



Adriatic on the cusp on history

More than 30 years after achieving independence, Bosnia and Herzegovina is less than six months away from unveiling its first commercial hard rock mining operation – one which Adriatic Metals plc managing director Paul Cronin believes has the potential to revolutionise how the resources sector engages with other industries across the European continent.

By the end of April, construction of Adriatic's flagship Vares silver project was more than 70% complete with both lower and upper decline development scheduled to reach ore this month. Despite productivity continuing to be impacted by poor ground conditions inside the Rupice underground mine, the company remains confident of declaring commercial production in early November.

Vares was recently awarded "Project of Special Importance" status by the State of Bosnia and Herzegovina, demonstrating the significance of the upcoming operation to the country in terms of its forecast contribution to GDP, foreign direct investment, employment and education.

At last count, Adriatic had employed some 222 staff at Vares – of which 91% reside in the local community, including the head of sustainability – while the number of contractors on site had ballooned past 300.

The contribution of Vares to Bosnia's economy is already being felt even before the first concentrate parcel is delivered with the new mine to represent 25% of foreign direct investment in the Balkan country this year and GDP forecast to grow by 2%.

Cronin said 2024 was also expected to be the first year since independence was achieved in 1991 that Bosnia runs a trade surplus, predominantly due to the value of the exports coming out of the Vares project.

"When we talk about the project, we talk

about it through a sustainability lens in the way we've tried to develop our local supply chain so that not only can companies supply us with what we require, we're also creating an export market for them," he told **Paydirt**.

"Things like the railway line that connects us to the port of Ploce, which is our point of export, it's about to re-open for the first time in over 20 years. Not only that, the Bosnian Government, through their own budget, have decided to electrify it, which will then open it up to passenger transport as well.

"We think this is a great example, in a European context, of how mining operations with a small surface and environmental footprint can co-exist with tourism. What we will end up seeing, in my view, is a passenger service from Sarajevo to Vares and a whole array of new tourist facilities being built up here in the mountains that will be available for winter skiing, summer mountain biking, etc.

"People here in Bosnia love this story. They love the fact a company has decided to make a really big investment that goes well beyond what we'll be producing from the mine."

Released in late April, Adriatic's inaugural

sustainability report highlighted the company's commitment to developing a workforce strategy that addresses all stages of the employee lifecycle. This includes all staff completing a total of 2,511 hours of training, with a follow-up survey revealing 93% were "extremely satisfied" with the content, delivery and process.

The employee survey also revealed 91% of respondents were "proud" to be wearing an Adriatic shirt, while 89% of staff would recommend the company as "a great place to work".

Cronin said the company was pulling out all stops in a bid to attract as many young professionals to Vares as possible.

"We've hired a lot of very young graduates and we're training them up extensively," he said.

"We've got agreements with a number of universities in the region to supply us graduates each year. We're building our student camp which will be a 40-bed move-in facility for students where they'll come and live on site and work. They'll come from all over the region – Croatia, Serbia, Macedonia – to basically hone their skills, learning from what I think are some of the best Aussie experts in the business.

"It's more than just a direct cash investment. It's the investment of time, knowledge and experience to build an industry in a country from scratch. We think the team of people we are creating now will ultimately go on and set up their own exploration companies.

"It's kind of a self-fulfilling prophecy for Bosnia in that its focus will shift from being primarily a manufacturing-based economy

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of textiles, furniture and energy exports, to really focusing on primary materials at a time when the EU is radically changing its legislation to encourage investment in critical mineral development.”

Adriatic recently indicated capex for the Vares development had inflated \$US6 million to \$US189 million due to increased earthworks at Rupice. The company remains fully funded to project completion, however, with the \$10 million contingency still unutilised.

As of mid-April, some 87% of capital expenditure had been either awarded, was pending award or recently quoted.

According to the 2021 feasibility study, the proposed 800,000 tpa operation at Vares will generate post-tax NPV of \$US1.06 billion, IRR of 124% and payback achieved in just 8.5 months after first production.

While Cronin continues to marvel at the progress the construction team is making on a weekly basis – especially with most shifts still operating on "banker's hours" – his optimism for the project appears to be growing in parallel with each drill result coming in from Adriatic's rejuvenated exploration team.

Since the appointment of former Barrick Gold Corp geologist Sergei Smolonogov as head of exploration last September, Adriatic has not missed a beat on the discovery front, most notably at Rupice Northwest.

An updated resource for the entire Rupice underground is on track to be released to the market in July.

"With every new drill hole, we are significantly expanding the mine life, it's quite remarkable," Cronin said.

"What that new resource will clearly show is a significant extension of mine life but based on the results that I'm seeing over these past six months we think it will also show an increase in grade. Things are moving ahead very, very well in that regard.

"We gave our exploration budget for 2023 a healthy treasury to go work with, but with what we're seeing now, we're going to have to expand that programme because it's just adding so much value so quickly."

Exploration success and generating its own cash from operations were two of three long-term growth pillars which Adriatic flagged to the market when the company made its ASX debut back in 2018. The third one was to swiftly acquire other Vares-type projects in the Balkans region.

While Adriatic has since added the Raska base and precious metals project in neighbouring Serbia to its portfolio, Cronin hinted it could be quite some time before the company regained an appetite for any M&A.

"I think if you had asked me that question a year ago, I would have said, 'yep, we're definitely going to be very aggressive in terms of our expansion through our acquisitions and picking up other projects across the region,'" he said. "And I think, ultimately, we still will. However, what we're adding in value with the drill bit at Vares right now far exceeds the multiples of value that we could ever add through acquisition.

"If you look at the evolution of our balance sheet, now is not the right time to dilute shareholders and go and buy a shovel-ready project in Finland, for example, when what I can do for a relatively small amount of money is continue to grow the mineral inventory we've got here in Bosnia and to continue to generate very high cashflows over a longer period of time.

"When your first year of operations is expected to generate a little under \$US300 million in operating cashflows, you have a really strong platform for organic growth but also inorganic growth through M&A. So, I think it's 'watch this space' in 2024 because this company, as it is now, will change very dramatically during the course of the next year."

– Michael Washbourne



The 24.5km haul road remains on schedule for completion next quarter