



Gascoyne Resources (GCY AU, \$0.28, market cap \$105.6)

Further encouraging drill results point to a significant extension to the main Gilbey's pit.

Isn't it extraordinary how gold deposits behave: just when the geologists think they have a tiger by the tail, the orebody hits a fault and that's that. At the Gilbey's Main Zone, the converse has happened. Following months of frustration trying to find satellite deposits within an easy trucking distance of the Dalgaranga mill, an initial drill programme has shown significant encouragement. And all the holes from Gilbey's North are just a few hundred metres of the end of the pit and are very close to the mill. As of 17 February, significant mineralisation had been identified in 26 of 32 drill holes, an excellent strike rate.

While we are seeing some impressive hits along strike from the main pit, this is not entirely a game changer for GCY. Our back of the envelope estimates suggests the new extension and a push-back of the main pit may yield 60-70koz at perhaps slightly above current mill grades which would take immediate pressure off the mine. However, a significant resource addition could add materially to the project's value, given its relatively short reserve life.

The most impressive section is some 250m north of the main pit with multiple strongly mineralised lenses. Best intercepts in this zone includes 18m at 1.2g/t, 5m at 3.4g/t, 5m at 3.6g/t and 16m at 1.2g/t (see P3).

Exploration to the north of this section had not yet delivered significant ore grade intercepts, but further drilling is planned for the next 150m. These will be important drill holes. Expect results over the next few weeks.

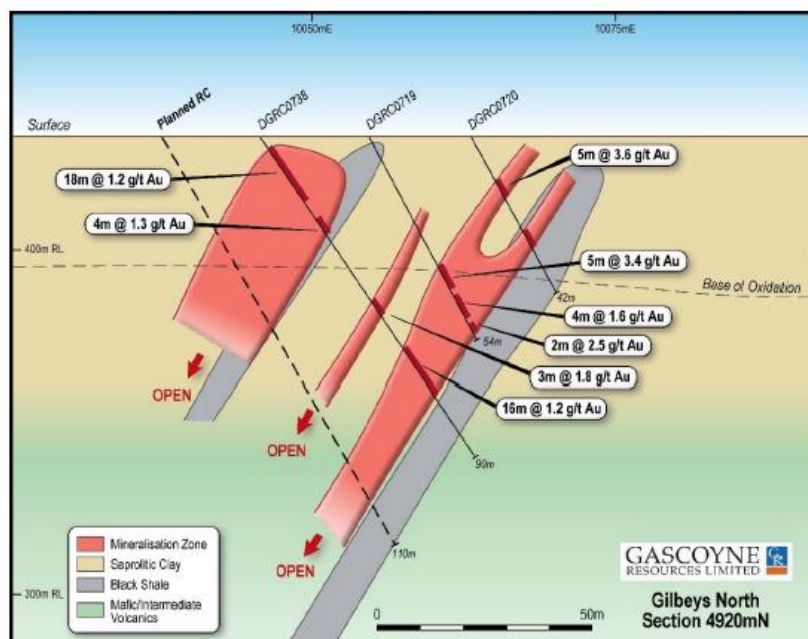


Figure 3: Gilbey's North gold prospect cross-section 4920mN.

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What could the potential be here? The strike extent N of the pit is already around 300m. Let's assume a 15m true width at say 1g/t (a bulk mineable grade) and assume it could be mined to 150 vertical metres. This could equate to around 2mt for 60-70koz contained gold (or say 9-10 months of ore supply). This could greatly ease pressure on the mine and the need for yet another cutback to access deeper ore and without the need for permitting. GCY notes that the primary ore in this area is metallurgically simple, and should deliver good recoveries through the mill.

Timing here is quite fortuitous given the weak December quarter (16.4koz at AISC of A\$2536/oz). While it will take some time to get Gilbey's North into a mine plan, this discovery should allow short term modifications to the current mine plan to alleviate its high strip ratio.

We need to be mindful that the oxide section can be a bit patchy (as we've seen at Dalgaranga in the past) so a detailed drill-out will be required. But the grades in the primary seem to be quite encouraging and confirm a long-held view that grades might improve towards the north of the orebody. Time will tell.

This discovery takes pressure off permitting and logistics of the Yalgoo satellite deposits (acquired last year from Firefly). Here not only permitting and haul road design are on the critical path; we now know that WA has an acute shortage of truck drivers, so shuttling of ore from Yalgoo would be a major issue if it were to happen over the next 6 months. Importantly GCY has been proving the exploration thesis at Yalgoo (total resources are now 244koz with 44koz recently announced at the Applecross discovery) and we expect resources to grow into the future.

We are also encouraged that GCY is taking a hard look at the satellites. Even if they are small they will still provide valuable ore into a hungry and low cost mill. Immediate targets are Plymouth, Archie Rose and Hendricks for which new resources are due in early 2022.

Earnings

Attached are our updated earnings and valuation model. This is certain to change as new management focuses on incremental ore sources, as close to the plant as possible. We note with interest that the month of January delivered an exceptional production result (7,900oz). We are forecasting 20koz for the quarter, so the mine has made a good start at moving back to target levels. A strong A\$ gold price in a now unhedged company will be helping cashflows as well.

Refinancing of the Investec debt and implications for another Westgold bid

We'd be fairly certain that last year's predators, Westgold (WGX) are looking at this discovery closely. As a reminder on 25/10/21 WGX increased the bid to 3 WGX shares for 11 GCY shares. The bid was unable to be accepted by GCY directors owing to the FFR scheme of arrangement. However, it is worth noting that at WGX's recent share price of \$2.17, this represents a theoretical GCY price of \$0.59, double the current price, assuming the FFR deal had not taken place.

The \$20m convertible note – replacing Investec debt - was not an attractive deal, in our minds. But GCY's cashflow has been exceptionally tight and the Investec debt had to be paid out. It appears GCY had no choice but to go to an existing major shareholder for funds, largely due to the short reserve position. So \$10m was used to pay out the debt and \$10m may be applied to working capital. Net/net GCY's EV has not changed much, so it's entirely possible that should WGX return, the bid ratio might not change much provided WGX sees proportional value in the Yalgoo assets.

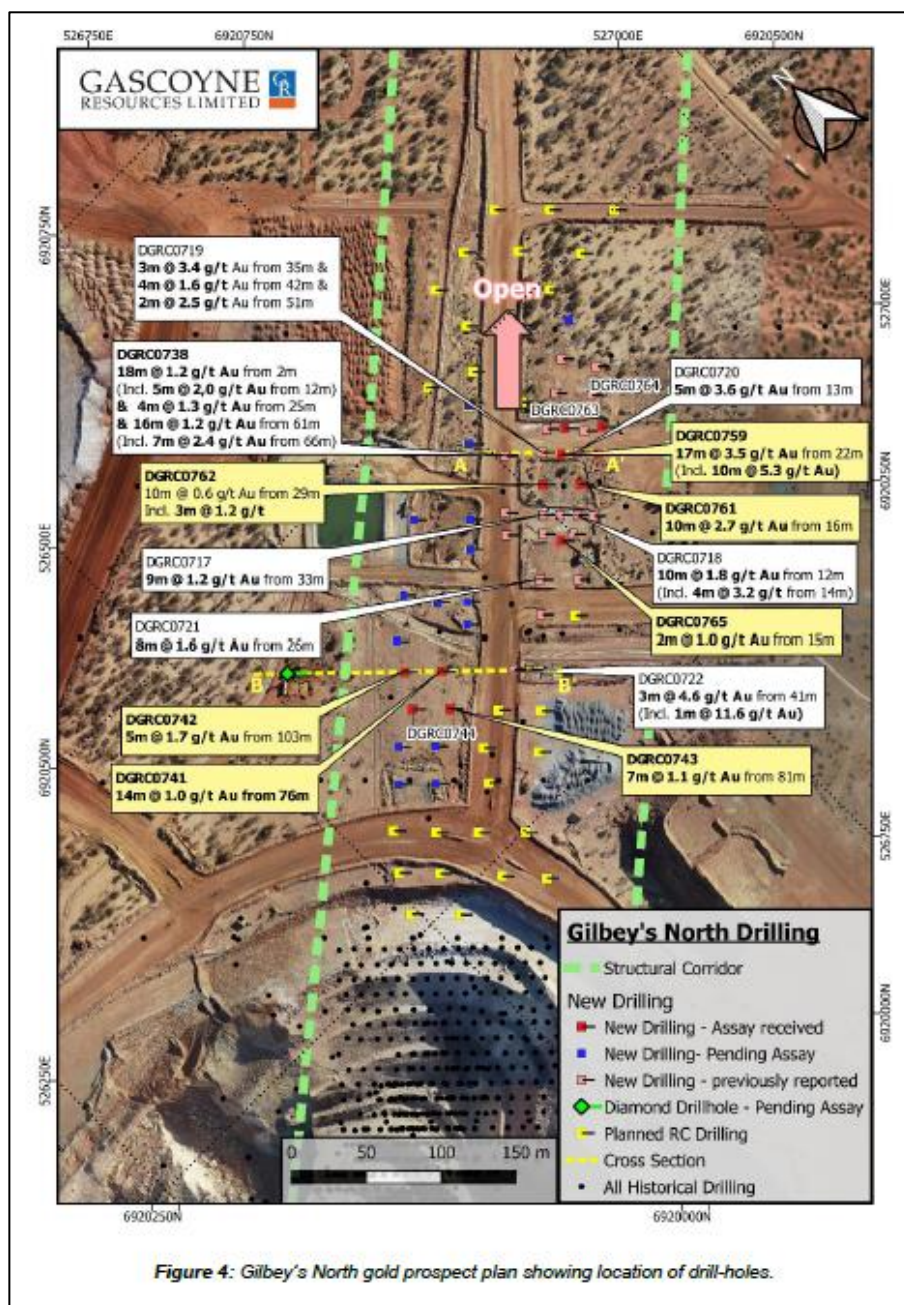
The terms of the convertible note complicate matters a little. Under certain circumstances the principal can simply be repaid (for example if shareholder approval is not obtained). In our current valuation we have taken the convertible simply as high-cost debt. With the issue of the convertible notes (the EGM to seek



shareholder approval is likely to be in April) we will employ the larger capital base. The difference is not large (52c pre-conversion, 49c post conversion) but important to understand.

WGX's bid was terminated on 9 November. We think a new bid by WGX could be launched early in March. The WGX share price has been very strong – in part driven by a strong A\$ gold price, but also following a reasonable quarterly. The key for us is whether WGX's flagship asset Big Bell can deliver. Our recollection is that Big Bell's production guidance was originally 950ktpa which then dropped to 850-900ktpa or around 80,000 tonnes per month at a grade of 3g/t. It seems that guidance is now "70-80kt/month" (the December quarter achieved the lower end of that range at 220kt) at a "reserve grade of 2.8g/t". The grade achieved in the December quarter was 2.5g/t. We'd like to see more production statistics from Big Bell to be convinced it can achieve WGX's target. It is a mine with a troubled history.

We are also a little concerned that WGX now reports cash costs on a Meekatharra + Tuckabianna combined basis, and can only speculate on the reasons why.



Source: GCY



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FINANCIAL SUMMARY

Gascoyne Resources Limited (GCY.AX / GCY AU)

22-February-2022

Share Price	A\$/sh	0.29
Shares on Issue	m	370
Market Cap (A\$m), post merger	A\$m	106
Net Debt / (Cash) (A\$m)	A\$m	(6)
Enterprise Value (A\$m)	A\$m	99

Rating	
Valuation	0.52
Upside / (Downside)	81.4%
Dividend Yield	0.0%
Total Return Forecast	81.4%

Profit & Loss	Units	Jun-20	Jun-21	Jun-22e	Jun-23e	Jun-24e
Sales	A\$m	171	205	177	197	206
Expenses	A\$m	(121)	(110)	(159)	(130)	(141)
EBITDA	A\$m	51	94	18	66	65
D&A	A\$m	(42)	(52)	(26)	(30)	(32)
<i>D&A, per ounce of gold production</i>	<i>A\$/oz</i>	<i>577</i>	<i>673</i>	<i>360</i>	<i>360</i>	<i>360</i>
EBIT	A\$m	9	42	(8)	36	33
Net Interest	A\$m	(7)	(4)	(4)	(4)	(2)
Tax (provision)	A\$m	(0)	(2)	-	-	-
Underlying NPAT	A\$m	2	36	(12)	32	31
Exceptionals/Abnormals	A\$m	0	(80)	-	-	-
Reported Profit	A\$m	2	(44)	(12)	32	31

Cashflow	Units	Jun-20	Jun-21	Jun-22e	Jun-23e	Jun-24e
Cash From Operations	A\$m	52	79	22	66	65
Interest	A\$m	(1)	(3)	(3)	(4)	(2)
Tax	A\$m	-	-	-	-	-
Net Cash From Operations	A\$m	51	75	20	63	63
Capex	A\$m	(45)	(61)	(10)	(27)	(12)
Exploration	A\$m	(1)	(3)	(4)	(4)	(4)
Net Investments	A\$m	-	(0)	(0)	-	-
Free Cash Flow	A\$m	5	11	5	31	47
Equity	A\$m	(0)	77	-	-	-
Borrowings	A\$m	(16)	(70)	4	-	-
Dividend	A\$m	-	-	-	-	-
Net Increase / (Decrease) in Cash	A\$m	(11)	18	9	31	47

Balance Sheet	Units	Jun-20	Jun-21	Jun-22e	Jun-23e	Jun-24e
Cash	A\$m	6	23	32	64	110
Receivables	A\$m	4	6	6	6	6
Inventory	A\$m	15	13	13	14	14
PP&E	A\$m	180	113	101	102	86
Exploration	A\$m	30	33	79	84	88
Other	A\$m	2	2	2	2	2
Assets	A\$m	237	190	233	272	307
Creditors	A\$m	44	10	10	11	11
Debt + leases	A\$m	82	28	20	20	20
Provisions	A\$m	29	31	31	31	31
Other	A\$m	25	13	13	13	13
Liabilities	A\$m	180	82	73	74	74
Net Assets	A\$m	57	108	160	197	233

Liquidity & Leverage	Units	Jun-20	Jun-21	Jun-22e	Jun-23e	Jun-24e
Net Debt / (Cash)	A\$m	77	5	(12)	(44)	(90)
Net Debt / EBITDA	x	1.5x	0.1x	(0.7)x	(0.7)x	(1.4)x
EBIT Interest Cover	x	1.3x	11.0x	(2.3)x	10.0x	-
Net Debt / Equity	%	133%	4%	-8%	-22%	-39%

Per Share Data (\$)	Jun-20	Jun-21	Jun-22e	Jun-23e	Jun-24e
Shares Out (m)	1,005	251	370	370	370
EPS (\$)	4.0¢	(22.8¢)	(3.6¢)	8.7¢	8.4¢
Growth (%)	n/a	n/a	-84%	-342%	-4%
Dividend (\$)	-	-	-	-	-
Payout Ratio (%)	0%	0%	0%	0%	0%
Book Value (A\$)	0.06	0.43	0.43	0.53	0.63
Free Cash Flow (A\$)	0.00	0.04	0.01	0.08	0.13

Valuation Metrics	Jun-20	Jun-21	Jun-22e	Jun-23e	Jun-24e
EV / Sales	0.6x	0.5x	0.6x	0.5x	0.5x
EV / EBITDA	2.0x	1.1x	5.5x	1.5x	1.5x
EV / EBIT	11.4x	2.3x	(12.2)x	2.8x	3.0x
P/E (x)	7.2x	(1.2)x	(7.9)x	3.3x	3.4x
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%

Operating Metrics (%)	Jun-20	Jun-21	Jun-22e	Jun-23e	Jun-24e
EBITDA Margin	30%	46%	10%	34%	32%
EBIT Margin	5%	21%	-5%	18%	16%
Net Profit Margin	1%	18%	-7%	16%	15%
ROIC	6%	38%	-6%	23%	23%
Return on Assets	1%	19%	-5%	12%	10%
Return on Equity	3%	33%	-7%	16%	13%
Effective Tax Rate	7%	6%	0%	0%	0%

Key Assumptions	Jun-20	Jun-21	Jun-22e	Jun-23e	Jun-24e
Gold (US\$/oz)	1,564	1,855	1,782	1,750	1,750
AUDUSD	0.67	0.74	0.74	0.75	0.75
Gold price achieved (US\$/oz)*	2,331	2,571	2,433	2,333	2,333

* Incorporating hedge book

Production	Jun-20	Jun-21	Jun-22e	Jun-23e	Jun-24e
Gold (koz)	73	77	73	84	88
AISC (A\$/oz sold)	1,572	1,304	2,178	1,491	1,536
AIC (A\$/oz sold)	2,206	2,067	2,391	1,952	1,807

Valuation Summary	A\$m	Equity	Risk	A\$m	A\$/share
Dalgaranga	147	100%	100%	147	0.40
Glenburgh	98	100%	40%	39	0.11
Exploration and Investments	30	100%	100%	30	0.08
Corporate	(31)	100%	100%	(31)	(0.08)
Net Cash (Debt)	6	100%	100%	6	0.02
Total	250			192	0.52
Total, diluted for con notes				192	0.49

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Appendix 1

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