BRIDGE STREET
CAPITAL PARTNERS

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Gascoyne Resources (GCY AU. $0.235, Market cap $206m)

Major resource expansion at Never Never: up 138% to 721koz with a 26% increase in grade to 5.9g/t. Significant value upside still apparent.

- No question in our minds: the Never Never discovery is one of the best we've seen in the WA Goldfields in recent years. GCY now boasts a total resource endowment of just under 2Moz. Of this some 1.4Moz is accessible to GCY's mothballed 2.5Mtpa Dalgaranga mill. 1.2Moz lies within a 10km radius of the mill with the balance likely to be truck-able from the Yalgoo projects.

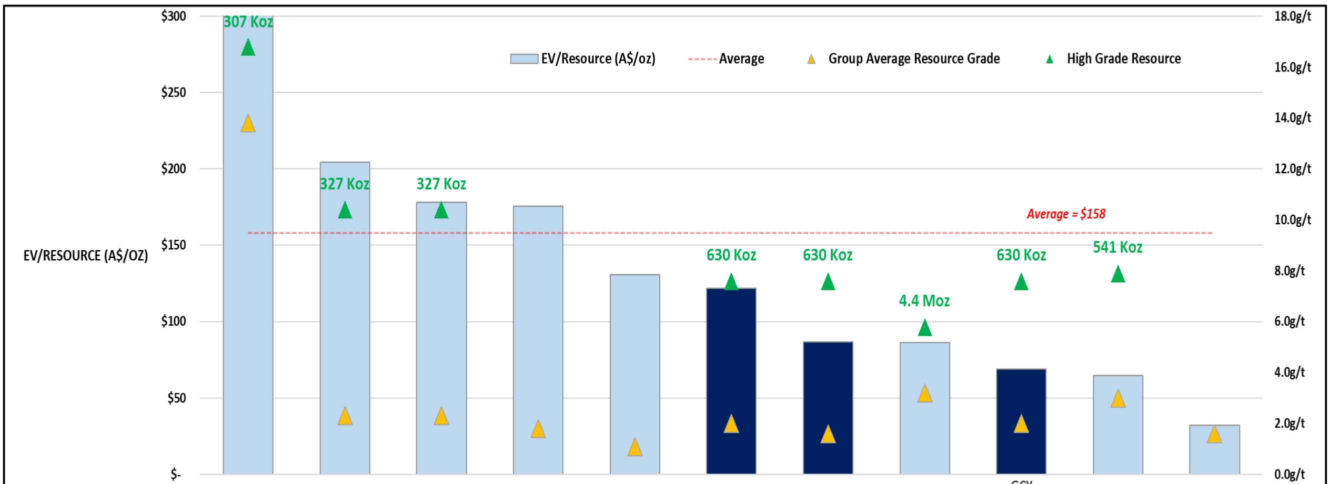
Resources (M+I+I)	Tonnes (Mt)	Grade (g/t)	Gold (Koz)
Total Murchison			
Resource announced 23 January 2023	20.14	1.6	1008.7
Resource announced 24 July 2023	21.94	2.0	1426.9
Change	***8.9%***	***25.0%***	***41.5%***
Total Never Never Lode			
Resource announced 23 January 2023	2.03	4.64	303.1
Resource announced 24 July 2023	3.83	5.9	721.2
Change	***88.7%***	***26.1%***	***137.9%***
Underground section Never Never Lode (2g/t COG)			
Resource announced 23 January 2023	0.93	7.22	216.6
Resource announced 24 July 2023	2.57	7.64	630.1
Change	***176.3%***	***5.8%***	***190.9%***

- No surprises as to where the new Never Never Lode (NNL) ounces came from. A succession of high grade drillholes has extended the orebody to vertical depths of around 600m. (Some of the better deep holes included 19.9m at 8.1g/t and 19m at 6.5g/t). These not only contributed an additional 1.6Mt to the resource, but also a 5.8% increase in average grade to an impressive 7.6g/t. In total, ounces contained within the high grade section of the NNL increased by nearly 3 times.
- As we've said in previous reports, this is a transformational discovery for GCY and fair to say that the company might be less than 12 months away from restarting the mill.
- The NNL remains open at depth and may be getting better with depth. To see NNL achieve the "magic million ounces" appears now to be a fairly low risk proposition. Assuming a gold endowment continues at the average of 1600oz/vertical metre, an additional 279m down plunge would be required. If the 2420oz/vm shown at the 500m depth level is extrapolated to depth, a plunge extension of just over 100m would be required.
- Drilling is to recommence at NNL this week with 3 rigs to be operational in August, to test down-plunge extensions of the orebody.
- While the stock has doubled in share price since its recapitalisation in April 2023, the market and the WA gold industry appears to be paying scant regard for a company which, with this resource upgrade, and a 2.5Mtpa mill, could be on the cusp of a +150kozpa production outlook. More attention is being paid to Musgrave (MGV) with rival bids from Westgold (WGX) and now Ramelius (RMS). Even kicking in the Dalgaranga mill at a large discount to replacement cost, GCY ounces within a truck-able distance to the mill are trading at a 66% discount to MGV's ounces in the ground.
- At the current share price, GCY (or soon to be renamed Spartan Resources Limited) remains a very inexpensive exposure to an expanding high grade resource within close proximity to a first class CIP mill.

What is GCY worth?

As we discuss in this report, it is still very early days for GCY and what the impact of the NNL (and possibly other) discoveries might be. Nonetheless, we are facing the question: what is GCY worth?

In the chart below, we compare the capitalisation of GCY gold ounces with market transactions in the gold sector over the last 2 to 3 years.



	SPECTRUM (SPX) - RMS BID FEB 2020	MUSGRAVE (MGV) - RMS BID JULY 2023	MUSGRAVE (MGV) - WGX BID JUNE 2023	MILLROSE ASSET SALE (STK) JUNE 2023	DACIAN (DCN) - GMD BID FEB 2023	GCY (MURCHISON REGION oz)	GASCOYNE (GCY, TOTAL OZ)	GWALIA ASSET SALE (SBM) APRIL 2023	GCY (MURCHISON REGION oz, ex. MILL)	VANGO (VAN) - CYL BID JAN 2023	BREAKER (BRB) - RMS BID JULY 2023
EV/Resource (A$/oz)	$587	$204	$178	$176	$131	$122	$87	$86	$69	$65	$32
Average	$158	$158	$158	$158	$158	$158	$158	$158	$158	$158	$158
Group Average Resource Grade	13.8g/t	2.3g/t	2.3g/t	1.8g/t	1.1g/t	2.0g/t	1.6g/t	3.2g/t	2.0g/t	3.0g/t	1.6g/t
High Grade Resource	16.8g/t	10.4g/t	10.4g/t			7.6g/t	7.6g/t	5.8g/t	7.6g/t	7.9g/t	

The closest comparison we think is with Musgrave Minerals (MGV), currently the subject of a takeover by Ramelius (RMS, which overbid Westgold, WGX, which ironically failed in its bid for GCY in 2021).

We see the attraction for Musgrave, with a 327koz, 10.4g/t high grade resource within a total 927koz resource (at 2.3g/t on average) contained within its Cue Gold Project. (Note we do not have research coverage for MGV).

This may provide high grade, low cost feed to RMS's Mt Magnet plant, located 40km to the south. Musgrave's PFS for Cue involved a stand-alone 500ktpa CIP gold plant requiring a pre-production capex of $121m. The projects IRR was attractive and a 5 year mine life delivered a A$215m NPV.

The RMS bid capitalised MGV at over A$200/resource ounce.

Compare this with three valuation scenarios for GCY.

1. Incorporating ounces at Dalgaranga and Yalgoo, and giving no value to other exploration assets nor the Dalgaranga mill, GCY is capitalised at $122/ounce, a 40% discount to the value of MGV ounces.
2. Incorporating all of GCY's ounces, again excluding the value of the mill the EV/resource ounce drops to $87/oz.
3. Apportioning A$75m for the value of the mill and ancillary infrastructure, quite possibly a 50% or more discount to replacement value, and assuming GCY's 1.4Moz of resources at Dalgaranga and Yalgoo, the company's EV/resource ounce drops to A$69/oz, a remarkable 66% discount to the MGV valuation. In this there is no value apportioned to Glenburgh ounces.

Factoring the GCY share price to scenario 3 suggests a potential M&A target price of 65-70c/share. Optimistic perhaps, but WGX has bid for GCY in the past, which saw a rally in the GCY price to 40c, and this was prior to the Never Never discovery.

Looking at GCY's possible value another way: what could the company be worth when the project is restarted? The table below is a highly conceptual valuation as we have no knowledge of the details of future mine plans. In this valuation, we have adopted the following:

- Average feed grade of 2.2g/t, made up of a blend of underground and open pit ore, 10% higher than the average resource grade for Dalgaranga/Yalgoo deposits
- Mill throughput of 2.5g/t, producing some 159kozpa.
- In the absence of any mine plans for the project an assumed 10% discount to average cash cost of the global gold industry, currently US$1200/oz (A$1700/oz). We feel the NNL will contribute to relatively lower cost ounces.
- An A$ gold price of $2500/oz, less ca. 5% for WA government and private royalties.
- $50m start-up capital, funded by debt.
- PV of tax losses at around A$48m, offsetting income tax in the first 2 years.
- 8% discount rate.
- Four mine life scenarios have been run, from 5 to 8 years.

Dalgaranga, conceptual		
Mill throughput	Ktpa	2500
Grade	g/t	2.2
Recovery	%	90%
Gold production	Kozpa	159
Gold price (net of royalties)	A$/oz	2375
AIS costs (global midpoint)	A$/oz	1530
Cashflow margin	A$/oz	845
EBITDA	A$m	134.5
Tax	A$m	27.2
Capex	A$m	50.0
Debt	A$m	50.0
Tax losses (PV, approx)	A$m	48.0
NAV(8)		
NAV, 5 year life	A$m	350
NAV/share	A$	0.40
NAV, 6 year life	A$m	413
NAV/share	A$	0.47
NAV, 7 year life	A$m	471
NAV/share	A$	0.54
NAV, 8 year life	A$m	525
NAV/share	A$	0.60

These very much back-of-the-envelope and highly simplistic valuations suggest an NAV per share for GCY of 40 to 60c/share. With the exploration success demonstrated over the last 12 months, we feel that a mine life assumption of 8 years is not unrealistic.

These estimates are not out of line with the metrics determined from the MGV bid.

Further success with the drill bit might see these estimates increase further. As we discuss in this report, the jewel in the crown, the Never Never discovery, is barely 12 months old, and remains open (and quite possibly improving) at depth. Furthermore, its discovery has generated a new exploration model for the project.

We see good reason to think that GCY's share price, as the company moves closer to production, should move toward the above estimates.

GCY to us is inexpensive on any measure. New management focussed on a new exploration model may continue to add value to Never Never and other targets.

Background

- GCY's Dalgaranga mine and mill were shut down in late 2022 with the project facing severe cashflow stress processing low grade ore. This was in the face of a significant discovery made in mid-2022, the high grade Never Never Lode (NNL). Despite attempts to bring quick, higher grade ore to the mill, management decided that this was neither achievable, nor a sustainable solution.
- GCY then sought new equity capital to fully explore the NNL and raised A$50m at 10c.
- GCY's exploration target for the NNL was stated at 600,000 to 1 million ounces gold at a grade of 4.6 to 6.2g/t. The aim is to convert this to a resource and a reserve, targeting production of 130-150koz gold per year for at least 5 years.
- GCY subsequently set in place a "365" strategy, targeting +**3**00koz high grade reserves (+4g/t), a +**6**00Koz high grade resource (5g/t) and a **5** year high grade mine plan. Based on the recent resource upgrade there is little doubt that GCY will achieve all these goals. In fact, fair to say these goals, set just a few months ago, are looking quite conservative.

The Never Never Lode – now a high grade +700koz resource with a high conversion to reserves likely

- In just over 12 months, GCY geologists have converted the NNL discovery hole (Gilbey's North at the time), 54m at 6.55g/t into a 721Koz resource. This is an impressive achievement, assisted by a very low discovery cost of A$13/ounce.
- The following long section demonstrates that the bulk of the resource addition, significantly more tonnes at a higher grade, has been derived from the down-plunge extension of the NNL. The blue arrow in the chart below shows the approximate base of the earlier 303koz resource.

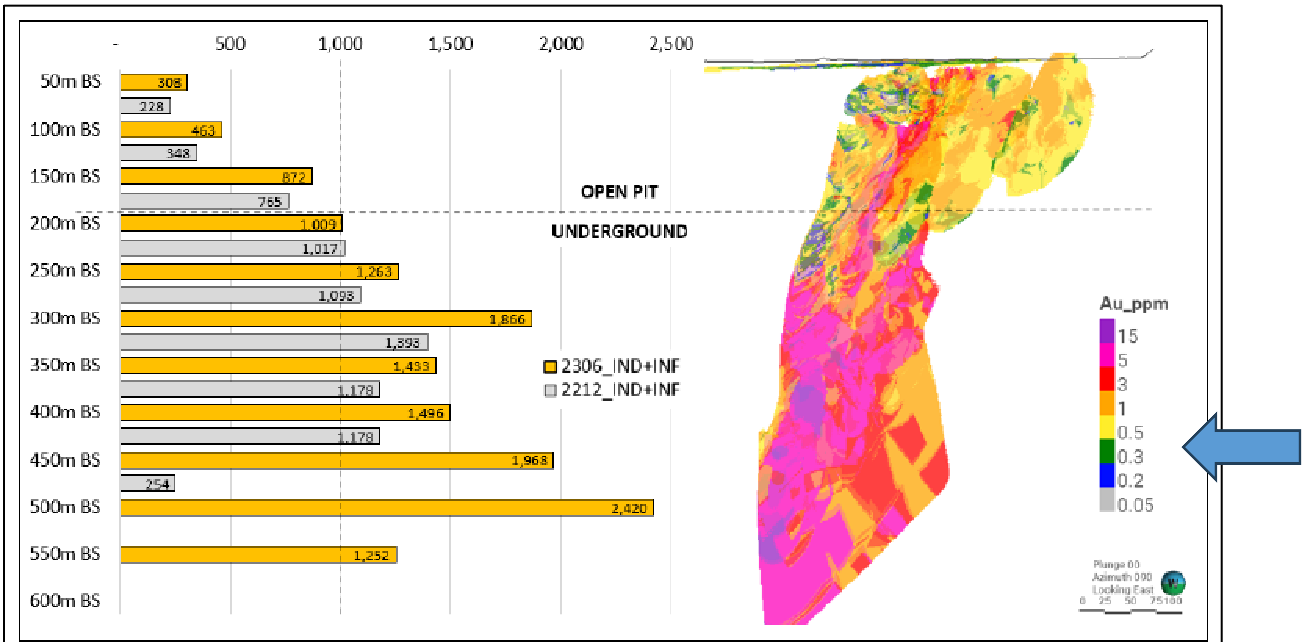


Figure 1: Previous MRE vs Current Never Never MRE Ounces Per Vertical Metre (left) against updated June 2023 Block Model looking east (coloured by grade)

- It is clear from this chart that the quality of the deposit appears to be improving with depth. Visually this can be seen with an increased proportion of higher grade blocks at depth (the 'warm colours'). This trend is better illustrated by the histogram to the left which had average ounces per vertical metre (oz/vm) peaking at around 1400oz/vm (the grey bars) in the January resource.

- Gold endowment in the new resource now peaks at 2,420oz/vm at the 500m level (yellow bars), and may be defining a trend of increasing endowment with depth. This trend is very encouraging.
- As flagged in their quarterly, GCY was evaluating the cost/benefit trade off of further surface drilling compared with the use of an underground exploration decline. The current release suggests that this decision has already been taken, with a single rig re-starting exploration at NNL this week with three rigs due to be operating in August.
- As an aside, the declining oz/vm below the 500m level in the chart above may simply be attributed to a reduced drillhole density at depth. This has proven to be the case with the earlier resource estimate.

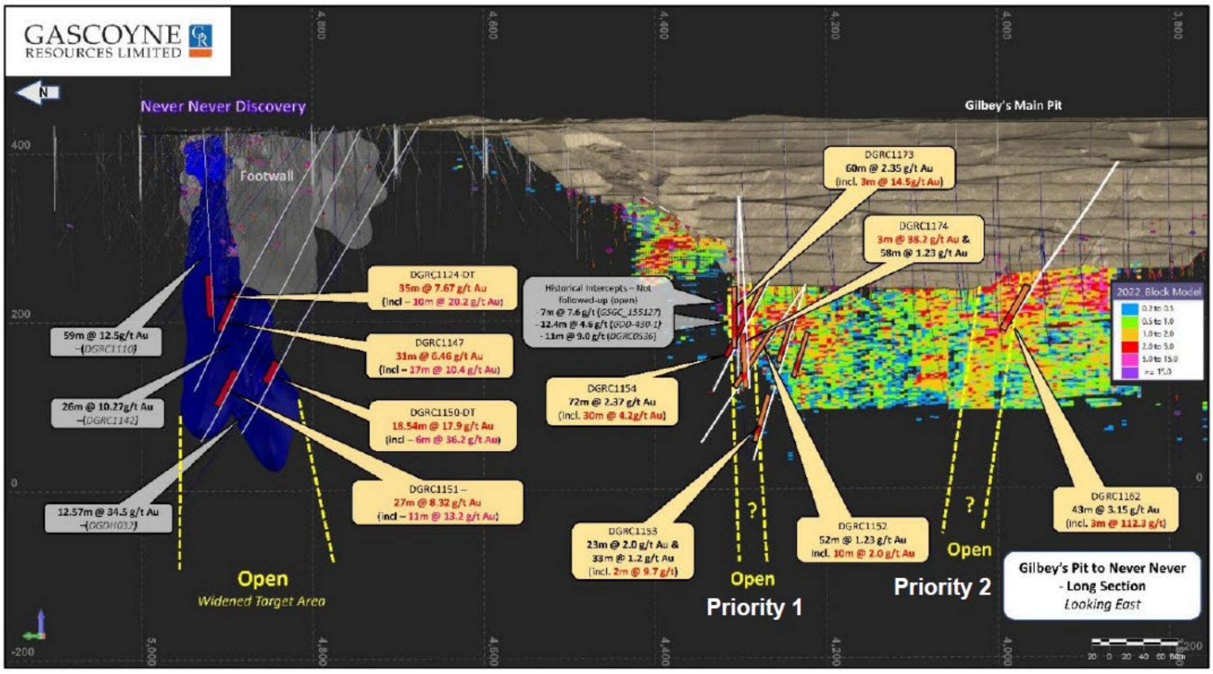
Comments on the new resource

The following points are worth highlighting.

- **Geology**: Interesting comment in the release is that the geo's believe the NNL is one of potentially several feeder systems to the main Gilbey's resource (now largely mined out). Other feeder structures are inferred to exist at the base of the old Gilbey's pit. (See below).
- **Structural controls to the NNL**: GCY geo's are to be commended for their detailed structural studies of the NNL mineralisation. We see no reason – yet – to see the termination of mineralisation at depth.
- **Geostats.** Statistics associated with NNL mineralisation are impressive, with seemingly good grade continuity. What amazes us is that "Indicated" status resources (and potentially reserves) can be delineated with drillhole spacings of around 50x50m. Even though we are seeing very high grade intercepts, we would not classify NNL as "nuggety", important for reliable grade estimation. Note as well, that the "top cut" for very high grade assays has been increased from 50 to 75g/t, based on a rigorous geostatistical analysis.
- **Other aspects.** GCY documents other critical elements for the move back into production:
    - Permitting. Permits have already been obtained for the commencement of open cut mining at NNL. Further permits will, of course, be required for the NNL underground.
    - Metallurgy. As already reported, metallurgical characteristics on NNL are 'non-refractory' well suited to the existing Dalgaranga mill.
    - Environmental issues. None have been identified.
- **Conversion of Resources to Reserves.** We are of the view that the NNL resource (whatever it becomes) will readily convert to reserves. Lower grades seem to be confined to the near surface, open pittable block. Moving to depth a small, high grade supergene zone and primary resource have been delineated. Grades here are such that we should see a good proportion of resource convert to reserves. We are expecting a maiden reserve for NNL in 1H24, in association with a start-up plan for the project.

Other opportunities for high grade ore

- As we concluded in our April 2023 report, further upside may emerge from additional medium to high grade deposits like the NNL. This discovery has encouraged the geologists to look at new structural controls for mineralisation within the existing tenements.
- We are greatly attracted by the opportunity of further high-grade discoveries. GCY has been talking about zones potentially similar to the NNL beneath the Gilbey's pit and highlight two targets in the long section below, "Priority 1" and "Priority 2", as having good potential for NNL look-alike discoveries. Both targets already have a number of significant, potentially underground mineable intercepts, including 3m at 112g/t, 3m at 38g/t, 30m at 4.2g/t and 2m at 9.7g/t.



- Additional high grade/underground mineable deposits could allow a greater underground mining rate than can be offered by the NNL. More tonnes of higher-grade feed equals the prospect of higher production levels and consequentially lower costs.
- There appear to be other targets within a short haul of the Dalgaranga plant. GCY in its 2 February announcement, looks at opportunities within the Gilbey's-Gilbey's North corridor and states that a number of near surface anomalies have already been identified, but not followed up.
- These include including the previously reported 'Arc Prospect' approximately 800m from Never Never with drill intercepts including 12m at 1.7g/t Au from 76m, 4m at 4.0g/t Au from 68m, 8m at 1.1g/t from 80m, 24m at 0.8g/t Au from 84m.
- The Dalgaranga tenements remain underexplored, in our view.

Moving Dalgaranga back into production

- As we reported in our April note, number of steps are needed before GCY can push the button and restart the Dalgaranga plant. Core to the current strategy is to establish reserves for the project, including open pit tonnes at Dalgaranga (and possibly Yalgoo) and underground tonnes at NNL.
- The capital raise early in the year is sufficient, it seems, to take the project to a final investment decision. However, we believe further capital will be required to put the project back into production. This might include the following:
    - Expansion/extension of the tailings storage facility.
    - Extension of the proposed underground drill drive and conversion for mine access.
    - Alternatively, should the company not proceed with a drill drive, a new underground mine access will need to be funded.
    - Installation of mine ventilation and other underground infrastructure.
    - First fill for the mill.
    - Upgrading of the Yalgoo to Dalgaranga road for ore haulage.
    - Working capital.
- We estimate this could require initial capex of perhaps over $30-40m which could be funded with a modest debt facility. Final permitting for an underground operation at NNL and open pit operations at Yalgoo are also required.

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Appendix 1

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