (source: Refinitiv Eikon)

Eric Sprott	11.2%
Merk Investments	1.4%
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.

More Positive Results from Romanera with First Step-Out Confirming Expansion; La Infanta Drilling Expands Footprint

August 4, 2022

Infill drilling at Romanera continues to return strongly economic results (up to US\$477/t in-situ value incl. in LRO05) with wide and high grade intercepts. Importantly, the drilling to date is pointing to a wtd. avg. gold grade of ~3 g/t Au or 3x historic resource grade for gold and ~80% higher than historic grade for silver. **While early, we highlight that if the gold grade were to double and the silver grade were to increase by 25% in the historic resource, this would conceptually add +US\$70/t to the NSR and conceptually increase our estimated NPV5% for IBW by +27% or towards +C\$1.0 Bn.** We acknowledge that this outcome is contingent on infill drilling continuing to demonstrate consistent upside to the precious metals grade.

In addition, maiden step-out drilling, 100 m east of the historic drilling has successfully demonstrated continuation of the mineralization at Romanera. While the widths and grade in this step out were not particularly outstanding (6.4% ZnEq over 7 m), we are encouraged to see continuation of mineralization outside the historic drilling footprint. We think it's possible that the mineralization pinches and swells and continued drilling outside the historic footprint could return wider and higher grade intercepts. We further note that the EM conductors associated with the Romanera mineralization extend over 1 km vs the historic drill tested strike length of ~450 m. **While early, we see potential to double the Romanera historic resource towards ~22 Mt in the near-term contingent on future step-out drilling success.** As a reminder, our valuation for IBW is based on only a ~18 Mt at ~12% ZnEq resource at Romanera.

EMO also announced drill results from 16 additional holes at La Infanta. Drilling to date has doubled the historic strike length to 1200 m (vs 600 m historic) and significantly expanded the vertical extent with deepest tested at 400 m (vs 120 m historic). **Conceptually, this suggests a resource envelope of ~6Mt at a weighted average grade of 18.3% ZnEq, which is significantly larger than the historic resource of 0.8 Mt at a higher grade of 26.5% ZnEq for Infanta.** We believe there are portions of higher grade within the expanded footprint that could still expand the historic resource while maintaining the higher grade. As a reminder, our valuation is based only on a 2.4Mt at 26.5% ZnEq resource at Infanta, highlighting potential for upside to our valuation.

Overall, we are encouraged by the drill results that continue to expand both Romanera and La Infanta which may support significantly expanding the resource at IBW towards +30 Mt with continued expansion drilling success vs our currently modelled ~21 Mt.

Summary

Romanera

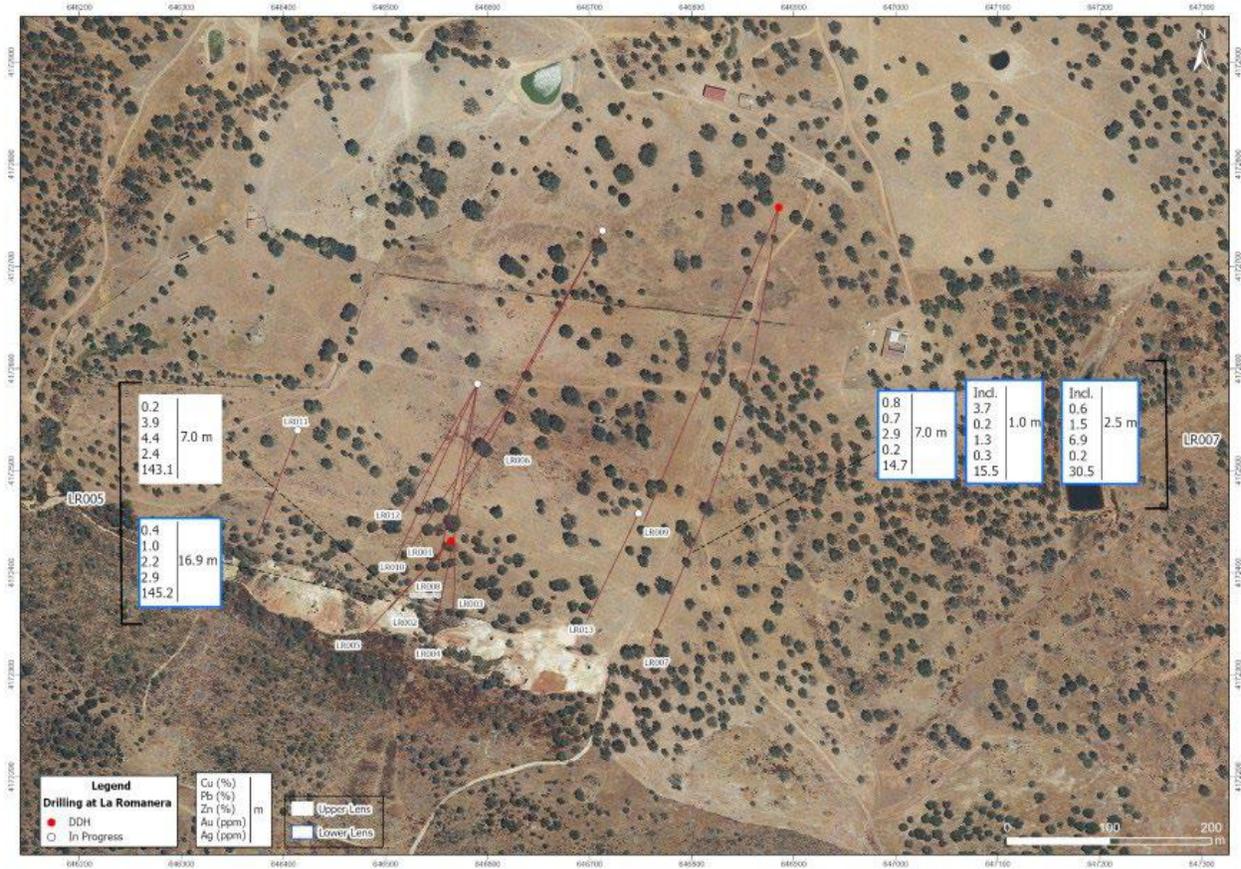
- Results from 2 additional holes that included the first step out 100 m to the east along strike.
- **Infill drilling:**
 - Hole #5 was drilled half way between #2 (25.4% ZnEq over 14.3 m) and #3 (15% ZnEq over 39.9 m) and intersected both the upper and lower lenses returning wide and high grade intercepts:
 - Upper lens: **16.4% ZnEq or 8.47 g/t AuEq over 7 m (with 2.44 g/t Au & 143.1 g/t Ag)** from 117 m down hole.
 - Lower lens: **13.5% ZnEq or 6.97 g/t AuEq over 16.9 m (with 2.9 g/t Au & 145.2 g/t Ag)** – this was intercepted 43.8 m below the Upper lens from 168.5 m down hole. This **incl. 16.6% ZnEq or 8.6 g/t AuEq over 4 m**
- **Confirms historic results with higher Au, Ag:**
 - The results show positive correlation with historical drilling with respect to intercept location and width, however with gold and silver grades higher than previously indicated.
 - For comparison, the historic resource of 34 Mt at Romanera had a gold grade of 0.8 g/t Au and the high grade subset containing 11 Mt had a gold grade of 1 g/t Au.
 - **The drilling to date is pointing to a wtd. avg. gold grade of ~3 g/t Au or 3x historic resource grade for gold!**
 - If, conceptually, the gold grade increases to 2 – 3 g/t, the ZnEq resource would increase by 17% - 33% at the same tonnage, implying a grade of ~14% - 16% ZnEq (vs ~12% ZnEq historic).
 - **We further note that our est. wtd. avg. grade for the infill drilling is averaging 17% ZnEq over an average width of ~18 m. As compared to the historic grade of 11.9% ZnEq, this is +40% better, so far.**
- **Maiden step out hole:**
 - Hole #7 was drilled 100 m east of the historic drilling and intercepted massive sulphide mineralization in the Lower lens 400 m vertically below surface.
 - Significant intercept: 6.4% ZnEq (with 3.7% Cu) over 7 m from 547 m down hole, incl. 13.1% ZnEq over 1 m.
 - While the widths and grade in this step out were not particularly outstanding, we are encouraged to see continuation of mineralization outside the historic drilling footprint. We think its possible that the mineralization pinches and swells and so its possible we will see wider and higher grade intercepts with continued drilling outside the historic footprint.

- *We also note that the deposit remains open both along strike and at depth – pointing to potential for more than doubling the historic high grade resource in the near-term.*

La Infanta update

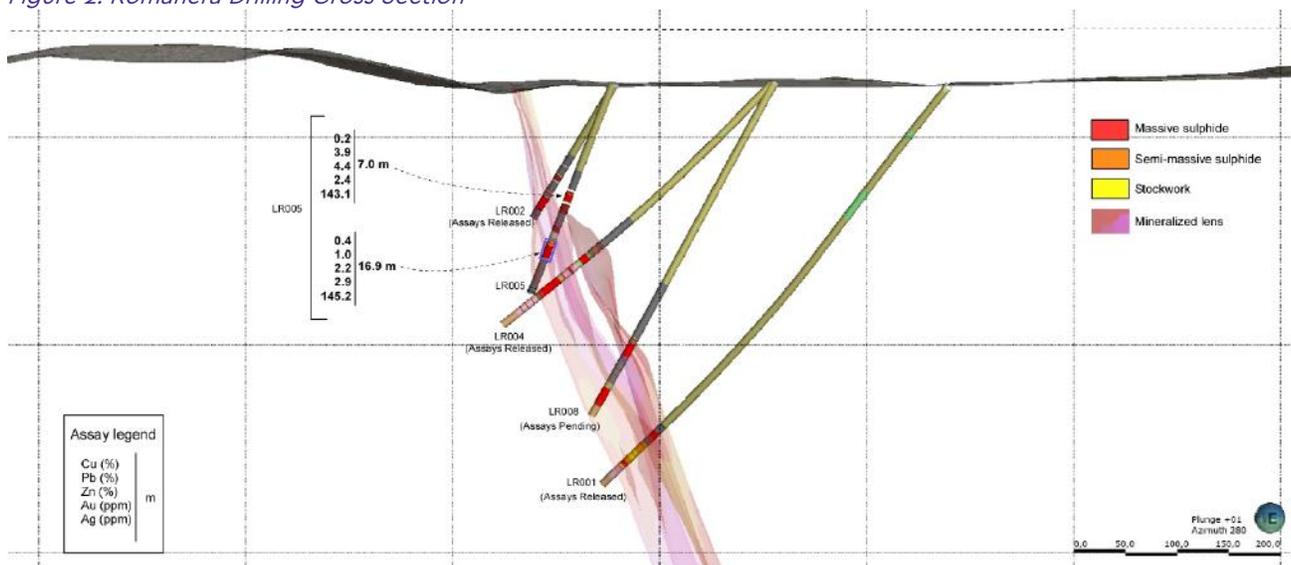
- EMO announced results from an additional 16 holes from La Infanta.
- The drilling to date has almost doubled the historic strike length to 1200 m (vs 600 m historic) and significantly expanded the vertical extent with deepest tested at 400 m (vs 120 m historic).
- Significant intercepts:
 - Hole #54: **36.5% ZnEq over 3.2 m, incl. ~75% ZnEq over 1.3 m.** This hole was located close to the eastern end of the drilling at Infanta and intercepted mineralization 170 m below surface in the North Block.
 - #39: **15.2% ZnEq over 3.5 m, incl. 43.5% ZnEq over 1.2 m.** This hole intercepted mineralization 350m below surface, in the center part of the deposit, in the North Block and is the deepest intercept in this area. This indicates the deposit continues at depth in this area.
 - #45: **36% ZnEq over 0.9 m within a broader intercept of 7.9% ZnEq over 9.1 m.** This is the westernmost hole and hit mineralization 220 m below surface. Indicates the deposit continues westward.
- Overall, based on the drilling to date we estimate a wtd avg grade of 18.3% ZnEq over ~3.5 m average intercept width.
- Significant size and high grade potential:
 - *While needs more drilling to infill large gaps, the drill tested dimensions to date point to a potential 6 Mt resource at La Infanta at ~18% ZnEq.*
 - This is significantly larger than the 0.8Mt for the historic resource although at a higher grade of 26.5% ZnEq.
 - We believe there are portions of higher grade within the expanded footprint that could still expand the historic resource while maintaining the higher grade.
 - *As a reminder, we are modelling 2.4Mt at 26.5% ZnEq at Infanta for our valuation.*

Figure 1: Plan Map – Location of First Six Holes at Romanera



Source: Company Reports

Figure 2: Romanera Drilling Cross Section



Source: Company Reports

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	2.16	266	\$513	\$392	Bosnia	13.2%	31%	3,486	\$0.11	0.45x
Arizona Metals Corp (1)	AMC-TSX.V	4.21	105	\$626	\$570	Arizona, US	14.4%	21%	8,042	\$0.07	0.30x
Ascendant Resources Inc	ASND-TSX	0.19	129	\$25	\$25	Portugal	5.2%	30%	2,430	\$0.01	0.54x
Foran Mining Corp	FOM-TSX.V	2.29	212	\$485	\$421	Sask.	7.2%	37%	5,419	\$0.08	0.71x
Fireweed Metals Corp	FWZ-TSX.V	0.57	92	\$52	\$45	Yukon	9.4%	64%	10,450	\$0.004	NA
Group Eleven Resources Corp	ZNG-TSX.V	0.09	158	\$14	\$11	Ireland	9.7%	84%	1,531	\$0.01	NA
Kutcho Copper Corp	KC-TSX.V	0.34	125	\$42	\$65	BC	7.4%	29%	5,212	\$0.01	0.14x
Norzinc Ltd	NZC-TSX	0.03	757	\$21	\$18	NWT	20.8%	50%	7,222	\$0.00	0.13x
Osisko Metals Inc	OM-TSX.V	0.32	202	\$65	\$58	NWT	6.4%	75%	7,153	\$0.01	NA
Pan Global Resources	PGZ-TSX.V	0.42	209	\$88	\$74	Spain	NA	NA	NA	NA	NA
Solitario Zinc Corp	SLR-TSX	0.70	65	\$45	\$35	Peru	11.1%	88%	1,273	\$0.03	NA
Tinka Resources Ltd	TK-TSX.V	0.15	391	\$57	\$55	Peru	6.4%	92%	8,015	\$0.01	NA
Wolfden Resources Corp	WLF-TSX.V	0.18	154	\$28	\$24	Maine, US	19.8%	48%	1,956	\$0.01	NA
ZincX Resources Corp	ZNX-TSX.V	0.11	178	\$19	\$18	BC	9.6%	83%	6,400	\$0.003	NA
Group Average				\$148	\$129		10.6%	56%	5,276	\$0.03	0.38x
* Select Peer Group Average				\$265	\$226		9.7%	55%	6,163	\$0.05	0.50x
Emerita Resources Corp. (Historic Resource)	EMO-TSX.V	1.14	204	\$232	\$202	Spain	12.7%	50%	8,961	\$0.02	0.30x
Emerita Resources Corp. (Clarus 'Base Case' Resource)	EMO-TSX.V	1.14	204	\$232	\$202	Spain	12.7%	50%	16,050	\$0.01	0.10x

* 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 sFD 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	339%	Previous Close	\$1.14	Market Cap., C\$ MM	\$207
				EV, C\$ MM	\$182

CAD MM except per share data, unless otherwise noted

CAPITAL STRUCTURE	Strike Price \$/share	Shares (MM)
Basic Shares Outstanding		181
ITM Warrants Outstanding	\$0.23	14
ITM Options Outstanding	\$0.18	8
Assumed Equity Funding		51
FD Shares		254

NET ASSET VALUE (C\$)

	Discount rate	C\$ MM	Ownership Risk	C\$ MM	C\$/share
Asset NAV					
Aznalcollar (100.0%), Spain	5.0%	\$1,372	50.0%	\$686	\$2.70
IBW (100.0%), Spain	5.0%	\$799	0.0%	\$799	\$3.14
Asset NAV Sub-Total				\$1,485	\$5.84
Multiple to Development Assets			0.60x	\$891	\$3.50

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	\$0.51
IBW	2,400MM lbs @ C\$0.07 /lb	0.0%	\$168	\$0.66
In-situ Valuation Sub-total			\$297	\$1.17

Corporate Adjustments

Cash	\$25	\$0.10
Value of ITM Instruments	\$5	\$0.02
Long-term Debt	-\$240	-\$0.94
Estimated Working Capital Additions	\$400	\$1.57
Corporate Adjustments Sub-total	\$190	\$0.75
Total Corporate NAV	C\$/share	\$1,378

Target Price	C\$/share	\$5.00
PINAV		0.10x

PRODUCTION ESTIMATES, MM lbs ZnEq

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

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)
Total Cash Costs (C1), co-prod.	-	\$0.54	\$0.54	\$0.54	\$0.56
Sustaining Capex	-	\$0.12	\$0.12	\$0.12	\$0.12
AISC (net of by-products)	-	\$0.03	\$0.03	\$0.03	(\$0.01)
AISC (co-product)	-	\$0.61	\$0.61	\$0.61	\$0.62

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	2.1x	2.1x	2.0x	1.0x
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	1.1x	1.2x	1.3x	0.6x
Target/CFPS	nm	3.6x	4.0x	5.8x	2.7x

Income Statement

	MM				
Revenue	\$0	\$473	\$473	\$473	\$868
Operating Expenses	\$0	(\$198)	(\$198)	(\$198)	(\$373)
Depreciation	\$0	(\$50)	(\$50)	(\$50)	(\$97)
General & Adm.	\$0	\$0	\$0	\$0	(\$1)
Other	\$0	\$0	\$0	\$0	\$0
Exploration Exp.	\$0	\$0	\$0	\$0	(\$0)
Net Interest Expense	\$0	(\$32)	(\$29)	(\$18)	(\$7)

Taxes Expense	\$0	(\$67)	(\$68)	(\$72)	(\$136)
Other	\$0	\$0	\$0	\$0	\$0
Net Income	\$0	\$125	\$127	\$134	\$253

Cash Flow Statement

	MM				
Operating CF	\$0	\$242	\$217	\$200	\$431
Repayments	\$0	\$0	(\$109)	(\$109)	(\$119)
Share Issuance	\$0	\$0	\$0	\$0	\$0
Financing CF	\$0	\$0	(\$109)	(\$99)	(\$119)
Investing CF	(\$200)	(\$24)	(\$174)	(\$174)	(\$42)
Change in Cash	(\$200)	\$219	(\$66)	(\$73)	\$269
Free Cash Flow (bef div and fin.)	(\$200)	\$219	\$44	\$26	\$389
Free Cash Flow Yield	-110%	120%	24%	15%	214%

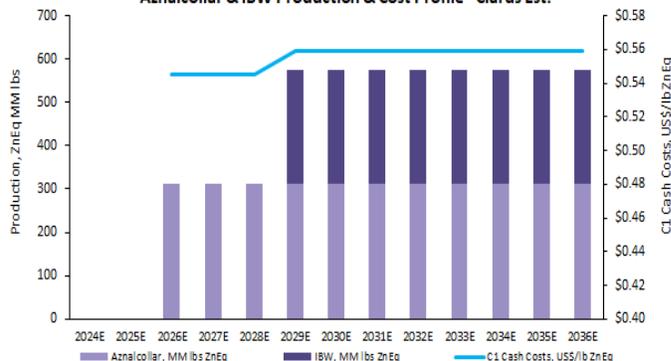
Balance Sheet

	MM				
Cash & Equivalents	\$9	\$228	\$162	\$89	\$358
Current Assets	\$9	\$228	\$162	\$89	\$358
Current Debt	\$0	\$27	\$109	\$119	\$82
Current Liabilities	\$0	\$109	\$109	\$119	\$0
Long-term Debt	\$266	\$268	\$191	\$72	\$0
Shareholder Equity	\$196	\$445	\$698	\$966	\$1,472

MODELLED MINEABLE INVENTORY

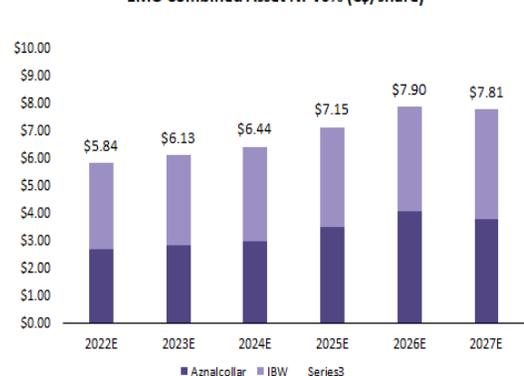
Zinc Equivalent	Mt	% ZnEq	MM lbs	Mine Life (yr)
Aznalcollar (100.0%), Spain	23	11.4%	5,821	15.0
IBW (100.0%), Spain	14	12.5%	3,957	12.0
EMO Companywide	38	11.8%	9,778	

Aznalcollar & IBW Production & Cost Profile - Clarus Est.



Source: Clarus Securities Inc.

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



Clarus Securities Equity Research Disclosures

The analyst has visited the Company's operations in Spain in November 2021. Partial payment or reimbursement was received from the issuer for the associated travel costs.

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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.

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