

Emerita Resources Corp. – SPECULATIVE BUY

Infanta Drill Results Not as Robust as Expected. Reducing Target to \$4.00

ACTION: Reiterating SPECULATIVE BUY and Reduced Target of \$4.00/sh

On April 22, 2022, Emerita Resources Corporation (EMO) released drill results from its Infanta project. Overall, the results were less impressive than we had expected as the intercept widths appear to be thinner as drilling progresses down dip in the North Block. As a result, we have revised our model for Infanta which has reduced our asset value by \$0.90 per share. Therefore, we have reduced our target price to \$4.00/sh from \$5.00/sh, previously. **We are maintaining our SPECULATIVE BUY rating.**

DETAILS: Infanta Seems to be Getting Thinner at Depth

EMO released the results of 10 drill holes from the Infanta deposit. For the most part, these holes represent the most northerly holes (and, therefore the deepest) ones drilled to date at Infanta. We have observed that the intercept widths appears to narrow with depth (see Figure 1). To reflect this in our model, we reduced the width assumption we used to estimate a mineralized inventory for Infanta. We also updated the mineralized inventory estimate for drill data published since we switched to a discounted cash flow (DCF) methodology from and EV/lb. As a result, our estimate for the value of the Infanta project has fallen by \$209 million (\$0.90/sh). Management has acknowledged the thinning of the deposit and is looking to use geophysics and more detailed surveying to identify areas of the Northern Block (which is deeper) that may be thicker at depth or along strike.

We have made the changes noted above based on the drill data available. It is impossible to know whether the trend of thinner intercepts with depth will continue. Additionally, the company has just started drilling the anomaly lying to the north of the known Infanta deposit and that has the potential to change our view.

EMO also announced that the permitting process for drilling at Romanera and El Cura has concluded, and the company is mobilizing diamond drills immediately to both deposits. Four rigs are being moved to Romanera and the other four will be split between El Cura and Infanta. The historical resource for Romanera indicates that it is a significantly larger deposit than Infanta, but lower grade. This is important to remember as the Romanera results are published by EMO.

The focus of EMO's exploration is shifting to Romanera and El Cura (away from Infanta). A resource estimate for Infanta is expected later this year. The shift in focus reflects, in our view, the potential of Romanera and the reduced success at Infanta.

IMPACT: The Focus is Shifting Away from Infanta and No Updates on Aznalcóllar

EMO is at a turning point in our view as exploration is shifting away from Infanta to Romanera (and El Cura). We view Romanera as a very promising exploration target with the potential to grow significantly beyond the historical resource of 34 million tonnes.

The Aznalcóllar tender process remains unchanged as far as we know. The outcome of the criminal court proceeding is likely the next piece of news, but we don't know what impact that will have on the tender process. Investors patience seems to be waning and we believe that the current share price is assuming a much lower chance of success than it had previously. We believe that the current share price is supported by the Infanta, Romanera and El Cura deposits with very little attributed to Aznalcóllar. We reiterate our **SPECULATIVE BUY recommendation.**

ANALYST INFORMATION

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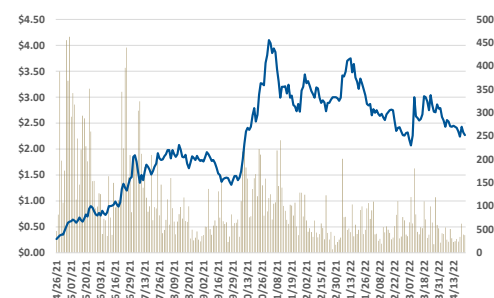
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EMO - TSXV	\$2.15
TARGET:	\$4.00
PROJ. RETURN	86%
VALUATION	EV/lb & DCF

Share Data

Basic Shares O/S (M)	194.4
Fully Diluted (M)	234.5
Avg. Volume (K)	1,035
Basic Market Cap (\$M)	418
Net Cash (\$M)	28
Enterprise Value (\$M)	390
Dividend (\$/sh)	0
Yield (%)	0
Next Reporting Date	May

THOMSON CHART - ONE YEAR



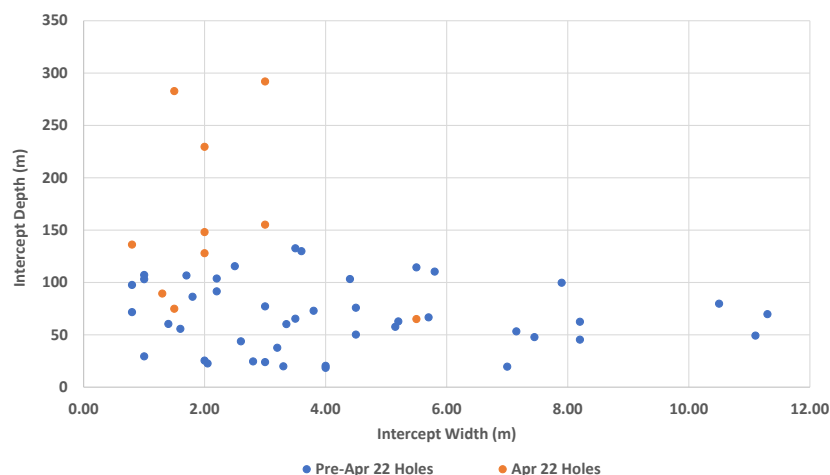
COMPANY PROFILE

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.

UPCOMING EVENTS/CATALYSTS

- Drill results from Infanta, Romanera & El Cura
- Resource estimate for Infanta
- Tender process/court proceeding results for the potential acquisition of the Aznalcóllar project

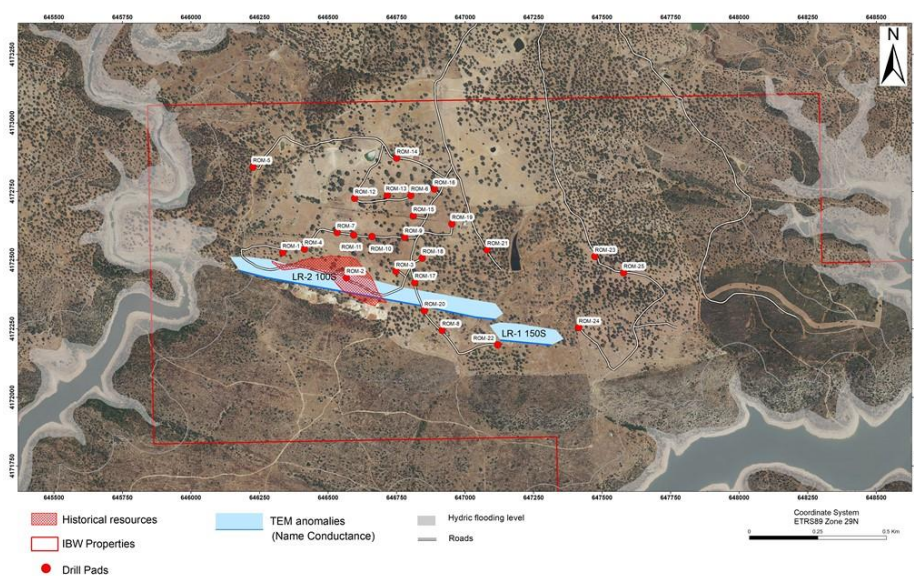
Figure 1. Drill Hole Intercept Depth vs. Intercept Thickness



Source: Company filings, RCC estimates

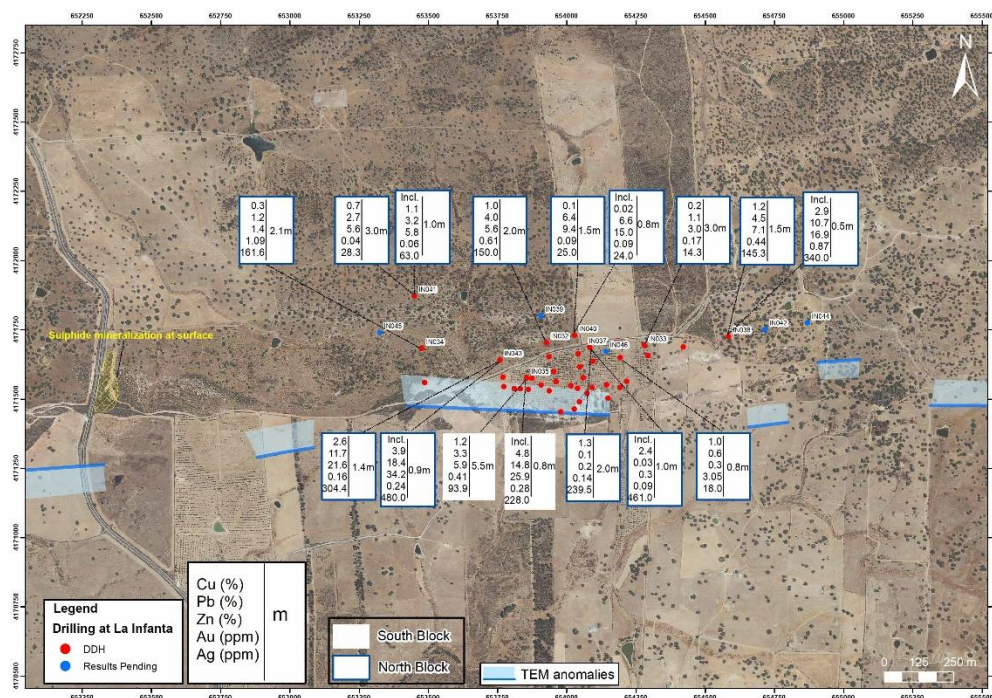
Figure 1 shows a fairly clear relationship between intercept depth and intercept thickness as the intercepts deeper than ~125 are significantly narrower than those lying shallower. This appears to be due to the thinning of the North Block with depth. The reported intercepts below 125m vertical depth average 4.14m compared to 2.38m for intercepts deeper than 125m.

Figure 2. Romanera Deposit Showing Planned Drill Pad Locations and Outline of the Historical Resource



Source: Company filings

Figure 3. Location map showing the Infanta drill holes



Source: Company filings

Figure 4. April 22, 2022 Drill Results

DDH	Easting	Northing	azimuth	dip	FROM	TO	Width (m)	Cu_ %	Pb_ %	Zn_ %	Au_ g/t	Ag_ g/t	BLOCK
IN032	653928.19	4171702.98	170	-63	257.8	259.8	2.0	1.0	4.0	5.6	0.61	150.0	NB
IN033	654281.98	4171693.15	174	-52	197.1	200.1	3.0	0.2	1.1	3.0	0.17	14.3	NB
IN034	653477.65	4171682.68	172	-50	193.5	195.5	2.1	0.3	1.2	1.4	1.09	161.6	NB
IN035	653856.31	4171575.60	205	-65	71.9	77.4	5.5	1.2	3.3	5.9	0.41	93.9	SB
IN036	654179.95	4171703.68	177	-49	180.6	181.4	0.8	1.0	0.6	0.3	3.05	18.0	NB
IN037	654085.00	4171685.00	171	-52	162.5	164.5	2.0	1.3	0.1	0.2	0.14	239.5	NB
IN038	654585.00	4171725.00	172	-46	104.3	105.8	1.5	1.2	4.5	7.1	0.44	145.3	NB
IN040	654030.00	4171730.00	173	-66	309.7	311.2	1.5	0.1	6.4	9.4	0.09	25.0	NB
IN041	653451.00	4171871.00	179	-46	405.9	408.9	3.0	0.7	2.7	5.6	0.04	28.3	NB
IN043	653760.00	4171640.00	175	-48	120.6	121.9	1.4	2.6	11.7	21.6	0.16	304.4	NB

Source: Company filings

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 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.

RELEVANT DISCLOSURES APPLICABLE TO COMPANIES UNDER COVERAGE

1. Relevant disclosures required under IIROC Rule 3400 applicable to companies under coverage discussed in this research report are available on our web site at www.researchcapital.ca
2. This Issuer has generated investment banking revenue for RCC.
3. The analyst conducted a site visit to view operations in November 2021. Accommodations, meals, and the COVID PCR test were paid by the issuer.
4. The analyst does not own shares of EMO.

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