Adriatic Metals' Days Under The Radar Will Be Over In A Few Months; Potentially Very High Grade Maiden Resource Estimate Upcoming For Rupice

Drilling at Rupice

1. Introduction

One of my favorite holdings, Adriatic Metals, is still under the radar for a lot of North American investors, being an Australia listed company. It is my strong conviction this is not really deserved, and this situation might potentially not last very long. As they are exploring Rupice, a very high grade polymetallic project in Bosnia Herzegovina, Adriatic already produced several impressive sets of drill results during 2018. It didn't stop there, as the company released for example hole BR-36-18 which intercepted a very thick zone of high-grade mineralisation over 72m returning 18.3% Zn, 10.7% Pb, 211g/t Ag, 2.5/t Au, 2.5% Cu from 206m, and 46m at 25% BaSO4 from 216m on January 21, 2019.

These numbers already sound impressive just on their own for each individual metal, but the zinc equivalent at current spot prices would be a staggering 72m @ 49.5% ZnEq, and the gold equivalent an equally ridiculous 72m @ 31g/t. The gross metal value of such a hole is no less than US$1328/t. And it isn't just one lucky strike, Adriatic has been pulling results resembling this since 2017.

Granted, the mineralized area isn't very large, but the extreme grades bode well for a very economic project, potentially suited for a mid tier producer. And the company isn't done drilling yet. They have applied for (and were granted) a much larger area, including a potential extension of Rupice to the north, containing many large IP targets to the south. They are awaiting approval on further drill permitting, but it is expected to be granted at the end of this month. Adriatic is fully cashed up, and will explore most of these targets in 2019. What the end result will be in the form of a maiden resource estimate nobody knows

yet, but I'm curious enough to do a guesstimate myself this time. It really is a gem in my view.

All presented tables are my own material, unless stated otherwise.
All pictures are company material, unless stated otherwise.
All currencies are in US Dollars, unless stated otherwise.

2. Company

After the pretty extensive analysis of Kees Dekker which I published in October 2018, I will touch just briefly on some company specifics. Adriatic Metals has its main listing on the main board of the ASX, where it is trading with ADT.AX as its ticker symbol. The company fully owns two polymetallic projects in Bosnia Herzegovina, its flagship Rupice project and the Veovaca brownfield project.

With an average volume of in excess of 228,437 shares per day, the company's trading pattern is quite liquid. Their secondary listing is the Frankfurt listing, with 3FN.FWB for the ticker. Adriatic currently has 131M shares outstanding (fully diluted 150.5M), and 19.5M options of which most are in the money, which gives it a market capitalization of A$108.36M based on the February 22th share price of A$0.72. The company has an estimated cash position of A$14M at the moment, and has no plans to raise more cash soon. Management and the Board of Directors hold the largest position, about 30%. Director Paul Cronin is the single largest shareholder at roughly 18%.

Another meaningful shareholder (7.7%) is Sandfire Resources, a copper-gold producer from Australia. Their Degrussa mine is depleting fast without any potential of finding new ore in the vicinity, so they are looking for other assets. Apparently they have a strong focus on Adriatic now, as they tried to lift their holdings to 19.9%. Adriatic management wasn't too pleased with this concentration of voting rights and prevented this from happening.

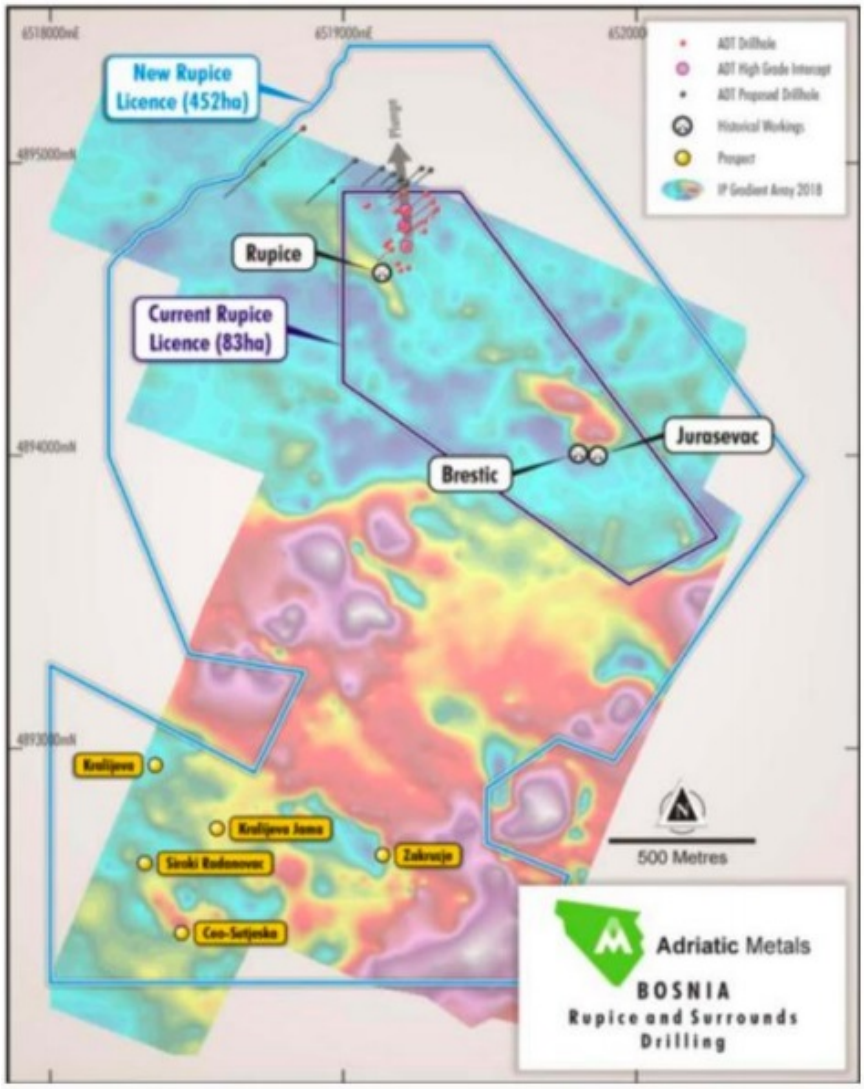
Share price Adriatic Metals; source company website

As can be seen in this chart, the share price didn't drop off after the first results in June 2018, and it took a while before it ascended further, as drill results came in slowly. But with

every set of drill results confirming and expanding the very high grade mineralized envelope at Rupice, investor confidence rose further with it. The latest 10% decline didn't have any fundamental reason, but was likely profit taking according to Paul Cronin. Therefore, I consider this a buying opportunity.

3. Exploration

What is Adriatic exactly up to these days? The company is awaiting the extended Exploration permit for Rupice, after receiving the Urban planning permit on February 6, 2019. The Exploration permit is expected soon, within 1-2 weeks. The permitting system in Bosnia requires a scoping study or PEA for the application of an exploitation permit, which is not different from almost any other country, there has to be a mine plan. The company figured out that using their nearby Veovaca site 17km away, a currently uneconomic brownfield project hosting a former mine, would ease the application process, so eventual ore from Rupice needs to be hauled (or concentrated on site first) to an eventual mill & plant at Veovaca. A 2017 IP survey already indicated very interesting targets (red and magenta):



A deeper IP survey is planned to start in Q1 and will scan the recently expanded license to further define drilling targets on the concession for the 2019 drilling campaign. Management indicated to me

that these targets will see the first drilling in May of this year. Historical data would suggest that mineralization is quite shallow but their findings from Rupice North is that shallower lower grade mineralization is accompanied by higher grade at depth if the structural conditions indeed exist.

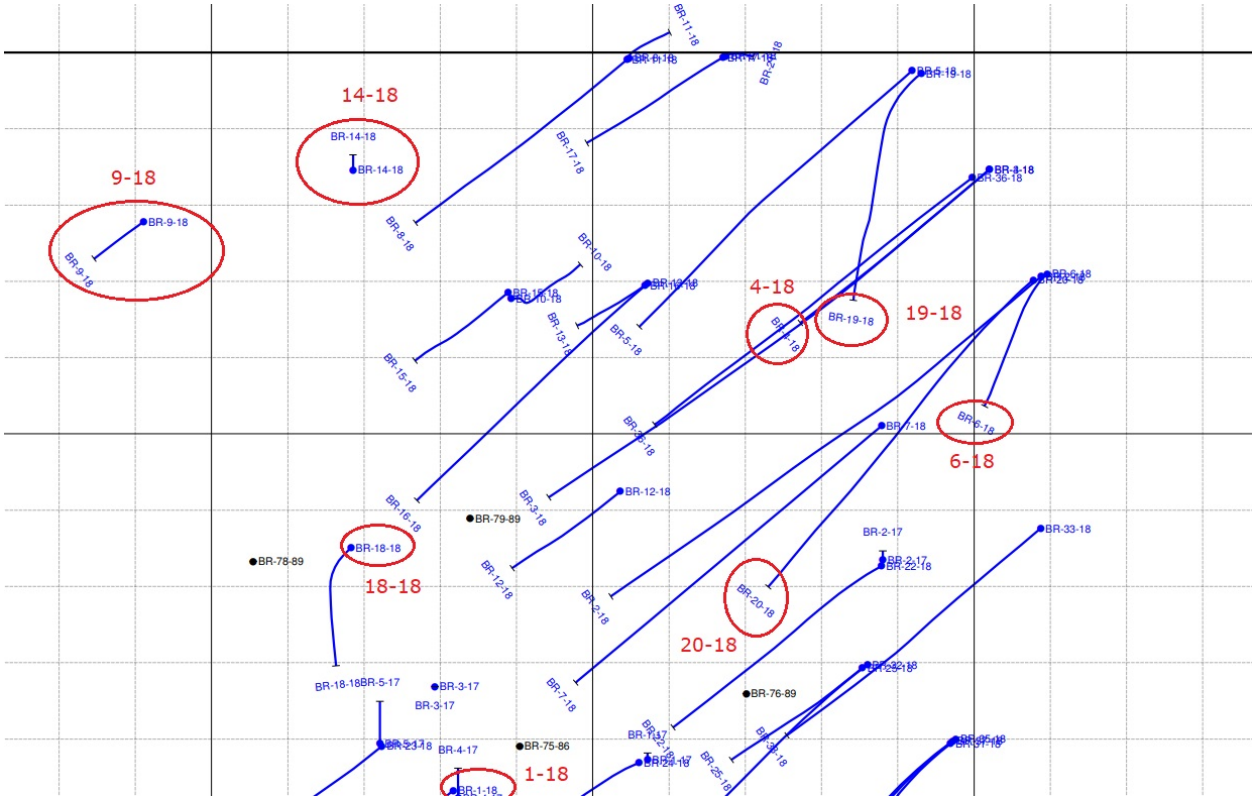
Of course this is all for the future, after a deposit has been established. This is scheduled a few months from now, well into Q2. They are currently drilling at Rupice and Veovaca. According to management, heavy snowfall last month has slowed their progress temporarily but they expect to have all 4 rigs operating on the northern plunge and the new zone to the South East. Adriatic will add two more rigs at JB after they have finalized the mentioned IP survey. It will penetrate deeper than the survey from 2017 and should help identify the mineralization deeper than 200m. Management expects to drill about 20000m this year. The next drill results will be out in March btw.

So, Adriatic is in the middle of delineating a resource, and as a result of the drilling so far, they seem to be able to show a good impression of potential mineralization. Here is a table with the complete results, using the very low cut-off of 1%Zn+Pb, as the company wants to include economic values of silver, gold, copper and barite as well (in my view they could just use ZnEq cut-offs to simplify things, in- or excluding barite):

Table 2: *Drill hole results for the reported drill holes and previous highlighted drill holes at Rupice; Lead or Zinc greater than 0.5%*

HOLE	FROM	TO	INTERVAL	Zn	Pb	Ag	Au	Cu	BaSO4
	M	M	M	%	%	g/t	g/t	%	%
BR-36-18	206	278	72	18.3	10.7	211	2.54	2.5	25
BR-35-18	216	220	4	1.5	1.4	124	1.67	0.3	30
BR-35-18	228	260	32	2.1	2.6	220	2.00	0.2	32
BR-34-18	226	230	4	6.9	3.2	46	0.15	0.2	-
BR-33-18	216	218	2	0.7	6.4	100	0.68	0.3	-
BR-33-18	228	264	36	4.9	3.2	306	2.70	0.5	45
BR-32-18	192	208	16	1.3	1.4	49	0.37	0.2	-
BR-32-18	228	248	20	8.2	5.6	479	4.10	0.5	60
BR-29-18	218	224	6	1.8	2.2	252	3.20	0.3	66
BR-29-18	232	246	14	1.6	3.2	388	2.50	0.3	53
BR-27-18	92	102	10	1.4	0.9	51	0.95	0.5	23
BR-26-18	44	50	6	1.5	1.2	63	0.55	0.2	29
BR-25-18	218	264	46	12.7	9.6	309	4.14	1.1	40
BR-22-18	222	264	42	14.1	8.4	245	5.7	1.4	34
BR-23-18	74	86	12	1.4	2.8	228	0.8	0.3	16
BR-17-18	204	270	66	9.5	4.9	187	2.35	0.5	56
BR-16-18	196	198	2	4.3	2.8	262	3.99	0.5	78
BR-15-18	194	202	8	0.5	0.8	43	1.37	0.1	53
BR-15-18	206	208	2	1.1	1.1	124	0.73	0.1	9
BR-13-18	168	190	22	0.6	1.2	91	1.3	0.3	41
BR-13-18	220	244	24	14.8	7.7	167	3.7	0.7	53
BR-12-18	186	188	2	1.1	0.5	10	0.4	0.4	1
BR-12-18	200	218	18	8.2	4.2	131	1.4	0.8	27
BR-11-18	302	306	4	0.9	0.3	14	0.16	0.0	1
BR-10-18	190	206	16	0.6	0.7	23	0.5	0.3	6
BR-10-18	236	264	28	10.8	5.9	271	3.4	0.5	61
BR-8-18	206	222	16	6.5	4	136	1.6	1.1	33
BR-7-18	228	246	18	9.2	4.5	201	2.6	0.5	62
BR-5-18	210	276	66	12.8	8.6	158	2.1	2.3	37
BR-3-18	196	232	36	5.7	4.3	463	4.4	0.5	55
BR-3-18	244	266	22	12.8	7.5	258	4.1	0.8	56
BR-2-18	214	278	64	10.8	7.7	537	4.6	0.9	46
BR-7-17	94	134	40	8.2	5.5	479	3.6	0.6	57
BR-6-17	116	138	22	1.8	1.7	161	1.8	0.3	26
BR-4-17	146	176	30	5.8	4.1	382	3.5	0.2	71
BR-1-17	178	242	64	8.4	5.1	373	2.3	0.9	44

It is good to see they had not too many misses when delineating the potential resource, for last year these were holes 1, 4, 6, 9, 14, 18 to 21, 24, 28, 30 and 31. Most of these holes were to the far east across a probable fault, or to the west, where the mineralization thins out. I received this map with collar locations and directions from management to get a better impression:

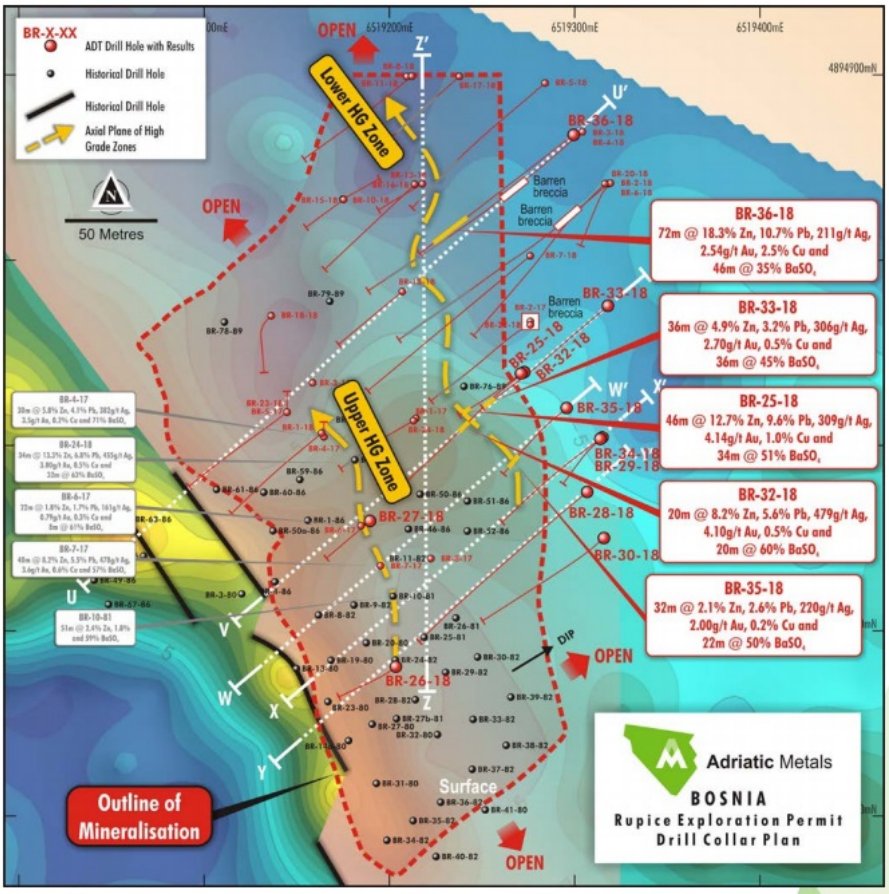


Hole 4-18 and 20-18 probably missed the mineralized envelopes, and 19-18 and 6-18 probably just further defined the fault line. Hole 14-18 looked like a vertical one, going to a depth of 214.9m. It could be the western limit, but at that location it is possible that the mineralization is located just below that level, at least when looking at the long section to the north.

The benefits of a low cut-off can be seen in the next table, showing for example the assay intervals of hole BR-36-18, adding another 8m to the other, much higher grade mineralization:

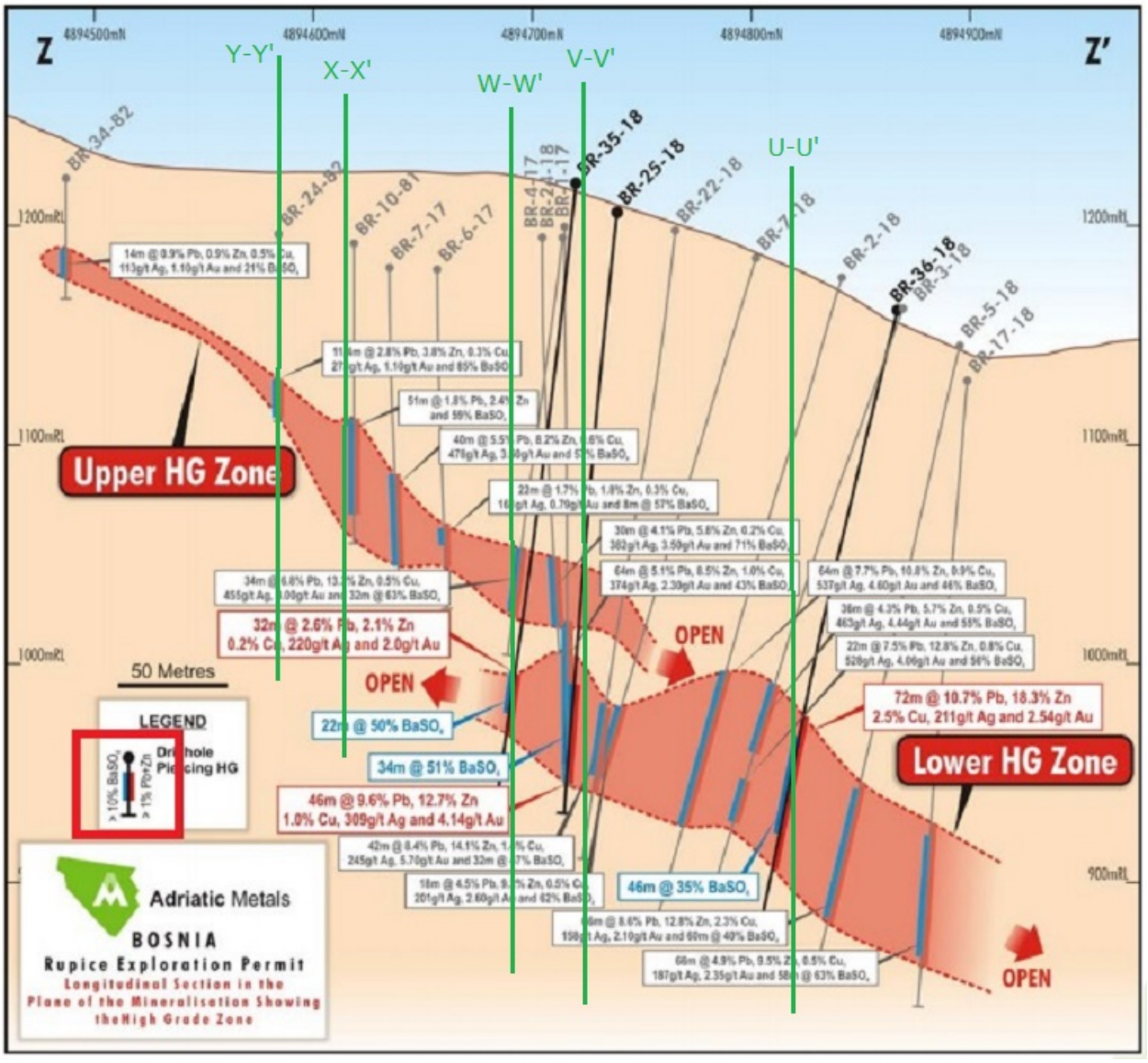
Drill Hole	From	To	Interval	Zn %	Pb %	Cu %	Ag g/t	Au g/t	BaSO4%
BR-36-18	0	192	192	Not Assayed					
BR-36-18	192	194	2	0.03	0.03	0.00	1	0.03	0
BR-36-18	194	196	2	0.05	0.05	0.00	1	0.05	0
BR-36-18	196	198	2	0.20	1.40	0.83	16	0.07	0
BR-36-18	198	200	2	0.03	0.01	0.00	1	0.06	0
BR-36-18	200	202	2	0.04	0.02	0.15	1	0.09	0
BR-36-18	202	204	2	0.34	0.22	0.05	3	0.23	1
BR-36-18	204	206	2	0.18	0.11	0.32	10	1.20	3
BR-36-18	206	208	2	0.41	0.62	0.30	42	1.57	18
BR-36-18	208	210	2	0.16	0.09	0.03	11	0.51	4
BR-36-18	210	212	2	0.94	0.18	0.09	19	0.54	4
BR-36-18	212	214	2	1.24	0.21	0.12	36	0.80	7
BR-36-18	214	216	2	1.03	0.32	0.10	24	0.64	9
BR-36-18	216	218	2	2.03	1.69	0.67	193	1.19	44
BR-36-18	218	220	2	9.29	4.80	2.50	284	2.19	36
BR-36-18	220	222	2	10.10	3.85	0.44	113	2.47	79
BR-36-18	222	224	2	18.85	10.25	2.99	265	3.95	44
BR-36-18	224	226	2	32.80	17.75	3.56	280	3.99	13
BR-36-18	226	228	2	31.70	16.70	3.89	300	3.78	11
BR-36-18	228	230	2	35.10	17.75	3.90	263	3.38	5
BR-36-18	230	232	2	28.90	14.20	3.10	257	4.03	23

The mineralized envelope has been outlined in this well-known drill collar map:



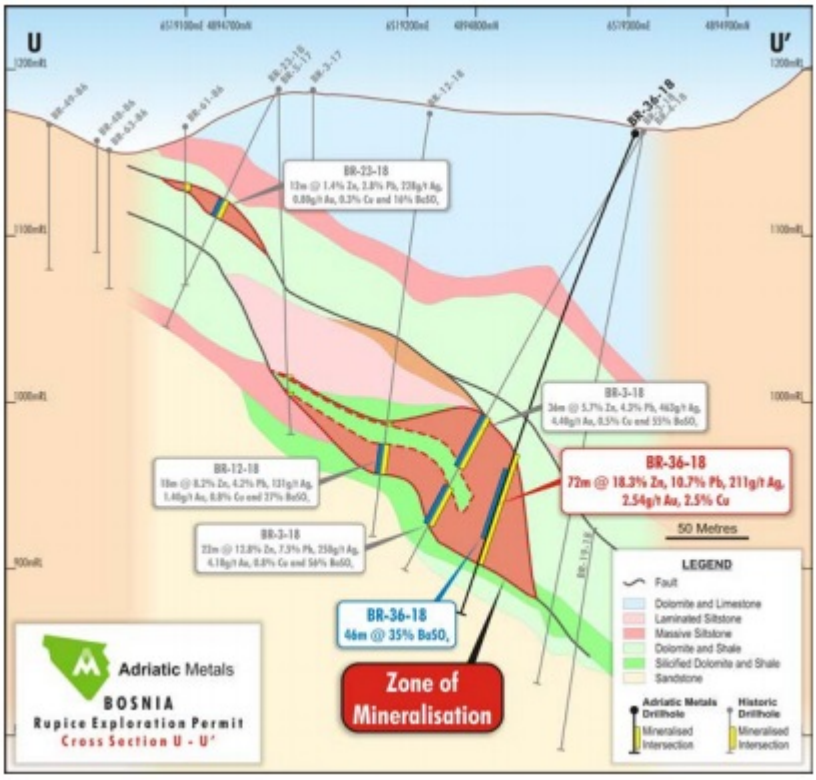
The sections will show, that the mineralized intercepts get higher grade and thicker the deeper the mineralized envelope goes along strike. At the same time, the envelope is tilted, and the more near surface side (west side) of it is thinner and lower grade as well compared to the deeper side (east side). After intensive drilling around the mid section it appeared that there are two distinct high grade zones, the Upper HG Zone and the Lower HG Zone (projected cross sections in green):

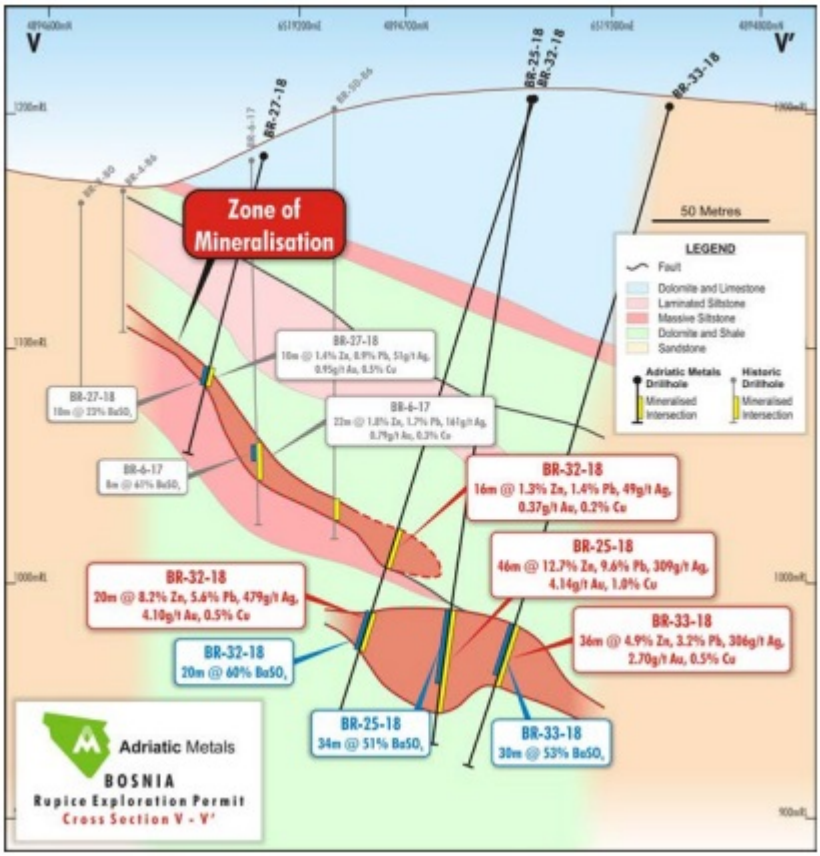
Figure 2. *Long-section Z-'Z' of Rupice*

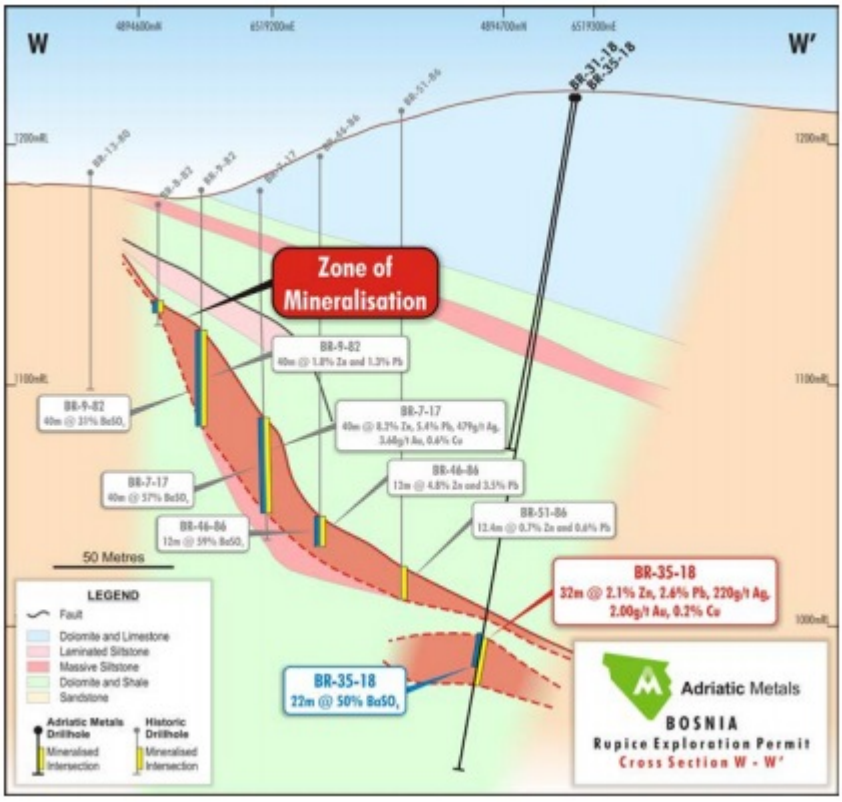


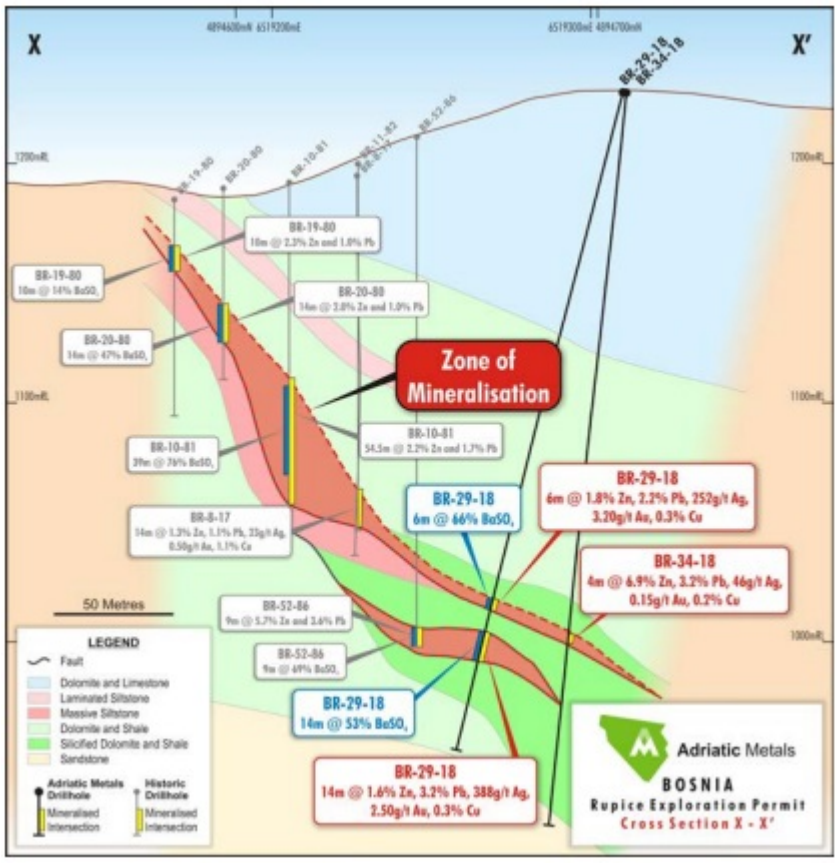
Many of the older holes of the Upper HG Zone stopped right after the drill hit basement/non mineralized rock, so Adriatic has to drill deeper below the Upper HG Zone to potentially establish an extension to the south (left in this section) of the Lower HG Zone. All eyes are of course on the Lower HG Zone at depth now, potentially extending further along strike to the north. When the Exploration permit is granted with a week or so, drilling will test this prime target.

The following set of cross sections gives a good indication of the variable shapes of mineralization, and true width of many drill results


U
U'
BR-23-18
13m @ 1.4% Zn, 2.8% Pb, 238g/t Ag, 0.88g/t Au, 0.3% Cu and 16% BaSO4
BR-3-18
36m @ 5.7% Zn, 4.2% Pb, 462g/t Ag, 4.48g/t Au, 0.5% Cu and 33% BaSO4
BR-12-18
18m @ 8.2% Zn, 4.2% Pb, 131g/t Ag, 1.46g/t Au, 0.8% Cu and 27% BaSO4
BR-36-18
72m @ 18.3% Zn, 10.7% Pb, 211g/t Ag, 2.54g/t Au, 2.5% Cu
BR-3-18
22m @ 12.8% Zn, 7.5% Pb, 258g/t Ag, 4.18g/t Au, 0.8% Cu and 56% BaSO4
50 Metres
LEGEND
Fault
Dolomite and Limestone
Laminated Siltstone
Massive Siltstone
Dolomite and Shale
Silicified Dolomite and Shale
Sandstone
Adriatic Metals Drillhole
Historic Drillhole
Mineralised Intersection
BR-36-18
46m @ 35% BaSO4
Zone of Mineralisation
Adriatic Metals
BOSNIA
Rupice Exploration Permit
Cross Section U - U'


V
V'
BR-27-18
BR-25-18
BR-32-18
BR-33-18
Zone of Mineralisation
50 Metres
LEGEND
Fault
Dolomite and Limestone
Laminated Siltstone
Massive Siltstone
Dolomite and Shale
Sandstone
Adriatic Metals Drillhole
Historic Drillhole
Mineralised Intersection
BR-27-18
10m @ 1.4% Zn, 0.9% Pb, 51g/t Ag, 0.95g/t Au, 0.5% Cu
BR-27-18
10m @ 23% BaSO4
BR-6-17
22m @ 1.8% Zn, 1.7% Pb, 161g/t Ag, 0.79g/t Au, 0.3% Cu
BR-6-17
8m @ 65% BaSO4
BR-32-18
16m @ 1.3% Zn, 1.4% Pb, 49g/t Ag, 0.37g/t Au, 0.2% Cu
BR-25-18
46m @ 12.7% Zn, 9.6% Pb, 309g/t Ag, 4.14g/t Au, 1.0% Cu
BR-32-18
20m @ 8.2% Zn, 5.6% Pb, 479g/t Ag, 4.10g/t Au, 0.5% Cu
BR-33-18
36m @ 4.9% Zn, 3.2% Pb, 386g/t Ag, 2.70g/t Au, 0.5% Cu
BR-32-18
20m @ 60% BaSO4
BR-25-18
34m @ 51% BaSO4
BR-33-18
30m @ 53% BaSO4
Adriatic Metals
BOSNIA
Rupice Exploration Permit
Cross Section V - V'


W
W'
Zone of Mineralisation
BR-35-18
32m @ 2.1% Zn, 2.6% Pb, 220g/t Ag, 2.00g/t Au, 0.2% Cu
BR-35-18
22m @ 50% BaSO4
50 Metres
LEGEND
Fault
Dolomite and Limestone
Laminated Siltstone
Massive Siltstone
Dolomite and Shale
Sandstone
Adriatic Metals Drillhole
Historic Drillhole
Mineralised Intersection
Adriatic Metals
BOSNIA
Rupice Exploration Permit
Cross Section W - W'


X
X'
Zone of Mineralisation
BR-29-18
6m @ 1.8% Zn, 2.2% Pb, 252g/t Ag, 3.20g/t Au, 0.3% Cu
BR-34-18
4m @ 6.9% Zn, 3.2% Pb, 46g/t Ag, 0.15g/t Au, 0.2% Cu
BR-29-18
6m @ 66% BaSO4
BR-29-18
14m @ 53% BaSO4
BR-29-18
14m @ 1.6% Zn, 3.2% Pb, 388g/t Ag, 2.50g/t Au, 0.3% Cu
50 Metres
LEGEND
Fault
Dolomite and Limestone
Laminated Siltstone
Massive Siltstone
Dolomite and Shale
Silicified Dolomite and Shale
Sandstone
Adriatic Metals Drillhole
Historic Drillhole
Mineralised Intersection
Adriatic Metals
BOSNIA
Rupice Exploration Permit
Cross Section X - X'

Cross section X-X' is the one that I don't exactly follow, as the long section doesn't indicate this second, deeper located mineralized layer, but the long section probably stays west of it, close to hole BR-10-81, missing this layer in this section.

The mineralized envelopes vary a lot in size and shape, but the good news is they seem to be fairly continuous, as seems the long section. When sequencing the sections, it appears that the Upper and Lower HG Zone start out as one, then diverge into two separate zones, of which the Upper HG Zone seems to end close to cross section U-U' and the Lower HG Zone seems to continue at the north. I am contemplating buying an affordable piece of geo software in order to assist me with estimating envelopes, but for now calculations by hand are my approach. I started with the long section, averaged grades, looked for true widths, and this is the kind of first table as a result:

Mineralization												
				Metal prices	Zn	Pb	Ag	Au	Cu	BaSO4		
					1,22	0,93	15,92	1327	2,96	150		
Section	Hole ID	Strike Distance	Interval est.	l x w	Zn	Pb	Ag	Au	Cu	BaSO4	ZnEq	ZnEq incl.
		est. to next	true width									BaSO4
Z-Z'	BR-34-82	100	13	1300	0,90%	0,90%	113	1,1	0,50%	21%	8,19%	9,62%
Upper HG	BR-24-82	35	8	280	3,80%	2,80%	273	1,1	0,30%	85%	16,64%	22,44%
	BR-10-81*	15	30	450	2,40%	1,80%	150	1	0,30%	59%	10,94%	14,96%
	BR-6-17	30	22	660	1,80%	1,70%	161	1,8	0,30%	26%	11,93%	13,70%
	BR-1-17	35	25	875	8,40%	5,10%	373	2,3	0,90%	44%	30,84%	33,84%
	BR-4-17	10	25	250	5,80%	4,10%	382	3,5	0,20%	71%	27,21%	32,05%
										Average	17,62%	21,10%
Z-Z'	BR-35-18	25	32	800	1,50%	1,40%	124	1,67	0,30%	30%	10,16%	12,21%
Lower HG	BR-25-18	15	46	690	12,70%	9,60%	309	4,14	1,10%	40%	42,95%	45,67%
	BR-22-18	15	42	630	14,10%	8,40%	245	5,7	1,40%	34%	45,97%	48,29%
	BR-7-18	5	18	90	9,20%	4,50%	201	2,6	0,50%	62%	26,64%	30,87%
	BR-2-18	40	64	2560	10,80%	7,70%	537	4,6	0,90%	46%	44,49%	47,62%
	BR-3-18	15	58	870	12,80%	7,50%	258	4,1	0,80%	56%	38,96%	42,78%
	BR-36-18	15	72	1080	18,30%	10,70%	211	2,54	2,50%	25%	49,54%	51,25%
	BR-5-18	20	66	1320	12,80%	8,60%	158	2,1	2,30%	37%	38,20%	40,72%
	BR-17-18	35	66	2310	9,50%	4,90%	187	2,35	0,50%	56%	26,56%	30,38%
	* = estimated gold/silver values, not assayed									Average	35,94%	38,87%

This exercise was repeated for all cross sections as well, giving me something of a starting point to work with. Determining an average width and height of the envelopes in between the sections wasn't easy as there is not enough data, and I couldn't average too much on the grades as it should actually be a weighted average. Nevertheless, I estimated a conservative envelope for the Upper HG Zone of 0.45M m3, and 0.7M m3 for the Lower HG Zone, which, assuming a conservative average gravity of 3.6t/m3, leads us to 4.1Mt. I am not sure how much Adriatic is dealing with sedimentary host rock, which would bring down the barite (4.5t/m3) and sulphide gravity (3.6 to 4.4t/m3).

Some info on specific gravity (density) of host rock:

"Sulphide ore minerals have high densities that range generally from about 4.0 g/cm3 for sphalerite to 4.62 g/cm3 for pyrrhotite. Galena attains an exceptionally high value of 7.50 g/cm3 . Associated minerals pyrite, magnetite and hematite have densities of 5.02, 5.18 and 5.26 g/cm3 , respectively. A sample of densities of massive sulphides in the Bathurst camp, determined from measurements on drill core from several sites, indicates that they range from about 3.80 to 4.40 g/cm3 . Those of semi-massive sulphides range from about 3.60 to 3.85 g/cm3 . By comparison, a sample of density measurements made on fine-grained sedimentary and felsic volcanic host rocks indicates densities ranging generally from about 2.70 to 2.85 g/cm3"

With the corporate tax in Bosnia Herzegovina standing at a very cheap 10%, and a potential operation dealing with small tonnage and thus low capex, there is no doubt in my mind that this could be a very profitable mine someday. If I would take a 4Mt resource for the entire mineralized envelope, conservative recoveries and payability, and using an average small- scale underground capex/tpd of US$80,000/tpd, the total capex would come in at US$90M. Let's use some margin of error, and take US$100M and US$60/t opex. This would result in a hypothetical post-tax NPV8 of US$175M and likely a very high post-tax IRR. This is all conservative, and considering the current market cap of about US$80M and exploration ongoing there is a lot of upside.

4. Conclusion

By now it will hopefully be clear why I think Adriatic Metals is already a pretty interesting exploration story, with lots of further upside potentially in the making on their recently expanded licenses. If the maiden resource estimate, which is expected in Q2, 2019, can indeed get to 4Mt or more, hypothetical PEA economics might be spectacular. With a very low hypothetical capex this project will be easily fundable for a wide range of parties, and will probably attract more interest after the resource estimate comes out, and metallurgy proves to be fine. It is one of the most exciting exploration stories around at the moment, far from nearing the end, and as a shareholder I keep tracking them at close range with extra interest. Have a look.

By: https://www.criticalinvestor.eu/

I hope you will find this article interesting and useful, and will have further interest in my upcoming articles on mining. To never miss a thing, please subscribe to my free newsletter on my website www.criticalinvestor.eu, in order to get an email notice of my new articles soon after they are published.

Disclaimer:

The author is not a registered investment advisor, and currently has a long position in Adriatic Metals. All facts are to be checked by the reader. For more information go to the websites of the mentioned companies and read the available company information and official documents on www.sedar.com, also for important risk disclosures. This article is provided for information purposes only, and is not intended to be investment advice of any kind, and all readers are encouraged to do their own due diligence, and talk to their own licensed investment advisors prior to making any investment decisions.