Canaccord Genuity Capital Markets

Initiation of Coverage

Gascoyne Resources Limited

Precious Metals - Producer

2 November 2020

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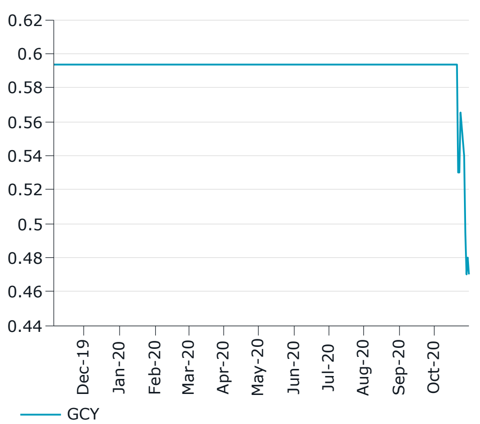
Rating **BUY**	Price Target **A$1.05**
GCY-ASX	Price **A$0.48**

Market Data

52-Week Range (A$) :	0.44 - 0.80
Avg Daily Vol (000s) :	4
Market Cap (A$M) :	120.4
Shares Out. (M) :	250.9
Enterprise Value (A$M) :	110
NAV /Shr (5%) (A$) :	1.05
Net Cash (A$M) :	(10.0)
P/NAV (x) (A$) :	0.46

FYE Jun	2020A	2021E	2022E	2023E
Gold Production (000oz)	73	77	76	73
All in Sustaining Cost (Gold) (US$ / oz)	1,058	916	983	1,246
EBITDA (A$M)	50.7	99.6	94.1	67.4
EV/EBITDA (x)	4.1	1.2	0.7	0.0
Net Income (A$M)	2.0	56.0	53.2	29.2
Free Cash Flow (A$M)	5.0	14.2	51.8	61.6



Source: FactSet

Priced intraday 2 November 2020

Gascoyne Resources (GCY) is a gold producer with its main asset, the Dalgaranga Gold Project, located in the Murchison Provence of WA.

Canaccord Genuity (Australia) Limited has received a fee as Lead Manager to the Gascoyne Resources Limited Institutional Placement and Accelerated Non-Renounceable Entitlement offer announced 13 August 2020.

Reset in improved circumstances

Initiating coverage with a BUY rating and a A$1.05/share price target (P/NAV of 0.46x). Gascoyne Resources (GCY) is a gold producer with its main asset, the Dalgaranga Gold Project, located in the Murchison Provence of WA. The project has been operating since May 2018 and currently has a seven-year base case LOM compromising of four years of open pit mining and a subsequent three years of stockpile processing. We estimate production in the first four years (FY21-24) to be notably higher, with the asset producing gold at a rate of ~75kozpa at an average AISC of A$1,416/oz due to preferentially treating higher grade material. We then model output reducing to ~30kozpa at AISC A$1,828/oz for the final three years as mining activities cease and low grade stocks are processed. Infrastructure capital is sunk given the asset has been in production for more than two years, and the only notable outstanding capital requirements, in our view, are associated with waste stripping over the next three years, which is internally funded by operational cash flows.

Reset after checkered past presents an opportunity. The company was placed into voluntary administration in June 2019 after the asset experienced lower-than-expected mine grades relative to the Resource model at the time (details within). The administrators continued operations and advanced optimisation work streams associated with Resource estimation and mine design. A combination of updated mine planning, completion of processing the problematic oxide material in the schedule and a significantly higher gold price (+40%) has led to a substantial operational turnaround, allowing a recapitalisation of the company. We think the operational turnaround and a robust updated LOM plan is not yet appreciated by the market which presents a unique opportunity to acquire cheap exposure to a profitable gold producing asset in WA.

We model debt to be repaid and the current market cap in cash in three years. The recapitalisation has reduced GCY's total debt level to A$40m leaving the company well positioned to execute on its LOM plan and invest in exploration to extend the Dalgaranga mine life and/or pursue activities at its other predevelopment assets in WA, in our view. On our model assumptions, we have GCY repaying its A$40m facility by the SepQ'23, at which point it will have generated A$138m in cash which is 115% of its current market capitalisation. Our base case assumption has a further three years of production, which we estimate will generate an additional A$131m in cash.

Our bull case scenario analysis implies a significantly higher valuation, and our bear case is still in Buy territory. We have completed scenario analysis on four situations looking to quantify the impact to cash flows and valuation on two upside and two downside cases. Our two bull cases include an 18-month mine life extension and a 6% positive grade reconciliation, and while these scenarios are mutually exclusive, combined they point to a potential 44% increase to our NAV to A$1.51/share. Our two bear cases include a 10% increase to unit costs and a major plant breakdown within the next 12 months, combined these scenarios result in a A$0.79/share NAV which would still be a Buy rating on valuation (P/NAV 0.61x).

Valuation

Our A$1.05/share valuation is derived using DCF analysis (1.0x forward curve $NPV_{5\%}$) of the Dalgaranga Gold Project and is adjusted for corporate costs, net debt, hedge book and a nominal exploration value (A$20/oz for Glenburgh). The stock recently resumed trading after an ~18-month period of suspension, and we suspect trading activity has been dominated by stale shareholders looking to exit. We see the current levels as an attractive entry point given our modelled fundamental valuation upside and the potential additional value that we believe could be realised via mine life extensions at Dalgaranga and/or advancing the Glenburgh asset.

Figure 1: GCY Financial Summary

Gascoyne Resources Limited **ASX:GCY**

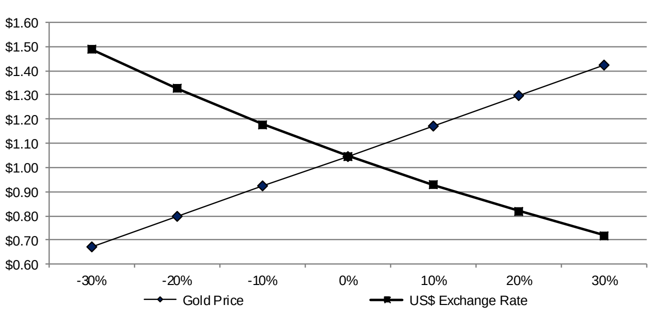
Analyst :	Henry Renshaw	Rating:	**BUY**
Date:	30/10/2020	Target Price:	**A$1.05**
Year End:	June		

Market Information		
Share Price	A$	0.48
Market Capitalisation	A$m	120.4
12 Month Hi	A$	0.68
12 Month Lo	A$	0.44
Issued Capital	m	250.9
Options	m	0.0
Fully Diluted	m	250.9

Valuation		**A$m**	**A$/sh**
Dalgaranga	NPV @ 5%	292	1.16
Corporate		(39)	-0.16
Exploration		20	0.08
Forwards		(1)	0.00
Cash & Bullion		30	0.12
Debt		(40)	-0.16
TOTAL NAV		**263**	**1.05**
Price:NAV			0.46 x
NAV @ Spot	Spot US$1,871/oz		0.99
TARGET PRICE			**1.05**

Assumptions	**2020a**	**2021e**	**2022e**	**2023e**
Gold Price (US$/oz)	1,563	1,906	1,934	1,956
AUD:USD	0.67	0.72	0.72	0.72
Gold Price (A$/oz)	2,328	2,661	2,700	2,733

Sensitivity



Production Metrics	**2020a**	**2021e**	**2022e**	**2023e**
Dalgaranga				
Prod'n (koz)	73	77	76	73
AISC (A$/oz)	1,576	1,279	1,373	1,742
AIC (A$/oz)	2,232	2,270	1,902	1,810

Reserves & Resources		**Mt**	**Grade**	**Moz**
Reserves				
Dalgaranga		16.30	0.81	0.43
Reserves	**TOTAL**	**16.30**	**0.81**	**0.43**
Resources				
Dalgaranga		29.63	0.84	0.80
Glenbrugh		21.40	1.5	1.00
Resources	**TOTAL**	**51.03**	**1.10**	**1.80**

Company Description

Gascoyne Resources Limited is an Australian gold producer operating the Dalgaranga project in Western Australia. The project entails a seven-year LOM comprising of four years of open pit mining and a subsequent three years of stockpile processing.

Profit & Loss (A$m)	**2020a**	**2021e**	**2022e**	**2023e**
Revenue	171.5	205.3	203.4	200.7
Operating Costs	108.0	89.5	97.1	121.1
Corporate & O'heads	12.9	14.1	10.0	10.0
Exploration (Expensed)	0.0	2.1	2.1	2.1
EBITDA	**50.7**	**99.6**	**94.1**	**67.4**
Dep'n	42.0	40.6	39.7	38.5
Net Interest	-6.5	-2.9	-1.2	0.3
Other	0.0	0.0	0.0	0.0
Tax	0.1	0.0	0.0	0.0
NPAT (statutory)	**2.0**	**56.0**	**53.2**	**29.2**
Abnormals	0.0	0.0	0.0	0.0
NPAT	2.0	56.0	53.2	29.2
EBITDA Margin	*30%*	*49%*	*46%*	*34%*
EV/EBITDA	***4.1x***	***1.2x***	***0.7x***	***0.0x***
EPS	*$0.00*	*$0.22*	*$0.21*	*$0.12*
EPS Growth	*nm*	*nm*	*-5%*	*-45%*
PER	*nm*	*2.15*	*2.26*	*4.12*
Dividend Per Share	*$0.00*	*$0.00*	*$0.00*	*$0.00*
Dividend Yield	***0%***	***0%***	***0%***	***0%***

Cash Flow (A$m)	**2020a**	**2021e**	**2022e**	**2023e**
Cash Receipts	171.5	205.3	203.4	200.7
Cash paid to suppliers & employee	-119.7	-103.6	-107.1	-131.1
Tax Paid	0.0	0.0	0.0	0.0
Net Interest	-0.8	-2.9	-1.2	0.3
Other	0.0	-1.6	0.0	0.0
Operating Cash Flow	**50.9**	**97.1**	**95.1**	**69.9**
Exploration and Evaluation	-1.1	-3.0	-3.0	-3.0
Capex	-44.8	-80.0	-40.3	-5.3
Other	0.0	0.1	0.0	0.0
Investing Cash Flow	**-45.9**	**-82.9**	**-43.3**	**-8.3**
Debt Drawdown (repayment)	-15.6	-64.0	-14.0	-14.0
Share capital	0.0	85.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0
Financing Expenses	-0.5	-7.6	0.0	0.0
Financing Cash Flow	**-16.1**	**13.4**	**-14.0**	**-14.0**
Opening Cash	16.7	5.6	33.3	71.1
Increase / (Decrease) in cash	-11.1	27.7	37.8	47.6
FX Impact	0.0	0.0	0.0	0.0
Closing Cash	**5.6**	**33.3**	**71.1**	**118.7**
Op. Cashflow/Share	*$0.05*	*$0.39*	*$0.38*	*$0.28*
P/CF	*9.47*	*1.24*	*1.27*	*1.72*
FCF	***5.0***	***14.2***	***51.8***	***61.6***
EV/FCF	***41.4x***	***8.2x***	***1.3x***	***0.1x***
FCF Yield	***4%***	***12%***	***43%***	***51%***

Balance Sheet (A$m)	**2020a**	**2021e**	**2022e**	**2023e**
Cash + S/Term Deposits	5.6	33.3	71.1	118.7
Other current assets	21.5	22.6	22.4	22.2
Current Assets	**27.1**	**55.9**	**93.5**	**140.9**
Property, Plant & Equip.	179.7	187.6	187.7	181.1
Exploration & Develop.	30.1	31.0	31.9	32.8
Other Non-current Assets	0.4	56.2	56.4	29.5
Payables	43.6	8.2	8.2	8.1
Short Term Debt	71.5	5.9	3.1	0.3
Long Term Debt	10.7	23.6	12.4	1.2
Other Liabilities	54.2	87.6	87.3	86.8
Net Assets	**57.4**	**205.4**	**258.7**	**287.9**
Shareholders Funds	171.6	263.6	263.6	263.6
Reserves	0.9	0.9	0.9	0.9
Retained Earnings	-116.2	-60.2	-6.9	22.3
Total Equity	57.4	205.4	258.7	287.9
Debt/Equity	*19%*	*11%*	*5%*	*0%*
Net Debt/EBITDA	*1.5x*	*0.0x*	*-0.6x*	*-1.7x*
Net Interest Cover	*5.4x*	*12.1x*	*23.2x*	*72.0x*
ROE	*3%*	*27%*	*21%*	*10%*
ROIC	*1%*	*18%*	*17%*	*11%*
Book Value/share	*$0.23*	*$0.82*	*$1.03*	*$1.15*

Source: Company reports, Canaccord Genuity estimates

Contents

The 'new' Gascoyne Resources

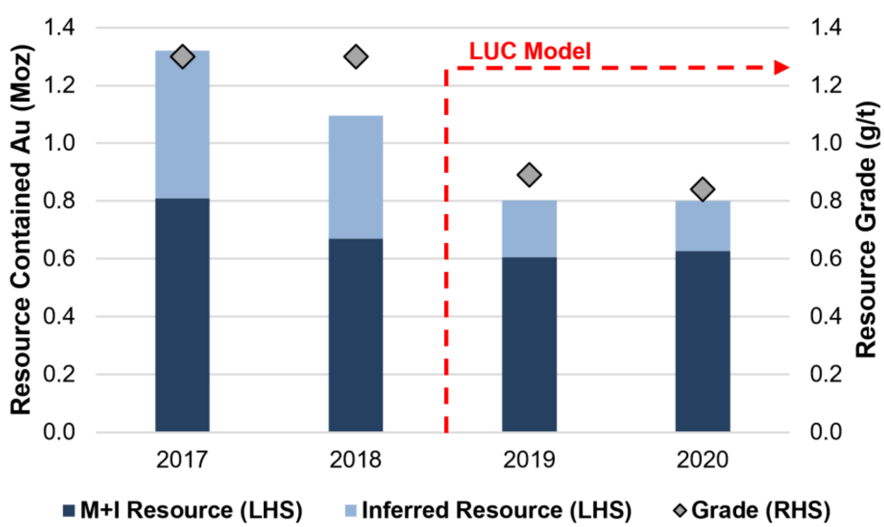
Background

GCY was placed into voluntary administration (VA) in June 2019 following difficulties achieving scheduled ore grades in line with the Ore Reserve (and mine plan) at its Dalgaranga Gold Project in WA. Ore grades presenting to the ROM were not reconciling with the Resource model and it was identified that the method of estimation was overcalling the grade, along with gold depletion within the oxide material. A new Resource modelling methodology was subsequently incorporated (see below) which outlined a mine plan with higher tonnages at lower grades, impacting the expected near-term cash flows based on the gold price during that period. The administrator continued operations and progressed various work streams to improve its confidence in the Resource model and mine plan, and with the current higher gold price environment, the company completed a recapitalisation of the company, utilising its updated operating parameters. The following five key points outline the major changes that have occurred since the appointment of administrators.

1) Updated Resource estimation methodology improves grade predictability

A significant change to the Resource estimation methodology occurred in 2019 (post VA) with the adoption of a Localised Uniform Conditioning (LUC) model. The LUC model focusses on delineation of broad mineralisation envelopes with a high tolerance for internal waste (based on geological controls), resulting in a reduction in the number of wireframes, which are subject to geological interpretation. Adoption of the LUC model resulted in a notable reduction in grade estimate (from 1.3g/t to 0.89g/t, current grade is 0.84g/t), but reconciles well with current mining operations and the historic Equigold production (within 1% contained Au). While the reduction in Resource grade negatively impacts project economics, we see the improved predictability as a positive given it allows GCY to more accurately plan mining activities to operate within budgets that can be scoped against a more reliable (albeit lower) production profile.

Figure 2: Dalgaranga Resource (2017-present)

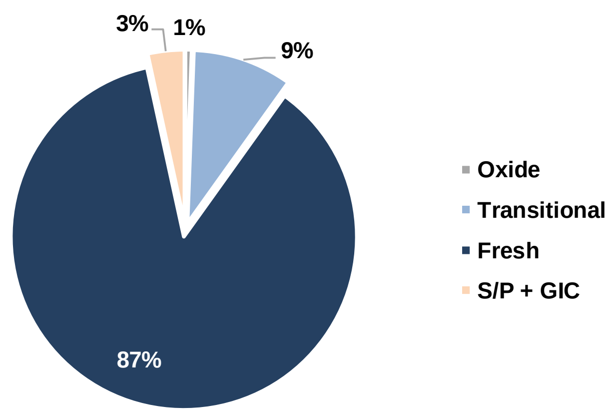


Source: Company reports, Canaccord Genuity

2) Gilbey's Main Zone (GMZ) – into the purple patch

The current Ore Reserve at Dalgaranga is predominantly made up of the GMZ which generally has an oxidation state classified as either transitional or fresh. The oxide material in the early stages of mining activities at Dalgaranga presented challenges relating to gold recovery, as the oxidation process has depleted the contained gold. The Gilbey's pit Resource (27.8Mt at 0.84g/t for 751.5koz) represents 94% of the total Dalgaranga Resource, with only 0.5% of Gilbey's classified as 'oxide'.

Figure 3: Dalgaranga Ore Reserve by oxidation state



Source: Company reports, Canaccord Genuity

With the mine plan moving forward largely comprising of transitional and fresh material, we see potential for further improvements to Resource reconciliation and grade predictability. Supporting this view is reconciliation of two separate batch processing trials of 100% GMZ material (Figure 4). The trials were conducted over a combined period of 19 days, where material from sources outside of the GMZ were not processed. The combined trials returned an 18% positive reconciliation of tonnes, a 6% positive reconciliation on grade and a 25% positive reconciliation of mined ounces. We have not incorporated any provision for positive reconciliation into our DCF assumptions, and as such, see this as potential upside to our forecasts.

Figure 4: GMZ batch trial results

GMZ Trial #1 April 2020

DECLARED ORE MINED (DOM)				RESOURCE (LUC)				DOM vs. LUC			
Volume (BCM)	Tonnes (t)	Grade (g/t Au)	Ounces (oz)	Volume (BCM)	Tonnes (t)	Grade (g/t Au)	Ounces (oz)	Volume (BCM)	Tonnes (t)	Grade (g/t Au)	Ounces (oz)
17,716	39,079	1.33	1,676	13,293	33,221	1.17	1,245	133%	118%	114%	135%

GMZ Trial #2 April / May 2020

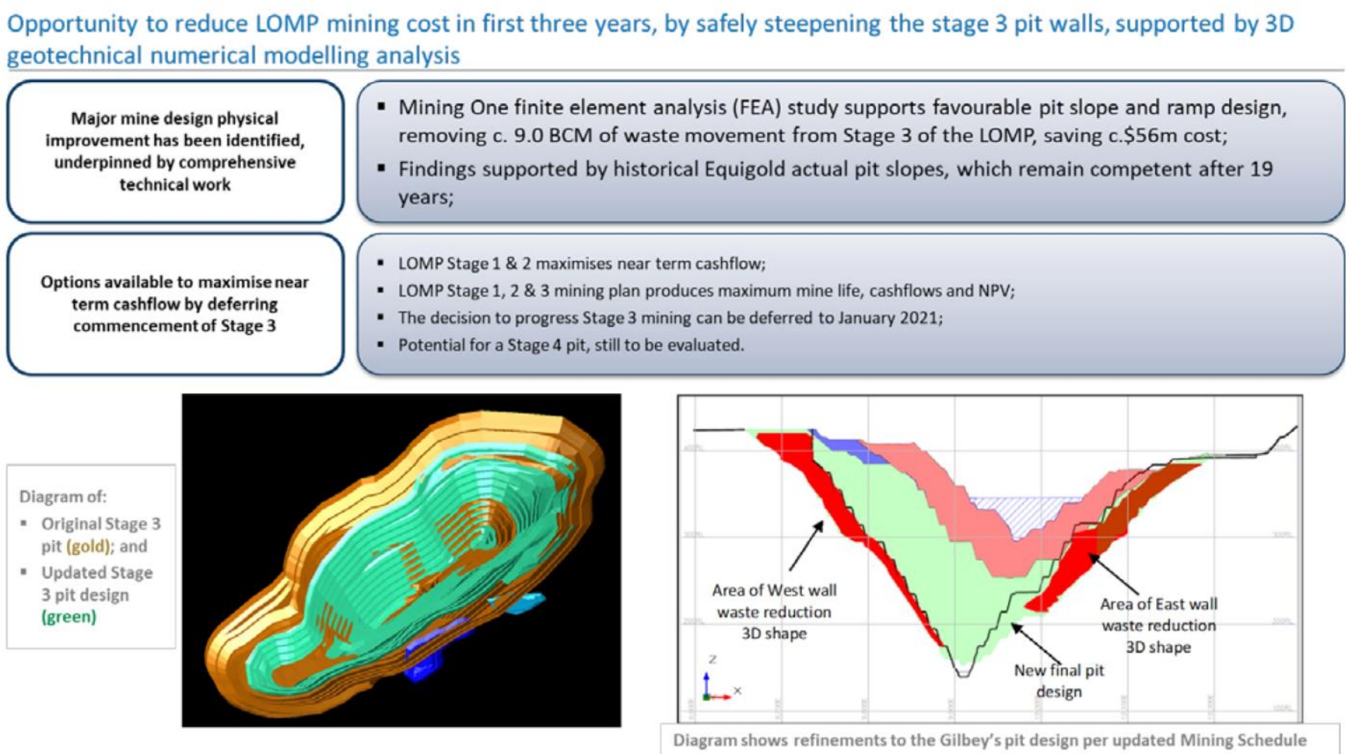
DECLARED ORE MINED (DOM)				RESOURCE (LUC)				DOM vs. LUC			
Volume (BCM)	Tonnes (t)	Grade (g/t Au)	Ounces (oz)	Volume (BCM)	Tonnes (t)	Grade (g/t Au)	Ounces (oz)	Volume (BCM)	Tonnes (t)	Grade (g/t Au)	Ounces (oz)
41,995	111,706	1.07	3,853	35,969	94,934	1.05	3,191	117%	118%	103%	121%

Source: Company reports

3) New pit design, lower strip ratio

GCY engaged an external consultant (Mining One Consultants) to conduct a geotechnical review of the final pit design. The scope of the work was to determine if an opportunity exists to steepen the pit walls to allow a reduction of waste rock over the LOM. Outcomes indicated a steepening is feasible if adequate controls are implemented (drill and blast practices and dewatering), all three stages of the pit have subsequently been redesigned which has resulted in an estimated A$56m operating cost saving and an overall strip ratio of 3.5x.

Figure 5: Gilbey's open pit isometric view, cross section and recently completed pit optimisation details

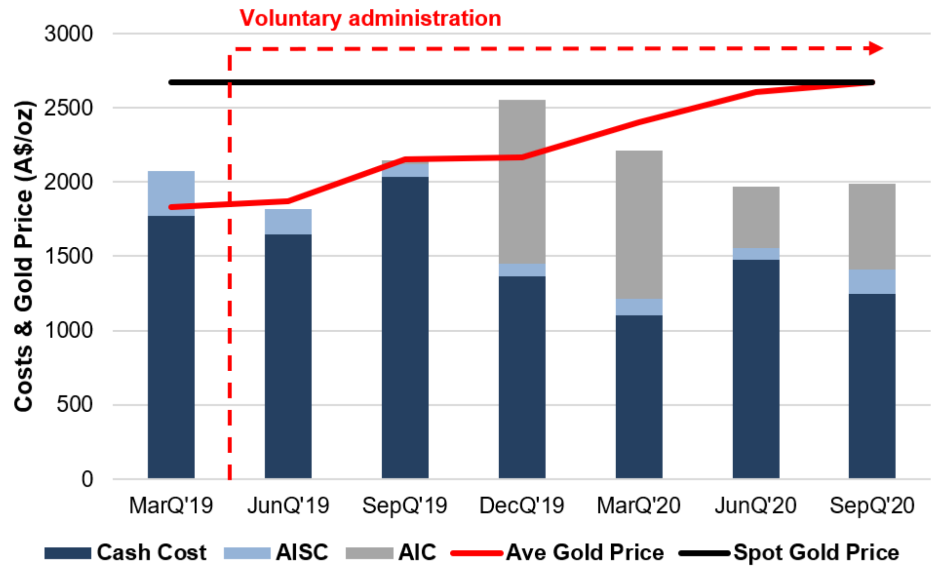


Source: Company reports

4) Gold price tailwinds, profitable on tempered operating parameters

Since GCY was placed into VA (June 2019), the A$ gold price has increased by 40% to A$2,665/oz, at the time of writing. The elevated spot price, and our outlook for gold prices (CGe long-term price A$2,772 by 2024, see Price deck update), presents an improved investment case on the revised production metrics. GCY incorporated an AIC metric in the DecQ'19 which captures project capital and capitalised deferred waste, with the JunQ'20 and SepQ'20 posting an AIC margin of 32% and 35% respectively. The asset would have generated AISC and/or AIC margin (implying it would have been profitable) every quarter since declaration of commercial production if the gold price at the time was at current spot levels (A$2,671/oz), Figure 6.

Figure 6: Unit costs vs average spot A$ gold price (by quarter)

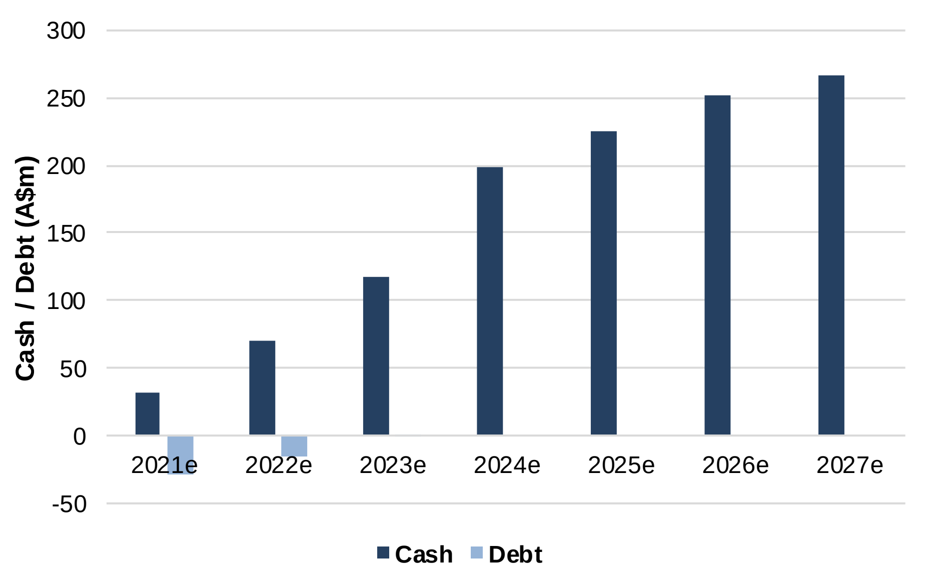


Source: Company reports, FactSet, Canaccord Genuity estimates

5) Recapitalisation to reduce debt level to A$40m and net debt to A$10m

GCY's previous debt was completely extinguished via a combination of new equity, debt to equity conversion, and a new A$40m facility (fully drawn). The current debt position of A$40m and net debt of A$10m is a more appropriate gearing level, in our view, with a debt-to-equity ratio of 20% and net debt/FY21e EBITDA of 0.10x. We forecast the debt balance to be repaid by the SepQ'23, at which point the company will have generated +A$138m in cash reserves (115% of its current market capitalisation), based on our assumptions.

Figure 7: CGe cash and debt position



Source: Company reports, Canaccord Genuity estimates

Valuation

Our valuation is underpinned by DCF analysis (NPV$_{5\%}$) of the Dalgaranga gold project. Broadly speaking, the project entails a seven-year LOM comprising four years of open pit mining and a subsequent three years of stockpile processing. A total of 390koz is produced at an average rate of 55kozpa at an average AISC of A$1,510/oz and AIC (inclusive of deferred waste stripping) of A$1,820/oz. There is a notable step change in production from FY25 (after the first four years) as open pit mining concludes and high-grade preferential ore treatment transitions to lower grade stockpiles, resulting in an average production of ~75kozpa at an average AISC A$1,416/oz between FY21-24, and ~30kozpa at an average AISC of A$1,828/oz between FY25-27.

Our valuation also incorporates corporate costs (A$10m pa), net debt and a mark to market valuation of GCY's hedge book. See Figure 8 for our sum-of-the-parts valuation for GCY.

Figure 8: Sum-of-the-parts valuation for GCY

NET ASSET VALUATION

Shares	250.858
ITM Options	0.00
Full Diluted	250.858

	A$m	EQUITY	A$M	PER SHARE
Dalgaranga	292	100%	292	1.16
Corporate	-39		-39	-0.16
Exploration	20		20	0.08
Forwards	-1		-1	0.00
Cash & Bullion	30		30	0.12
Debt	-40		-40	-0.16
TOTAL	**263**		**263**	**1.05**
			Target (Rounded)	A$1.05
			P/NAV	**0.46x**

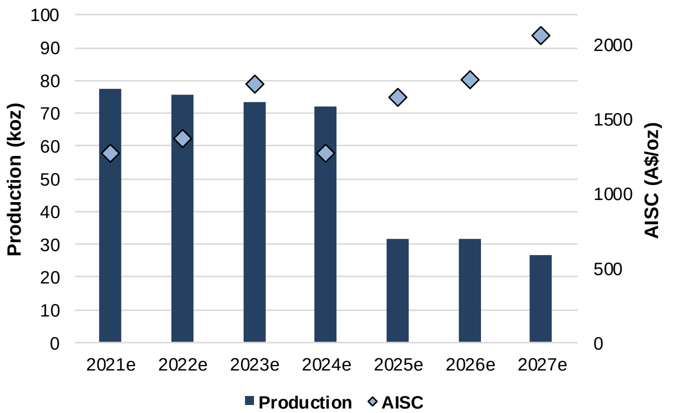
Source: Company reports, Canaccord Genuity estimates

Figure 9: Gold price and AUD:USD assumptions

Assumptions	2021e	2022e	2023e	2024e	LT
Gold Price (US$/oz)	1,842	1,877	1,900	1,917	1,926
AUD:USD	0.698	0.696	0.694	0.694	0.694
Gold Price (A$/oz)	2,637	2,698	2,739	2,762	2,776

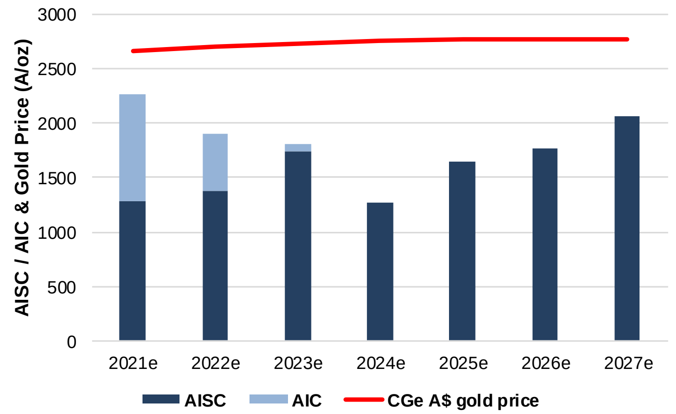
Source: Canaccord Genuity estimates

Figure 10: Production and AISC



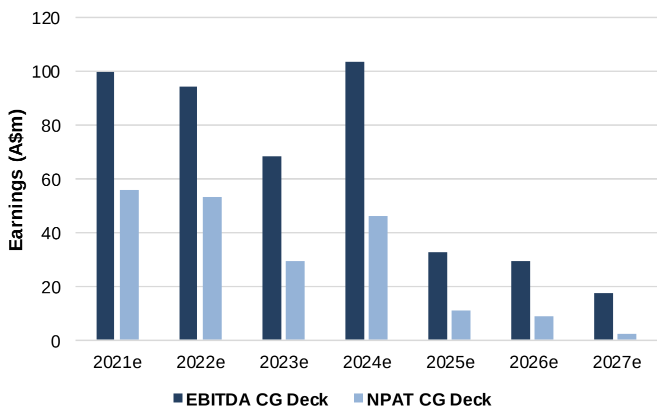
Source: Canaccord Genuity estimates

Figure 11: AISC, AIC and CGe A$ gold price



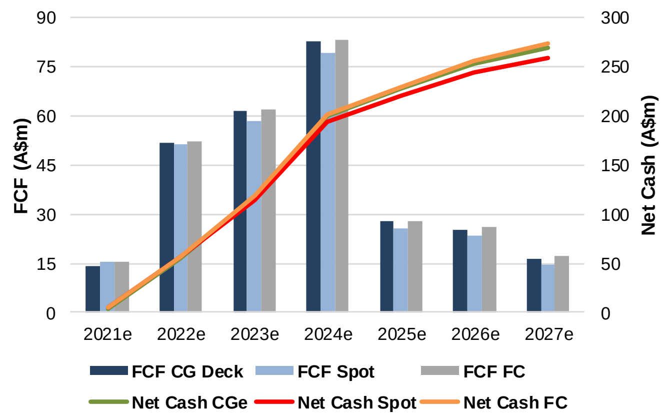
Source: Canaccord Genuity estimates

Figure 12: CGe forecasted EBITDA and NPAT



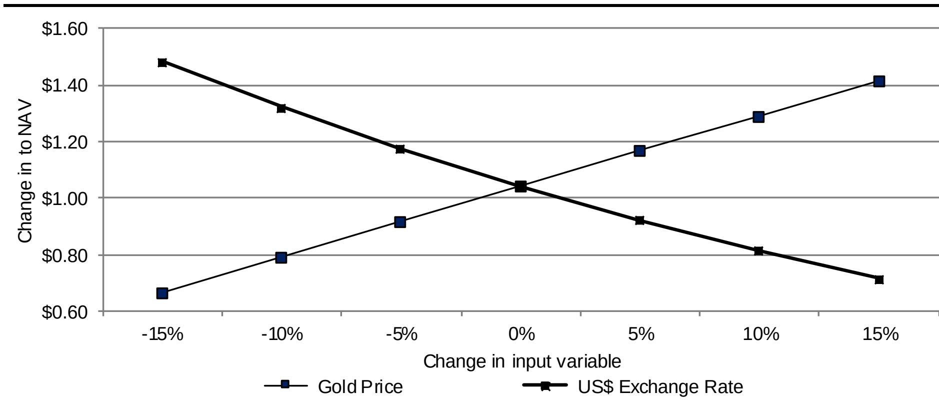
Source: Company reports, Canaccord Genuity estimates

Figure 13: FCF and net cash using CG price deck, spot and forward curve



Source: Company reports, Canaccord Genuity estimates

Figure 14: NAV sensitivity to gold price and AUD:USD

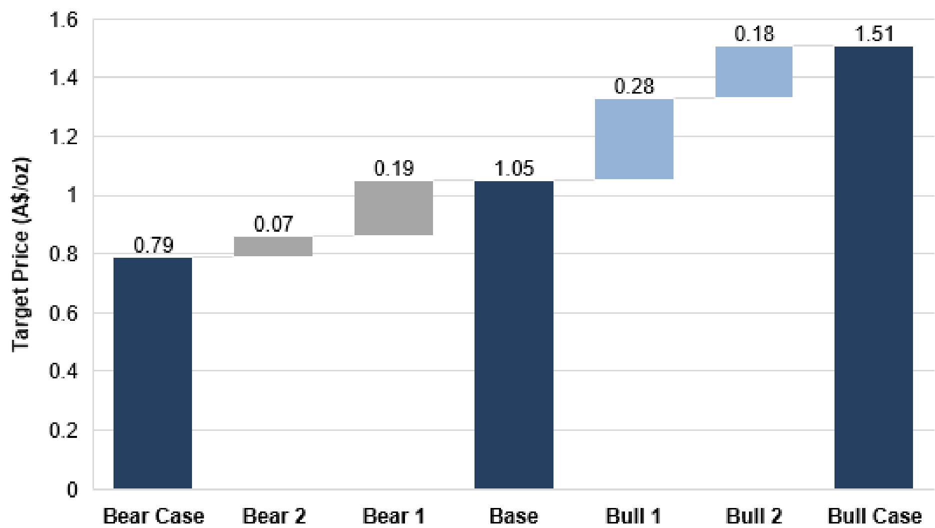


Source: Canaccord Genuity estimates

Scenario analysis

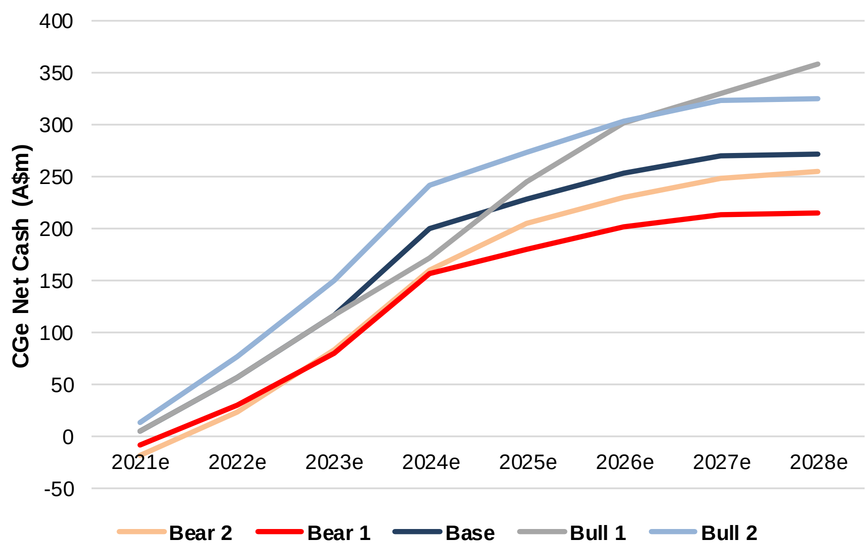
We have conducted scenario analysis to quantify the impact to our valuation and cash flows (CGe net debt position) as a result of what we consider potential bull and bear scenarios. We highlight that the combined bear cases, noting these are mutually exclusive scenarios, result in a valuation of A$0.79/share (P/NAV of 0.61x), which is still significantly higher than the current share price. We consider a combined bull case to be just as likely, which would increase our valuation to A$1.51/share (P/NAV of 0.32x).

Figure 15: Bull and bear target price



Source: Canaccord Genuity estimates

Figure 16: Bull and bear CGe net cash

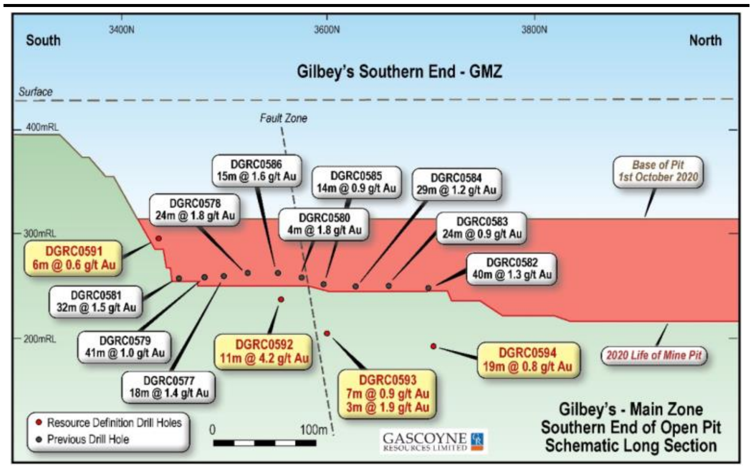


Source: Canaccord Genuity estimates

Bull case 1: Dalgaranga 18-month mine life extension

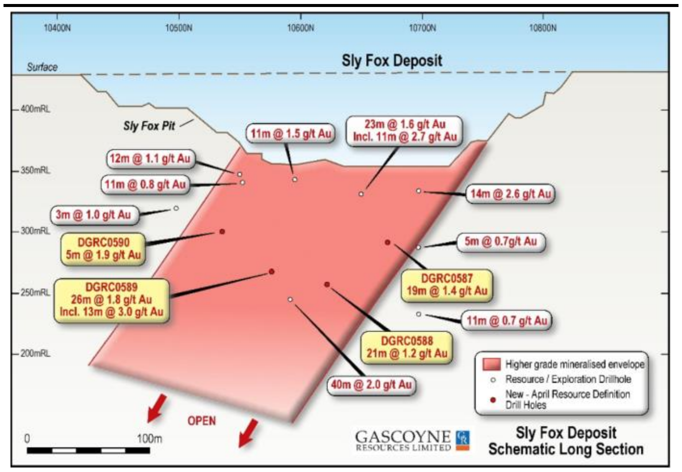
- *Rationale:* Recent drilling outside of the current LOM pit designs at Gilbey's, Sly Fox and Plymouth (not in the current mine plan) have returned results which we consider minable widths and at grades above the current Resource (Figure 17 and Figure 18). We see potential for an 18-month extension given the proximity of the intercepts relative to the pit designs.
- *Modification:* We have increased mined tonnes by 43% to 23.9Mt (M+I Resource is currently 22.9Mt, total Resource 29.6Mt) over the LOM, the additional tonnes are assumed at a mined grade of 1.05g/t and a strip ratio of 2.6x. The additional tonnes result in a 21% increase to processed tonnes over the LOM (to 21.7Mt) and a 28% increase to gold production (to 499koz).
- *Impact to valuation:* Our modification increases our base case valuation by A$0.28/share (27%) to A$1.33/share. We have extended mining at the same rates (production metrics, capital costs and unit costs) as FY23 which is a relatively high cost year (AISC A$1,742/share, AIC A$1,810/oz). We observe cash built reducing versus our base case during FY24 but accelerating through FY25/FY26.

Figure 17: Gilbey's long section



Source: Company reports

Figure 18: Sly Fox long section



Source: Company reports

Bull case 2: Positive reconciliation; 6% on grade

- *Rationale:* Batch processing trials of the GMZ conducted at Dalgaranga in April/May 2020 returned grades that reconciled 6% higher compared to the block model. Tonnes reconciled 18% higher and we assume this is driven by material previously classified as waste, implying there will be no increase to total volume mined (rather a lower strip ratio).
- *Modification:* We have increased our mined and milled grade by 6%. Total gold produced over the LOM increases by 22.1koz to 410.8koz. Average AISC reduces by 5% to A$1,430/oz.
- *Impact to valuation:* Our modification increases our base case valuation by A$0.18/share (17%) to A$1.23/share. Net cash position at the end of the LOM increases by A$51m (20%) to A$324m and is relatively consistent over the LOM (in percentage terms).

Bear case 1: 10% increase to unit costs

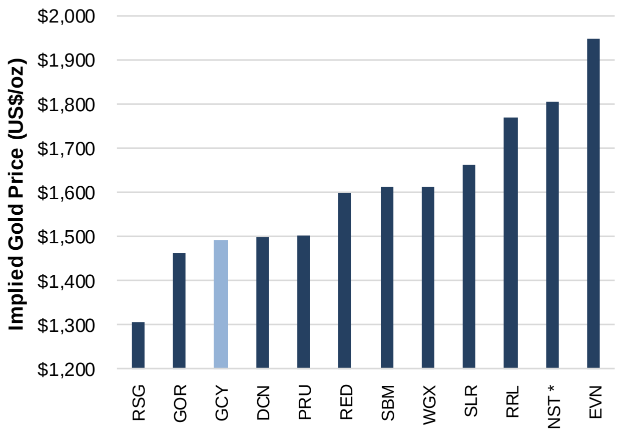
- *Rationale:* We are of the view that unit costs should be relatively well forecasted within GCY's recent updated LOM plan, given the asset is a largely contractor-based model and derived from actual contractor rates. We have completed a flex analysis of unit rates as a prudent exercise, selecting an arbitrary 10%.
- *Modification:* We have increased our open pit mining, processing and admin unit costs by 10% over the LOM. The average AISC over the LOM increases by 10% to A$1,661/oz.
- *Impact to valuation:* Our modification decreases our base case valuation by A$0.19/share (18%) to A$0.86/share. The cash low point (JunQ'21) reduces by 37% to A$21m, noting we model a total of A$10.5m debt repaid by that point. Net cash position at the end of the LOM decreases by 21% to A$215m.

Bear case 2: Major plant breakdown within the next 12 months

- *Rationale:* A risk associated with a single asset producer is a major interruption to production activities impacting cash flows in the short term. We have modelled a scenario whereby the plant is shut for an entire quarter within the next 12 months simulating a significant breakdown. We highlight that the Dalgaranga plant is only 27 months old (commissioned SepQ'18) and has operated without any significant interruption for nine consecutive quarters.
- *Modification:* We have assumed no mining and processing metrics for the MarQ'21 and delayed the remaining LOM metrics by a quarter. We have added a capital cost of A$15m and delayed a A$3.5m debt payment in the MarQ'21.
- *Impact to valuation:* Our modification decreases our base case valuation by A$0.07/share (7%) to A$0.98/share. The impact to our valuation is minimal given the short-term nature of the disruption. We highlight the cash low point in this situation is A$15m, in the MarQ'20 (quarter of modelled disruption). Net cash at the end of the LOM decreases by 8% to A$249m.

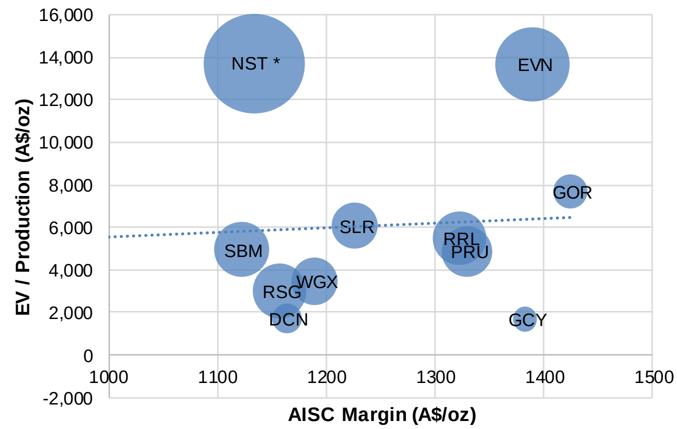
Peer comps

Figure 19: Implied gold price



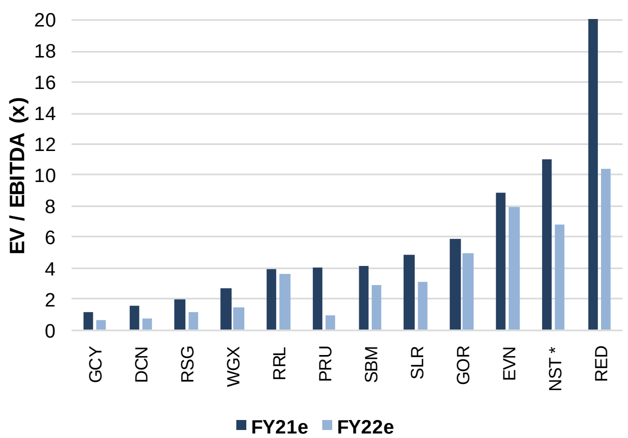
Source: FactSet, CG estimates * NST assumes SAR merger complete

Figure 20: FY21e EV/Production vs AISC margin



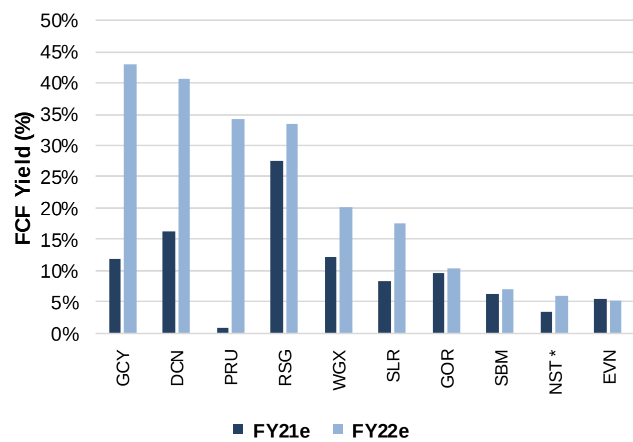
Source: FactSet, CG estimates * NST assumes SAR merger complete
Bubble size = production capacity

Figure 21: EV/EBITDA



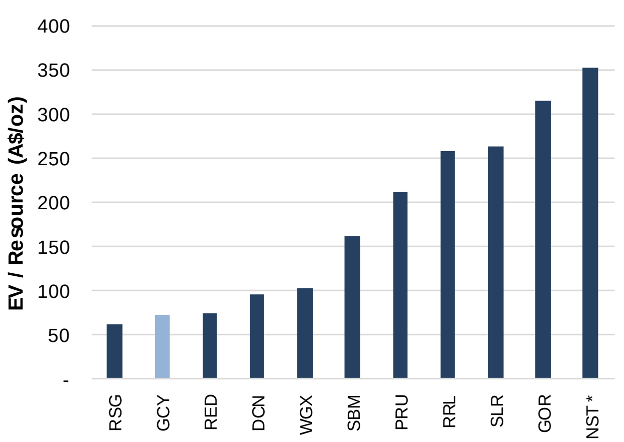
Source: FactSet, CG estimates * NST assumes SAR merger complete

Figure 22: FCF Yield



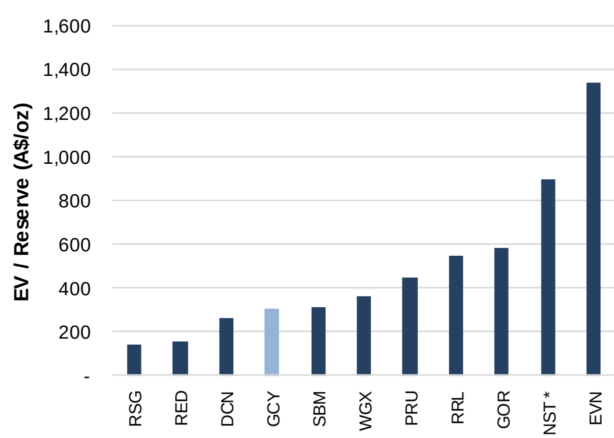
Source: FactSet, CG estimates * NST assumes SAR merger complete

Figure 23: EV/Resource



Source: FactSet, CG estimates * NST assumes SAR merger complete

Figure 24: EV/Reserve



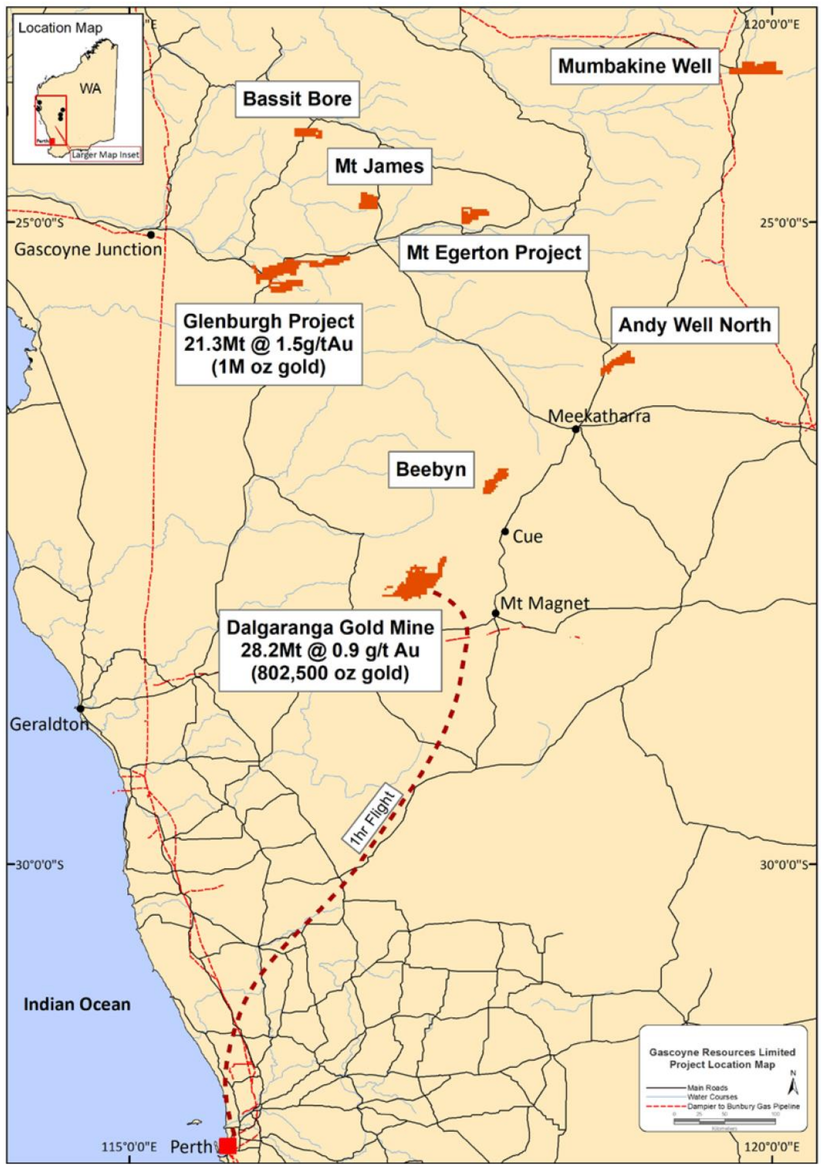
Source: FactSet, CG estimates * NST assumes SAR merger complete

Asset overview: Dalgaranga Gold Project

Location, Access and Infrastructure

The Dalgaranga Gold Project is located approximately 65km northwest of Mt Magnet (a township located on the Great Northern Highway) in Western Australia. The site is accessed via an unsealed road from Mt Magnet or by plane direct to the site airstrip. Accommodation and camp facilities for employees and contractors are located onsite. Power is supplied via onsite diesel generators and water is sourced from the Gilbey's pit lake and pit dewatering bores, plans to re-establish the existing process-water bore field will ensure long-term water supply. The tailings storage facility currently has 6-9 months of capacity (~A$1.7m invested in December 2019) with tailings disposal to be diverted to the Golden Wings pit (once depleted).

Figure 25: Dalgaranga Project location

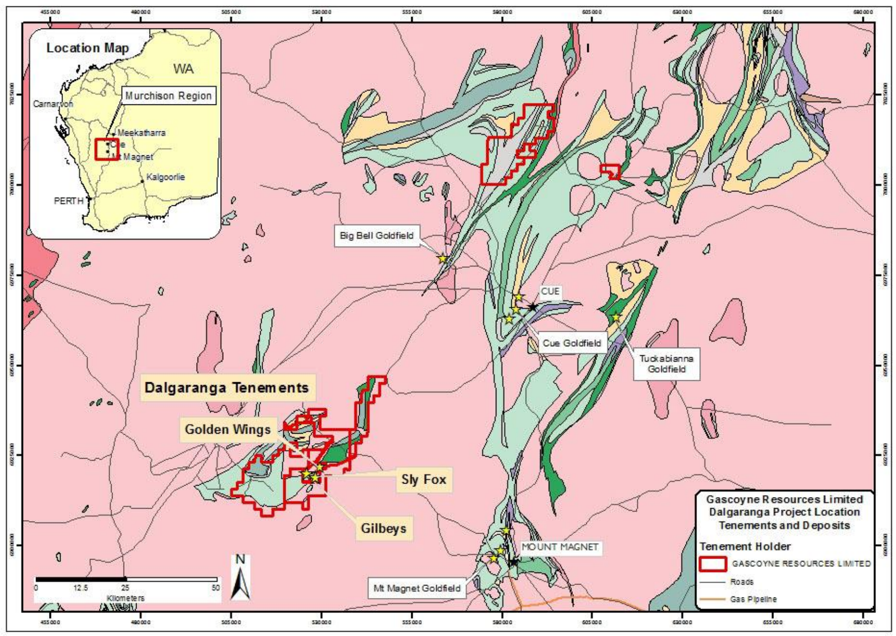


Source: Company reports

Geology

The project is located within the Dalgaranga Greenstone Belt in the Murchison Province of Western Australia. Most gold mineralisation at Gilbey's is associated with shears situated within biotite-sericite-carbonate pyrite altered schists with quartz-carbonate veining within a porphyry-shale-mafic. Lower amounts of mineralisation are associated with highly discontinuous structures in the footwall and hangingwall of the sheared porphyry-shale-mafic lithologies. A total of 15 board domains have been interpreted, with an additional mineralised waste 'halo' also defined surrounding the 15 domains.

Figure 26: Dalgaranga tenements and surrounding gold fields



Source: Company reports

Mineral Resource and Ore Reserve

- Dalgaranga Resources total 29.6Mt at 0.84g/t for 801koz (78% Measured and Indicated) and Reserves total 16.3Mt at 0.8g/t for 426koz. A breakdown of the Resources and Reserves is shown in Figure 27 and Figure 28 respectively.

Figure 27: Dalgaranga Mineral Resource (as of 30 April 2020)

Classification	Mt	Au g/t	Au koz
Measured	1.65	0.75	39.7
Indicated	21.22	0.86	588.6
Measured + Indicated	22.87	0.85	628.3
Inferred	6.76	0.80	173.1
TOTAL	**29.62**	**0.84**	**801.3**

Source: Company reports

Figure 28: Dalgaranga Ore Reserve (as of April 2020)

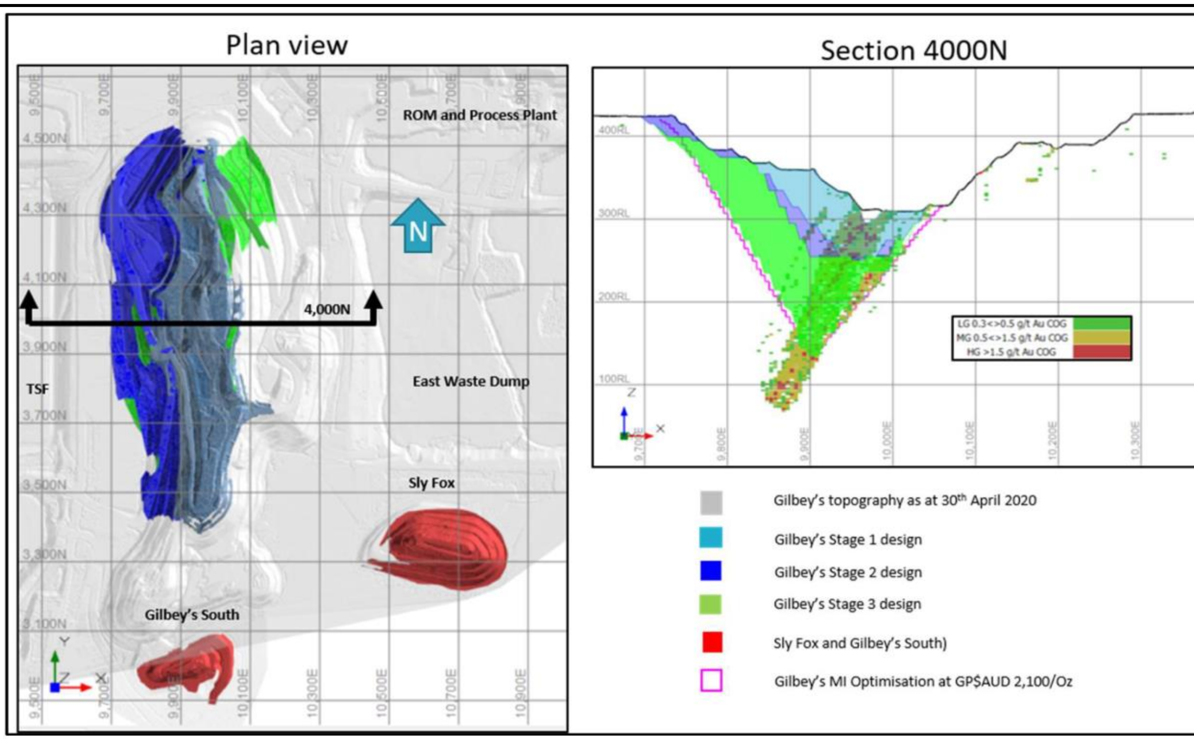
Classification	Oxidation state	COG (g/t Au)	Mt	Au g/t	Au Koz
Proved	Oxide	0.30			
	Transition	0.30	0.9	0.7	19.9
	Fresh	0.30	0.5	0.7	11.3
	Stockpiles	0.30	1.1	0.4	12.9
	Gold In circuit				1.7
	SUBTOTAL		**2.4**	**0.6**	**45.8**
Probable	Oxide	0.30	0.1	1.0	2.5
	Transition	0.30	0.8	0.8	19.8
	Fresh	0.30	13.1	0.9	358.3
	SUBTOTAL		**13.9**	**0.9**	**380.6**
Total			**16.3**	**0.8**	**426.3**

Source: Company reports

Mining

- Mining is conducted utilising a standard open pit, drill and blast with truck and shovel method. Activities are largely focussed on the Gilbey's main pit with the Satellite Golden Wings pit (completed SepQ'20) supplementing feed. The main Gilbey's pit has been designed as three stages (Figure 29), with two additional satellite pits (Gilbey's South and Sly Fox) planned to be mined as part of stage three; the satellite pits are proximal to the Gilbey's main pit. Mining is conducted via contractor NRW Holdings utilising a standard fleet of excavators, dump trucks and ancillary equipment.
- Mining activities will conclude in four years (FY24), with the final three years of plant feed sourced from low grade stockpiles. Higher grade material will be preferentially treated as mining occurs. Stockpile levels are expected to exceed 7Mt at its peak in FY25.

Figure 29: Dalgaranga main pit design

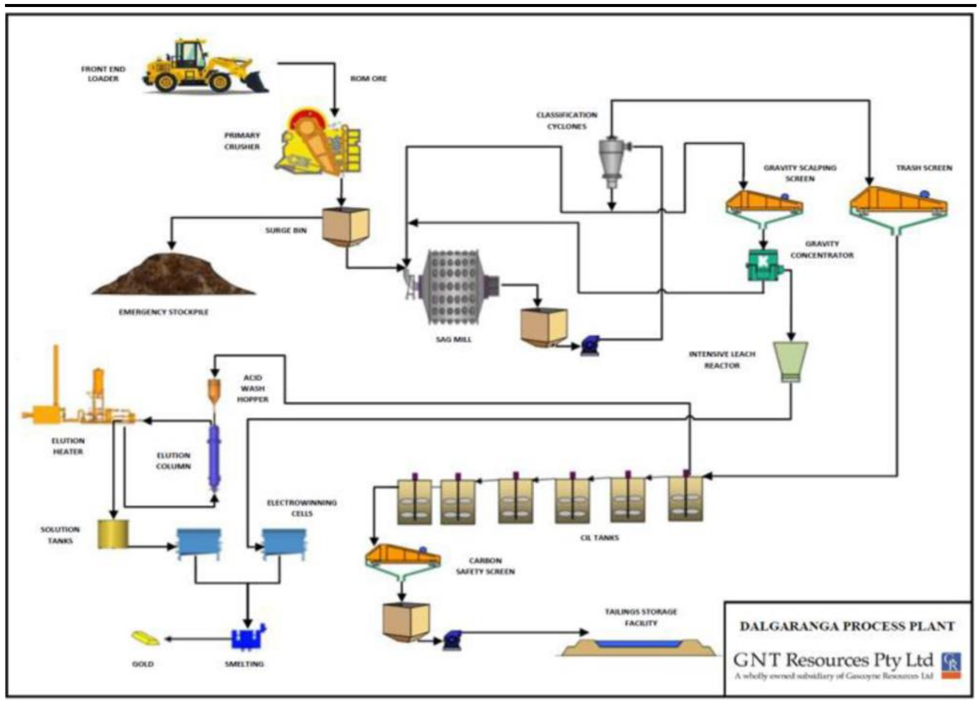


Source: Company reports

Processing

- Dalgaranga has a conventional CIL gold processing plant with a nameplate capacity of 2.5Mtpa, and rates of up to 3Mtpa can be achieved (pending oxide proportion of the feed). GCY constructed the plant, with processing commencing in May 2018 (plant age ~27 months). The plant comprises a single stage crushing followed by Semi-Autogenous Grinding (SAG), gravity separation and a Carbon-in-Leach (CIL) circuit. A simplified flowsheet is shown in Figure 30. Metallurgical recoveries average 86% over the LOM, ranging from 81%-91%
- The Ore Reserve contains a proportion (20%, 84koz) of Black Shale material which yields a lower metallurgical recovery. GCY intends to blend this material at quantities of no greater than 15% of the total feed. A recovery of 77% for this material has been assumed based on test work completed.

Figure 30: Dalgaranga plant flowsheet



Source: Company reports

Other projects

Glenburgh Gold Project

- The Glenburgh project is located ~250km east of Carnarvon in the southern Gascoyne region of WA. The project currently has a defined Resource of 21.3Mt at 1.5g/t for 1Moz (non-JORC 2012), Figure 31. The Resource consists of 11 separate deposits within a 20km long shear zone. A preliminary study was completed in 2013 which outlined a four-year LOM, producing 316koz (4.9Mt at 2.0g/t) at an AISC of A$994/oz for a capital cost of A$70.4m (including working capital and assuming a second-hand plant).
- Following completion of the study, GCY's focus transitioned to the Dalgaranga project. Various drilling campaigns were completed in Glenburgh over the subsequent years, but studies have not since progressed. GCY intends to re-evaluate the project given the higher gold price environment to determine if work streams should progress to a pre-feasibility study. We have included a nominal value of A$10/oz for the Glenburgh project in our valuation (A$10m).
- GCY is currently completing Resource estimation work to comply with JORC 2012 standards. We anticipate that the LUC modelling methodology will be applied, suggesting a potential reduction in grade but providing a robust estimate of which mining designs and parameters can be added in a conservative nature.

Figure 31: Glenburgh Mineral Resource

	Measured			Indicated			Inferred			Total		
Area	Tonnes Mt	Au g/t	Au Ounces	Tonnes Mt	Au g/t	Au Ounces	Tonnes Mt	Au g/t	Au Ounces	Tonnes Mt	Au g/t	Au Ounces
North East	0.2	4.0	**31,000**	1.4	2.1	**94,000**	3.3	1.7	**178,000**	4.9	1.9	**303,000**
Central	2.6	1.8	**150,000**	3.2	1.3	**137,000**	8.4	1.2	**329,000**	14.2	1.3	**616,000**
South West	-	-	**-**	-	-	**-**	2.2	1.2	**84,000**	2.2	1.2	**84,000**
Total	**2.9**	**2.0**	**181,000**	**4.6**	**1.6**	**231,000**	**13.9**	**1.3**	**591,000**	**21.3**	**1.5**	**1,003,000**

Note: Discrepancies in totals are a result of rounding.

Source: Company reports

Egerton Gold Project

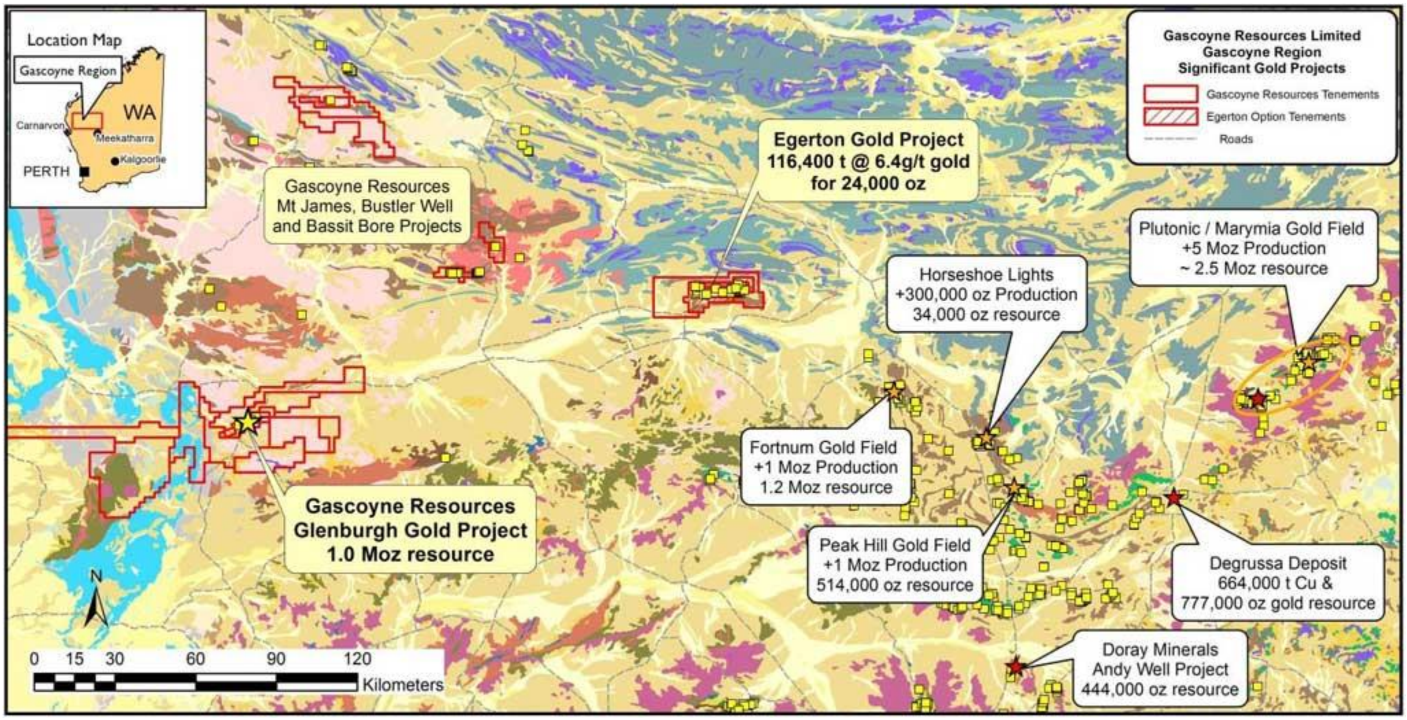
- The Egerton project is located approximately 150km east of the Glenburgh project and contains a Resource of 116.4kt at 6.4g/t for 24koz, Figure 32. Given the scale, initial studies considered trucking ore to the Glenburgh project in the event a development is completed. Similar to Glenburgh, progression at the project has been limited as GCY advanced the Dalgaranga project to production.

Figure 32: Egerton Mineral Resource

Classification	Tonnes	Au g/t	Au Ounces
Measured Resource	32,100	9.5	9,801
Indicated Resource	46,400	5.3	7,841
Inferred Resource	37,800	5.1	6,169
Total	**116,400**	**6.4**	**23,811**

Source: Company reports

Figure 33: Glenburgh and Egerton project locations



Source: Company reports, Canaccord Genuity estimates

Corporate and finance summary

Balance sheet and liquidity

- GCY has reported a cash position of A$30m (unaudited) post the recapitalisation which occurred in October 2020. GCY has established a new debt facility upon retirement of its entire previous debt balances, the new facility is fully drawn at A$40m (net debt of A$10m). We anticipate GCY's cash balance to be relatively flat over FY21 after significant (budgeted) investment in waste stripping and A$10.5m debt repaid. We have the debt balance repaid by the SepQ'23, at which point the company have generated more than its current market capitalisation in cash (CG est. A$138m cash balance).

Capital structure

- GCY has 250.9m ordinary shares and 107k options at an exercise price of A$7.40/share expiring 7 October 2021.

Substantial shareholders

- Substantial shareholders include Deutsche Balaton AG (17.3%), NRW Holdings Limited (14.7%) and First Sentier Investors (7.3%).

Hedging

- As part of the new debt facility GCY is required to have 40% of forecasted production hedged over a rolling 18-month period. A hedge position totalling 46koz at a strike price of A$2,667/oz has been established which we value a (A$1m) vs our current price deck and incorporate this position into our earnings and cash flow forecasts.

Directors and Management

See Appendix 1 for full Director bios

Non-Executive Chairman – Mr George Bauk

Managing Director and CEO – Mr Richard Hay

Non-Executive Director – Mr Rowan Johnston

Appendix 1: Directors

Mr George Bauk – Non-Executive Chairman

Mr Bauk has over 14 years' experience as a listed company director in Australia within the resources industry, involved with both production and exploration assets in Australia and internationally. Mr Bauk holds a Bachelor of Business (Accounting and Finance) from Edith Cowan University, is a Fellow of the CPA and has an MBA from the University of New England. Mr Bauk has held global operational and corporate roles with WMC Resources and Western Metals. Mr Bauk has a strong background in strategic management, business planning, building teams, finance and capital/debt raisings. Mr Bauk has experience with a variety of commodities, specifically rare earths, gold and industry minerals.

Mr Bauk has previously held a number of senior governing positions with the Chamber of Minerals and Energy including Vice President. Mr Bauk was previously the Managing Director of Northern Minerals Limited (March 2010 to June 2020) and is currently the Chairman of Lithium Australia NL (since July 2015) and a Non-Executive Director of BlackEarth Minerals NL (since March 2017).

Mr Richard Hay – Managing Director and CEO

Mr Richard Hay is currently the Chief Executive Officer of the company. Mr Hay is a geologist with over 27 years of operational experience. Prior to joining GCY in January 2019, Mr Hay was the General Manager of Evolution Mining Limited's Mt Carlton gold operation in North Queensland. Mr Hay has also previously held the role of Managing Director of Dampier Gold Limited following a 14-year career with Barrick Gold, which included four years as Mine General Manager at the Darlot gold mine in WA, and General Manager-Shares Services for four gold operations in WA.

Mr Rowan Johnson – Non-Executive Director

Mr Johnston is a mining engineer (graduating from the West Australian School of Mines) with significant experience as an Executive and Non-Executive Director. He is currently a Non-Executive Director of Bardoc Gold Limited and has previously been the Managing Director of Excelsior Gold Limited. Mr Johnston was also the acting Chief Executive Officer and Executive Director of Operations for Mutiny Gold Limited prior to its takeover by Doray Minerals Limited and an Executive Director of Integra Mining Limited prior to its merger with Silver Lake Resources Limited.

Mr Johnston has worked and studied in the mining (primarily gold) industry for 40 years throughout Australia and overseas and has experience working for owners, consultants and contractors. He has worked through several feasibility studies, start-ups, constructions, expansions and mergers.

Appendix 2: Investment risks

Financing risks

As a company in production with income influenced by operating performance, commodity prices and exchange rates, GCY may be reliant on equity and debt markets to fund feasibility studies, expansions and development of new projects. We can make no assurances that accessing these markets will be done without further dilution to shareholders.

Exploration risks

Exploration is subject to a number of risks and can require a high rate of expenditure. Risks can also be associated with conversion of inferred Resources and lack of accuracy in the interpretation of geochemical, geophysical, drilling and other data. No assurances can be given that exploration will delineate Mineral Resources nor that the company will be able to convert the any Mineral Resource into Ore Reserves.

Operating risks

The company is subject to risks such as plant/equipment breakdowns, metallurgical (meeting design recoveries within a complex flowsheet), materials handling and other technical issues. An increase in operating costs could reduce the profitability and free cash generation from the operating assets considerably and negatively impact valuation. Further, the actual characteristics of an ore deposit may differ significantly from initial interpretations which can also materially impact forecast production from original expectations.

Commodity price and currency fluctuations

As with any mining company, GCY is directly exposed to commodity price and currency fluctuations. Commodity price fluctuations are driven by many macroeconomic forces including inflationary pressures, interest rates and supply and demand factors. These factors could reduce the profitability, costing and prospective outlook for the business.

Appendix: Important Disclosures

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Investment Recommendation

Date and time of first dissemination: November 01, 2020, 20:57 ET

Date and time of production: November 01, 2020, 20:57 ET

Target Price / Valuation Methodology:

Gascoyne Resources Limited - GCY

Our valuation is derived using DCF analysis (1.0x forward curve $NPV_{5\%}$) of the Dalgaranga gold project and is adjusted for corporate costs, net debt, hedge book and a nominal exploration value.

Risks to achieving Target Price / Valuation:

Gascoyne Resources Limited - GCY

Financing risks

As a company in production with income influenced by operating performance, commodity prices and exchange rates, GCY may be reliant on equity and debt markets to fund feasibility studies, expansions and development of new projects. We can make no assurances that accessing these markets will be done without further dilution to shareholders.

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Exploration is subject to a number of risks and can require a high rate of expenditure. Risks can also be associated with conversion of inferred Resources and lack of accuracy in the interpretation of geochemical, geophysical, drilling and other data. No assurances can be given that exploration will delineate Mineral Resources nor that the company will be able to convert the any Mineral Resource into Ore Reserves.

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Global Stock Ratings (as of //)

Rating	Coverage Universe		IB Clients
	#	%	%

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HOLD: The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.

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NOT RATED: Canaccord Genuity does not provide research coverage of the relevant issuer.

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Gascoyne Resources Limited Rating History as of 10/30/2020

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