

November 28, 2022

Delay in Criminal Trial Creates Uncertainty

Uncertainty Weighing Heavily on EMO's Share Price

On November 25, 2022, Emerita Resources Corp. (EMO) announced that the Third Section of the Provincial Court of Seville (the Court) has set the dates for the criminal trial regarding alleged crimes committed during the Aznalcóllar tender process. The oral hearing portion of the trial is scheduled to commence in March 2025 and end in July 2025 – this is much further into the future than we had expected. We have also marked-to-market the comparable companies EV/lb we use to value in-situ resource for EMO: we are now using US\$0.015/lb compared to \$0.035/lb, previously.

Lowering Target to \$1.20/sh (from \$3.75), Maintaining SPECULATIVE BUY rating

Previously, we had valued Aznalcóllar using an EV/lb in the ground method with a 20% risk discount applied to reflect the risk of the legal proceedings (both timing and outcome). However, given that we now have some certainty regarding the timing of the criminal trial (not the outcome), we have decided to take a very different approach to the valuation of Aznalcóllar. Our revised approach envisages three scenarios based on the timing of the criminal case the timing of the subsequent administrative court decision – each case is equally weighted. Our fourth, equally weighted, option assumes that the outcome is not in favour of EMO (how it may result in this we are unsure, but we believe it is prudent to consider this outcome) – see Figure 1. As a result of all of the changes noted above (and some other changes including lowering our gold price assumption to US\$1,750/oz from US\$1,850/oz, previously, and our silver price assumption to US\$22.00/oz from US\$25.50/oz, previously.) **we are reducing our target price to \$1.20/sh (down from \$3.75/sh, previously) and maintaining our SPECULATIVE BUY rating.**

Looking forward, we believe the exploration program at Romanera will likely continue to show success, drilling both within and outside of the historic resource envelope. We believe that Romanera is currently the centrepiece of EMO and offers significant upside potential for investors. Infanta has become a second-tier exploration asset within EMO, but we continue to believe that it has value to the company given the past successful exploration and potential to increase the resource in the future. As noted above, we have revalued Aznalcóllar more as an option value than an exploration asset as we cannot be sure of the timing or outcome of the legal processes. Until there is more clarity regarding this, we will continue to use this methodology.

To establish an “option value” for Aznalcóllar, we have assumed that the criminal trial will conclude in three years and that the administrative court will take between 6 and 18 months to make a decision regarding the tender. Using a 25% per annum discount rate and our assumed value of \$208 million (10.6 billion pounds of zinc equivalent using an EV/lb of US\$0.015 and a CAD:USD of C\$1.31) we have established three scenarios and included a fourth where EMO receives zero value. Weighting these equally, we have ascribed a value of \$64.3 million for the estimation of our target price (see Figure 1).

Share Price Correction Overdone

If one excludes Aznalcóllar altogether, our target price would be \$0.90/sh which would still represent a return of more than 50%. We think it is unfortunate that the “noise” of the criminal trial/tender process has had such a negative impact on EMO's share price and we believe that there remains significant fundamental value driven by the exploration assets in the Iberia Belt West project.

KEY INFORMATION

Price	C\$0.59
Price Target	C\$1.20
Rating	SPECULATIVE BUY
Market Cap (\$M)	C\$120.60

MARKET DATA

EMO-TSXV	C\$0.59
Average Daily Volume	0.44
Book Value	
52 Week Range	C\$3.84 - C\$0.62
Enterprise Value (\$M)	C\$97.0
Cash (\$M)	C\$23.63
Shares Out. (MM)	204.0
Debt (\$M)	C\$0.00
Cash balance as of June 30, 2022	

ANALYST INFORMATION

Adam Schatzker
(416) 860-7681
aschatzker@researchcapital.com

Figure 1 - Revaluing Aznalcóllar as an Option

	Criminal Trial Conclusion	Administrative Court Conclusion	DCF Value (C\$ M)	Probability
Scenario 1	3.0 years	0.5 years	\$95.4	25%
Scenario 2	3.0 years	1.0 years	\$85.4	25%
Scenario 3	3.0 years	1.5 years	\$76.3	25%
Scenario 4		N/A	\$0.0	25%
Weighted Option Value			\$64.3	

Source: Company filings, RCC

Company Description:

Emerita is a Canadian company focused on polymetallic exploration in the Iberian Pyrite Belt in Spain. The company has three projects, Infanta, El Cura and Romanera, and hopes to acquire the Aznalcóllar project through tender process that has proven to be very long and complex.

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 2022 and 2023 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.

Important Disclosures

Analyst Certification

I, Adam Schatzker, certify the views expressed in this report were formed by my review of relevant company data and industry investigation, and accurately reflect my opinion about the investment merits of the securities mentioned in the report. I also certify that my compensation is not related to specific recommendations or views expressed in this report. Research Capital Corporation publishes research and investment recommendations for the use of its clients. Information regarding our categories of recommendations, quarterly summaries of the percentage of our recommendations which fall into each category and our policies regarding the release of our research reports is available at www.researchcapital.com or may be requested by contacting the analyst. Each analyst of Research Capital Corporation whose name appears in this report hereby certifies that (i) the recommendations and opinions expressed in this research report accurately reflect the analyst's personal views and (ii) no part of the research analyst's compensation was or will be directly or indirectly related to the specific conclusions or recommendations expressed in this research report.

Adam Schatzker has visited Emerita Resources Corp. in the past 18 months.

General Disclosures

The opinions, estimates and projections contained in all Research Reports published by Research Capital Corporation ("RCC") are those of RCC as of the date of publication and are subject to change without notice. RCC makes every effort to ensure that the contents have been compiled or derived from sources believed to be reliable and that contain information and opinions that are accurate and complete; RCC makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions which may be contained therein and accepts no liability whatsoever for any loss arising from any use of or reliance on its Research Reports or its contents. Information may be available to RCC that is not contained therein. Research Reports disseminated by RCC are not a solicitation to buy or sell. All securities not available in all jurisdictions.



Distribution Policy

Through www.researchcapital.com, our institutional and corporate clients can access our research as soon as it becomes available, 24-7. New reports are continually uploaded to the site as they become available throughout the day. Clients may also receive our research via Reuters, Bloomberg, FactSet, and Capital IQ. All of our research is made widely available at the same time to all Research Capital client groups entitled to our research. In addition, research reports are sent directly to our clients based on their delivery preference (mail, fax, e-mail).

Fair Dissemination of Research Reports and Ratings

To the extent reasonably practicable, Research Reports will be disseminated contemporaneously to all of Research Capital Corporation ("RCC") customers who are entitled to receive the firm's research. Until such time, Research Analysts will not discuss the contents of their reports with Sales and Trading or Investment Banking employees. RCC equity research is posted to our proprietary website to ensure eligible clients receive coverage initiations and changes in rating, targets and opinions in a timely manner. Additional distribution may be done by the sales personnel via email, fax or regular mail. Please contact your investment advisor for more information regarding RCC research.

Percentage Distribution of Research Ratings

As required by the Investment Industry Regulatory Organization of Canada, Research Capital provides a summary of the percentage of its recommendations that fall into each category of our ratings. Please click this link [Our Research - Research Capital Corporation](#) to see our distribution of ratings.

Potential Conflicts of Interest

All Research Capital Corporation ("RCC") Analysts are compensated based in part on the overall revenues of RCC, a portion of which are generated by investment banking activities. RCC may have had, or seek to have, an investment banking relationship with companies mentioned in this report. RCC and/or its officers, directors and employees may from time to time acquire, hold or sell securities mentioned in our Research Reports as principal or agent. RCC makes every effort possible to avoid conflicts of interest, however readers should assume that a conflict might exist, and therefore not rely solely on this report when evaluating whether or not to buy or sell the securities of subject companies.

RCC USA

Information about Research Capital Corporation's Rating System, the distribution of our research to clients and the percentage of recommendations which are in each of our rating categories is available on our website at www.researchcapital.ca.

The information contained in this report has been drawn from sources believed to be reliable but its accuracy or completeness is not guaranteed, nor in providing it does Research Capital Corporation assume any responsibility or liability. Research Capital Corporation, its directors, officers and other employees may, from time to time, have positions in the securities mentioned herein. Contents of this report cannot be reproduced in whole or in part without the express permission of Research Capital Corporation. US Institutional Clients – Research Capital USA Inc., a wholly owned subsidiary of Research Capital Corporation, accepts responsibility for the contents of this report subject to the terms and limitations set out above. US firms or institutions receiving this report should effect transactions in securities

discussed in the report through Research Capital USA Inc., a Broker - Dealer registered with the Financial Industry Regulatory Authority (FINRA).

Member - Canadian Investor Protection Fund / membre - fonds canadien de protection des épargnants