



Gascoyne Resources (GCY AU, \$0.23, market cap A\$98m)

Gilbey's North discovery just gets better and better, now with a new twist

- GCY has reported significant near-mine exploration success at Dalgara over recent months. Management reports that a strong plan is in place lead by Chief Geologist Graham Gadsby with the current focus of drilling targeted areas adjacent to existing pits where potential for resource and mine-life extensions are most prospective.
- In a release last month (22 June), GCY reported an impressive result of *54m of 6.55g/t including a bonanza intercept of 12m of 20g/t*. Just released are several holes which have tested deeper zones: and many are quite outstanding. These include the following. Note "HW" is a hanging wall shoot, "FW" is a footwall shoot. See over for a section through a number of these intercepts.

- 53m @ 3.59g/t Au from 71m down-hole (HW*) including:
 - 9m @ 6.8g/t and 6m @ 6.6g/t Au (DGRC0957)
- 18m @ 1.36g/t Au from 132m down-hole (FW)* (DGRC0957)
- 31m @ 1.24g/t Au from 68m & 8m @ 16.5g/t from 124m down-hole (HW) including:
 - 1m @ 72.8g/t (DGRC0958)
- 23m @ 1.37g/t Au from 145m down-hole (FW) (DGRC0958)
- 33m @ 2.89g/t Au from 21m down-hole (HW) including:
 - 6m @ 8.3g/t (DGRC0973)
- 12m @ 6.11g/t Au from 102m down-hole (FW) (DGRC0973)

- These high-grade hits are just 400m north of the existing open pit and lies outside a previously outlined mineralised zone. There can be no question these are very significant results and points to quite a new interpretation for the mineralisation. These intercepts appear to be at the intersection to major mineralised structures, with the best intercept of 54m at 6.6g/t at a depth of 200-300m vertical. No reason to think this couldn't extend to depth as a zone of underground potential.
- A new (probably interim) resource is likely to be released in August/September. We've been thinking and additional ca. 100Koz at 1-1.5g/t, but following these results, perhaps this is just the start of a significant resource upgrade.
- Our current NPV of 52¢/share is predicated upon mining to the end of FY24 (2 years remaining) with the mill to continue through to the end of FY27 on low-grade stockpiles (~0.6g/t). However, we do flag significant upside to our estimate of GCY's valuation. If we assume that mining can continue to the end of FY27 at a relatively low strip-ratio and the mill could average perhaps 1.2g/t feed (equivalent to production of ~90kozpa) **our NPV could increase by ~50% to ~75¢/share.**
- We are perplexed that the market refuses to pay anything for some of the better recent drill results we've seen in the Eastern Goldfields. We concede that GCY has been a challenge for investors, and with the benefit of hindsight exploration targets could have been better chosen 12 months ago. But that's gold exploration: good rocks, good geologists and good luck. That's a recipe that usually works.
- We suggest that the current malaise in the gold sector represents a good opportunity to accumulate GCY.



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FINANCIAL SUMMARY

Gascoyne Resources Limited (GCY.AX / GCY AU)

Share Price	A\$/sh				0.23
Shares on Issue	m				417
Market Cap (A\$m)	A\$m				94
Net Cash / (Debt) (A\$m)	A\$m				31
Enterprise Value (A\$m)	A\$m				63

Rating	
Valuation	0.52
Upside / (Downside)	129.4%
Dividend Yield	0.0%
Total Return Forecast	129.4%

Profit & Loss	Units	Jun-20	Jun-21	Jun-22e	Jun-23e	Jun-24e
Sales	A\$m	171	205	186	183	199
Expenses	A\$m	(121)	(110)	(174)	(105)	(144)
EBITDA	A\$m	51	94	13	78	55
D&A	A\$m	(42)	(52)	(38)	(28)	(31)
<i>D&A, per ounce of gold production</i>	A\$/oz	577	673	529	360	360
EBIT	A\$m	9	42	(25)	49	24
Net Interest	A\$m	(7)	(4)	(3)	(1)	(1)
Tax (provision)	A\$m	(0)	(2)	(0)	-	-
Underlying NPAT	A\$m	2	36	(28)	49	24
Exceptionals/Abnormals	A\$m	0	(80)	-	-	-
Reported Profit	A\$m	2	(44)	(28)	49	24

Per Share Data (¢)	Jun-20	Jun-21	Jun-22e	Jun-23e	Jun-24e
Shares Out (m)	50	251	417	417	417
EPS (¢)	4.0¢	(22.8¢)	(10.0¢)	11.7¢	5.6¢
Growth (%)	n/a	n/a	-56%	-216%	-52%
Dividend (¢)	-	-	-	-	-
Payout Ratio (%)	0%	0%	0%	0%	0%
Book Value (A\$)	1.14	0.43	0.33	0.46	0.53
Free Cash Flow (A\$)	0.10	0.04	0.02	0.16	0.07

Cashflow	Units	Jun-20	Jun-21	Jun-22e	Jun-23e	Jun-24e
Cash From Operations	A\$m	52	79	28	78	55
Interest	A\$m	(1)	(3)	(2)	(1)	(1)
Tax	A\$m	-	-	-	-	-
Net Cash From Operations	A\$m	51	75	26	77	54
Capex	A\$m	(45)	(61)	(11)	(4)	(20)
Exploration	A\$m	(1)	(3)	(5)	(5)	(5)
Net Investments	A\$m	-	(0)	(0)	-	-
Free Cash Flow	A\$m	5	11	9	68	29
Equity	A\$m	(0)	77	14	-	-
Borrowings	A\$m	(16)	(70)	(16)	-	-
Dividend	A\$m	-	-	-	-	-
Net Increase / (Decrease) in Cash	A\$m	(11)	18	7	68	29

Valuation Metrics	Jun-20	Jun-21	Jun-22e	Jun-23e	Jun-24e
EV / Sales	0.4x	0.3x	0.3x	0.3x	0.3x
EV / EBITDA	1.2x	0.7x	5.0x	0.8x	1.2x
EV / EBIT	7.3x	1.5x	(2.5)x	1.3x	2.6x
P/E (x)	5.7x	(1.0)x	(2.2)x	1.9x	4.0x
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%

Balance Sheet	Units	Jun-20	Jun-21	Jun-22e	Jun-23e	Jun-24e
Cash	A\$m	6	23	31	99	128
Receivables	A\$m	4	6	3	2	2
Inventory	A\$m	15	13	17	17	17
PP&E	A\$m	180	113	74	55	49
Exploration	A\$m	30	33	81	87	92
Other	A\$m	2	2	3	3	3
Assets	A\$m	237	190	208	262	291
Creditors	A\$m	44	10	14	14	14
Debt + leases	A\$m	82	28	13	13	13
Provisions	A\$m	29	31	31	31	31
Other	A\$m	25	13	10	10	10
Liabilities	A\$m	180	82	69	69	69
Net Assets	A\$m	57	108	140	193	222

Operating Metrics (%)	Jun-20	Jun-21	Jun-22e	Jun-23e	Jun-24e
EBITDA Margin	30%	46%	7%	42%	28%
EBIT Margin	5%	21%	-13%	27%	12%
Net Profit Margin	1%	18%	-15%	27%	12%
ROIC	6%	38%	-20%	46%	22%
Return on Assets	1%	19%	-13%	19%	8%
Return on Equity	3%	33%	-20%	25%	11%
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	1,844	1,810	1,750	1,750
AUDUSD	0.67	0.74	0.73	0.75	0.75
Gold price achieved (US\$/oz)*	2,331	2,571	2,568	2,333	2,333

* Incorporating hedge book

Production	Jun-20	Jun-21	Jun-22e	Jun-23e	Jun-24e
Gold (koz)	73	77	71	78	85
AISC (A\$/oz sold)	1,572	1,304	2,185	1,290	1,630
AIC (A\$/oz sold)	2,206	2,067	2,340	1,477	1,989

Liquidity & Leverage	Units	Jun-20	Jun-21	Jun-22e	Jun-23e	Jun-24e
Net Debt / (Cash)	A\$m	77	5	(18)	(86)	(115)
Net Debt / EBITDA	x	1.5x	0.1x	(1.4)x	(1.1)x	(2.1)x
EBIT Interest Cover	x	1.3x	11.0x	(9.2)x	75.8x	37.1x
Net Debt / Equity	%	133%	4%	-13%	-44%	-52%

Valuation Summary	A\$m	Equity	Risk	A\$m	A\$/share
Dalgaranga	147	100%	100%	147	0.35
Glenburgh	98	100%	40%	39	0.09
Exploration and Investments	30	100%	100%	30	0.07
Corporate	(31)	100%	100%	(31)	(0.07)
Net Cash (Debt)	31	100%	100%	31	0.07
Total	274			215	0.52

Dalgaranga Exploration: significant optionality

- The release of maiden/upgraded Resources at Gilbey's North/Plymouth is now scheduled for the September quarter and should provide clarity concerning near-term mine-planning as well as confidence in the growing potential for additional resources at Dalgaranga. We believe that GCY has significant potential to realise mine life extensions over the near-term and underpin a more medium-term supply of feed for the current milling infrastructure.
- In the near-term, with the reduction in waste-stripping requirements, the existing operations should generate strong cashflows and build funding ahead of investments required to commercialise the various emerging brownfield opportunities.
- We caution that significant work remains to be completed in order to provide any certainty surrounding the potential of additional mineral resources which are capable of being economically processed at Dalgaranga. However GCY provides significant leverage to both the gold price and exploration success, and could also become an attractive acquisition target given the significant consolidation taking place in the WA gold sector at present, and the discount which the stock currently trades to our NPV of 52¢/share.

Recent Progress: Encouraging Signs

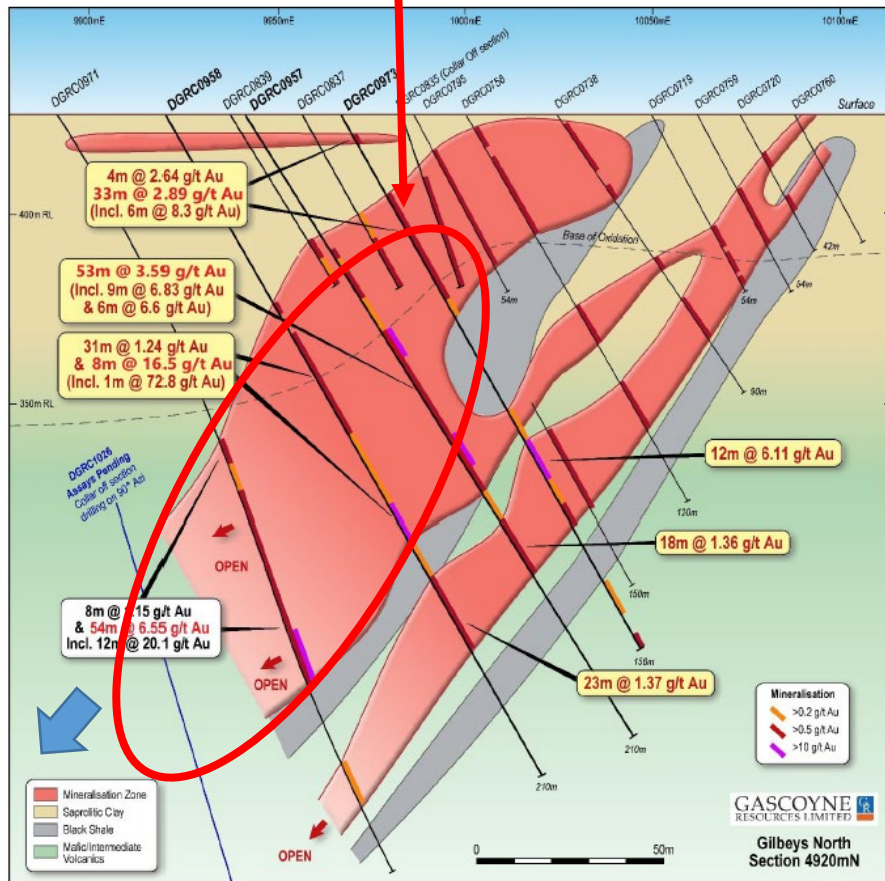
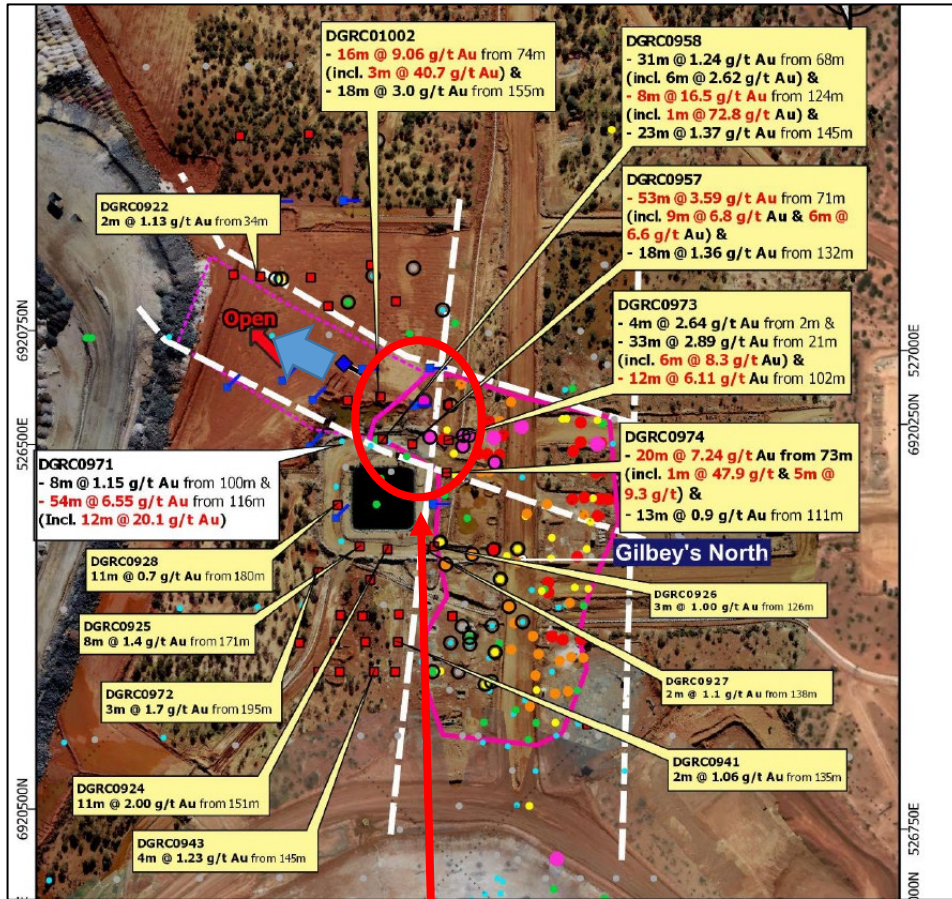
GCY has made a number of strides regarding its strategic plan to invest in sensible exploration initiatives and firm up additional resources which may support mine life extension at Dalgaranga. While the plan has taken time to gain momentum, recent traction supports our view that regional exploration potential is significant.

Key work completed in 2022 includes:

- Breakthrough discovery of Gilbey's North (<1km from the Dalgaranga mill) in February 2022, with follow-up drilling registering shallow high-grade intercepts which have demonstrated consistent thick zones of mineralisation along strike and at depth
- Intercepts from drilling within the current Plymouth (<2km from the Dalgaranga mill) open-pit resource envelope indicating potential for extension of the ore zone
- Drilling within the Eastern Footwall target zones at the Gilbey's open-pit returned numerous intercepts of good grade
- Encouraging initial results from the Lindville prospect which is located ~8km north of the Dalgaranga plant

Gilbey's North: Near-Term Potential

- The discovery of Gilbey's North (GN) earlier in the year was a major exploration milestone for GCY as the discovery confirmed the validity of the exploration strategy being undertaken. Subsequent to the discovery at Gilbey's North, GCY has embarked on a highly focused exploration plan, which has already generated significant success.
- As highlighted within the red ellipses on the plan and section below, to us it looks as though one portion of the GN zone – perhaps the intersection of the N-S striking HW zone and the NW-SE striking FW zone – is delivering a NW plunging high grade shoot, with the deepest intercept of 54m at 6.6g/t. The potential plunge direction is highlighted with blue arrows, below.

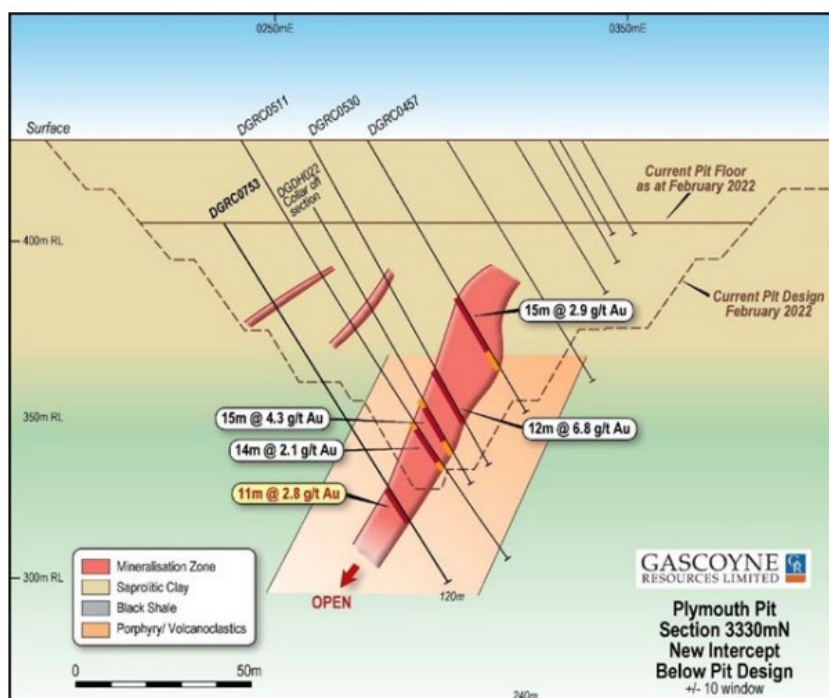


Source: modified from GCY release, 13 July 2022

- Key points from these results include the following:
 - Good widths of moderate to high grades have been intersected in 4 drill holes: widths range from 31m to 54m and grades from 1.2g/t to 6.6g/t.
 - In three of the holes a fairly consistent high grade basal section is seen (with the best showing 12m at 20g/t). These high grade zones lie adjacent to black shales, a good trapping mechanism for gold mineralisation.
 - Three of the 4 holes have intersected mineralisation within the primary. As we recall, much of Dalgaranga's grade issues came from the oxide zone.
 - The proximity of the black shales to mineralisation is important, and given metallurgical issues in the Gilbey's Main pit, attention will need to be given to mine planning and potential blending of these ore types.
- Hole 1026 (in blue in the section above) is clearly designed to test the 'plunging shoot' theory. Results are eagerly awaited.
- GCY has flagged that preparation of a **maiden JORC Mineral Resource** estimate has commenced with results expected in the September quarter. We'd be surprised if an interim resource didn't point toward an additional 1 to 1.5 years of mill life, potentially at a higher grade than the current resource.
- Importantly, Gilbey's North is close to the existing process plant (less than 1km to the west) and along strike from the existing Gilbey's Pit.

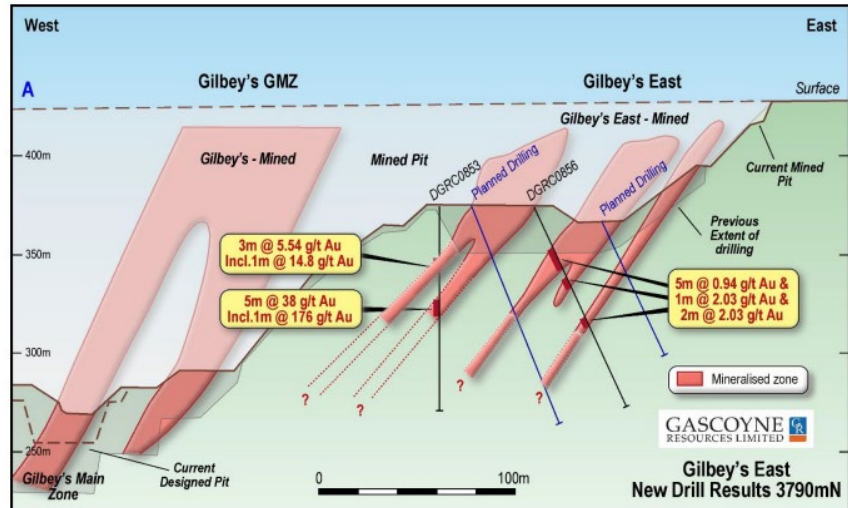
Plymouth: Upside at the Existing Pit

- The Plymouth lodes are situated on the Eastern side of the Gilbey's Pit.
- Resource extension drilling has been the focus of work at Plymouth, targeting a potential pit expansion, and intercepts recorded so far below the existing Resource indicate a continuation of the Resource "at least 20m" below the currently optimised mine design.
- A re-optimisation of the Plymouth mine design is underway to provide an indication of the scope of the potential pit expansion at the Plymouth lodes
- We believe an extended operation at Plymouth is likely based on the drilling completed so far, and Plymouth ore should support the existing feed over the near-term



Gilbey's Footwall: Multiple Lode Discovery

- The eastern footwall of the main Gilbey's pit has been subject to >5000m of drilling to follow-up areas of historic high-grade ore and evaluate a potential cut-back to access extensions of the known mineralisation
- Numerous targets have been identified within the eastern footwall and an drill-out has been underway during the June quarter using multiple rigs
- The eastern footwall zone sits within existing mine approvals, expediting the potential for development and access to additional mineralised material
- Given the location of the eastern footwall within the existing open-pit mining area, a discovery which is able to justify the eastern wall cut-back has potential to provide significant extensions to the existing mine-plan



Yalgoo Optionality

- The Yalgoo project incorporates the 200koz Melville Deposit and several other exploration targets which are located some 110km from the Dalgaranga processing plant
- Permitting and technical studies are advancing, and further drilling is targeting additional resource additions with potential for similar deposits within the Greenstone Belt
- Yalgoo represents longer-term potential for additional ore to be delivered to Dalgaranga. However the requirement to build and maintain a private haul road to transport material the ~70km to the Dalgaranga process plant is likely to be less attractive against the backdrop of recent near-mine discoveries and cost escalation in Western Australia.

What could this mean for GCY's earnings and valuation

- The following page summarises our current view of GCY, with a forecast decline in gold production from ~85koz in FY24e to under 50koz in FY25e and a consequent decline in earnings. This reflects exhaustion of the current reserve position at Dalgaranga and also incorporates the mining of some 80koz from Yalgoo. Given the recent exploration success this is likely to change significantly.

	2019	2020	2021	2022e	2023e	2024e	2025e	2026e	2027e
Material Moved (kbcmt)	19,034	11,073	8,720	6,792	2,519	8,500	-	-	-
Strip Ratio	14.7	5.4	6.3	4.3	1.0	4.0	-	-	-
Ore Milled (kt)	2,551	2,922	2,635	2,583	2,670	2,700	2,700	2,700	2,025
Gold Grade (g/t)	0.77	0.86	1.02	0.99	1.02	1.09	0.60	0.60	0.41
Gold Recovery (%)	90.3%	90.9%	88.2%	86.9%	89.5%	90.0%	90.0%	90.0%	90.0%
Gold Recovered (koz)	57.2	73.1	77.3	71.1	78.2	85.1	46.9	46.9	24.2

Source: BSCP

- Discussions with management suggest that the new Gilbey's North resources could significantly impact next year's production (FY23). Gilbey's North is located on the main Dalgaranga mining lease. We understand that all that is required is approval from the Mines Department of a revised mining proposal and mine closure plan. Approvals could be through by late 3Q/early 4Q 2022(c).
- In order to consider the potential impact of high-grade ore from Gilbey's North incorporated into the mine-plan during FY23 and FY24, we have modelled a scenario incorporating an uplift in plant head grade to 1.3g/t from the January quarter CY 2023 through to the June quarter CY 2024.
- The analysis demonstrates that an increase in process plant head grade to 1.3g/t could lift FY24 production to >100koz and has a significant potential positive impact to our estimated NPV (all else unchanged) of ~+10¢/share based on the 18 month 1.3g/t head grade scenario modelled above.
- We also contemplate a more comprehensive scenario whereby mining can continue to the end of FY27 at a strip-ratio of ~3:1 and the mill could be sustained over the same time horizon with ~1.2g/t feed (equivalent to production of ~90kozpa). On this basis our NPV could increase by ~50% to ~75¢/share.
- While this analysis is very much preliminary in nature and significant work remains to be completed in order to firm up reliable assumptions concerning the potential addition of Gilbey's North (and others) into the mine-plan, it demonstrates the significant leverage which the Dalgaranga mill has to incremental additions of ore driven by near-mine exploration success.
- In that regard, GCY's recent exploration success at Gilbey's North as well as traction more broadly at other highly prospective near-mine targets, appears increasingly likely to provide options which may lead to a major overhaul of the Dalgaranga mine plan and GCY's economic profile over the next few years.
- Further clarity will emerge over the coming months, when the Gilbey's North resource is released, which should also provide a more reliable indication of key economic factors such as strip-ratio and upfront capital investment requirements.

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