GASCOYNE RESOURCES LIMITED

Interim financial report

for the half-year ended 31 December 2021

Corporate Directory

Directors

Rowan Johnston	Interim Non-Executive Chairman
Simon Lawson	Managing Director and Chief Executive Officer
David Coyne	Finance Director
Hansjoerg Plaggemars	Non-Executive Director

Company Secretary

David Coyne

Australian Business Number

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Auditor

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Stock Exchange Listing

The Company's securities are listed on the Australian Securities Exchange (ASX).
ASX Code: GCY

Contents

Directors' report

The Directors of Gascoyne Resources Limited (Gascoyne or the Company) present their report together with the condensed interim financial statements (interim financial statements) of the consolidated entity, being Gascoyne Resources Limited and its controlled entities (together, the Group), for the half-year ended 31 December 2021.

Directors

The Directors of the Company during the half-year and up to the date of this report were, unless otherwise stated:

Mr Rowan Johnston[1]	Interim Independent Non-Executive Chairman
Mr George Bauk[2]	Independent Non-Executive Chairman
Mr Simon Lawson[3]	Managing Director and Chief Executive Officer
Mr Richard Hay[4]	Managing Director and Chief Executive Officer
Mr David Coyne[5]	Finance Director
Mr Hansjoerg Plaggemars[6]	Non-Executive Director

1 Appointed as Interim Independent Non-Executive Chairman on 31 January 2022, Independent Non-Executive Director since 5 August 2020.
2 Resigned 31 January 2022.
3 Appointed as Non-Executive Director on 10 November 2021 and as Managing Director / CEO on 13 November 2021.
4 Resigned 13 November 2021.
5 Appointed 18 November 2021.
6 Appointed 1 July 2021.

Review of operations

During the half-year, the principal activities of the Group were the production of gold from the Dalgaranga Gold Project (Dalgaranga) and the exploration and evaluation of gold projects in Western Australia.

The Group's current projects include:

- gold production and exploration at Dalgaranga;
- gold exploration, evaluation and potential development at the Yalgoo Gold Project (Yalgoo);
- gold exploration and evaluation at the Glenburgh and Mt Egerton Gold Projects; and
- regional exploration in Western Australia.

COVID-19 management

In order to address the risks associated with the COVID-19 pandemic, the Company continues to work closely with all regulatory and industry bodies to implement agreed actions as and when required, including recently announced mask mandates. In recognition that the Western Australian border opened during the first half of 2022, the Company, in collaboration with its main contractors, progressively increased its preparedness to manage the wider spread of community cases of COVID in Western Australia. This includes refining and enhancing protocols and procedures for possible COVID cases at Dalgaranga.

To date, the Group has not experienced any direct material impact to its operations due to COVID-19 and continues to closely monitor developments and maintains a high level of readiness to actively respond to potential COVID-19 risks.

While the Group has not experienced any direct material impact to its operations from interstate border closures as a result of COVID-19 restrictions, the current shortage in skilled workers in Western Australia has created pressure on existing personnel workloads.

Safety

Total recordable injury frequency rate (TRIFR) at the end of December 2021 for Dalgaranga was 2.7, a significant improvement from 11.3 at the end of December 2020. The improvement over the past 12 to 18 months is driven by the continued sustained focus by all employees and contractors to work in a safe and responsible manner.

Directors' report

Environmental

The Group continued to adhere to sound environmental regulatory stewardship during the half-year with no environmental harm caused at any of the Group's operations.

The Group engaged with relevant regulators during the half-year, regarding ongoing matters as part of normal operations management, including seeking modifications to certain licence conditions and limits at Dalgaranga. In November 2021, the limit to the weak acid dissociable cyanide discharge into the tails storage facility was removed by the regulator, following the submission of a formal application for removal of the limit in July 2021. Removal of the limit brings Dalgaranga into line with other gold processing plants in the region. A bird deterrent system was installed during the period at the newly commissioned Golden Wings Tails Storage Facility (TSF). The deterrent system is an automatic system that is designed to prevent birds from landing on the TSF without causing any harm or injury to birds.

Production

For the half-year ended 31 December 2021, 33,185 ounces of gold were produced at Dalgaranga (2020: 40,695 ounces), a decrease of 18.5% over the corresponding prior period. The decreased rate of production was primarily driven by inclement weather at the start of the current half-year period preventing safe pit operations with the rain inducing additional movement of an existing shallow level pit wall slip in the north end of the Gilbey's pit. This resulted in lower grade than planned ore being fed to the plant for the months of July and August 2021. Production was further adversely impacted in the latter part of the half-year by narrow work areas in Stage 2 of the Gilbey's Main Zone (GMZ), which reduced mining productivity together with adverse productivity impacts caused by work on the eastern wall ramp following the decision in mid-October to defer the Stage 3 cut-back. The availability of skilled labour in Western Australia also impacted the mining schedule during the December quarter, with numerous mining shifts unable to be fully staffed. Production rates, however, improved in December 2021, with over 6,000 ounces produced for the month and subsequent to the period end, on 8 February 2022 the Company announced that January 2022 achieved a site record gold production of 7,900 ounces.

Ore was primarily sourced from Stage 2 of the GMZ during the half-year and waste movement was primarily in the Plymouth pit, where mining commenced in September 2021. Total mined material movement decreased to 3.9 million bank cubic metres (BCM), of which 1.2 million BCM was waste movement at Plymouth, during the half-year compared to the corresponding prior period (2020: 5.3 million). The decrease in mining volumes was primarily due to the Gilbey's Stage 2 upper level waste cutback that was completed during the 2020 corresponding period. No major cutback was required at Plymouth in the current half-year as some ore was available from the surface.

Average plant feed grade decreased to 0.89g/t Au in the current half-year (2020: 1.05g/t Au). The decrease in grade compared to the corresponding period in 2020 was driven primarily by the restrictions on access to higher grade ore from the northern end of the Gilbey's pit at the start of the current half-year. Ore grade improved throughout the half-year as mining progressed further in Stage 2 GMZ with the December 2021 quarter grade averaging 0.91g/t Au.

Processing plant throughput was excellent in the December 2021 half-year period with annualised run rates on predominantly fresh rock ore of approximately 2.7Mtpa, exceeding fresh rock nameplate capacity of 2.5Mtpa. It is anticipated that annualised throughput rates will remain similar to this rate, or better, even as higher percentages of fresh ore are processed. Even though the processing rate exceeded nameplate capacity for the half-year period, plant gross metallurgical recoveries averaged 86.4% (2020: 90.4%). Lower recoveries during the current half-year were driven by elevated levels of sulphide in the ore processed. Sulphide levels continued to decrease during the half-year as more Stage 2 low sulphide GMZ ore was mined and recovery for the December 2021 quarter averaged 86.9%. This continued operating performance, combined with ongoing operational enhancement initiatives – including reducing cyanide consumption while maintaining recoveries at higher throughput rates – provides Gascoyne with confidence that the plant will continue to exceed its design capacity of 2.5Mtpa.

Gravity gold recovery remained consistent during the half-year, with the December 2021 half averaging 22.1% of all gold produced, marginally lower than the corresponding period (2020: 22.9%).

The increase in all-in sustaining cost (AISC) to $2,257 per ounce (2020: $1,276 per ounce) was primarily driven by a substantially lower proportion of mining costs being capitalised to deferred waste in the current half-year (12% of total mining costs in 2021; 64% of total mining costs in 2020), and the general cost escalation being experienced across the mining industry in Western Australia. Deferred waste capitalised was lower in the current half-year as a result of further progression of the Gilbey's Stage 2 cutback and the decision in early October 2021 to defer the Stage 3 cut-back in the Gilbey's pit. No deferred waste is being capitalised for the Plymouth pit. Increased cost escalation is being experienced across a range of areas including people, energy, spare parts and bulk steel products.

Directors' report

Key operating metrics

Key operational information is summarised as follows:

Production summary	Unit	Quarter March 2021	Quarter June 2021	Quarter September 2021	Quarter December 2021	Financial year H1 2022	Financial year H1 2021
Mining							
Total material movement	Kbcm	1,856	1,514	1,683	2,204	3,887	5,350
Waste	Kbcm	1,599	1,275	1,323	1,896	3,219	4,659
Ore (volume)	Kbcm	258	239	359	308	667	691
Ore (tonnage)	Kt	700	521	984	848	1,832	1,831
Mined grade	g/t Au	0.93	1.17	0.73	0.82	0.77	0.87
Processing							
Throughput	Kt	705	655	701	647	1,348	1,313
Feed grade	g/t Au	0.96	0.98	0.87	0.91	0.89	1.05
Recovery	%	87.9	84.0	85.9	86.9	86.4	90.4
Recovered gold	Ounces	19,195	17,416	16,744	16,442	33,185	40,696
Poured gold	Ounces	19,087	17,746	16,800	16,858	33,659	40,180
Revenue summary							
Production sold	Ounces	19,073	17,993	16,759	16,578	33,337	41,429
Average price	A$/oz	2,495	2,516	2,529	2,537	2,533	2,635
Gold sales revenue	A$'000	47,593	45,278	42,377	42,064	84,441	109,167
Cost summary							
Mining (net)	A$/oz	349	931	1,300	1,577	1,438	522
Processing	A$/oz	422	511	587	515	551	400
Site support	A$/oz	164	(22)	(65)	249	93	147
Site cash cost	**A$/oz**	**935**	**1,420**	**1,822**	**2,341**	**2,082**	**1,069**
Royalties	A$/oz	58	57	52	61	57	63
Accretion, sustaining capital, leases & exploration	A$/oz	102	94	88	102	95	128
Corporate allocation	A$/oz	17	19	15	32	23	16
AISC[1]	**A$/oz**	**1,114**	**1,589**	**1,976**	**2,536**	**2,257**	**1,276**
AIC[2]	**A$/oz**	**2,058**	**2,039**	**2,258**	**2,651**	**2,455**	**2,078**
Gold on hand[3]	Ounces	754	504	546	826	826	739

Note: Discrepancies in totals are a result of rounding.

1 All-in sustaining cost (AISC) includes mining (net of deferred waste capitalisation) and processing costs, site administration, net movement in the value of site stockpiles, refining charges, sustaining exploration and capital, site rehabilitation, state government royalties and a share of corporate overheads. Capitalised stripping costs and non-sustaining exploration and capital costs are not included. AISC is a non-IFRS measure.
2 All-in cost (AIC) is the AISC plus deferred waste capitalised, plus non-sustaining exploration and capital costs. AIC is a non-IFRS measure.
3 Gold on hand as at period end.

Exploration activities

During the half-year, $2.1 million was spent on exploration and evaluation activities (2020: $2.3 million). Of the amount spent during the period, $0.8 million was spent within the mining lease at Dalgaranga on resource definition activity and capitalised within the Mine Properties asset class. The remainder ($1.3 million) was spent outside the boundaries of the mining lease and was capitalised in the Exploration and Evaluation asset class.

During the half-year, a total of 9,731 metres of RC, air-core and diamond drilling was completed at Dalgaranga. The drilling focused on testing several targets within a 5km to 15km radius of the process plant. The rejuvenated near-mine exploration strategy at Dalgaranga delivered encouraging results during the period. Drilling completed during the period focussed on resource extensions at Gilbey's, Plymouth and Sly Fox, delineation drilling at Hendricks and further wide spaced drilling at the Greencock trend. Results from the drilling programmes were progressively announced on the ASX platform during the six months ended 31 December 2021.

During the period, a total of 3,867 metres of air-core and RC drilling was also completed at the Glenburgh and Mt Egerton Gold Projects. Results from the drilling programs were progressively announced on the ASX platform during the six months ended 31 December 2021. The Company is currently evaluating the results from the exploration programs at Glenburgh and Mt Egerton undertaken in the 2021 calendar year and will consider the options moving forward in parallel with a review of all non-Murchison region assets held by the Company.

Moving forward, the strategic focus of the Company will be on maximising the value of the mineral endowment and processing plant assets held by the Company in the Murchison region. With this heightened focus, the Company has commenced a full strategic review of all assets held by the Company outside of the Murchison region.

The review encompasses the Glenburgh and Mt Egerton Gold Projects, Mumbakine Well, Beebyn, Andy Well North and other minor ancillary tenements in Western Australia. Options being explored by the Company include full/partial divestment, joint ventures and corporate transactions

No drilling has been undertaken at Yalgoo since the Company acquired the project in November 2021 as the priority immediately post acquisition was on progressing studies and activities required to complete the Mining Proposal and Mine Closure Plan for the Melville Gold deposit at Yalgoo. On 6 December 2021, the Company announced a 24% increase to Yalgoo gold resources that were acquired as part of the recent completion of the transaction with Firefly Resources Limited. Indicated and Inferred Resources at Yalgoo increased to 5.2Mt at 1.45g/t Au for 243,613 ounces of contained gold.

The updated Mineral Resource Estimate at Yalgoo is comprised of two deposits, namely the flagship Melville deposit and a maiden Mineral Resource estimate for the Applecross deposit:

1. Melville – Indicated and Inferred Resource of 4.2Mt at 1.5g/t Au for 200,001 ounces of contained gold; and

2. Applecross – Inferred Resource of 1.0Mt at 1.4g/t Au for 43,611 ounces of contained gold

Firefly

On 16 June 2021, Gascoyne announced a merger by way of Scheme of Arrangement with ASX listed gold explorer, Firefly Resources Limited (Firefly) which holds the higher-grade Melville Gold deposit. On 1 November 2021, the Supreme Court of Western Australia made orders approving the Scheme and Gascoyne acquired all the issued capital of Firefly and its wholly-owned subsidiaries on 10 November 2021. The Company issued 118.9 million shares on this date to complete the acquisition.

Since acquisition, the Company has progressed a range of development activities required for the Mining Proposal and Mine Closure Plans for the Melville Gold deposit to support the future commencement of mining. Evaluation and development activity on the Melville Gold deposit will continue to be refined as the cost environment and availability of resources stabilise within Western Australia over the course of this year.

Financial results

Financial performance

Revenue generated from the sale of 33,337 ounces of gold was $84.4 million (2020: 41,429 ounces, $109.2 million) resulting in an average realised price of A$2,533 per ounce (2020: A$2,635 per ounce). Revenue from the sale of 15,667 ounces of silver was $0.5 million (2020: $0.5 million; 13,996 ounces). The decrease in revenue compared to the prior half-year is driven by a reduction in gold production as well as a decrease in the realised gold price between the two periods.

Cost of goods sold inclusive of depreciation and amortisation was $112.6 million (2020: $73.2 million). The increase in cost of goods sold is primarily driven by a decrease in the proportion of mining costs capitalised to deferred waste partly offset by a build-up of run of mine stockpiles and the write-off of the remaining unamortised capitalised deferred waste stripping costs related to Gilbey's Stage 3 due to the deferral of mining activities at Stage 3 as discussed in Significant changes in the state of affairs below.

Corporate expenses for the half-year totalled $3.1 million (2020: $6.9 million). The decrease is primarily due to abnormally high administration and legal expenses incurred in the prior period due to successfully defending the action brought against the Group, and the Deed Administrators, by Habrok (Dalgaranga) Pty Ltd.

The net consolidated loss after tax of the Group for the half-year was $31.0 million (2020: $26.8 million profit). The significant change from the prior half-year period is driven by a range of factors including lower ounces of gold produced and subsequently sold at a lower average realised gold price, lower proportion of mining costs capitalised to deferred waste during the current half-year and the write-off of the unamortised capitalised deferred waste costs related to Gilbey's Stage 3.

A tax expense of $0.02 million has been recognised by the Group for the period (2020: $2.4 million), however, the Group has not recognised any liability for tax payable due to the ability to offset the current period tax expense against previous tax losses.

Gold price risk management

A requirement under the debt facility with Investec Bank plc (Investec) was to partially protect against adverse movements in the gold price by hedging, on a rolling 18-month basis, a minimum of 40% of forecast gold sales. Following the retirement of the debt facility with Investec during the half-year, the Company closed out its remaining gold forward sale contracts that were in place with Investec, realising a minimal gain on close-out as a result of the weighted average hedge price being slightly higher than the weighted average close-out prices.

Put options were also in place during the period to provide additional protection against adverse gold price volatility. All remaining gold put options expired in December 2021.

Financial position

The Group held cash and cash equivalents of $26.3 million as at 31 December 2021 (30 June 2021: $23.4 million) and $2.0 million in unsold gold on hand was recognised in inventory at net realisable value (30 June 2021: $1.2 million). Market value of unsold gold on hand at 31 December 2021 was $2.1 million (30 June 2021: $1.2 million). The Group's free cashflow generation reduced during the half-year as a result of lower ounces sold, ongoing cost escalation within the Western Australian mining industry and corporate costs associated with the Firefly transaction and Westgold offer.

The Group generated cash from operations of $8.7 million for the half-year offset by investing activities of $9.8 million, resulting in net cash outflow of $1.1 million for the half-year (before financing activities) (2020: inflow $0.5 million). Financing activities resulted in an inflow of $3.9 million (2020: $31.2 million) which reflected the draw down of the $20.0 million convertible note facility and full repayment of the Investec debt facility during the half-year.

As at 31 December 2021 the Group has a working capital surplus of $23.9 million (30 June 2021: $12.6 million). The improvement from 30 June 2021 is driven by the $20.0 million proceeds from entry into the convertible note facility agreement offset by the repayment in full of the Investec debt facility of $10.3 million that was made prior to the end of the current half-year.

Significant changes in the state of affairs

On 7 July 2021, the Company entered into a binding Demerger Implementation Deed, pursuant to which the Company and Firefly agreed the terms of a demerger of various assets including the Paterson Copper-Gold Project, the Forrestania Gold Project and lithium mineral rights over various tenements held by both the Company and Firefly which are to be acquired by a newly incorporated subsidiary of Firefly, Firetail Resources Limited.

In August 2021, the Group signed a cost settlement deed with Habrok (Dalgaranga) Pty Ltd and Habrok Mining Pty Ltd to settle recovery of legal costs awarded to the Group in September 2020 following successful defence by the Group of legal action commenced by Habrok (Dalgaranga) Pty Ltd. Proceeds under the settlement deed were received by the Group in September 2021 and January 2022. The terms of the settlement deed are confidential.

Directors’ report

On 6 September 2021, the Supreme Court of Western Australia (Supreme Court) ordered the convening of a meeting of Firefly shareholders to consider and, if thought fit, approve the Scheme of Arrangement (Scheme). The Supreme Court also made orders approving the despatch of the Scheme Booklet and Firefly despatched the Scheme Booklet to Firefly shareholders on or before 10 September 2021. The Scheme Booklet included an Independent Expert’s Report which concluded that the Scheme was fair and reasonable, and was in the best interests of Firefly shareholders in the absence of a superior proposal. The Scheme, and demerger, were approved by Firefly shareholders on 27 October 2021.

On 13 October 2021, the Company announced the implementation of an Enhanced Business Plan that defers the Stage 3 eastern and western wall cutbacks in the Gilbey’s pit in favour of introducing higher grade ore sources both at Dalgaranga and from regional satellite ore sources including from the Yalgoo deposits. In making the decision to defer the cut-back, the Company also took into consideration the heightened cost profile across the Western Australian mining industry, the then current gold price trend, the potential for alternative, lower cost ore sources, increased capital requirements and the potential for elevated financial and operational risks.

On 10 November 2021, the Scheme relating to the merger of Gascoyne and Firefly was implemented following the issue of Gascoyne shares to Firefly shareholders. In accordance with the Scheme, consideration of 0.34 new Gascoyne shares were issued for every Firefly share held on the Scheme Record Date, 3 November 2021. Refer to note 9 in the financial statements for further details.

On 13 November 2021, Mr Simon Lawson was appointed to the role of Managing Director and Chief Executive Officer, replacing Mr Richard Hay who left the business on this date.

On 6 December 2021, the Company released an updated Mineral Resource Estimate in accordance with JORC Code 2012 for its Yalgoo Gold Project in the Gascoyne region of Western Australia of 5.2Mt @ 1.5g/t Au for 243,613 ounces of contained gold.

On 17 December 2021, the Company entered into a convertible note facility agreement with its major shareholder, Deutsche Balaton AG, and certain funds controlled by Deutsche Balaton AG, for the provision of $20.0 million in unsecured finance, split into two tranches of $10.0 million each. Refer to note 12 in the financial statements for further details.

Auditor’s independence declaration

A copy of the Auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is attached to and forms part of this Directors’ report.

Rounding of amounts

The Company has relied on the relief provided by the *ASIC Instrument (Rounding in Financial/Directors' Report) 2016/191*, and therefore the amounts contained in the Directors’ report and the financial report have been rounded to the nearest thousand dollars, unless otherwise stated.

This report is made in accordance with a resolution of the Directors.

David Coyne
Finance Director
Perth
10 March 2022

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Auditor's Independence Declaration

To the Directors of Gascoyne Resources Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the review of Gascoyne Resources Limited for the half-year ended 31 December 2021. I declare that, to the best of my knowledge and belief, there have been:

a No contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
b No contraventions of any applicable code of professional conduct in relation to the review.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

L A Stella
Partner – Audit & Assurance

Perth, 10 March 2022

Grant Thornton

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Independent Auditor's Review Report

To the Members of Gascoyne Resources Limited

Report on the review of the half-year financial report

Conclusion

We have reviewed the accompanying half-year financial report of Gascoyne Resources Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half year ended on that date, a description of accounting policies, other selected explanatory notes, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the accompanying half-year financial report of Gascoyne Resources Limited does not comply with the *Corporations Act 2001* including:

a. giving a true and fair view of the Gascoyne Resources Limited's financial position as at 31 December 2021 and of its performance for the half year ended on that date; and
b. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001.*

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the Auditor's Responsibilities for the Review of the Financial Report section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Directors' responsibility for the half-year financial report

The Directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2021 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

L A Stella
Partner – Audit & Assurance

Perth, 10 March 2022

Directors' declaration

1 In the Directors' opinion:

(a) the consolidated interim financial statements and notes of Gascoyne Resources Limited and its controlled entities are in accordance with the *Corporations Act 2001*, including:

(i) complying with Australian Accounting Standards, including AASB 134 *Interim Financial Reporting*, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and

(ii) giving a true and fair view of the Group's financial position as at 31 December 2021 and of its performance for the half-year ended on that date, and

(b) there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Directors.

David Coyne
Finance Director
Perth
10 March 2022

Consolidated statement of comprehensive income

For the half-year ended 31 December 2021

	Note	31 December 2021 $'000	31 December 2020 $'000
Revenue	4	84,952	109,637
Cost of sales	4	(112,634)	(73,208)
Gross (loss)/profit		**(27,682)**	**36,429**
Other income	4	2,206	2,190
Other expenses	4	(3,963)	(7,331)
Operating (loss)/profit		**(29,439)**	**31,288**
Finance income	4	7	1
Finance costs	4	(1,557)	(2,015)
(Loss)/profit before income tax		**(30,989)**	**29,274**
Income tax expense	5	(23)	(2,440)
(Loss)/profit for the half-year after income tax		**(31,012)**	**26,834**
Total other comprehensive income		-	-
Total comprehensive (loss)/income for the half-year		**(31,012)**	**26,834**
(Loss)/profit for the half-year after income tax attributable to:			
Owners of the Company		(31,012)	26,834
Non-controlling interests		-	-
		(31,012)	**26,834**
Total comprehensive (loss)/profit for the half-year attributable to:			
Owners of the Company		(31,012)	26,834
Non-controlling interests		-	-
		(31,012)	**26,834**
(Loss)/profit per share			
Basic (cents per share)	6	(10.9)	19.6
Diluted (cents per share)	6	(10.9)	19.6

This statement should be read in conjunction with the accompanying notes.

Consolidated statement of financial position
As at 31 December 2021

	Note	31 December 2021 $'000	30 June 2021 $'000
Current assets			
Cash and cash equivalents		26,286	23,448
Trade and other receivables		2,201	5,504
Inventories		14,815	13,029
Prepayments		1,824	1,697
		45,126	**43,678**
Non-current assets			
Mine properties, property, plant and equipment	8	80,704	112,575
Exploration and evaluation	11	79,295	32,881
Other financial assets	7	1,051	407
		161,050	**145,863**
Total assets		**206,176**	**189,541**
Current liabilities			
Trade and other payables		12,402	9,736
Borrowings and lease liabilities	12	3,304	16,769
Provisions		3,003	2,650
Other financial liabilities	7	2,503	1,894
		21,212	**31,049**
Non-current liabilities			
Borrowings and lease liabilities	12	25,229	11,526
Provisions		28,362	28,147
Other financial liabilities	7	11,106	10,929
		64,697	**50,602**
Total liabilities		**85,909**	**81,651**
Net assets		**120,267**	**107,890**
Equity			
Share capital	13	308,424	266,196
Non-controlling interests		1,449	1,352
Reserves		1,736	672
Accumulated losses		(191,342)	(160,330)
Total equity		**120,267**	**107,890**

This statement should be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity

For the half-year ended 31 December 2021

	Share capital	Convertible note	Other reserves	Accumulated losses	Attributable to owners of the parent	Non-controlling interests	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
At 1 July 2020	171,583	-	861	(116,200)	56,244	1,125	57,369
Profit for the half-year	-	-	-	26,834	26,834	-	26,834
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income for the half-year	-	-	-	26,834	26,834	-	26,834
Movement in non-controlling interests' share of net assets	-	-	(94)	-	(94)	94	-
Shares issued during the half-year	100,307	-	-	-	100,307	-	100,307
Share issue costs (net of tax)	(5,694)	-	-	-	(5,694)	-	(5,694)
Share-based payments	-	-	-	-	-	-	-
At 31 December 2020	**266,196**	**-**	**767**	**(89,366)**	**177,597**	**1,219**	**178,816**
At 1 July 2021	266,196	-	672	(160,330)	106,538	1,352	107,890
Loss for the half-year	-	-	-	(31,012)	(31,012)	-	(31,012)
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive loss for the half-year	-	-	-	(31,012)	(31,012)	-	(31,012)
Convertible notes issue (net of tax)	-	607	-	-	607	-	607
Movement in non-controlling interests' share of net assets	-	-	(97)	-	(97)	97	-
Shares issued during the half-year	42,267	-	-	-	42,267	-	42,267
Share issue costs (net of tax)	(39)	-	-	-	(39)	-	(39)
Share-based payments	-	-	554	-	554	-	554
At 31 December 2021	**308,424**	**607**	**1,129**	**(191,342)**	**118,818**	**1,449**	**120,267**

This statement should be read in conjunction with the accompanying notes.

Consolidated statement of cash flows

For the half-year ended 31 December 2021

	31 December 2021 $'000	31 December 2020 $'000
Cash flows from operating activities		
Receipts from customers	88,275	109,637
Payments to suppliers and employees	(78,913)	(70,510)
Other revenue received	142	2
Finance charges paid	(50)	-
Interest received	1	1
Interest paid	(760)	(1,845)
Net cash flows from operating activities	**8,695**	**37,285**
Cash flows from investing activities		
Payments for exploration and evaluation	(2,121)	(872)
Payments for mine properties, property, plant and equipment	(7,285)	(35,896)
Payments for acquisition of assets, net of cash acquired	(382)	-
Transfer to security deposits	-	(43)
Net cash flows used in investing activities	**(9,788)**	**(36,811)**
Cash flows from financing activities		
Proceeds from issue of shares	-	85,243
Share issue costs	(56)	(8,133)
Proceeds from borrowings	20,000	40,000
Repayment of borrowings	(13,998)	(83,362)
Repayment of lease liabilities	(1,615)	(1,509)
Payments for borrowing transaction costs	(400)	(1,051)
Net cash flows from financing activities	**3,931**	**31,188**
Net change in cash and cash equivalents	2,838	31,662
Cash and cash equivalents at 1 July	23,448	5,640
Cash and cash equivalents at 31 December	**26,286**	**37,302**

This statement should be read in conjunction with the accompanying notes.

Notes to the financial statements

Notes to the financial statements

The interim financial report for Gascoyne Resources Limited (Gascoyne or the Company) and its controlled entities (together, the Group) for the half-year ended 31 December 2021 was approved and authorised for issue in accordance with a resolution of the Directors on 10 March 2022.

Basis of preparation

1 Reporting entity

Gascoyne Resources Limited is a listed public company, incorporated and operating in Australia. The address of its registered office and its principal place of business is Level 1, 41-47 Colin Street, West Perth, Australia.

2 Basis of preparation

These interim financial statements for the half-year ended 31 December 2021 have been prepared in accordance with the *Corporations Act 2001* and AASB 134 *Interim Financial Reporting*. They do not include all the notes required in annual financial statements, and should be read in conjunction with the Group's annual report for the year ended 30 June 2021 and any public announcements made by Gascoyne Resources Limited during the half-year.

Gascoyne Resources Limited is a for-profit entity for the purpose of preparing financial statements.

Accounting policies

The interim financial statements have been prepared in accordance with the same accounting policies adopted in the Group's latest annual financial statements for the year ended 30 June 2021.

These policies have been applied consistently to all financial periods presented, unless otherwise stated.

Historical cost convention

The interim financial statements have been prepared on a historical cost basis, except for certain financial assets and liabilities (including derivative instruments) which are measured at fair value.

Accounting estimates and judgements

The preparation of financial statements requires the use of accounting estimates, judgements and assumptions that affect the application of accounting policies and the reported net assets and financial results. Actual results may differ from these estimates. Estimates, judgements and underlying assumptions are continually reviewed based on historical experience and reasonable expectations of future events.

The accounting estimates, judgements and assumptions applied in these interim financial statements are in accordance with those that were applied and disclosed in the annual financial statements for the year ended 30 June 2021, unless otherwise stated.

New standards not yet adopted by the Group

The Group has adopted all of the new and revised standards and interpretations issued by the Australian Accounting Standards Board (AASB) that are relevant to its operations and effective for the current reporting period.

There are no new standards and interpretations in issue which are mandatory for 31 December 2021 reporting periods that would be expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

Going concern

The interim financial statements have been prepared on a going concern basis, which assumes the continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

For the half-year ended 31 December 2021 the Group recorded a net loss after tax of $31.0 million (2020: $26.8 million profit), and an operating cash inflow of $8.7 million (2020: $37.3 million) and net cash outflow (before financing activities) of $1.1 million (2020: $0.5 million inflow).

Notes to the financial statements

2 Basis of preparation (continued)

The Group has a working capital surplus of $23.9 million as at 31 December 2021 (30 June 2021: $12.6 million) which includes a cash balance of $26.3 million. Unsold gold on hand had a market value of $2.1 million as at 31 December 2021. The significant improvement in working capital from 30 June 2021 to 31 December 2021 is driven by the $20.0 million proceeds received from entry into the convertible note facility agreement and the resulting amount payable being a non-current liability.

On 17 December 2021, the Company entered into a convertible note facility agreement (Facility) with certain funds controlled by its major shareholder Deutsche Balaton AG (Balaton Group), for the provision of $20.0 million in unsecured finance, split into two tranches of $10.0 million each. On the assumption that shareholder approval of the conversion right is granted, these tranches can be converted into fully paid Gascoyne shares.

Directors believe that the ability for the Group to continue to remain as a going concern is dependent upon, amongst other factors, the following key assumptions:

- gold production from Dalgaranga at rates and costs generally consistent with those contained in the life of mine plan;
- the Australian dollar denominated price received for gold sold by the Group being higher than the prevailing cost of gold production at Dalgaranga; and
- the Group being able to service its new debt facility with the Balaton Group.

As a result of ongoing satisfactory operating performance and forecast improvement in production and cashflow generation, the Directors have reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable, and the Directors consider that the going concern basis of preparation to be appropriate for these interim financial statements.

If the Group is unable to continue as a going concern, it may be required to realise its assets and/or settle its liabilities other than in the ordinary course of business and at amounts different from those stated in the interim financial report.

The interim financial report does not include adjustments to the recoverability and classification of recorded asset amounts nor to the amounts and classification of liabilities that may be necessary should the Group not continue as a going concern.

Functional and presentation currency

The interim financial statements are presented in Australian dollars which is the Group's functional and presentation currency.

Notes to the financial statements

Financial performance

3 Operating segments

The Group's operating segments are based on the internal management reports that are reviewed and used by the Managing Director and Chief Executive Officer and the Executive team, identified together as the chief operating decision makers, in assessing performance. The Group's business is organised into two operating segments, being gold operations and the exploration, evaluation and development of gold projects, all conducted within Western Australia.

The evaluation of each segment's performance is based on revenue, costs and earnings before tax.

Corporate expenditures supporting the business during the period, adjustments and eliminations processed on consolidation and other items that cannot be directly attributed to the reportable operating segments are identified as 'Other' balances. The Group has formed a tax consolidation group and therefore tax balances have been included in the 'Other' grouping.

During the half-year to 31 December 2021, there have been no changes from prior periods in the measurement methods used to determine operating segments and reported segment profit or loss.

The revenues, results, assets and liabilities for each of the Group's operating segments are summarised as follows:

Half-year ended 31 December 2021	**Gold operations $'000**	**Exploration, evaluation and development $'000**	**Total operations $'000**	**Other $'000**	**Total $'000**
External revenue	84,952	-	84,952	-	**84,952**
Segment loss before income tax	(27,037)	(55)	(27,092)	(3,897)	**(30,989)**
Segment loss includes the following adjustments:					
Depreciation and amortisation	(23,904)	(4)	(23,908)	(74)	**(23,982)**
Deferred stripping costs capitalised	6,049	-	6,049	-	**6,049**
Inventory movement and provision	1,774	-	1,774	-	**1,774**
	(16,081)	(4)	(16,085)	(74)	**(16,159)**
At 31 December 2021					
Segment assets	113,556	79,721	193,277	12,899	**206,176**
Segment liabilities	236,995	19,581	256,576	(170,667)	**85,909**

Notes to the financial statements

3 Operating segments (continued)

Half-year ended 31 December 2020	Gold operations $'000	Exploration, evaluation and development $'000	Total operations $'000	Other $'000	Total $'000
External revenue	109,637	-	109,637	-	**109,637**
Segment profit/(loss) before income tax	36,259	-	36,259	(6,985)	**29,274**
Segment profit/(loss) includes the following adjustments:					
Depreciation and amortisation	(24,637)	-	(24,637)	(110)	**(24,747)**
Deferred stripping costs capitalised	31,674	-	31,674	-	**31,674**
Inventory movement and provision	(2,698)	-	(2,698)	-	**(2,698)**
	4,339	-	4,339	(110)	**4,229**
At 31 December 2020					
Segment assets	248,065	31,067	279,132	3,520	**282,652**
Segment liabilities	275,081	17,514	292,595	(188,759)	**103,836**

Notes to the financial statements

4 Revenue and expenses

	31 December 2021 $'000	31 December 2020 $'000
Gold sales	84,442	109,167
Silver sales	510	470
Revenue	**84,952**	**109,637**
Cash costs of production	(79,432)	(75,022)
Deferred stripping costs capitalised	6,049	31,674
Inventory movement	2,848	(2,698)
Inventory net realisable value provision	(1,074)	-
Depreciation and amortisation[1]	(23,904)	(24,637)
Royalties[2]	(1,904)	(2,525)
Deferred stripping costs write-off[3]	(15,217)	-
Cost of sales	**(112,634)**	**(73,208)**
Gain on disposal of property, plant and equipment	-	536
Recognition of discount[4]	1,407	1,652
Other income[5]	799	2
Other income	**2,206**	**2,190**
Corporate expenses	(3,147)	(6,880)
Put option expense[6]	(266)	(341)
Loss on disposal of property, plant and equipment	(11)	-
Depreciation and amortisation	(78)	(110)
Share-based payments	(461)	-
Other expenses	**(3,963)**	**(7,331)**
Interest income	7	1
Finance income	**7**	**1**
Interest expense on borrowings	(904)	(1,349)
Interest expense on lease liabilities	(417)	(491)
Borrowing costs	(23)	(8)
Unwinding of discount	(213)	(167)
Finance costs	**(1,557)**	**(2,015)**
(Loss)/profit before tax	**(30,989)**	**29,274**

1 Depreciation and amortisation includes amortisation of previously capitalised deferred waste stripping costs.
2 State government royalties are payable quarterly at a fixed rate of 2.5% (2020: 2.5%) of the royalty value of gold sold.
3 Relates to the write-off of the remaining unamortised capitalised deferred waste stripping costs due to the deferral of mining activities at Gilbey's Stage 3.
4 Relates to the discount resulting from the NRW Pty Ltd (NRW) liability payment arrangement (LPA) to settle pre-Administration debt. As the LPA is not expected to be settled within 12 months, the liability is discounted to net present value.
5 Other income includes the recognition of a distribution of an unlisted equity investment received as part of the Firefly acquisition and sale of lithium rights in certain wholly-owned tenements at the Dalgaranga Gold Project. Refer to note 7.
6 Relates to short-term put options purchased to protect revenue, measured at cost.

4 Revenue and expenses (continued)

Revenue

Management of gold price risk

During the half-year, the Group entered into and utilised gold forward contracts to assist in managing the price risk associated with a portion of its estimated future gold sales, refer note 14. The sale price of gold bullion not sold into forward contracts is fixed on the date of sale, based on the Australian dollar denominated gold spot price. During the half-year, the Company closed out all of its forward contracts following the retirement of the debt facility with Investec Bank plc (Investec).

Cost of sales

Cash costs of production

Cash costs of production include ore and waste mining costs, processing costs and site administration and support costs. Cash costs of production include employee benefits expense of $6.8 million (2020: $6.7 million).

5 Income tax

Income tax expense

The current income tax expense of $0.02 million (2020: $2.4 million expense) recorded for the half-year arises as a result of the recognition of a deferred tax credit relating to share issue expenses and convertible note expenses recognised directly in equity. The Group is not liable to pay income tax and remains in a cumulative tax loss position for income tax purposes.

Unrecognised tax losses

	31 December 2021 $'000	**31 December 2020 $'000**
Unrecognised tax losses	113,122	71,307
Derecognised tax losses	96,196	24,206
	209,318	**95,513**
Potential tax benefit at 30% (2020: 30%)	**62,795**	**28,654**

In accordance with the Group's policies for deferred taxes, a deferred tax asset is recognised only if it is probable that sufficient future taxable income will be generated to offset against the asset.

Determination of future taxable profits requires estimates and assumptions as to future events and circumstances including commodity prices, ore reserves, exchange rates, future capital requirements, future operational performance, the timing of estimated cash flows and the ability to successfully develop and commercially exploit resources.

At 31 December 2021 the Group has $209.3 million of tax losses available to be offset against future taxable income. A deferred tax asset has not been recognised for these tax losses at the reporting date as the Group considers it prudent to allow a further period of trading improvement prior to assessing the recoverability of previously derecognised and unrecognised tax losses. These tax losses do not expire and can be used to reduce future tax profits subject to relevant tax legislation associated with recoupment including the same business test and continuity of ownership test.

Notes to the financial statements

6 Earnings per share

	31 December 2021	31 December 2020
	Cents per share	**Cents per share**
Basic (loss)/profit per share	(10.9)	19.6
Diluted (loss)/profit per share	(10.9)	19.6

The earnings and weighted average number of ordinary shares used in the calculation of basic and diluted (loss)/profit per share are as follows:

	$'000	**$'000**
Earnings used in calculating earnings per share		
(Loss)/profit after tax attributable to the owners of the Company	**(31,012)**	**26,834**

	No. of shares	**No. of shares**
Weighted average number of ordinary shares used as the denominator in calculating earnings per share[1]	**284,572,438**	**136,995,634**

1 In accordance with paragraph 26 of AASB 133 *Earnings per Share*, the weighted average number of shares outstanding during the period and for all periods presented shall be adjusted for events (such as a share consolidation) that have changed the number of shares outstanding without a corresponding change in resources. As a result, the prior year share consolidation described in note 13 was applied to the period ending 31 December 2020.

Earnings per share is the amount of post-tax profit attributable to each share.

Performance rights have not been included in the determination of diluted earnings per share as the Group was loss-making and the effect on earnings per share would have been anti-dilutive.

Notes to the financial statements

Capital management

7 Other financial assets and liabilities

	31 December 2021 $'000	30 June 2021 $'000
Non-current assets		
Term deposits	407	407
Equity investments	644	-
	1,051	**407**
Current liabilities		
NRW liability payment arrangement[1]	**2,503**	**1,894**
Non-current liabilities		
NRW liability payment arrangement[1]	7,605	10,929
Embedded derivatives[2]	3,501	-
	11,106	**10,929**

1 This value represents the net present value of the NRW liability payment arrangement at 31 December 2021. The face value of the liability is $12.8 million at 31 December 2021.
2 Refer to note 12 for details of the embedded derivative relating to convertible notes. The fair value of the embedded derivative was categorised as level 3 on initial recognition as there are significant unobservable inputs.

Equity investments

On 10 November 2021 the Company acquired a 9.9% shareholding in Firetail Resources Limited as part of the acquisition of Firefly and as consideration for the sale of lithium rights in certain wholly-owned tenements at the Dalgaranga Gold Project.

The equity investment was irrevocably designated at fair value through other comprehensive income (FVOCI) as it is not held for trading as the Group intends to hold the investment long-term for strategic purposes.

The fair value of the equity investment was categorised as level 3 at 10 November 2021 as the shares are unlisted and there have been no recent observable arm's length transactions in the shares.

Recognition and measurement

Financial assets at FVOCI – equity instruments

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income (OCI). The election to classify equity investments as equity instruments designated at FVOCI is made on an investment-by-investment basis.

Equity investments designated at FVOCI are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are not reclassified to profit or loss. On disposal of these equity investments, any related balance within the equity investments reserve is reclassified to retained earnings. Equity investments designated at FVOCI are not subject to impairment assessment.

Fair value measurement

Other than the equity investments and embedded derivatives referred to in this note, there were no financial assets and financial liabilities measured and recognised at fair value on a recurring basis as at 31 December 2021 or 30 June 2021. The carrying values of financial assets and liabilities recognised in the interim financial statements approximate their fair values.

Notes to the financial statements

8 Mine properties, property, plant and equipment

	Right-of-use assets			Owned assets			
	Plant and equipment $'000	Property $'000	Mine properties $'000	Plant and equipment $'000	Capital work in progress $'000	Mine properties $'000	Total $'000
Cost							
At 1 July 2021	22,057	415	423	85,417	1,423	242,705	352,440
Additions	-	-	-	-	367	6,810	7,177
Acquisition of subsidiary	-	-	-	167	-	-	167
Disposals	-	-	-	-	-	(15,246)	(15,246)
Remeasurement[1]	-	-	13	-	-	-	13
Transfers between classes	-	-	-	371	(1,738)	1,367	-
At 31 December 2021	22,057	415	436	85,955	52	235,636	344,551
Accumulated depreciation, amortisation and impairment							
At 1 July 2021	9,567	53	118	60,963	-	169,164	239,865
Depreciation and amortisation	1,642	52	34	2,254	-	20,000	23,982
At 31 December 2021	11,209	105	152	63,217	-	189,164	263,847
Net book value	**10,848**	**310**	**284**	**22,738**	**52**	**46,472**	**80,704**
At 30 June 2021							
Cost	22,057	415	423	85,417	1,423	242,705	352,440
Accumulated depreciation, amortisation and impairment	9,567	53	118	60,963	-	169,164	239,865
Net book value	**12,490**	**362**	**305**	**24,454**	**1,423**	**73,541**	**112,575**

1 Remeasurements arising from a change in the lease term and/or revised contractual payments.

There were no mine properties, property, plant and equipment asset additions arising from leasing arrangements during the half-year (2020: $1.0 million).

9 Asset acquisition

On 10 November 2021, Gascoyne acquired control of Firefly Resources Limited (Firefly), following implementation of the Scheme of Arrangement (Scheme) relating to the merger of Gascoyne and Firefly. In accordance with the Scheme, Gascoyne acquired all of the shares in Firefly and eligible Firefly shareholders were issued the Scheme consideration of 0.34 new Gascoyne shares for every Firefly share held.

Details of the purchase consideration, recognised fair values of identifiable net assets acquired and net cash outflow at the date of acquisition are as follows:

	$'000
Purchase consideration	
Ordinary shares issued (118,895,126)	42,208
Acquisition costs	3,001
	45,209

9 Asset acquisition (continued)

	$’000
Net assets acquired	
Cash and cash equivalents	427
Prepayments	11
Other receivables	137
Inventory	11
Plant and equipment	167
Exploration and evaluation assets[1]	44,742
Trade and other payables	(133)
Provisions	(153)
	45,209

1 Includes acquisition transaction costs and stamp duty payable on the transaction.

	$’000
Net cash outflow – investing activities	
Acquisition costs	3,001
Less:	
Accrued acquisition costs	(2,168)
Acquisition cost paid in prior period	(24)
Cash balance acquired	(427)
	382

On 31 August 2021, Forrestania Resources Limited (Forrestania) exercised its option to acquire the Forrestania Gold Project from Firefly and Firefly received compensation in the form of Forrestania shares. As part of the agreement to acquire Firefly, Gascoyne agreed to transfer all of the Forrestania shares held by Firefly to Firetail Resources Limited (Firetail). There has been a delay in transfer of shares to Firetail due to a 12 month escrow period put in place when the shares were allotted to Firefly. The escrowed Forrestania shares have not been recognised by Gascoyne as part of the acquired assets of Firefly as Gascoyne is holding the shares in trust on behalf of Firetail.

Recognition and measurement

The fair value of the shares issued to Firefly shareholders as purchase consideration was measured with reference to the Gascoyne share price of $0.355 quoted on the ASX on 10 November 2021, the acquisition date.

The transaction was determined to be an asset acquisition, as the acquired assets do not meet the definition of a business combination in accordance with AASB 3 *Business Combinations*.

The acquired assets and assumed liabilities were measured at their fair values at the acquisition date, and transaction costs were included in the capitalised cost of the assets.

No goodwill arose on the asset acquisition and no deferred taxes were recognised on the acquired assets and assumed liabilities, as the initial recognition exemption available under AASB 112 *Income Taxes* was applied.

10 Impairment of non-current assets

At each reporting date, the Group assesses whether there is an indication that an asset may be impaired. The assessment will include the consideration of external and internal sources of information. If such an indication exists, an impairment test is carried out on the cash-generating unit by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, to the asset's carrying value. The Group completed its assessment of external and internal sources of information at 31 December 2021. The review did not identify the existence of any indicators of impairment at this date.

11 Exploration and evaluation

	31 December 2021 $'000	30 June 2021 $'000
At 1 July	32,881	30,114
Expenditure incurred during the period	3,312	5,835
Acquisition of subsidiary	44,742	-
Expenditure reclassified to mine properties	(1,640)	(1,996)
Exploration and evaluation expenditure write-off	-	(1,072)
At 31 December	**79,295**	**32,881**

On 10 November 2021 the Group acquired control of Firefly. Significant exploration assets acquired comprised of the Firefly Yalgoo Gold Project including the Melville Mineral Resource, and other exploration tenements within the Yalgoo greenstone belt. Refer note 9 for details of the acquisition.

12 Borrowings and lease liabilities

	31 December 2021 $'000	30 June 2021 $'000
Current		
Investec finance facility	-	13,537
Lease liabilities	3,304	3,232
	3,304	**16,769**
Non-current		
Convertible notes	15,355	-
Lease liabilities	9,874	11,526
	25,229	**11,526**

Convertible notes

On 17 December 2021, the Company entered into a convertible note facility agreement (Facility) with certain funds controlled by its major shareholder Deutsche Balaton AG (Balaton Group), for the provision of $20.0 million in unsecured finance, split into two tranches of $10.0 million each. Interest is payable 6-monthly in arrears at a fixed rate of 18% over the two year term.

12 Borrowings and lease liabilities (continued)

The Facility contains conversion rights which, if exercised, allow conversion of both tranches of debt into fully paid ordinary shares in Gascoyne. The ability to convert the Facility is subject to shareholder approval and a general meeting of shareholders is in the process of being called for this purpose.

Tranche 1 is convertible at the election of Balaton Group only, at any time during the term, at $0.30 per share, and was determined to be a compound financial instrument, the fair value of the liability component was calculated using a discount rate of 22%.

Tranche 2 contains the following conversion options:

- convertible by the Company at $0.30 per share on the maturity date;
- convertible by the Balaton Group at $0.36 per share on the maturity date or on a change of control of the Company; or
- convertible by the Balaton Group at the lower of the capital raise price or $0.36 per share if the Company undertakes a capital raising of greater than $3.0 million during the term.

Tranche 2 was determined to be a hybrid financial liability. The fair value of the embedded derivative liability was independently determined using the Black Scholes option valuation methodology for each conversion scenario with a probability assessment of conversion estimated for each conversion option.

Investec finance facility

On 22 December 2021, the balance due to Investec was repaid in full, thereby releasing the security held by Investec over the Group's assets. Principal repayments of $14.0 million were made during the half-year (2020: $3.5 million).

Lease liabilities

The Group leases power generating and storage facilities, plant and equipment, and property, for which contracts are typically entered into for fixed periods and may include extension options.

Principal repayments of $1.6 million (2020: $1.8 million) for equipment and infrastructure held under lease arrangements were made in accordance with agreed repayment terms during the half-year in addition to scheduled interest payments.

Recognition and measurement

Convertible notes

Compound financial instruments

Compound financial instruments contain both a liability and an equity component, the equity component representing the fair value of the embedded conversion option to convert a fixed amount of liability into a fixed number of shares of the Company.

The fair value of the liability portion of the note is determined using a market interest rate for an equivalent non-convertible note at the issue date. The liability is subsequently recognised on an amortised cost basis until extinguished on conversion or maturity of the notes. The remainder of the note proceeds is allocated to the conversion option and recognised in equity, net of income tax, and is not subsequently remeasured. Transaction costs are allocated to the liability and equity components in proportion to the allocation of proceeds. On conversion, the liability is reclassified to equity and no loss or gain is recognised.

Hybrid financial liabilities

Hybrid financial liabilities contain both a non-derivative host liability and an embedded derivative liability representing the fair value of the conversion options.

The fair value of an embedded derivative is determined at the issue date and the residual amount is assigned to the host liability. Subsequent to initial recognition, the fair value of an embedded derivative is determined each reporting period with changes in fair value recognised in profit or loss.

The host liability is subsequently recognised on an amortised cost basis until extinguished on conversion or maturity of the notes.

Transaction costs are allocated to the liability and embedded derivative components in proportion to the allocation of proceeds, and subsequently expensed through profit or loss. On conversion, both components of the hybrid financial liability are reclassified to equity and no loss or gain is recognised.

Notes to the financial statements

13 Equity

Share capital

	2021		2020	
	No. of shares	$'000	No. of shares	$'000
Fully paid ordinary shares				
At 1 July	250,858,128	266,196	1,004,864,955	171,583
Issue of shares[1]	184,836	59	-	-
Issue of shares[2]	118,895,126	42,208	-	-
Issue of shares[3]	-	-	2,009,729,916	50,243
Issue of shares[4]	-	-	1,400,000,000	35,000
Issue of shares[5]	-	-	480,000,000	12,000
Issue of shares[6]	-	-	112,566,745	2,814
Issue of shares[7]	-	-	10,000,000	250
Effect of 1-for-20 share consolidation	-	-	(4,766,303,488)	-
Share issue costs	-	(56)	-	(8,133)
Deferred tax credit relating to share issue costs	-	17	-	2,439
At 31 December	**369,938,090**	**308,424**	**250,858,128**	**266,196**

1 Shares issued under Employee Share Scheme on 10 September 2021.
2 Shares issued as purchase consideration for acquisition of Firefly on 10 November 2021, refer note 9.
3 Entitlement offer at $0.025 per share on 13 October 2020.
4 Private placement at $0.025 per share on 13 October 2020.
5 Private placement issued to NRW at $0.025 per share, at nil consideration representing a conversion from debt to equity, on 13 October 2020.
6 Private placement issued to the GRL Group Creditors' Trust at $0.025 per share, at nil consideration representing equity settlement of pre-Administration unsecured creditor claims, on 13 October 2020.
7 Bonus shares issued to former Managing Director and Chief Executive Officer Mr Richard Hay at $0.025 per share, at nil consideration representing an equity-settled sign on bonus, on 13 October 2020.

Fully paid ordinary shares have no par value and entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

Every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Recapitalisation

As proposed under the Deed of Company Arrangement executed on 26 June 2020, a total of 4,012,296,661 shares (pre-consolidation) were issued on 13 October 2020 to meet working capital requirements, equity-settlement of debt, creditor and employment contract obligations. Following the capital raising, the total shares on issue were consolidated on a basis of 1 share for every 20 shares on issue, resulting in 250,858,128 shares on issue on 20 October 2020.

Reserves

Convertible notes reserve

The convertible notes reserve comprises the equity component of convertible debt instruments, representing the value of the conversion rights.

Equity investments reserve

The equity investments reserve represents the cumulative net change in the fair value of equity investments measured at fair value through other comprehensive income (FVOCI). The Group transfers amounts from this reserve to retained earnings when the relevant equity investments are derecognised.

Notes to the financial statements

Unrecognised items

14 Commitments

Exploration expenditure

	31 December 2021 $'000	30 June 2021 $'000
Minimum exploration expenditure commitments due:		
Within one year	1,949	2,138
Between one year and five years	4,364	2,971
Later than five years	2,869	3,945
	9,182	**9,054**

In order to maintain current rights of tenure to exploration tenements, the Group is required to meet minimum expenditure commitments required under the lease conditions. These expenditure obligations can be reduced by selective relinquishment of exploration tenure or application for expenditure exemptions.

Capital expenditure

Group subsidiary GNT Resources Pty Ltd had commitments for capital expenditures relating to Dalgaranga at the reporting date that were not recognised as liabilities amounting to $0.1 million (30 June 2021: $0.1 million) all due within one year.

Gold delivery commitments

A requirement under the Investec finance facility was to partially protect against adverse movements in the gold price by hedging, on a rolling 18-month basis, a minimum of 40% of forecast gold sales. Following the retirement of the debt facility with Investec during the half-year, the Company closed out its remaining gold forward sale contracts that were in place with Investec.

At the reporting date the Group has no contractual sale commitments of gold (30 June 2021: 44,782 ounces at an average forward price of A$2,528 per ounce).

15 Contingent assets and liabilities

Bank guarantees

The Group has provided bank guarantees in favour of service providers for credit card facilities, leased premises and road maintenance responsibilities. The total of these guarantees at the reporting date was $0.4 million (30 June 2021: $0.4 million). The bank guarantees are secured by blocked deposits held by the grantor of the guarantee. The deposit accounts are recognised as other non-current financial assets in the consolidated statement of financial position.

Demobilisation costs

The Group has entered into certain contracts relating to Dalgaranga that provide for the payment of demobilisation costs upon termination of the contract. The amount to be paid is contingent upon the timing and basis of contract termination. The Group estimates that the maximum amount payable is not greater than $2.3 million (30 June 2021: $1.3 million).

Early termination payment

The Group has entered into a contract relating to Dalgaranga that provides for the payment to the contractor in the event of early termination of that contract. The amount to be paid is dependent on the period of time remaining under the contract at the time of termination. The amount payable in the event of early termination of this contract varies on a sliding scale between $nil and $6.9 million.

Notes to the financial statements

16 Events occurring after the reporting date

The Directors are not aware of any matter or circumstance that has arisen since the end of the half-year which has significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group, in future years.

Notes to the financial statements

Other information

17 Share-based payments

Employee performance rights

	2021 No. of rights	2020 No. of rights
Employee performance rights		
Outstanding at 1 July	400,000	-
Granted during the half-year[1]	22,081,492	-
Outstanding at 31 December	**22,481,492**	**-**
Exercisable at 31 December	**-**	**-**

1 Granted during the half-year and issued on 1 February 2022.

Details of rights granted during the half-year, under the Company's GCY Equity Incentive Plan Rules are as follows:

	August 2021	November 2021	December 2021
Number granted	2,131,492	9,750,000	10,200,000
Vesting conditions	Service[1]	Performance[2]	Performance[3]
Vesting period end date	30 June 2022 / 2023	12 November 2024	12 November 2024
Weighted average remaining contractual life	11 years	11.5 years	11.5 years
Grant date	30 August 2021	20 January 2022[4]	14 December 2021
Expiry date(s)	30 June 2032 / 2033	30 June 2033	30 June 2033
Weighted average fair value at grant date[5]	$0.320	$0.377[4]	$0.273

1 The rights contain a service condition, vesting in two equal tranches of 50% on 30 June 2022 and 30 June 2023.
2 The rights comprise three tranches. Tranches 1 and 2 contain non-market performance conditions, based on the delivery of minimum ore mining volumes at minimum grades on non-Gilbey's deposits. Tranche 3 contains a market condition based on a 60-day VWAP share price target of $0.600.
3 The rights comprise three tranches. Tranches 1 and 2 contain non-market performance conditions, based on the delivery of a minimum ore grade and total gold ounce production target at Dalgaranga over a rolling 12 month period. Tranche 3 contains a market condition based on a 30-day VWAP share price target of $0.550.
4 Service period commenced on 13 November 2021 with an estimated fair value of $0.377 per right. Shareholder approval was obtained on 20 January 2022 and fair value will be adjusted prospectively to reflect a grant date of 20 January 2022.
5 Refer to the Fair value of rights granted section in this note.

Fair value of rights granted

August 2021 award

The fair value assigned to each right at grant date was the underlying share price of the Company's shares at the grant date, as the rights contain a service condition only and there is no expectation of dividends being declared during the vesting period.

November and December 2021 awards

The fair value of rights at grant date was independently determined using a combination of the Black Scholes (Tranches 1 and 2 non-market vesting conditions) and Monte Carlo simulation (Tranche 3 market based vesting condition) models.

Notes to the financial statements

17 Share-based payments (continued)

The following model inputs were used in the measurement of the fair values at grant date:

	November 2021	December 2021
Share price at grant date	$0.405	$0.300
Exercise price	nil	nil
Expected volatility	70%	70%
Risk-free interest rate	1.02%	0.89%
Expected life	3 years	3 years
VWAP hurdle	$0.60	$0.55

Employee share options

	2021		2020	
	No. of options	**Weighted average exercise price**	**No. of options**	**Weighted average exercise price**
Employee share options				
Outstanding at 1 July	107,000	$7.40	3,800,000	$0.38
Expired during the half-year	(107,000)	$7.40	-	-
Cancelled during the half-year[1]	-	-	(1,660,000)	$0.37
Effect of 1-for-20 option consolidation	-	-	(2,033,000)	-
Outstanding at 31 December[2]	**-**	**-**	**107,000**	**$7.40**
Exercisable at 31 December	**-**	**-**	**107,000**	**$7.40**

1 In September 2020, option holders were offered nominal consideration of $100 (per option holder) to relinquish their options resulting in the cancellation of 1,660,000 options, leaving a remaining balance of 2,140,000 options. Options outstanding were repriced in accordance with ASX listing rule 6.22, on issue of shares pursuant to a pro-rata non-renounceable entitlement offer. The option exercise price was reduced from $0.38 to $0.37.

2 Following the 1-for-20 share consolidation completed on 20 October 2020, the option exercise price was adjusted from $0.37 to $7.40.