



Gascoyne Resources (GCY AU, \$0.34, market cap A\$145m)

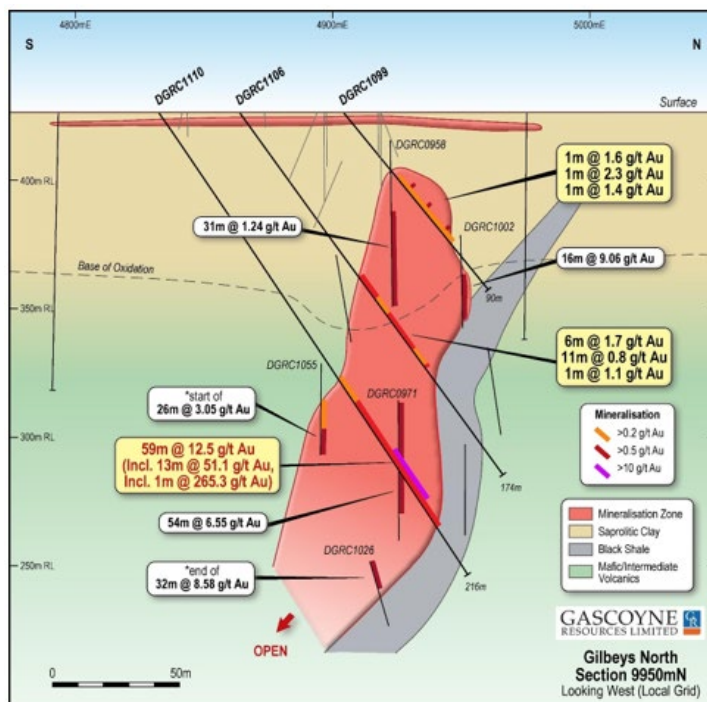
Major exploration success overshadows near term cost pressures

Extraordinary exploration results from Gilbey's North, and still open at depth

We've been impressed with the exploration results at the new Gilbey's North prospect. However, it's fair to say that the recent release really does knock our socks off. Not certain, but we'd suspect that this is the best 'hit' ever obtained within the Dalgara tenements.

59m at 12.5g/t from 139m (downhole; a bit over 100m vertical), including 13m at 51g/t, which included 1m at 265g/t.

- This is one of the best intercepts we've seen in the Murchison Goldfields for some time, and even knocking the high grade back, this can certainly be classified as a bonanza grade interval. (A 2oz/t top cut would deliver 59m at 9g/t).
- So what does it mean, and what could this high grade shoot become? (Its now known at the Never Never Lode or NNL). The GCY geo's have been rotating the rig thru a number of orientations to understand the geometry of the deposit, and especially of the recently released high grade hits including the discovery hole of 54m at 6.6g/t and follow up of 32m at 8.6g/t. This bonanza result is not a lone soldier.
- GCY's geologists have now established that the NNL is a westerly plunging zone of high-grade gold mineralisation, and the most recent hole has drilled across the width of this zone, as shown in the following cross section (which looks west, so the NNL is plunging away from us).



- In drilling across the lode we would have to think that this will be a more representative sample of the lode itself, and perhaps the discovery hole actually missed the very high grade section. There are more holes into the NNL, so time will tell.
- **So what could it be?** Strike length perhaps 40-50m, width perhaps 30-40m (as has just been defined) and at least 200m down plunge (and excluding the near surface weathered material). With a density of say 2.8 this could be 800kt-1Mt.
- **And the grade?** The average of all intercepts into the NNL is around 6g/t and that's cutting the recent hit down to 9g/t. **Lets be bullish and say 1Mt at 6g/t which is the best part of 200koz.** Note that the NNL is still open at depth, with the deepest hole 32m at 8.6g/t.
- So, **could the NNL extend down plunge to 400m and double the resource?** Possibly. Commonly Yilgarn gold deposits demonstrate good depth potential. The resource maths will soon be easy to do as there is already a diamond rig on site to test the depths. This represents an excellent underground target, in our view.
- Needless to say, this is a very important discovery for Dalgaranga. Not only will it enhance the grade of the remaining low grade reserves, it also provides an important exploration model for the extensive tenement position surrounding one of the lowest cost mills within the Eastern Goldfields. GCY has never been priced with an exploration 'option value'. This has now changed.
- We look forward to the next GCY resource statement, which must only be a few weeks away. Additional resources will also emerge from the main Gilbey's North lode (extending to the north of the pit), from recent hits at the base of the main pit and perhaps from the satellites.
- We are looking at our earnings numbers for GCY and have edged up our production estimates for 2023/24, as discussed below.
- The geological interpretation? Again still early days. From discussions we've had it sounds like it might be a mineralised anticlinal axis, which could represent a new style of mineralisation to be targeted at Dalgaranga.

Commentary following GCY's June quarter

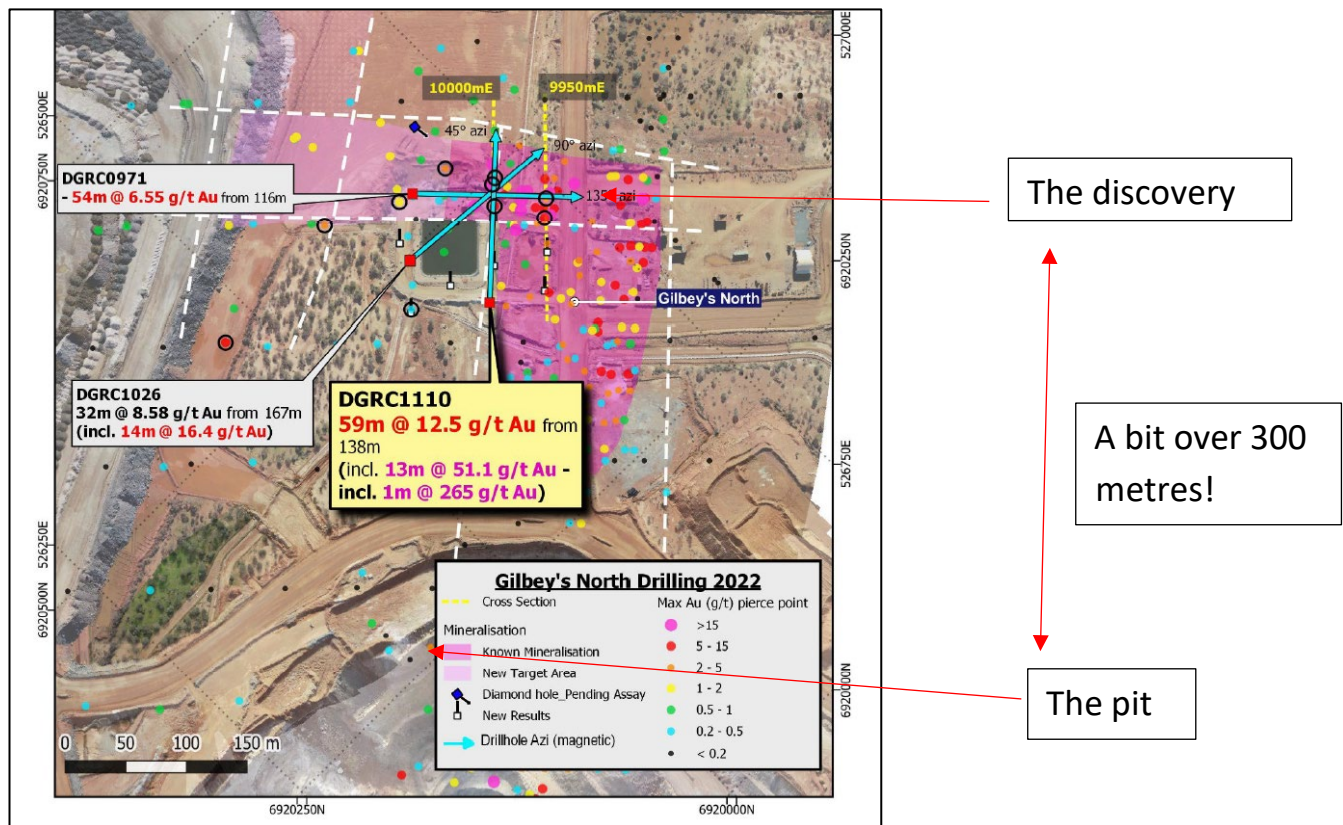
- GCY produced 16.3koz (BSCPe 17.0koz) of gold at Dalgaranga in a quarter constrained by adverse weather and COVID-19 related staff absenteeism. As a result, mine sequencing revisions were required over the quarter in response to lost shifts, and throughput grade at the mill suffered as a result, declining to 0.89g/t compared to 1.20g/t in the March quarter.
- Below we present our revised earnings forecasts, significantly lower for 2022/23 driven largely by much higher mining costs than we'd been expecting. GCY have provided cash cost guidance for 1H23 which as we describe below is dramatically higher than we'd been assuming.
- Mining volumes declined significantly during the quarter, with the strip ratio declining from 4.7x in March to just 1.9x in the June quarter. Mining has been focusing on Stage 2 of the Gilbey's Main Zone (GMZ) which contributed the majority of ore mined during the quarter (82%), while what little waste movement took place was mainly from Plymouth and the Northern Wall Slip remediation.
- Despite the dramatic decline in mining rates, mining expenditure remained stubbornly elevated during the quarter and showed no noticeable retracement (~\$24m total mining cost), implying unit costs of \$26/BCM (material) compared to \$15/BCM in the prior quarter. We understand this reflects mining underway at the base of the Stage 2 at GMZ driven by operational complexities (water, harder fresh rock and tighter digging spaces). The high mining might cost also reflects an investment ahead of the commencement of work at recent near-mine discoveries, most notably Gilbey's North. Furthermore, many of the mining contractor charges are fixed, we understand, so do not come down with declining volumes.

- AISC for the June quarter was A\$2396/oz (BSCPe A\$2100/oz) vs an average realised gold price of A\$2620. GCY remains in a stable financial position with \$31m cash at the end of the quarter (\$32.4m including the value of gold on hand). Capex requirements for development of the new deposits remains work in progress.
- FY23 is expected to mark a transitional year at Dalgaranga hopefully with the inclusion of recent new discoveries including Gilbey's North where a Mineral Resource is expected to be released in the September quarter. In the first half FY23 GCY has provided production guidance of 30-35koz (BSCP's prior forecasts estimated 35.9koz, revised to 32.4koz) at AISC of A\$2700-2800/oz (incorporating \$6m capex in relation to a TSF lift), however in the second half we anticipate this could materially improve with higher grade feed as Gilbey's North impacts. We have made significant revisions to our cost estimates in FY23 to reflect the guidance provided (FY23e AISC now A\$2358/oz vs ~A\$1500/oz prior).
- 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. That said, the recent exploration success at the Never Never Lode seems likely to drive a deep, high grade open cut, and potentially an underground beneath.

In conclusion...

As demonstrated by yesterday's share price move, GCY provides significant leverage to exploration success. As a high-cost producer (currently) it is strongly leveraged to A\$ gold prices. Could the NNL discovery reinvigorate corporate interest in the stock? Westgold must be kicking themselves they didn't refresh the bid. It was a good idea at the time, and the synergies remain, but they will need to pay a lot more now. Based on our numbers the stock continues to trade at a significant discount to our NPV₈. Interesting times for GCY.

"Gold is where you find it". In this case 59m of 12.5g/t around 300m north of the open cut.



Great work by the GCY geologists.



FINANCIAL SUMMARY

Gascoyne Resources Limited (GCY.AX / GCY AU)

Share Price	A\$/sh	0.34
Shares on Issue	m	426
Market Cap (A\$m), post merger	A\$m	145
Net Cash / (Debt) (A\$m)	A\$m	31
Enterprise Value (A\$m)	A\$m	114

Valuation	0.49
Upside / (Downside)	44.2%
Dividend Yield	0.0%
Total Return Forecast	44.2%

Profit & Loss	Units	Jun-20	Jun-21	Jun-22e	Jun-23e	Jun-24e
Sales	A\$m	171	205	186	188	228
Expenses	A\$m	(121)	(110)	(176)	(165)	(176)
EBITDA	A\$m	51	94	10	22	52
D&A	A\$m	(42)	(52)	(43)	(31)	(33)
<i>D&A, per ounce of gold production</i>	A\$/oz	577	673	604	400	350
EBIT	A\$m	9	42	(33)	(9)	19
Net Interest	A\$m	(7)	(4)	(3)	(1)	(1)
Tax (provision)	A\$m	(0)	(2)	(0)	-	-
Underlying NPAT	A\$m	2	36	(36)	(9)	19
Exceptionals/Abnormals	A\$m	0	(80)	-	-	-
Reported Profit	A\$m	2	(44)	(36)	(9)	19

Per Share Data (¢)	Jun-20	Jun-21	Jun-22e	Jun-23e	Jun-24e
Shares Out (m)	50	251	426	426	426
EPS (¢)	4.0¢	(22.8¢)	(12.1¢)	(2.2¢)	4.4¢
Growth (%)	n/a	n/a	-47%	-82%	-303%
Dividend (¢)	-	-	-	-	-
Payout Ratio (%)	0%	0%	0%	0%	0%
Book Value (A\$)	1.14	0.43	0.31	0.31	0.37
Free Cash Flow (A\$)	0.10	0.04	0.02	(0.01)	0.08

Cashflow	Units	Jun-20	Jun-21	Jun-22e	Jun-23e	Jun-24e
Cash From Operations	A\$m	52	79	27	22	52
Interest	A\$m	(1)	(3)	(2)	(1)	(1)
Tax	A\$m	-	-	-	-	-
Net Cash From Operations	A\$m	51	75	25	22	52
Capex	A\$m	(45)	(61)	(8)	(21)	(11)
Exploration	A\$m	(1)	(3)	(7)	(5)	(5)
Net Investments	A\$m	-	(0)	(1)	-	-
Free Cash Flow	A\$m	5	11	9	(4)	36
Equity	A\$m	(0)	77	16	-	-
Borrowings	A\$m	(16)	(70)	(18)	-	-
Dividend	A\$m	-	-	-	-	-
Net Increase / (Decrease) in Cash	A\$m	(11)	18	7	(4)	36

Valuation Metrics	Jun-20	Jun-21	Jun-22e	Jun-23e	Jun-24e
EV / Sales	0.7x	0.6x	0.6x	0.6x	0.5x
EV / EBITDA	2.2x	1.2x	11.3x	5.1x	2.2x
EV / EBIT	13.1x	2.7x	(3.5)x	(13.3)x	5.9x
P/E (x)	8.6x	(1.5)x	(2.8)x	(15.8)x	7.7x
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	27	62
Receivables	A\$m	4	6	3	3	3
Inventory	A\$m	15	13	17	19	19
PP&E	A\$m	180	113	67	62	45
Exploration	A\$m	30	33	81	89	94
Other	A\$m	2	2	3	3	3
Assets	A\$m	237	190	202	202	227
Creditors	A\$m	44	10	14	16	16
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	70	71
Net Assets	A\$m	57	108	133	132	156

Operating Metrics (%)	Jun-20	Jun-21	Jun-22e	Jun-23e	Jun-24e
EBITDA Margin	30%	46%	5%	12%	23%
EBIT Margin	5%	21%	-18%	-5%	8%
Net Profit Margin	1%	18%	-19%	-5%	8%
ROIC	6%	38%	-29%	-7%	18%
Return on Assets	1%	19%	-18%	-5%	8%
Return on Equity	3%	33%	-27%	-7%	12%
Effective Tax Rate	7%	6%	0%	0%	0%

Liquidity & Leverage	Units	Jun-20	Jun-21	Jun-22e	Jun-23e	Jun-24e
Net Debt / (Cash)	A\$m	77	5	(18)	(14)	(49)
Net Debt / EBITDA	x	1.5x	0.1x	(1.8)x	(0.6)x	(0.9)x
EBIT Interest Cover	x	1.3x	11.0x	(12.1)x	(13.1)x	29.7x
Net Debt / Equity	%	133%	4%	-13%	-10%	-31%

Key Assumptions	Jun-20	Jun-21	Jun-22e	Jun-23e	Jun-24e
Gold (US\$/oz)	1,564	1,855	1,837	1,700	1,700
AUDUSD	0.67	0.74	0.72	0.70	0.70
Gold price achieved (US\$/oz)*	2,331	2,571	2,568	2,429	2,429

* Incorporating hedge book

Production	Jun-20	Jun-21	Jun-22e	Jun-23e	Jun-24e
Gold (koz)	73	77	71	77	94
AISC (A\$/oz sold)	1,572	1,304	2,259	2,323	1,844
AIC (A\$/oz sold)	2,206	2,067	2,361	2,323	1,844

Valuation Summary	A\$m	Equity	Risk	A\$m	A\$/share
Dalgaranga	167	100%	100%	167	0.37
Glenburgh	98	100%	25%	24	0.05
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	294			221	0.49

General Advice Warning

By downloading this report you acknowledge receipt of our Financial Services Guide, available on our web page www.bridgestreetcapital.com.au.

Bridge Street Capital Partners Pty Ltd is licensed to provide financial services in Australia; CAR AFSL 456663; Level 14, 234 George Street, Sydney NSW 2000

Bridge Street Capital Partners Pty Ltd is providing the financial service to you.

General Advice Warning

Please note that any advice given by Bridge Street Capital Partners Pty Ltd or its authorised representatives (BSCP) is GENERAL advice, as the information or advice given does not take into account your particular objectives, financial situation or needs. You should, before acting on the advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Prospectus, PDS or like instrument.

Disclaimers

BSCP provides this financial advice as an honest and reasonable opinion held at a point in time about an investment's risk profile and merit and the information is provided by BSCP in good faith. The views of the adviser(s) do not necessarily reflect the views of the AFS Licensee. BSCP has no obligation to update the opinion unless BSCP is currently contracted to provide such an updated opinion. BSCP does not warrant the accuracy of any information it sources from others. All statements as to future matters are not guaranteed to be accurate and any statements as to past performance do not represent future performance. Assessment of risk can be subjective. Portfolios of equity investments need to be well diversified and the risk appropriate for the investor. Equity investments, made by less experienced investors, in listed or unlisted companies yet to achieve a profit or with an equity value less than \$50 million should collectively be a small component of a balanced portfolio, with smaller individual investment sizes than otherwise. Investors are responsible for their own investment decisions, unless a contract stipulates otherwise. BSCP does not stand behind the capital value or performance of any investment. Subject to any terms implied by law and which cannot be excluded, BSCP shall not be liable for any errors, omissions, defects or misrepresentations in the information (including by reasons of negligence, negligent misstatement or otherwise) or for any loss or damage (whether direct or indirect) suffered by persons who use or rely on the information. If any law prohibits the exclusion of such liability, BSCP limits its liability to the re-supply of the Information, provided that such limitation is permitted by law and is fair and reasonable.

Disclosures

Dr Chris Baker, an authorised representative of BSCP, certifies that the advice in this report reflects his honest view of the company. He has 29 years investment experience in wholesale capital markets. He worked as a mining analyst for brokers BZW and UBS for 11 years and has a further 16 years' experience as a mining analyst and portfolio manager with Colonial First State and Caledonia Investments. He now provides independent financial advice on a part time basis. He may own securities in companies he recommends but will declare this when providing advice. He currently owns shares in GCY. He is remunerated by BSCP but is not paid a specific fee for providing this report. BSCP, its directors and consultants may own shares and options in GCY and may, from time to time, buy and sell the securities of GCY. Co-author Daniel Seeney is also an authorised representative of BSCP and does not own shares in GCY.

Bridge Street Capital Partners was a Co-Manager of the last two placements by GCY, provides advice to the Company and is paid a fee for those services.

Appendix 1

US Disclaimer: This investment research is distributed in the United States by Bridge Street Capital Partners Pty Ltd and in certain instances by Enclave Capital LLC (Enclave), a U.S.-registered broker-dealer, only to major U.S. institutional investors, as defined in Rule 15a-6 promulgated under the U.S. Securities Exchange Act of 1934, as amended, and as interpreted by the staff of the U.S. Securities and Exchange Commission. This investment research is not intended for use by any person or entity that is not a major U.S. institutional investor. If you have received a copy of this research and are not a major U.S. institutional investor, you are instructed not to read, rely on or reproduce the contents hereof, and to destroy this research or return it to Bridge Street Capital Partners Pty Ltd or to Enclave. The analyst(s) preparing this report are employees of Bridge Street Capital Partners Pty Ltd who are resident outside the United States and are not associated persons or employees of any U.S. registered broker-dealer. Therefore, the analyst(s) are not subject to Rule 2711 of the Financial Industry Regulatory Authority (FINRA) or to Regulation AC adopted by the U.S. Securities and Exchange Commission (SEC) which among other things, restrict communications with a subject company, public appearances and personal trading in securities by a research analyst. Any major U.S. institutional investor wishing to effect transactions in any securities referred to herein or options thereon should do so by contacting a representative of Enclave.