

Emerita Resources Corp.

EMO-TSX.V: \$3.21

Rating: Speculative Buy

Target: \$5.00 (was \$4.50)

Emerita Resource Corp. (EMO-TSX.V)

Stock Data	
Previous Close (C\$)	\$3.21
52-Week High-Low	\$4.14 / \$0.145
Avg. Daily Volume (3M)	1,362,196
Basic SO (MM)	178
Fully Diluted SO (MM)	232
Market Cap. (C\$ MM)	\$571
Cash (C\$ MM)	\$27
ITM Options & Warrants (C\$ MM)	\$34
Debt (C\$ MM)	\$0
Enterprise Value (C\$ MM)	\$544

Company Information

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

Clarus Estimates

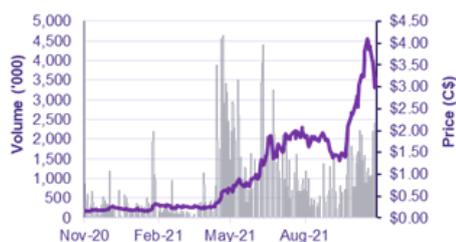
Implied return to target price	56%
Clarus Est. Resources (MM lbs ZnEq)	16,005
EV/lb Valuation (C\$/lb ZnEq)	\$0.04
Combined LOM Production (MM lbs ZnEq/year)	576
LOM Cash Costs (co-product), US\$/lb ZnEq	\$0.56
P/NAV	0.32x

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.

Encouraging Step-out Drilling at Infanta; Accelerating Exploration Program at IBW

November 16, 2021

Emerita is in the process of contracting 3 additional DD rigs that are expected to be mobilized at the IBW project in the next two weeks. This will bring the total rig count to 5 (currently 2), significantly accelerating the planned drill program.

Initially the rigs will be deployed at Infanta. Once the IBW permits are granted (expect in the coming weeks), two rigs will be moved to commence the drill program at Romanera (34 Mt at ~7% ZnEq historic resource). As a reminder, some of the deeper intercepts (~300 – 350 m depth) from historic drilling at Romanera included **20 m at 13.4% ZnEq; 24 m at 10.5% ZnEq**. We expect similarly exciting, wide & high grade intercepts from EMO's drill program at Romanera over the coming months.

Management also announced additional depth extension step out drilling results from 3 holes (#17, 21 & 23) at Infanta that are demonstrating strong depth potential:

- Significant intercepts included:
 - *Hole #17: 11.3 m at 10.2% ZnEq, incl. 2.1 m at 30.2% ZnEq from ~100 m depth – North Block;*
 - *Hole #23: 5.1 m at 20.7% ZnEq from ~75 m depth – North Block;*
 - *Hole #21: 5.5 m at 12.4% ZnEq from ~150 m depth – South Block.*
- As we discussed in our last note, the mineralization is vertically faulted. This has resulted in two zones – South Block (starts at surface and down to ~150 m depth) and North Block that starts at 50 – 100 m from surface and likely continues much deeper (>400 m depth based on TEM survey).
- Importantly, the historic resource was hosted completely in the South Block and only tested to ~120 m depth while the previous operators (incl. Phelps Dodge) never tested the North Block mineralization due to the limits of the historic exploration license.
- The three step-out holes are indicating continuity of mineralization at depth (~70 – 100 m deep) over a 300 m strike length.
- Both the South Block & North Block continue along strike to the west and east. One of the strongest TEM conductors extend at least 300 m west of the historic resource boundary while mineralization also continues 400 m east where a small historical mining excavation is located.
- Deeper intercepts from the South Block are relatively lower grade as drilling gets closer to the fault. Management believes this is likely due to the structural compressional effects of the fault that have resulted in less massive-sulphide and more stringer & semi-massive mineralization around the fault.

- The depth extent and lateral continuity of the North Block mineralization is currently being tested by holes #24 (at depth), #25 & #27 to the east. The western strike and depth extension will be tested post the hunting season ending November 15.

Geophysical survey (TEM) is also expected to re-commence after November 15.

CONCLUSION: We are encouraged by the initial results from deeper drilling at Infanta that are demonstrating depth potential while also helping improve management's understanding of the structural controls for better drill targeting. The historic resource was completely hosted in the South Block mineralization while the North Block remained largely untested. Emerita's drill program is demonstrating good grades and widths from the North Block. We believe the North Block mineralization will likely expand both along strike (currently ~300 m) as well as to depth, well beyond the ~100 m tested to date, as suggested by the TEM surveys indicating conductors beyond 400 m depth.

The Phase 1 Infanta drill program validated the geologic model and the historic resource (0.8Mt at 26.5% ZnEq) that was defined over ~600 m strike and tested down to a shallow depth of 120 m. We believe the step-out drilling, geophysics and mapping is indicating strong potential of the mineralization continuing well beyond the historic resource footprint with potential to more than double the strike length and triple the depth extent. We are currently modelling only ~2.5 Mt at ~26.5% ZnEq (~3x historic resource) in our valuation model and see potential for significant upside beyond our estimate (up to >6x – 9x historic resource), drilling dependent.

In addition, we expect the drilling at Romanera to commence in short order, driving further news flow with an accelerated drill program as the rig count increases from 2 to 5. Beyond this, we also expect the Administrative Court in Spain to announce a decision on the Aznalcollar public tender in favour of EMO. Overall, we expect lots of news flow and re-rating catalysts in the near-term.

TARGET INCREASED ON PRICE DECK REVISION: We have revised our Price Deck (long-term Zn: US\$1.30/lb vs \$1.20/lb prior; Ag: US\$23/oz vs \$21/oz prior; Au: US\$1,725/oz vs \$1,600/oz prior), refer Clarus research note "Commodities Price Deck Update" dated November 16, 2021. The revised commodity prices have increased our estimated asset NPV5% by ~20% to ~C\$1.48 Bn (from ~C\$1.23 Bn). We maintain our valuation methodology of 0.6x combined NPV5% for 100% of IBW and 50% of Aznalcollar. ***The commodity price revisions result in our increased target price of \$5.00 per share*** (was \$4.50/share). We highlight that if Emerita is awarded the Aznalcollar project, our target price will increase to \$6.90/share.

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.

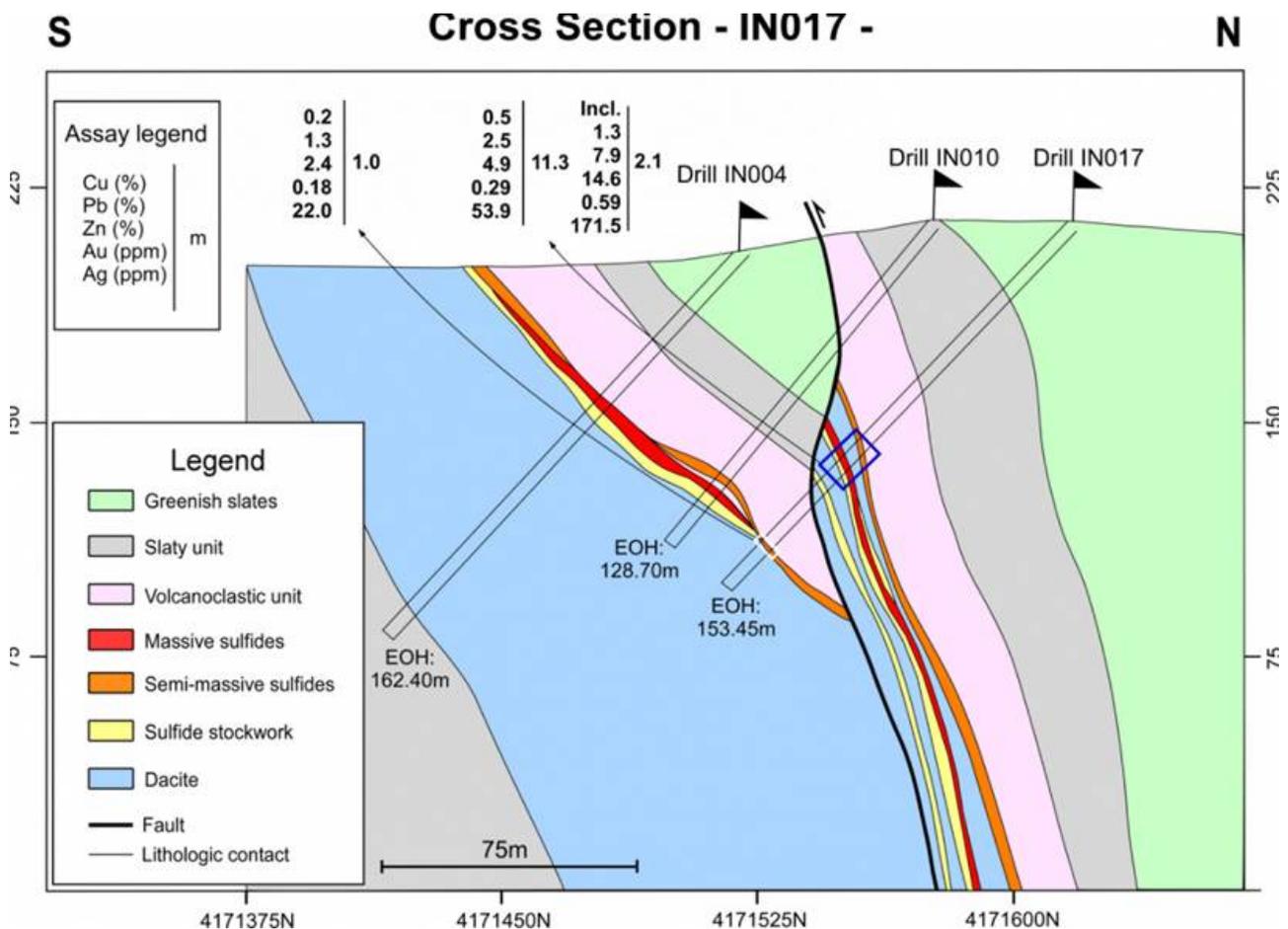
Under our estimates (Clarus 'Base Case'), EMO is trading at C\$0.04/lb ZnEq and 0.32x P/NAV, a discount to the Select Peer Group average of C\$0.06/lb and 0.50x, respectively. We see parallels with

Adriatic Metals (ATD-ASX; NR) that is advancing its brownfield Vares project, a past producing mine in Bosnia, towards development and is trading at a premium valuation of C\$0.19/lb ZnEq and 0.64x P/NAV and expect similarly high valuation multiples to be afforded to EMO as it de-risks its assets. We maintain our **SPECULATIVE BUY** rating at our new target price of **\$5.00** per share (was \$4.50/share) that is based on a 0.6x combined NPV5% for 100% of IBW and 50% of Aznalcollar.

Milestones

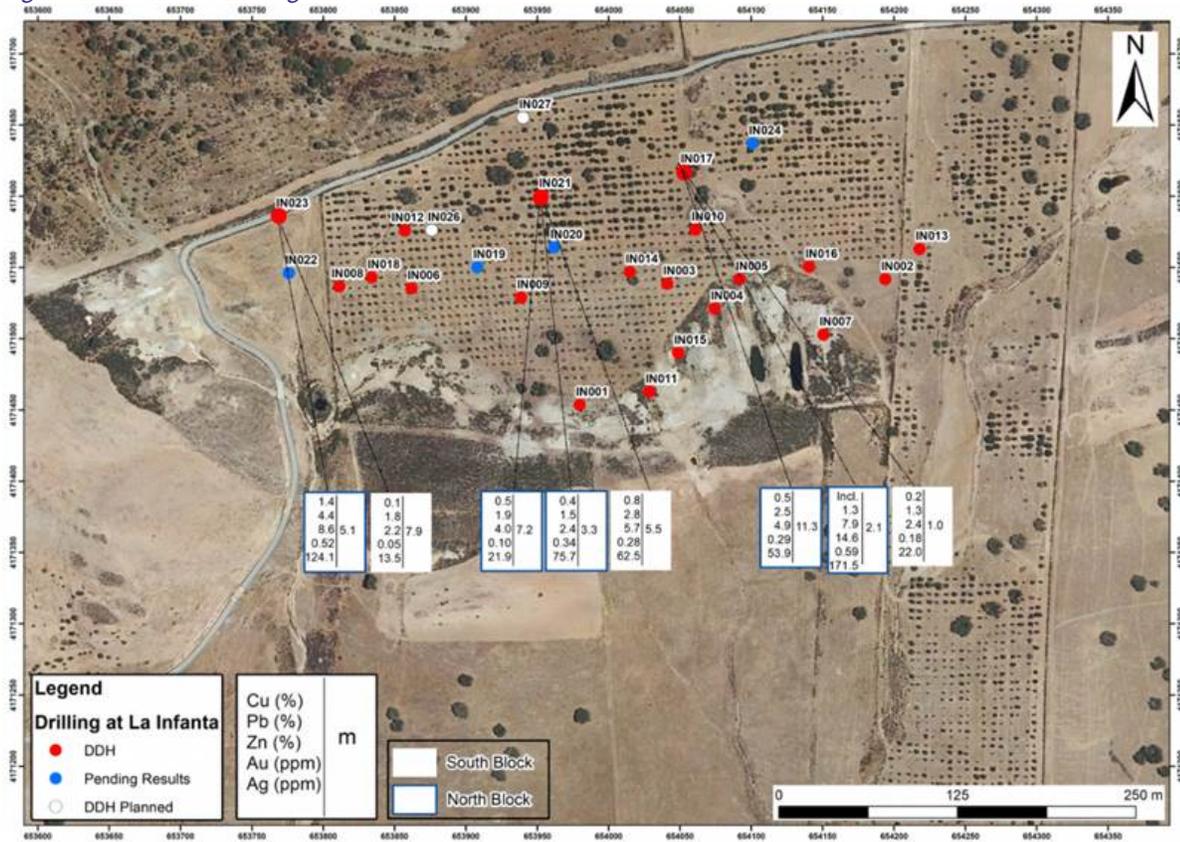
1. Aznalcollar resolution – Year-End 2021 (Clarus expectation);
2. Drill results from drill program at La Infanta – ongoing;
3. Environmental approval (AAU) for drilling at Romanera & El Cura – Q4/21;
4. Commencement of drilling at Romanera (~10,000 m) – Q4/21;
5. IBW Resource Update - H1/22.

Figure 1: La Infanta Drilling – Hole #17 Cross Section Intersecting North Block & South Block Mineralizations



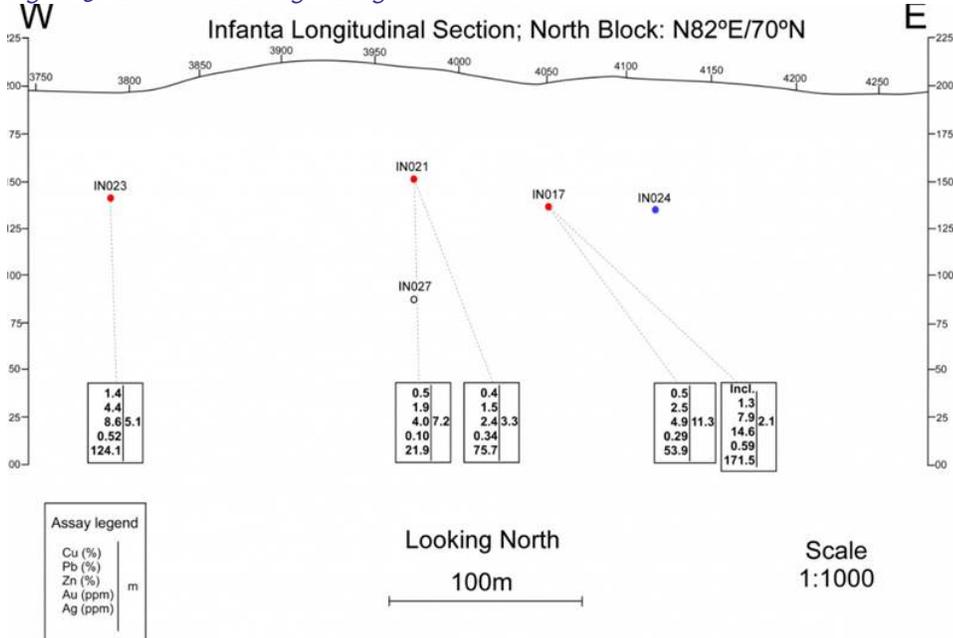
Source: Company Reports

Figure 2: La Infanta Drilling – Plan View



Source: Company Reports

Figure 3: La Infanta Drilling – Longitudinal Section



Source: Company Reports

Figure 4: 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	2.85	264	\$691	\$676	Bosnia	13.2%	31%	3,486	\$0.19	0.64x
Arizona Metals Corp (1)	AMC-TSX.V	5.28	99	\$521	\$497	Arizona, US	14.4%	21%	8,042	\$0.06	0.38x
Ascendant Resources Inc	ASND-TSX	0.25	110	\$27	\$27	Portugal	5.2%	30%	2,430	\$0.01	0.46x
Foran Mining Corp	FOM-TSX.V	2.77	182	\$503	\$488	Sask.	7.2%	37%	5,419	\$0.09	0.98x
Fireweed Zinc Ltd	FWZ-TSX.V	0.74	68	\$51	\$45	Yukon	9.4%	64%	10,450	\$0.004	0.34x
Group Eleven Resources Corp	ZNG-TSX.V	0.13	137	\$17	\$15	Ireland	9.7%	84%	1,531	\$0.01	NA
Kutcho Copper Corp	KC-TSX.V	1.00	99	\$99	\$119	BC	7.4%	29%	5,212	\$0.02	0.46x
Norzinc Ltd	NZC-TSX	0.06	685	\$38	\$36	NWT	20.8%	50%	7,222	\$0.01	0.16x
Osisko Metals Inc	OM-TSX.V	0.42	191	\$79	\$72	NWT	6.4%	75%	7,153	\$0.01	0.20x
Pan Global Resources Inc	PGZ-TSX.V	0.62	194	\$120	\$103	Spain	NA	NA	NA	NA	NA
Solitario Zinc Corp	SLR-TSX	0.66	59	\$39	\$32	Peru	11.1%	88%	1,273	\$0.02	NA
Tinka Resources Ltd	TK-TSX.V	0.18	341	\$61	\$56	Peru	6.4%	92%	8,015	\$0.01	0.22x
Wolfdan Resources Corp	WLF-TSX.V	0.20	153	\$31	\$25	Maine, US	19.8%	48%	1,956	\$0.01	0.39x
ZincX Resources Corp	ZNX-TSX.V	0.16	178	\$28	\$25	BC	9.6%	83%	6,400	\$0.004	NA
Group Average				\$165	\$158		10.6%	56%	5,276	\$0.04	0.42x
* Select Peer Group Average				\$285	\$272		9.7%	55%	6,163	\$0.06	0.50x
Emerita Resources Corp. (Clarus 'Base Case' Resource)											
	EMO-TSX.V	3.21	232	\$746	\$685	Spain	12.7%	50%	16,005	\$0.04	0.32x

* 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	177.8
12-Month Return	56%	Previous Close	\$3.21	Market Cap., C\$ MM	\$571
				EV, C\$ MM	\$544

CAD MM except per share data, unless otherwise noted

CAPITAL STRUCTURE			Strike Price	Shares	FINANCIAL SUMMARY					
			\$/share	(MM)	Fiscal Year	2025E	2026E	2027E	2028E	2029E
Basic Shares Outstanding				178	Copper Price (US\$/lb)	\$3.75	\$3.75	\$3.75	\$3.75	\$3.75
ITM Warrants Outstanding		\$0.52		37	Zinc Price (US\$/lb)	\$1.30	\$1.30	\$1.30	\$1.30	\$1.30
ITM Options Outstanding		\$0.86		17	Gold Price (US\$/oz)	\$1,725	\$1,725	\$1,725	\$1,725	\$1,725
Assumed Equity Funding				51	Silver Price (US\$/oz)	\$23	\$23	\$23	\$23	\$23
FD Shares				283						

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	\$2.42
IBW (100.0%), Spain	5.0%	\$799	0.0%	\$799	\$2.82
Asset NAV Sub-Total				\$1,485	\$5.24
Multiple to Development Assets			0.60x	\$891	\$3.15

In-Situ Valuation (Inventory not incl. in mine model)					
	ZnEq			C\$ MM	C\$/share
Aznalcollar	3,691MM lbs	@ C\$0.07 /lb	50.0%	\$129	\$0.46
IBW	2,383MM lbs	@ C\$0.07 /lb	0.0%	\$167	\$0.59
In-situ Valuation Sub-total				\$296	\$1.05

Corporate Adjustments					
Cash				\$27	\$0.10
Value of ITM Instruments				\$34	\$0.12
Long-term Debt				-\$240	-\$0.85
Estimated Working Capital Additions				\$400	\$1.41
Corporate Adjustments Sub-total				\$221	\$0.78
Total Corporate NAV					C\$/share \$1,408 \$4.97

Target Price		C\$/share	\$5.00
PINAV			0.32x

PRODUCTION ESTIMATES, MM lbs ZnEq						
Fiscal Year		2025E	2026E	2027E	2028E	2029E
Aznalcollar	MM lbs	-	313	313	313	313
IBW	MM lbs	-	-	-	-	263
Zinc Equivalent Production	MM lbs ZnEq	-	313	313	313	576

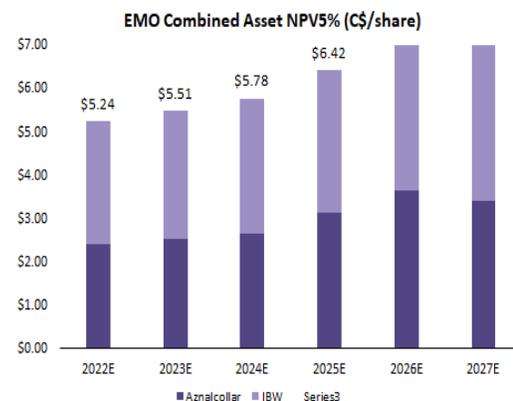
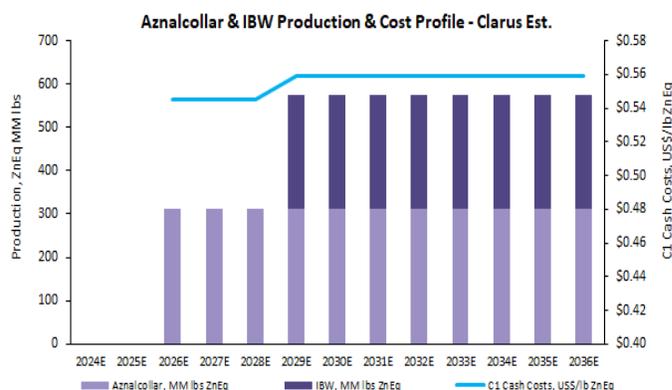
COST ESTIMATES (US\$/oz)						
Fiscal Year		2025E	2026E	2027E	2028E	2029E
Total Cash Costs (C1), net of by-prod.	US\$/lb Zn	-	(\$0.09)	(\$0.09)	(\$0.09)	(\$0.13)
Total Cash Costs (C1), co-prod.	US\$/lb ZnEq	-	\$0.54	\$0.54	\$0.54	\$0.56
Sustaining Capex	US\$/lb Zn	-	\$0.12	\$0.12	\$0.12	\$0.12
AISC (net of by-products)	US\$/lb Zn	-	\$0.03	\$0.03	\$0.03	(\$0.01)
AISC (co-product)	US\$/lb ZnEq	-	\$0.61	\$0.61	\$0.61	\$0.62

FINANCIAL SUMMARY					
Fiscal Year	2025E	2026E	2027E	2028E	2029E
EPS	\$0.00	\$0.55	\$0.55	\$0.59	\$1.11
P/EPS	nm	5.9x	5.8x	5.5x	2.9x
Target/EPS	nm	6.9x	6.8x	6.5x	3.4x
CFPS	\$0.00	\$1.06	\$0.95	\$0.88	\$1.88
P/CFPS	nm	3.0x	3.4x	3.7x	1.7x
Target/CFPS	nm	3.6x	4.0x	5.7x	2.7x

Income Statement					
	\$	\$473	\$473	\$473	\$868
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					
	\$	\$242	\$217	\$200	\$431
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	-37%	40%	8%	5%	71%

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	



Source: Clarus Securities Inc.

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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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