

Ticker: ADT AU/LN
Market cap: A\$519m

Net cash: A\$33m
Price: A\$2.48/sh

Project: Rupice / Kizevak
Country: Bosnia / Serbia

RECOMMEND. (unc): BUY

TARGET (unc): A\$3.30/sh

RISK RATING: HIGH

While well telegraphed and well 'walked up' with a steady stream of subsidiary permits in recent 12M, the receipt of the exploitation permit is a positive reflection on both Bosnia as a mining-friendly jurisdiction and the management and team's ability to navigate a 'complex and 'multi-faceted' process. With the PFS having recommended optimizations for the flowsheet, including improved recovery and silver concentrate grades, geometallurgical test work and barite upgrading potential, we **maintain our BUY rating and A\$3.30/sh PT** ahead of potential improvements coming in the DFS. Our target is based on a 0.7xNAV fully-funded fully-diluted to 276m shares 1Y forward, net of all finance costs and G&A with US\$110m of debt and US\$95m equity at 0.5xNAV (stock at 0.47xNAV now). Our model uses 118c/lb Zn, and 363c/lb Cu, US\$1,850/oz Au and US\$24/oz Ag - at spot this would lift to A\$4.05/sh. 2H21 is shaping up to be very exciting with DFS and funding expected in succession (plus regional drilling), all of which should de-risk the asset, with the exploitation and DFS the last steps to also open the door to M&A.

Rupice exploitation permit granted: DFS in coming weeks ahead of 4Q21 construction decision

Adriatic received an exploitation permit for the Rupice UG, marking a 4Y journey from discovery to permitting. The company is now fully permitted to commence construction, scheduled for 4Q21 post DFS and EISA.

Why we like Adriatic

1. World-class polymetallic with 213Moz @ 342g/t AgEq resource / 149Moz @ 416g/t reserve
2. Starting with UG operation generates quick payback and high IRR
3. Recently expanded licence along prospective belt with no modern exploration
4. Existing infrastructure, low opex, royalties and taxes, strong permitting history in Bosnia
5. Pipeline projects in Serbia with potential for 10Mt @ 8-10% Zn for second operation

Catalysts

1. 3Q21: Rupice DFS
2. 4Q21: Target mine development start
3. 4Q22: First production

Research

Brock Salier (London) M: +44 7400 666 913 bsalier@sprott.com

Justin Chan (London) M: +44 7554 784 688 jchan@sprott.com

Brandon Gaspar (Toronto) M: +1 437 533 3142 bgaspar@sprott.com

Eleanor Magdzinski (Toronto) M: +1 705 669 7456 emagdzinski@sprott.com

| | | | |
|------------------------------------|---|--|---------------------------------|
| Ticker: ADT AU | Price/mkt cap: A248c/sh, A\$519m | Group P/NAV today: 0.43x | Asset: Rupice / Veovaca |
| Author: B Salier / B Gaspar | Rec/O.7xNAV PT: BUY, A\$3.3/sh | 1xNAV_{3Q21} FD: A\$5.71/sh | Country: Bosnia / Serbia |

| Commodity | Price | Recov. | Payab. | NSR ⁺ | % totl. |
|-----------|-------|--------|--------|------------------|---------|
| Silver | 24.0 | 93% | 69% | 64% | 32% |
| Zinc | 1.18 | 97% | 58% | 56% | 27% |
| Gold | 1850 | 71% | 64% | 45% | 15% |
| Lead | 0.90 | 93% | 68% | 64% | 15% |
| Copper | 3.63 | 96% | 68% | 66% | 10% |

* Payable recoverable / in-situ Barite and antimony: 1%

| Asset based SOTP valuation^ | | | | |
|-------------------------------|--------------|--------|------|-------------|
| | US\$m | O/ship | NAVx | A\$/sh* |
| NPV Rupice (build start) | 952 | 100% | 1.0x | 5.36 |
| Tethyan (US\$0.65/oz AgEq) | 23 | 100% | 1.0x | 0.13 |
| Cash 1Q21 | 53.2 | - | 1.0x | 0.30 |
| Cash from options (US\$m) | 9.4 | - | 1.0x | 0.05 |
| 1xNAV8% 1Q20 \$1850/oz | 1,038 | | | 5.84 |

* Asset only, build start, ex G&A and fin. costs Market P/NAV_{10%}: 0.43x

| Asset NPV (US\$m): 1xNPV project today (US\$m, ungeared)* | | | | | |
|---|--------------|--------------|--------------|--------------|--------------|
| Grade / cmdty px: | 80% | 90% | 100%^ | 110% | 120% |
| 10% discount | 612 | 790 | 967 | 1,144 | 1,320 |
| 8% discount | 654 | 846 | 1,038 | 1,229 | 1,420 |
| 6% discount | 699 | 908 | 1,117 | 1,325 | 1,532 |
| Ungeared project IRR: | 66% | 79% | 92% | 104% | 115% |
| Asset NPV (US\$m) | 5.0Mt | 6.0Mt | 7.0Mt | 8.0Mt | 9.0Mt |
| Grade/px: +80% | 654 | 654 | 654 | 654 | 654 |
| Grade/px: +90% | 846 | 846 | 846 | 846 | 846 |
| Base case^ | 1,038 | 1,038 | 1,038 | 1,038 | 1,038 |
| Grade/px: +110% | 1,229 | 1,229 | 1,229 | 1,229 | 1,229 |
| Grade/px: +120% | 1,420 | 1,420 | 1,420 | 1,420 | 1,420 |

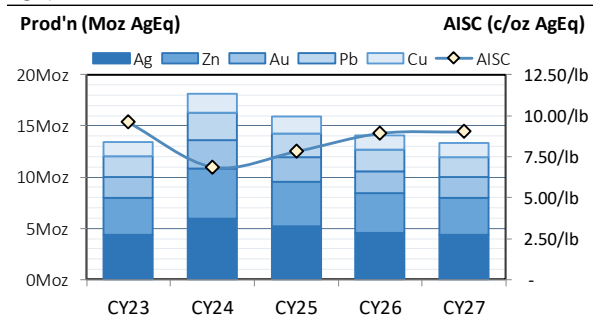
^ Project level NPV, excl finance costs and central SG&A, discounted to build start

| Group NAV over time* | Jun 21 | Jun 22 | Jun 23 | Jun 24 | Jun 25 |
|----------------------------|--------|--------|--------|--------|--------|
| Rupice / Veovaca (US\$m) | 895 | 1,078 | 1,230 | 986 | 789 |
| Central & finance (US\$m) | (127) | (117) | (104) | (90) | (80) |
| Tethyan (nominal) | 23 | 23 | 23 | 23 | 23 |
| Net cash prior qtr (US\$m) | 13.2 | (1.5) | (89.7) | 122.8 | 308.0 |
| Cash from options (US\$m) | 9.4 | 9.4 | 9.4 | 9.4 | 9.4 |
| NAV (US\$m) | 814 | 992 | 1,068 | 1,051 | 1,050 |
| FD shares on issue (m) | 232.3 | 275.8 | 275.8 | 275.8 | 275.8 |
| 1xNAV8%/sh FD (A\$/sh) | 4.58 | 4.70 | 5.06 | 4.98 | 4.98 |

0.7xNAV PT: 3.30 P/NAV FF FD: 0.53x

* Diluted for options and mine-build equity, net of central G&A and fin. costs

| Production (Y1 from 3Q22) | CY23 | CY24 | CY25 | CY26 | CY27 |
|---------------------------|------|------|------|------|------|
| ZnEq production (000t) | 124 | 169 | 148 | 131 | 124 |
| ZnEq AISC cost (US\$/lb) | 0.47 | 0.34 | 0.38 | 0.44 | 0.44 |
| AgEq production (000oz) | 13 | 18 | 16 | 14 | 13 |
| AgEq AISC cost (US\$/oz) | 9.6 | 6.9 | 7.8 | 8.9 | 9.0 |



Source: SCP estimates

| Resources and reserves | Tonnes | AgEq | Ag (%) | Zn (%) | |
|-----------------------------|--------|--------|--------|--------|--------|
| Rupice M&I + Inf resource | 12.0Mt | 137g/t | 193Moz | 30% | 27% |
| Veovaca M&I + Inf resource | 7.4Mt | 119g/t | 28Moz | 34% | 41% |
| Total M&I + Inf resource | 19.4Mt | 356g/t | 222Moz | 30% | 29% |
| Rup + Veo P&P reserve | 11.1Mt | 433g/t | 155Moz | 30% | 33399% |
| Kizevak / Sastavci estimate | 7.6Mt | 293g/t | 71Moz | 9% | 0% |

| Share data | Basic | FD | FF FD (equity @ 0.5xNAV) |
|------------------|---------|-------|--------------------------|
| Basic shares (m) | 209.207 | 232.3 | 275.8 |

| Sources | | Uses | |
|----------------------------|-------|--------------------------------|-------|
| Cash + pr prod ops (US\$m) | 53.2 | Capex + working cap (US\$m) | 192.6 |
| Debt (US\$m) | 110.0 | Finance + G&A in build (US\$m) | 14.6 |
| Mine build equity (US\$m) | 95.0 | Total uses (US\$m) | 207.2 |
| Total sources (US\$m) | 258.2 | | |

| Ratio analysis | CY20A | CY21E | CY22E | CY23E | CY24E |
|---------------------------|--------|--------|--------|-------|-------|
| Average shares out (m) | 209.2 | 242.5 | 275.8 | 275.8 | 275.8 |
| EPS (US\$/sh) | (0.03) | (0.13) | (0.07) | 0.49 | 0.87 |
| CFPS before w/c (US\$/sh) | (0.06) | (0.29) | (0.57) | 0.56 | 0.96 |
| EV (US\$m) | 376.9 | 416.5 | 653.5 | 517.2 | 264.7 |
| FCF margin (%) | - | - | - | 39% | 67% |
| PER (x) | - | - | - | 3.9x | 2.2x |
| P/CF (x) | - | - | - | 3.4x | 2.0x |
| EV/EBITDA (x) | - | - | - | 2.8x | 0.9x |

| Income statement | CY20A | CY21E | CY22E | CY23E | CY24E |
|-------------------------------|--------------|---------------|---------------|--------------|--------------|
| Revenue (US\$m) | - | - | 41.8 | 323.6 | 439.0 |
| COGS (US\$m) | - | (13.0) | (40.5) | (127.4) | (123.1) |
| D&A (US\$m) | - | - | - | (20.3) | (27.6) |
| Gross profit (US\$m) | - | (13.0) | 1.3 | 175.9 | 288.2 |
| Admin (US\$m) | (5.9) | (10.1) | (10.1) | (10.1) | (10.1) |
| Finance cost (US\$m) | 0.2 | (0.8) | (8.5) | (12.3) | (7.7) |
| Expln, royalty, other (US\$m) | (1.2) | (8.2) | (0.1) | (1.4) | (1.5) |
| Tax (US\$m) | - | - | (2.5) | (17.6) | (28.8) |
| Net income (US\$m) | (6.9) | (32.2) | (20.0) | 134.5 | 240.0 |

| Cash flow | CY20A | CY21E | CY22E | CY23E | CY24E |
|-------------------------------|--------------|---------------|----------------|---------------|---------------|
| EBITDA (US\$m) | (6.9) | (30.8) | (9.0) | 184.6 | 304.3 |
| Less working capital (US\$m) | - | 0.9 | 16.3 | 16.8 | 12.9 |
| Less finance costs (US\$m) | 0.2 | (0.8) | (8.5) | (12.3) | (7.7) |
| Less tax paid (US\$m) | - | - | (2.5) | (17.6) | (28.8) |
| Cash flow ops (US\$m) | (6.7) | (30.7) | (3.7) | 171.6 | 280.6 |
| PP&E - build (US\$m) | 4.3 | 45.3 | 138.4 | 1.7 | 2.3 |
| Cash flow inv. (US\$m) | (6.2) | (38.3) | (138.4) | (1.7) | (2.3) |
| Share issue (US\$m) | 16.2 | 95.0 | - | - | - |
| Debt draw (repay) (US\$m) | 19.8 | 25.0 | 85.0 | (38.3) | (36.7) |
| Cash flow fin. (US\$m) | 33.8 | 120.0 | 85.0 | (38.3) | (36.7) |
| Net change in cash (US\$m) | 19.7 | 48.5 | (88.9) | 98.0 | 215.9 |

| Balance sheet | CY20A | CY21E | CY22E | CY23E | CY24E |
|-----------------------------------|-------------|------------|------------|------------|------------|
| Cash (US\$m) | 40.0 | 88.5 | (0.4) | 97.6 | 313.5 |
| Acc rec. + inv. (US\$m) | 0.8 | 3.6 | 23.8 | 48.1 | 60.5 |
| Non-Current (US\$m) | 28.3 | 66.5 | 204.9 | 186.3 | 161.0 |
| Total assets (US\$m) | 69 | 159 | 228 | 332 | 535 |
| Debt (US\$m) | 20.0 | 45.0 | 130.0 | 91.7 | 55.0 |
| Accounts payable (US\$m) | 0.7 | 1.9 | 6.6 | 14.0 | 13.6 |
| Total liabilities (US\$m) | 20.7 | 47 | 137 | 106 | 69 |
| Shareholders equity (US\$m) | 66.2 | 161.2 | 161.2 | 161.2 | 161.2 |
| Retained earnings (US\$m) | (18.1) | (49.8) | (69.7) | 64.8 | 304.9 |
| Liability + equity (US\$m) | 69 | 159 | 228 | 332 | 535 |

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