

Further permit success at Vares plus more exploration results from Serbia

ADT1 LN / ADT AU

28 January 2020

Market Capitalisation: US\$348m

Enterprise Value: US\$308m

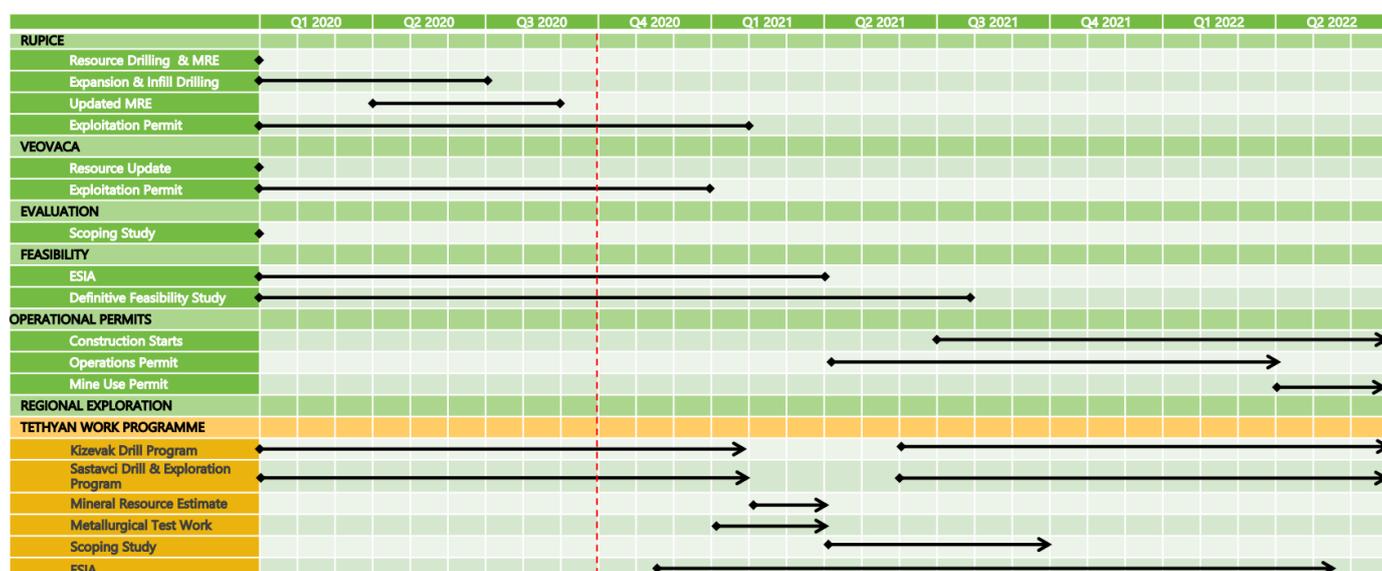
Last price: 116p

Target Price: 248p

Another milestone achieved at Vares

Adriatic Metals PLC has made two announcements in the last two days. The latest, overnight, was to announce that the company has received the Veovaca Exploitation Permit from the Bosnian Federal Ministry for Energy, Mining and Industry ("FMERI"). The receipt of the Permit initiates the formal exploitation period for the project, which under the terms of the Concession Agreement is up to 30 years. As the Concession Agreement covers both Veovaca and Rupice the security of tenure applies to both the Veovaca open pit and plant areas, as well as the Rupice underground mine areas. Adriatic can now proceed to construction for Veovaca which is due to commence in Q3 2021. The Rupice Exploitation Permit, required before the commencement of underground development, is expected in Q2 2021. We believe the awards of these licenses should provide major catalysts for the share price which is trading on an extreme discount to the NPV of the Vares operation (Rupice and Veovaca) where production is due to start next year.

Figure 1 – Corporate Schedule



Source: Company

Raska Continues to Grow

Meanwhile, on the company's Raska base and precious metals project in Serbia (where Tamesis is currently on a site visit), the exploration team continues to deliver encouraging results from the drilling programmes at both the Kizevak and Sastavaci sites. At Kizevak drilling is finding new areas of mineralisation, including near surface, and also confirming down dip extensions that have elevated gold grades. Sastavaci is earlier stage but is displaying classic polymetallic potential on multiple fronts – see section below.

Valuation and PT Commentary – Time for the Market to Wake Up

Just to recap, the Vares project is the third highest grade polymetallic (mainly silver and gold) ore body in the world (which in turn means it will operate well within the lowest cost quartile globally i.e. it is always going to generate a lot of cash). Our NPV for the two mines – Rupice and Veovaca – is \$1093m and the capex estimate stands at \$175m vs a market capitalisation of \$348m. Production is due to start next year. In 2023 we are estimating the company generates \$283m of EBITDA. Management have been hitting every milestone more or less on time which is remarkable given the pandemic and should allay any fears on Bosnian risk. Meanwhile the Raska project in Serbia is taking shape nicely and should allow the project management team to neatly segue from Vares having learnt from their experiences there. We retain a price target of 248p.

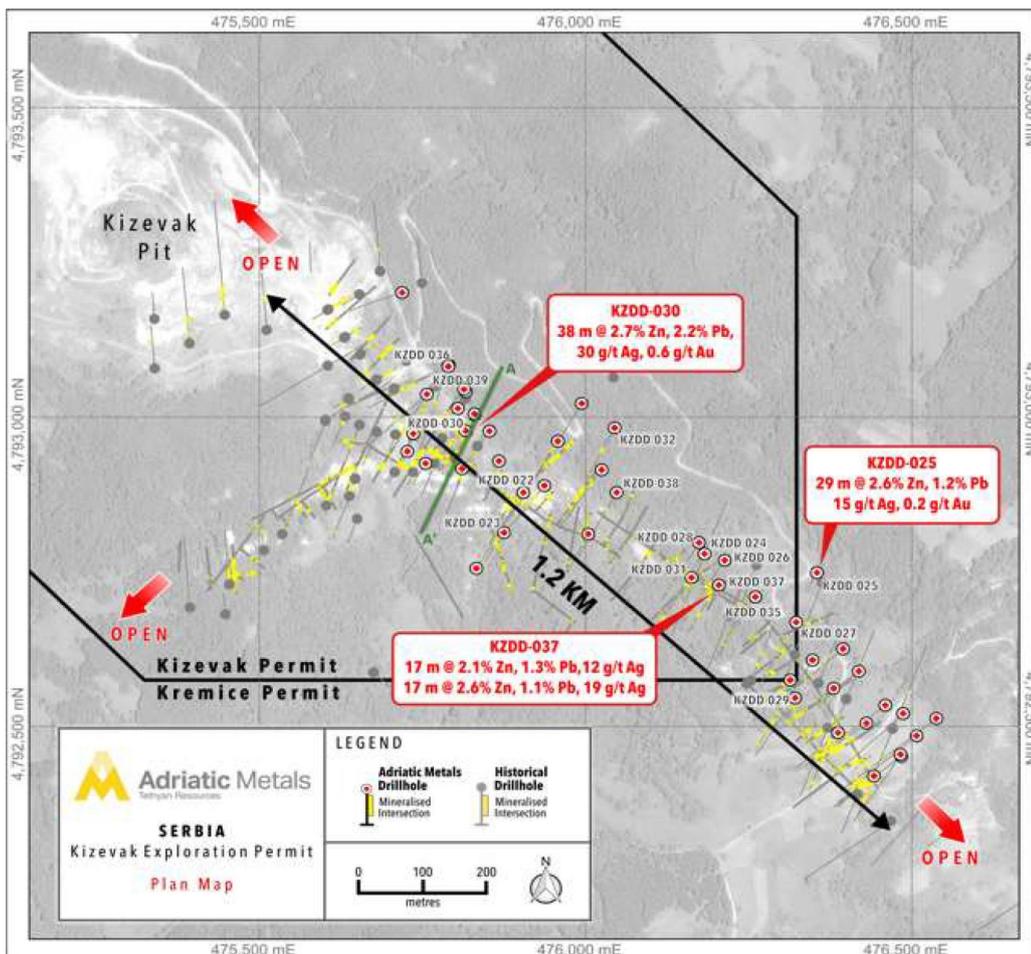
Drilling Results at Raska

It's worth recapping that there is already a combined non JORC resource at the Kizevak and Sastavaci projects of 7.5Mt grading 5.3% zinc and 4.04% zinc respectively. Both were mines in the past. The resource is now certain to expand in size, in our view, and on a grade equivalent basis is heading towards c. 7% Zn we believe. Some of the highlights of the drilling at Kizevak are as follows (see Figure 2):

- **KZDD-030 intercepted thick mineralisation down dip from the previously reported KZDD-014, demonstrating excellent continuity as well as elevated gold grade. This thick, high-grade lens remains open to depth:** 38 metres at 2.7 % zinc, 2.2 % lead, 30 g/t silver and 0.6 g/t gold from 100 metres, including;
 - 5 metres at 6.2 % zinc, 3.3. % lead, 66 g/t silver and 1.1 g/t gold
- **KZDD-025 discovered a new, well mineralised sub-parallel structure from surface, located >100 m northeast of the main mineralised trend:** 29 metres at 2.6 % zinc, 1.2 % lead, 15 g/t silver from 2 metres, including;
 - 15 metres at 4.3 % zinc, 1.9 % lead, 24 g/t silver.
- **Mineralisation in the central-south eastern part of the Kizevak licence has been identified, occurring as an array of sub-parallel, near surface vein zones with some high grade parts in several holes, including:**
 - 17 metres at 2.1 % zinc, 1.3 % lead, 12 g/t silver from 39 metres (KZDD-037), and
 - 17 metres at 2.6 % zinc, 1.1 % lead, 11 g/t silver from 94 metres (KZDD-037), including;
 - 8 metres at 3.4 % zinc, 1.8 % lead, 19 g/t silver
 - 24 metres at 2.0 % zinc, 0.6 % lead, 4 g/t silver from 81 metres (KZDD-024), including;
 - 2 metres at 11 % zinc, 3.0 % lead, 21 g/t silver
 - 26 metres at 1.5 % zinc, 0.9 % lead, 10 g/t silver from 127 metres (KZDD-031)

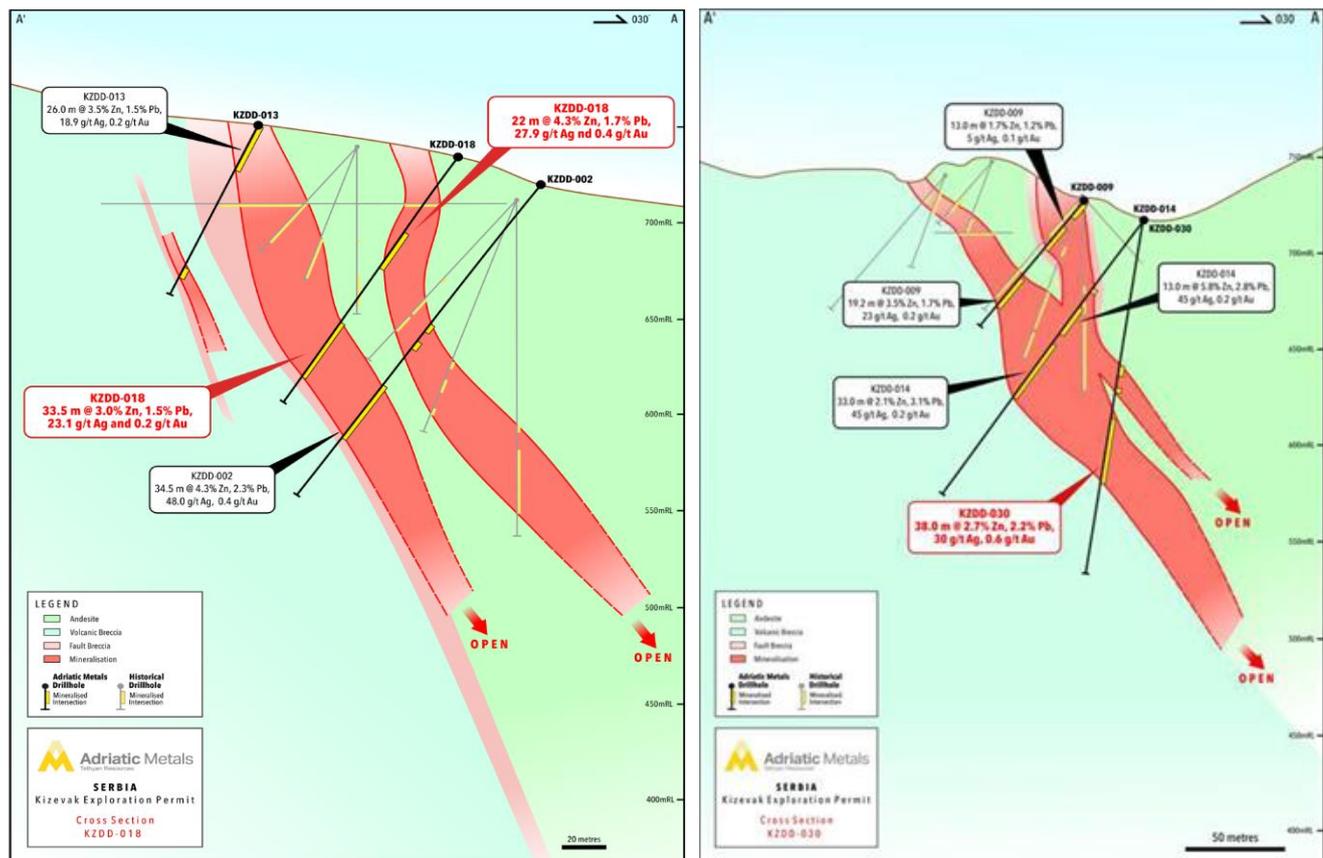
See plan view below of hole locations and Figure 3 shows the interpreted cross sections of the ore body – one released by the company towards the end of last year and the other in the announcement from Tuesday showing the potential for the ore body to thicken in the middle.

Figure 2 – Plan of Kizevak showing historical hole and those drilled by ADT (red dotted)



Source: Company

Figure 3 – Cross Section through Kizevak released in December and the latest company interpretation (RHS)



Source: Company

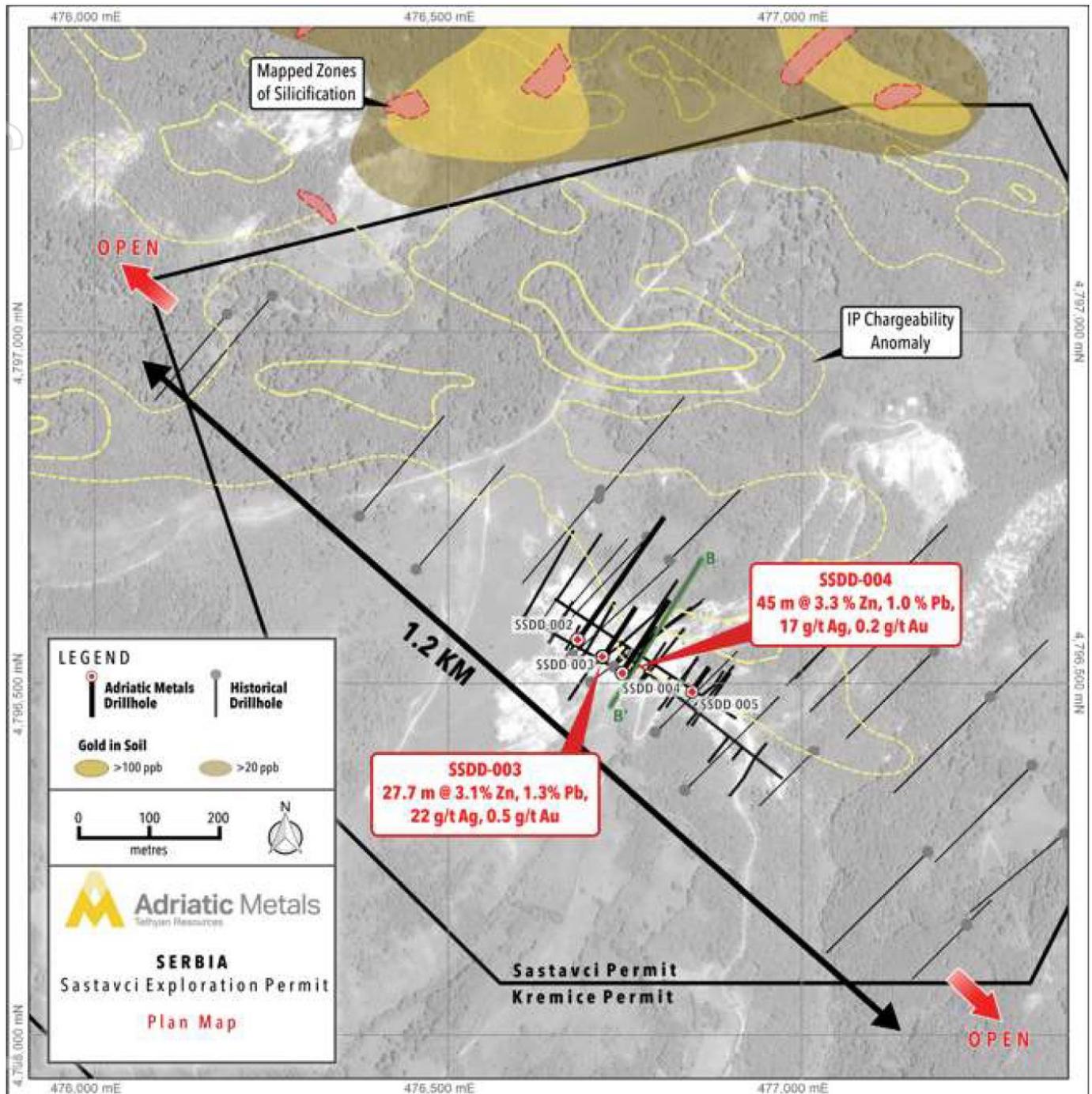
SASTAVCI HIGHLIGHTS

Wide, high grade polymetallic mineralisation has been proven at surface in the base of the historic open-pit at Sastavci in two additional holes. Thicker zones of mineralisation, than historically reported, have been encountered, and is open in all directions:

- **27.7 metres 3.1 % zinc, 1.3 % lead, 22 g/t silver, 0.5 g/t gold from 13 metres (SSDD-003), including:**
 - 12 metres at 5.3 % zinc, 2.6 % lead, 43 g/t silver, 1.0 g/t gold; and
- **45 metres at 3.3 % zinc, 1.0 % lead, 17 g/t silver, 0.2 g/t gold from 17 metres (SSDD-004), including:**
 - 18 metres at 5.5 % zinc, 1.9 % lead, 30 g/t silver, 0.3 g/t gold

Adriatic has now drilled five holes at Sastavci, with results for the final hole still pending. Results from SSDD-003 and SSDD-004 (see Figure 4.) have confirmed the presence and location of mineralisation at the base of the historic open pit, and has also shown that the mineralisation is hosted in much broader zones than historically reported. Mineralisation is of a similar style to Kizevak, present from surface and remains open in all directions. Gold mineralisation has been discovered recently and is becoming an interesting and discrete feature of the ore body.

Figure 4 – Plan of Sastavci with previous drilling and recent highlights



Source: Company

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