

15 July 2024

### Last Price

\$0.01

### Valuation, 12mths

**\$0.023 (Initiation)**

### Implied return from valuation

Capital growth	113%
Dividend yield	0%
Total expected return	113%

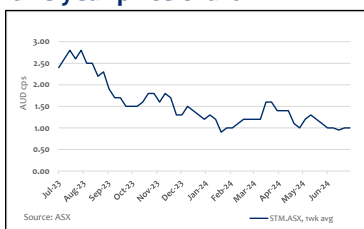
### Company data

Market capitalisation	A\$38.5m
Enterprise value	A\$41.5m
Issued capital (shares)	3.85bn
Free float	94%
Average daily vol (3mths)	4.2mk
Price range (12mths)	A\$0.008-0.29
GICS sector	Materials

### Share price performance

Period	1 mth	3 mths	12 mths
Price (A\$)	0.01	0.0151	0.035
Change (%)	0	-33.3	-62.5

### One year price chart



### Business description

Sunstone Metals Ltd (ASX:STM) is a mineral exploration company. The company's primary focus is on exploring and developing gold and copper projects in Ecuador. Sunstone's key assets are three large-scale porphyry-epithermal projects: the Bramaderos Gold-Copper Project, the El Palmar Copper-Gold Project and the Verde Chico Copper-Gold Project.

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# Sunstone Metals (ASX:STM)

## High quality gold-copper opportunity

Sunstone Metals is exploring for porphyry gold-copper and associated epithermal gold-silver deposits in Ecuador, which is fertile ground for Tier 1 discoveries of those kinds. The resource inventory currently stands at 2.7Moz AuEq, with exploration targets that could lift it to 10Moz AuEq or more. Drilling should bring ongoing news-flow ahead of resource growth in 2025. The stock is very competitively priced relative to ASX peers. We initiate research coverage with a Valuation of A\$0.023/sh.

### Key points

- Bramaderos:** Targeting +10Moz gold-equivalent (AuEq = Au+Cu+Ag). Resource drilling is ongoing at the **Limon gold-silver epithermal system**, which has an Exploration Target of 0.9-1.7Moz AuEq. Strategy is to develop a higher-grade pit at Limon before mining larger gold-copper porphyry systems (**Brama-Alba resource 2.7Moz AuEq**). Resource drilling ongoing in FY25. JV with SolGold (LSE:SOLG).
- El Palmar and Verde Chico:** in the Tier 1 copper-gold belt in north Ecuador. High-grade drill results to-date from surface porphyry systems. The region has seen recent investment by Hancock (US\$120m) and this week Franco Nevada and Osisko (US\$750m into SOLG's Cascabel).
- Management new yet experienced:** Recent additions include MD & CEO Patrick Duffy (ex-Red 5, Glencore/Xstrata) and NED, Neal O'Connor (former Xstrata Copper Chief Legal Counsel). Exploration team is led by Malcolm Norris and Bruce Rohrlach (previous discoveries Tampakan, Tujuh Bukit, Cascabel).
- Price outlook for gold is positive**, driven by ongoing and heightened geopolitical risks with expectations of falling global interest rates, while co-product **copper is vital, not only for electrification, but for almost every industrial process.**

### Investment View: 126% valuation gap to A\$0.023/sh

We initiate coverage with a Valuation of A\$0.023/sh, compared to the current share price of A\$0.01/sh, with upside risk to \$0.034/sh. STM may be trading below this value, in our view, because the market hasn't caught up to the company's change of focus to adding higher-grade gold resources at Limon (Bramaderos), rather than drilling out potentially longer-dated porphyry deposits. The key to closing this gap could be 2H24 drilling at Limon – assays are expected this month - leading to a gold-silver resource in 2025. Continuing exploration success at STM's porphyry targets would also add value.

### Production and Financial Forecasts

YEAR END: 30 June	Mar-24a	Jun-24F	FY-22a	FY-23a	FY-24F
Gold Production (koz)	na	na	na	na	na
Cash Costs (US\$/oz)	na	na	na	na	na
Exploration and Evaluation (A\$m)	3	3	17	24	15
Staff and Corporate (A\$m)	0.5	0.5	2.4	3.1	2.6
Exploration/(Expl.+ Corporate) (%)	85.7	85.7	87.5	88.6	85.2
Shares on issue (pr end) (m shares)	3,501	3,852	2,574	3,082	3,852
Drilling - AC/RAB (m)	0	0	0	0	0
Drilling - RC/Diamond (m)	0	930	28,846	22,657	9,157
Land holding ('km <sup>2</sup> ')*	60	60	na	60	60
Capital Raisings (A\$m)	0.0	0.0	22.4	12.0	8.9
Funding from JV partners (A\$m)	0	0	0	0	0
Cash (A\$m)	3.5	3.0	24.0	10.3	3.0
Cash Backing (Ac/share)	4.1	3.5	27.4	11.6	3.5
Net Asset Backing (Ac/share)	34.2	35.1	0.0	0.0	35.3

\*Both held and under application. Quarters stated on calendar year basis.

# Sunstone Metals (ASX:STM)

## Overview

Sunstone Metals Ltd (ASX:STM) is a mineral exploration company headquartered in Queensland, Australia. It is listed on the ASX, where it has been trading since March 2007. The company’s primary focus is on developing gold and copper projects in the Republic of Ecuador, where it commenced exploration activities in 2017.

Sunstone’s key assets are three large-scale porphyry-epithermal projects: the Bramaderos Gold-Copper Project (87.5%) the El Palmar Copper-Gold Project (70%) and the Verde Chico Copper-Gold Project (0% as earn-in is yet to start).

**Figure 1: Map of STM’s Ecuadorian projects**

STM’s three current projects, Bramaderos, El Palmar and Verde Chico, are in Ecuador.

Bramaderos is in the southern Loja Province, in the same geographic region that hosts multiple mining developments including the high-grade Fruta del Norte gold mine of Lundin Gold (TSE.LUG) and the Chinese-owned Mirador copper-gold mine.

El Palmar and Verde Chico are in Imbabura province, in the same region as the giant Cascabel porphyry copper-gold system (Solgold; LON.SOLG) and the Llurimagua porphyry copper-molybdenum deposit (Codelco).



Source: Company report

**Figure 2: Key Projects**

Project	Ownership	Metal	JV Partner	Target Type	Area (km <sup>2</sup> )	Project Status	Location
Bramaderos	87.5%	Au-Cu-Ag	LON.SOLG	Porphyry/epithermal	49.8	Advanced Expl	Ecuador
El Palmar	70%	Au-Cu-Ag	GOEX	Porphyry/epithermal	8	Mid Expl	Ecuador
Verde Chico	(Agreement)	Au-Cu-Ag	Verde Chico Gp	Porphyry/epithermal	28.7	Early Expl.	Ecuador

## Valuation – A\$0.023/sh with upside risk to \$0.034/sh

For STM as an explorer and developer, the key to increasing the share price – in our view – is to hold its current EV/resource multiple of A\$15/oz AuEq, while adding resource ounces.

Clearly STM has potential to be a mid/large-sized gold and copper producer but we think it's too early to consider mining or a DCF in the valuation.

Our valuation of STM is based on a Sum of the Parts (SOTP). **Bramaderos is assessed by applying the ratios of STM's enterprise value (EV in A\$m) to total gold-equivalent ounces (Moz AuEq) in the 2.7Moz AuEq Resource at Brama-Alba, combined with the 3.3-8.6Moz porphyry Exploration Target and 0.9-1.7Moz Limon (epithermal) Exploration Target.** Resources, Exploration Targets and AuEq calculations are described in Appendix 4.

Based on the 2.7Moz AuEq total resource, **STM is trading at A\$15/oz.** The average industry EV/resource valuation for STM's ASX peer group is c.A\$22/oz (see the chart in Appendix 2). Very few exploration companies are truly comparable with each other, given the range of deposit types, and jurisdictions in which they operate, and averages are inherently skewed; however, we can say that STM is trading at a 32% discount to this average.

**STM is currently trading at A\$0.01/sh, which in our view doesn't reflect fair value for the stock, considering the potential to add resource ounces via drilling out the Limon epithermal system and the numerous porphyry systems at Bramados and El Palmar.**

Figure 3: STM valuation, July 2024

Metric	Exploration Target	Resource	Valuation multiple	Ownership	Value	Weight for risk	Value to STM risked	Comment
Units	Moz AuEq	Moz AuEq	A\$EV/oz Au	%	A\$m	%	A\$m	
<b>Bramaderos</b>								
<i>Epithermal (Limon) exploration</i>	Min	0.9	15	87.5	14	70	8	Minimum exploration target
	Max	1.7	15	87.5	26	70	16	Maximum exploration target
	Average						12	Base case value of exploration target
<i>Porphyry exploration</i>	Min	3.3	15	87.5	50	50	22	Minimum exploration target
	Max	8.6	15	87.5	129	50	56	Maximum exploration target
	Average						39	Base case value of exploration target
<i>Brama-Alba resource</i>		2.7	15	87.5	41	100	35	Contained resource
<b>Bramaderos total</b>							86	
<b>El Palmar Verde Chico</b>				70	10	100	5	Pre-resource, conservative value
				0		100	2	Pre-resource, no equity yet, conservative value
<b>Exploration potential: +5%</b>							5	Additional 5% of asset SOTP
<b>Corporate (NPV)</b>							-14	NPV (5% nominal) of forecast corporate costs (10yrs)
<b>Cash (JunQ24 est)</b>							3	After placement in JunQ24
<b>Debt (JunQ24 est)</b>							0	No bank debt expected yet
<b>Total</b>							87	Sum of the parts
<b>Shares on issue (JunQ24 est): m</b>							3,852	Post placement in May'24
<b>Value, base case: A\$/sh</b>							0.023	<b>Base case valuation, 12mths</b>
<b>Upside case: A\$/sh</b>							0.034	Medium term valuation, average industry EV multiple
<b>Current price: A\$/sh</b>							0.010	As at 15 July 2024
<b>Implied 12mth gain/loss</b>							126%	12-month gain implied by base-case valuation

Source: Company report, GBA Capital

**Figure 3 summarises our valuation.** Any exploration company valuations are, of course, conceptual so a conservative approach is best.

- The Brama-Alba resource of 2.7Moz AuEq underpins the valuation at the A\$15/oz AuEq EV/resource multiple.
- We've valued the higher and lower Exploration Target ranges using the same multiple and taken risked averages of the two.
- El Palmar and Verde Chico are earlier stage, so are given a conceptual valuation based on a likely three-year exploration spend – there is considerable upside here.
- We've added 5% upside to the NPV based on exploration potential beyond the currently defined Exploration Targets.
- Corporate costs and net cash are adjusted for in the usual way.

Our initial Valuation of STM is A\$0.023/sh, with upside risk to \$0.032/sh.

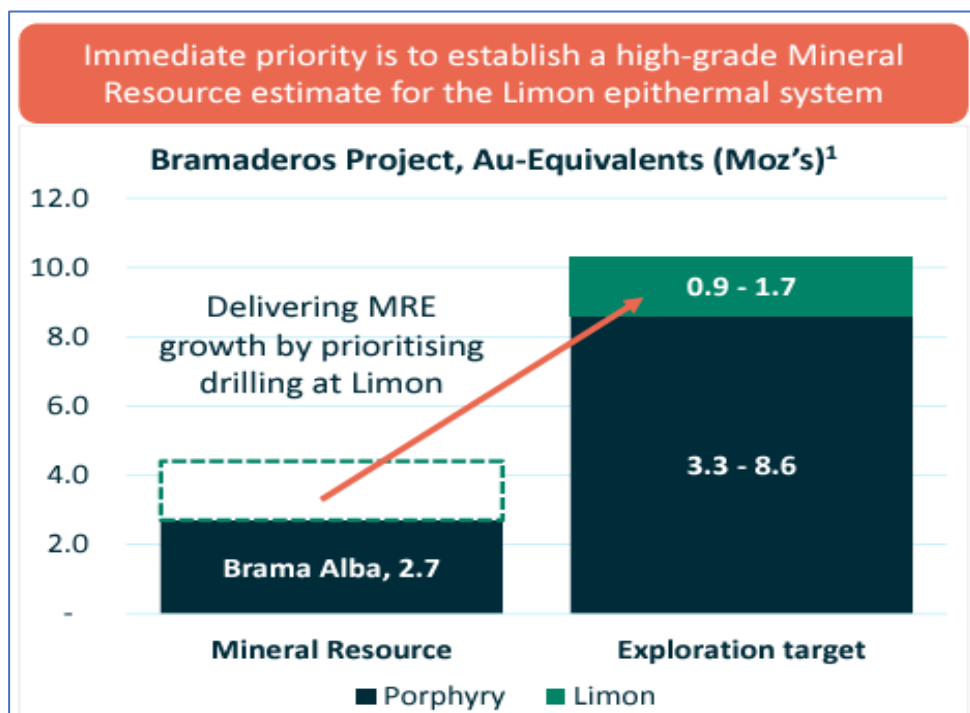
This results in a Valuation of A\$0.023/sh. Achieving this target will be subject to adding ounces by drilling, initially at Limon, leading to a maiden epithermal resource in 2025.

There is an upside risk to this target towards A\$0.034/sh from higher-than-expected resource estimates and from the market rewarding STM with a taller EV/resource multiple; there is downside risk from missing targets, and from dilution to the capital structure via raising capital to fund exploration and feasibility studies.

We don't expect STM to release a scoping or feasibility study until late 2025 or 2026, although some encouraging metallurgical test work has been reported.

The total gold-equivalent resource inventory at Bramaderos could exceed 10Moz if the Limon and porphyry targets convert as expected.

Figure 4: STM's key strategy -= grow the resource base via Limon



Source: Company report

### Likely share-price catalysts

The key share price driver for STM over the coming 12 months should be **resource drilling at Limon, culminating in an initial resource in 2025**; this will be an important milestone as it should lead into economic studies (scoping, feasibility with mining reserves) in 2025-26.

STM is still leveraged to **exploration across the broader portfolio** in Ecuador: there is potential for new high-grade and **large scale (+1Bt ore) gold and copper discoveries** at Bramaderos, El Palmar and Verde Chico.

Consensus is that **gold prices could continue to rise**, towards US\$3000/oz, which could benefit gold developers like STM.

Key catalyst – drill out the gold resource at Limon.



# Asset Summary

## Bramaderos Gold-Copper Project (STM 87.5%)

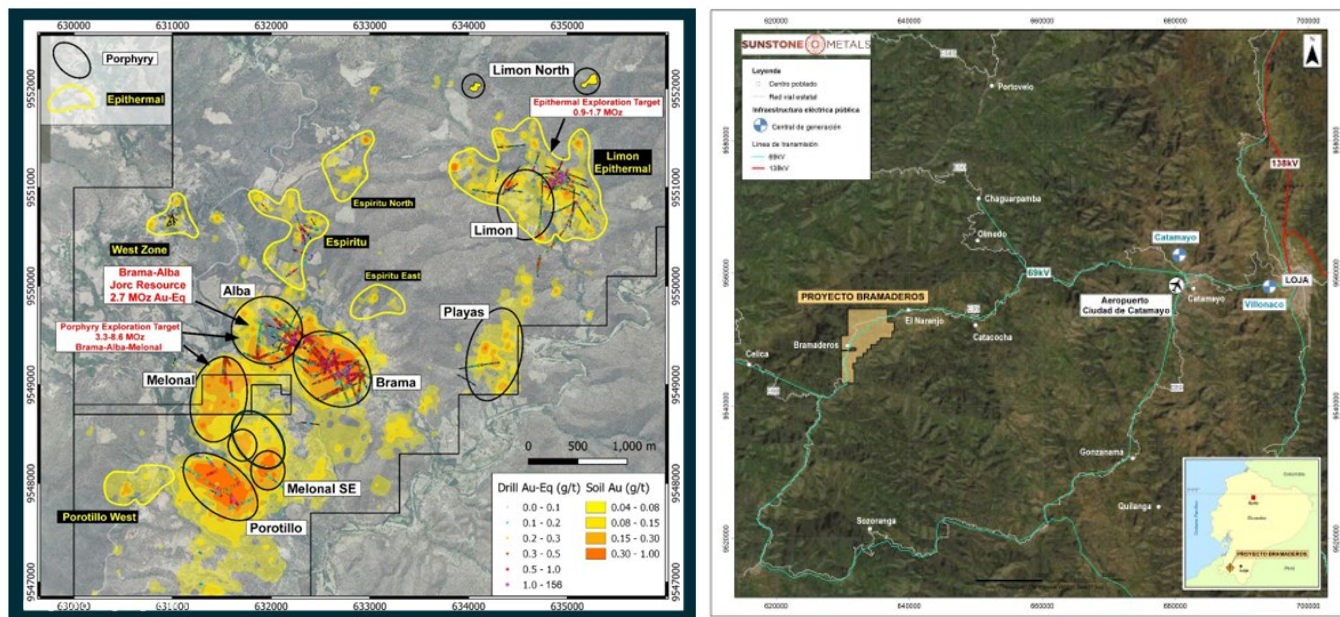
### Location

Bramaderos is in Loja province, southern Ecuador, c.69km (or 130km by road) west-southwest of provincial capital Loja and 213km south-southeast of the coastal city of Guayaquil. The 4,984Ha (or 49.8km<sup>2</sup>) project is comprised of three Exploration Concessions. The elevation range is c.700m-1800m, i.e. not too far above sea level, in South American terms. The prevailing land uses are natural forest and agriculture. The sealed Pan American Highway crosses the western part of the concession, which also hosts a 69kV transmission line.

**STM co-owns Bramaderos with minority JV partner and developer of Cascabel, SolGold.**

STM owns 87.5%; the remainder is held by JV partner Solgold PLC (LSE:SOLG), which recently gained US\$750m funding for its giant Cascabel Cu-Au porphyry deposit (also in Ecuador). The JV partner is loan-carried, with the loan repayable from production earnings; there's also a 2% NSR royalty over 2/3 of the area, which can be partly bought back.

Figure 5: Bramaderos regional targets plan view (left); and location (right)



Source: Company reports

### Regional geology and exploration history

Bramaderos is **prospective for porphyry gold-copper and gold-silver epithermal systems**. There is a common geological association between porphyry deposits and epithermals, globally; the latter tend to form adjacent to or above porphyries.

The project is located at the northern end of a Cretaceous calc-alkaline volcanic arc, where volcanic sediments from the Pinon and Celica Formations have been intruded by mineralised diorite porphyries along NNE- to NE-trending structures (potentially localised by WNW-trending cross-structures, if you want to get very geological). Extensive zones of classic porphyry style potassic-phyllitic/argillic-propylitic alteration extend over a wide area, in at least 6 zones, the heart of which is at Brama-Alba – see Figure 5. In addition to the

**Ecuador is prospective for large-scale porphyry and epithermal Au-Cu-Ag-Mo systems**

porphyries there are at least two epithermal systems, of which the key is at Limon.

This clear surface mineralisation drew explorers in the past, starting with the first discovery of gold in 1970. Subsequent work, until the arrival of Sunstone Metals, included surface exploration (soils, trenching, ground magnetic and IP geophysics) as well as an initial 10,416km of diamond drilling – which confirmed the scale of the Bramaderos opportunity.

### Bramaderos Projects

#### Limon – epithermals with porphyry potential

Limon is a 1.7x1.0km epithermal gold-silver system within Bramaderos.

Significant drilling results include **243m at 1.32g/t AuEq** in LMDD030, including 42m at 3.9g/t AuEq\* (0.77g/t gold, 0.24% copper, 14.1g/t silver).

(\*\*Please see Appendix 4 for AuEq calculations\*\*).

Getting to the point, an **Exploration Target for Limon was released in Nov'23, of 30-44Mt @ 0.9-1.2g/t gold-equivalent (AuEq), for a contained 0.9- 1.7Moz AuEq.**

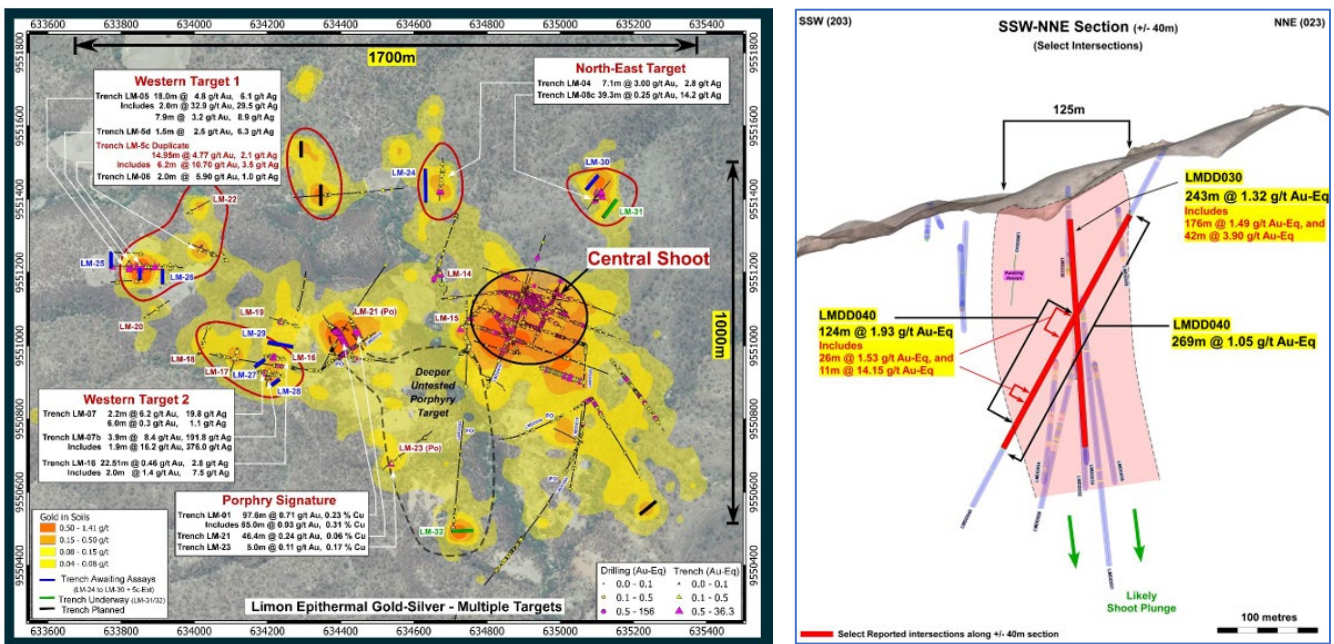
The initial Exploration Target comprises the Limon Central Shoot, the surrounding mineralised area measuring 800m x 300m, and 3 of the additional 6 satellite targets outlined to date. The Exploration Target extends from surface to depths of 400m. There is potential for Au-Cu-Ag porphyry system at depth.

**Resource drilling is in progress at Limon**, initially with a single DC rig, focusing on Central Shoot and Western Targets 1 & 2, where recent trenching has returned numerous high-grade results including: 4.95m at 4.8g/t Au, with 6.2m at 10.7g/t gold (trench LM-05c). **Results are expected in July 2024.**

**Drilling at Limon in CY22-24 totalled 13,170m, of which 10,400m was on epithermal targets and the remainder on porphyries.**

**The importance of Limon to a future mine at Bramaderos is that it could provide relatively higher-grade and near-surface gold ore, potentially with a lower development cost than nearby porphyries.**

Figure 6: Limon epithermal targets plan view (left); and Central Shoot cross section (right)



Source: Company reports



The Bramaderos porphyries, centred on Brama-Alba, are of very large scale (156Mt could easily grow towards 500Mt); grades are of “porphyry type”, i.e. relatively low at <0.7g/t AuEq, but this can be compensated for by ease of mining (low opex in \$/t of ore).

### Brama-Alba (and friends) – porphyry resource can keep growing

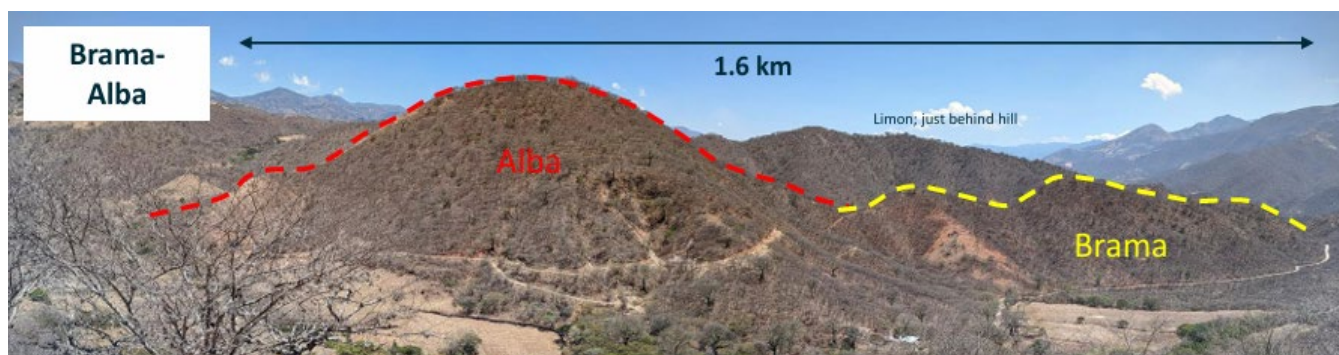
Brama-Alba is part of a system of **outcropping porphyry gold-copper deposits** near the centre of the Bramaderos property. It has received the most drilling of all mineralised areas to date. Extending southeast from the conical Bramaderos Hill, it hosts stockwork and sheeted quartz veining over a **strike length of 1.6km**. Veins comprise both quartz and quartz-magnetite B-veins as well as fine magnetite micro-veins.

Drilling has been sufficient to establish an initial **Mineral Resource estimate (2022) of 156Mt at 0.53g/t AuEq for 2.7Moz AuEq (1.76Moz Au, 172kt Cu, 6.5Moz Au)**, pit constrained from surface (Consultant: CSA).

In addition to this, with the addition of Melonal, it hosts an additional porphyry-focused **Exploration Target of 255-360Mt @ 0.40-0.74g/t AuEq for 3.3-8.6Moz AuEq**.

Other porphyry centres and exploration targets include Limon, Porotillo and Playas.

Figure 7: Photo of the Brama-Alba porphyry system, making itself very obvious



Source: Company report

### Looking ahead

Referring to Figure 4 in the Valuation section, we can see there is near-term potential to grow the Bramaderos gold-copper-silver metal inventory to +4Moz AuEq by combining the current Brama-Alba porphyry resource with the Limon epithermal exploration target and to +10Moz Au including the porphyry exploration target.

- **Drilling at Limon** is the focus for STM in FY25, leading to an initial **epithermal resource** in 2025.
- Adding higher-grade ounces could, in our view, lift the market cap of STM and facilitate funding for further drilling in 2025, to **convert the porphyry target to resource status**.
- While pursuing these exploration targets, there will be opportunities to define or test additional areas for resource growth, including **new discoveries at depth**.

**Mine planning is yet to be conducted** and will form part of **Feasibility Studies on the project in 2025/6**. The most likely method to be considered is low-strip open pits, although higher grade and large, deep deposits can lend themselves to underground mining (stoping of higher grades and caving of bulk-mineable lower grade mineralisation).

**In terms of processing - these are well-known ore types, so techniques of metal recovery**

**Bramadero will be the focus of resource drilling in FY25/26.**

**Future studies will guide any investment decision to mine.**

are likely to be off-the-shelf (gravity, flotation, CIL, etc). Some met testing has been undertaken, showing recoveries of +90% are possible for gold and copper, subject to the usual factors of grind size and mineralisation.

## El Palmar Copper-Gold Project (STM 70%)

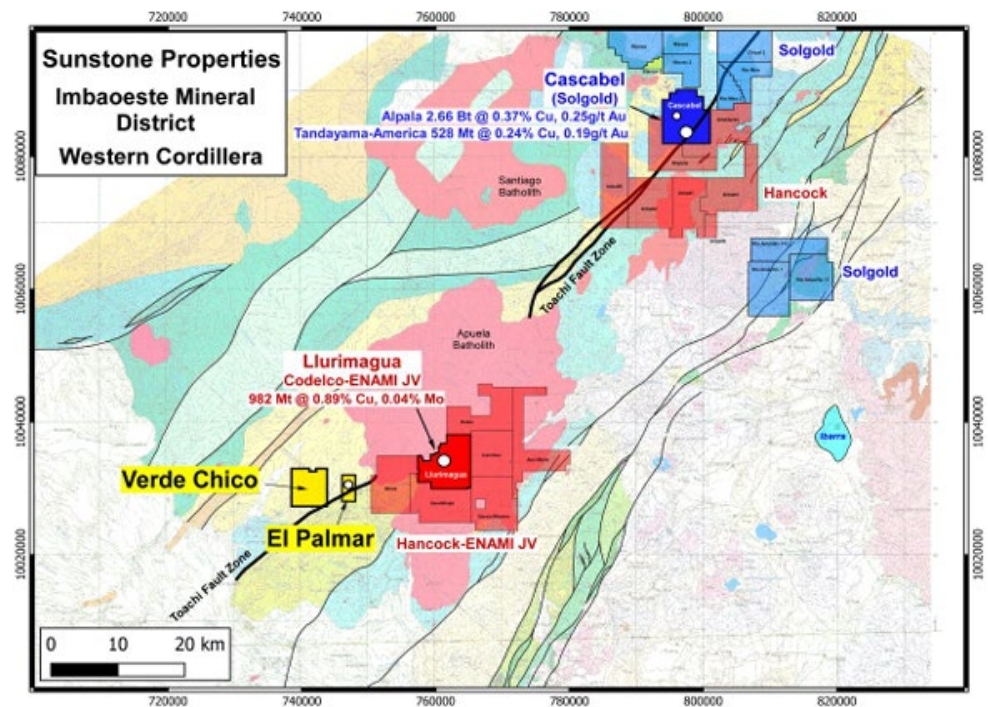
### Location

El Palmar (800Ha or 8km<sup>2</sup>) is in northern Ecuador, approximately 60km north-west (3hrs) of Quito, Ecuador's capital city. The elevations on the property range from 900-1600m above sea level. STM can acquire 100% of the project through a Staged Acquisition Agreement with Golden Exploration ('GOEX') – a final payment of US\$2m is pending but this could be pushed back.

El Palmar is in Imbabura province, within the same geological belt that includes SolGold's giant Cascabel porphyry copper-gold complex (Alpala, 2.66Bt @ 0.53%CuEq; Tandayama-America, 0.53Bt @ 0.36% CuEq) and the Llorimagua porphyry copper-molybdenum deposit (1Bt @ 1% CuEq). This week, Franco Nevada and Osisko invested US\$750m into the copper-focused Cascabel via a gold stream from future production.

Figure 8: Location of El Palmar and nearby Verde Chico relative to major deposits

In terms of a geological address, El Palmar (and Verde Chico) are in a blue ribbon location.



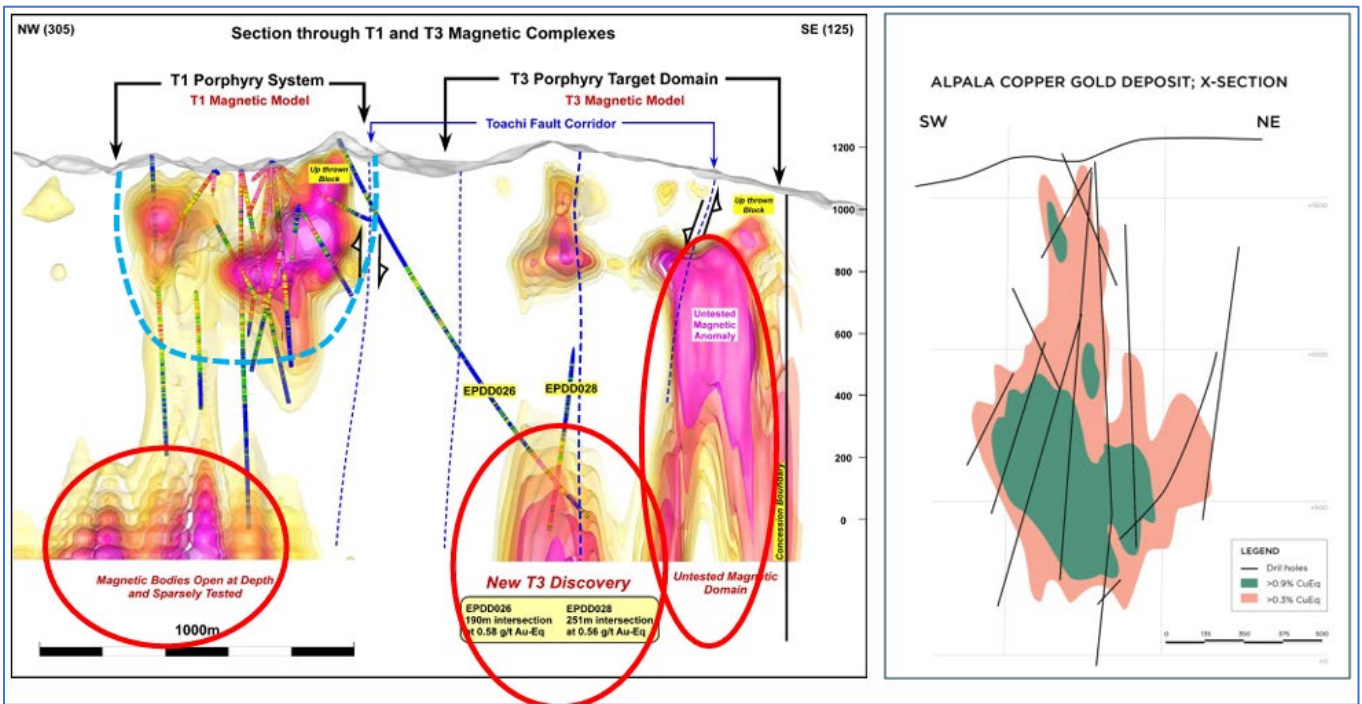
Source: Company report

### Geology and outlook

El Palmar hosts five porphyry gold-copper centres in a 2.3km long cluster. T1,2 and 5 are outcropping or near surface while T3 and 4 are at depth – see Figure 9, which shows a scale comparison between El Palmar and Alpala. Mining here could focus on the low-hanging fruit of an open pit mine at the 800m-long T1 (hits include **160m @ 0.7g/t Au and 0.2% Cu from 52m depth** in LMDD001), to provide cashflow for subsequent deeper operations. As discussed, STM is focused on Bramaderos and Limon but work here is ongoing, ahead of further drilling and the **delineation of an exploration target in FY25/26**.



Figure 9: Side comparison of El Palmar porphyry systems with Alpala (key deposit at Cascabel)



Source: Company report

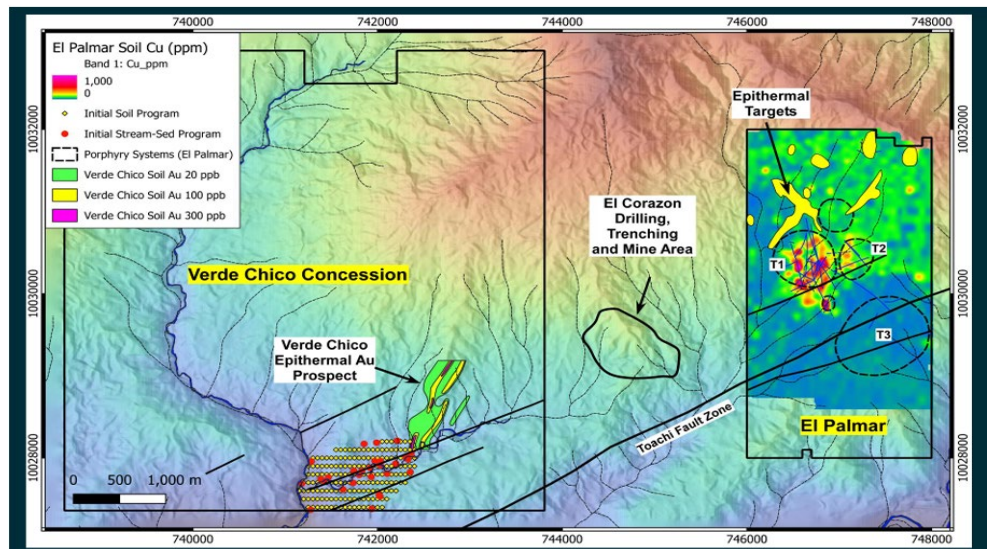
### Verde Chico Copper-Gold Project (STM 0%)

Work has just started at Verde Chico but in a geological sense the area looks very promising

STM has a Staged Acquisition Agreement to acquire Verde Chico (2,872ha or 28.7km<sup>2</sup>), which is in the same prospective Imbabura province as El Palmar; STM will start to earn equity in the project with first drilling.

At Verde Chico, there is epithermal and porphyry potential: historic exploration includes trenching 6.5m @ 25.11g/t Au (Perdida Vein) and 29m @ 8.26g/t Au (Oso Hormiguero Vein). Surface work has commenced at the project to establish potential grade and scale.

Figure 10: Location of El Palmar and nearby Verde Chico relative to major deposits



Source: Company report

# ESG and social license to operate

A policy of transparency and regular communication with stakeholders – whether they are local people, government departments or investors - is critical when establishing a successful mining project.

ASX-listed companies are held to the highest ESG standards by regulators and investors.

**ESG (Environmental, Social and Governance)** is a vital consideration for all companies, even explorers and developers: specific considerations for such entities include environmental monitoring and awareness, ahead of meeting inevitable EIA requirements, and community relationships and programs that **underpin a social license to operate**.

**The communities in STM’s areas of operation in Ecuador are predominantly focused on agriculture.** In our experience, farmers tend to be very pragmatic people who are happy overall with the idea of increased employment opportunities in a primary industry in their district. Low-impact activities such as surface exploration and drilling are (usually) welcomed, subject to appropriate care and compensation.

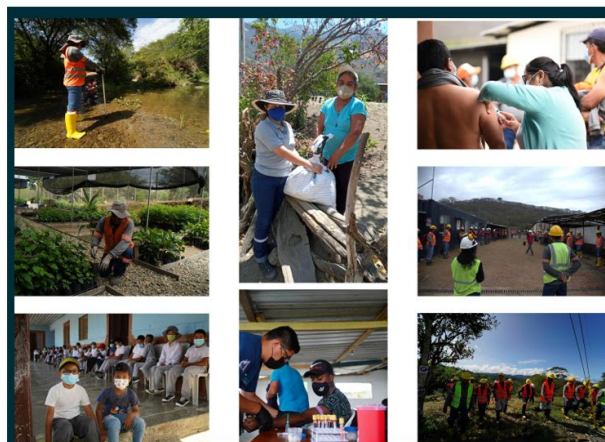
Community concerns for the future can, however, grow around the idea of mining, which can conceptually bring land and infrastructure disturbance or loss, noise/dust/chemical and environmental impacts, and competition for water and power.

The key to managing local ESG processes is to give the company a “face”, by being engaged with communities from an early stage, and by anticipating and proactively meeting all official licensing and permitting requirements.

STM is correctly on its ESG track, via **funding local activities and training programs at Bramaderos and El Palmar**, and by employing local people, preferably in higher-paid skilled roles where possible. It maintains environmental monitoring programs and ensures that on-site activities including drilling are environmentally compliant. **STM released its inaugural Sunstone Sustainability Report on 27-Nov-23.**

STM has secured the **approval of an Environmental Impact Assessment (EIA) from the Ecuadorian Ministry of Environment for Bramaderos gold and copper project.** An EIA is a process that identifies the environmental, social and economic impacts of a project prior to decision-making.

**Figure 11: ESG considerations are key for STM**



Sunstone appreciates the strong community support that it has at its projects and takes its **environmental, social and governance** issues very seriously.

**Inaugural Sunstone Sustainability Report released 27 November 2023**

- Significant **environmental monitoring programs** across all projects
- Involved in various high-impact **community programs** at Bramaderos and El Palmar
- Undertakes considerable **training programs** across a large range of skills for workers and the communities in which we operate
- **Sunstone works with the local communities** to assist where possible, for example, during the pandemic
- Employment and skills development for local communities

**Drilling is fully permitted and environmentally compliant at Bramaderos and El Palmar**

Source: Company report

## Corporate

The Sunstone Board of Directors now includes **Graham Ascough** (Non-Exec Chair), **Patrick Duffy** (MD and CEO), **Malcolm Norris** (Exec Dir – Exploration), **Stephen Stroud** (NED), and **Neal O'Connor** (NED).

We estimate STM has c.\$3m cash, after raising \$3.81m in JunQ24 and spending on drilling at Limon

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### Directors

Overseeing the Board since 2013 is **Non-Exec Chairman**, geophysicist and 30-year industry veteran **Graham Ascough**.

**Patrick Duffy** was appointed as the new **Managing Director (MD) & CEO** in April 2024. He has held senior leadership roles in the mining industry, most recently with Red 5 (ASX:RED, as CFO/CDO) and previously Glencore/Xstrata, having worked on projects such as King of the Hills Gold (Red 5, WA), Koniambo Nickel (Glencore, New Caledonia) and Tampakan Copper Gold (Xstrata, Philippines).

The company's **exploration team** is led by **Malcolm Norris** (former MD, now ED of Exploration) and **Bruce Rohrlach**, who have been involved with **globally significant porphyry and epithermal discoveries** at Tampakan, Tujuh Bukit, and Cascabel.

**The CFO and Comp Sec, Lucas Welsh**, was appointed in July 2024, having previously worked as CFO at WA gold miner St Barbara Mines (ASX:SBM).

**Non-Exec Directors (NED)** are former Xstrata Copper Chief Legal Council and Comp Sec, **Neal O'Connor**, appointed April 2024, who naturally brings extensive experience in developing South American mining operations; and financier **Stephen Stroud**, who has served on the Board since 2017.

### Shareholders

Substantial shareholders: Board and Management (non-look through), 6%; Institutions and Family Offices, 35%; other investors including retail shareholders, 59%.

### Capital structure and cash

Shares on Issue are 3,851,903,636; various Options, 30,000,000; and performance rights, 58,000,000.

**Cash at 31-Mar-24 was A\$1.74m**, after which (3-May-24) the company raised \$3.84m at A\$0.011/sh for drilling at Limon, of which \$2m (before costs) was a Placement and \$1.84m was in the form of a 1:9 renounceable Entitlement Offer (EO). **An EO shortfall of 221,527,375 shares (\$2.437m) can be placed at the Board's discretion no later than 3mths after the offer closed (which was on 27-May-24).**

Our rule of thumb is that a focused exploration program including diamond drilling with one rig costs a conservative A\$2-2.5m/qtr including corporate, so **STM might have c.\$3m cash at 30-June-24**. Our estimates on Page 1 are based on this conceptual JunQ24 expenditure.

It's certain that STM will need to raise further capital to drill and define resources in FY25, starting with placing the EO shortfall, if possible. Given the high quality but early stage of STM's assets, equity funding is much more likely than debt or offtake/streaming.

### Assets and liabilities

**At 31-Dec-23, total assets were valued at A\$81.7m**, of which \$75.1m was non-current Exploration and Evaluation; liabilities of \$1.35m were payables and provisions.

Of note: STM has some minor shareholdings in United Lithium Corp (CSE:ULTH, 290.6k shares) and NewPeak Metals (ASX:NPM, 816.9k shares), valued at a combined c.A\$110k.



## Risks of investment

STM's activities are subject to the usual **operational, financing and jurisdictional risks** of mineral exploration in a developing country. On the downside, these may or may not include – and are not limited to – difficult or remote terrain, inconvenient weather, problems with land access, local anti-mining sentiment, problems in sourcing staff and equipment, slow assay turnaround, funding challenges, political and social unrest, and the possibilities that future permits may not be granted.

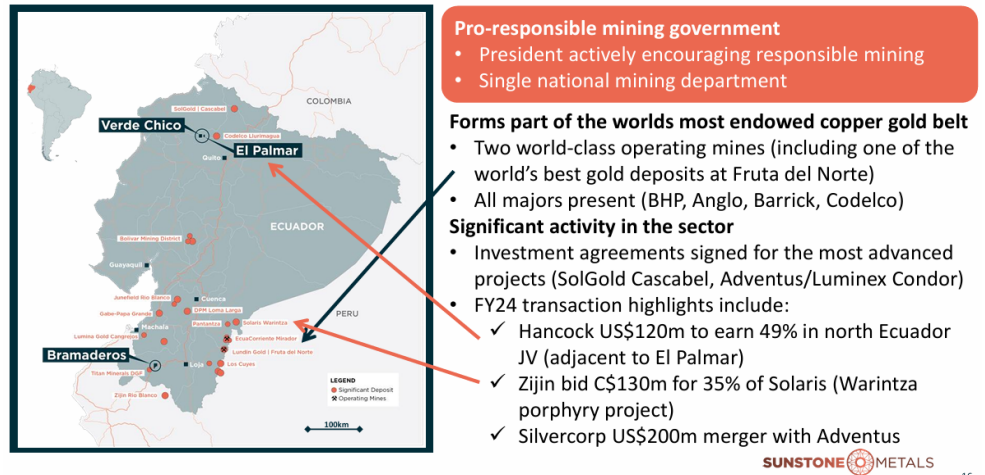
STM is in advanced exploration in Ecuador, being in the middle of resource drill-outs and discovery but to undertake feasibility studies of mining, so there are risks associated with **resource and reserve definition** and the potential findings of ongoing **scientific and economic studies**. All mineral projects are exposed to **commodity price and exchange rate variations and the state of the global financial markets**, which can affect project valuations, liquidity and the ability **fund** development and working capital.

# Appendix 1 – Ecuador

## Why Ecuador?

Ecuador is home to large-scale porphyry and epithermal gold-copper-silver-molybdenum systems and is prospective for more discoveries. The country is relatively pro-mining, with many global majors (**Newmont, BHP, Hancock, Zijin**) acquiring assets there in recent years. The following slide from STM’s June’24 presentation summarises the opportunity and context well. (Figure 10).

**Figure 10: Exploration project timeline for 2024**



Source: Company report

The current President of Ecuador is 36-year-old businessman Daniel Noboa, who succeeded fellow conservative Guillermo Lasso (in office 2021-23). Prior to Lasso, Ecuador had socialist governments dating back to at least 2007. Ecuador is promoting itself as an attractive place for mining investment: the President this year attended the giant PDAC mining conference in Toronto.

## Facts and figures

The Republic of Ecuador (256,000km<sup>2</sup>) in north-western South America, where it’s bordered by Colombia, Peru and the Pacific Ocean. It has a population of 18.3m, whose official language is Spanish. Top exports are oil, prawns, bananas and metals – the latter is growth industry - resulting in GDP/PC of US\$6,391. Literacy rates are high, at c.94%. **Approximately 93% of grid power comes from renewables, mainly hydro.**

Ecuador scores relatively poorly on corruption indices – for example, on Transparency International's 2023 Corruption Perceptions Index, Ecuador scored 34 on a scale from 0 ("highly corrupt") to 100 ("very clean"), below the global average of 43. For context, the majority of resource-rich nations in Africa, Asia and the Americas, where ASX companies successfully operate, have a below-average ranking on this scale (Australia itself is only 14th). The key problems are lack of judicial oversight, and graft, which are common in developing countries.

**Our observation is that a strong and modern mining industry can improve quality of life and reduce income disparity for local people.**

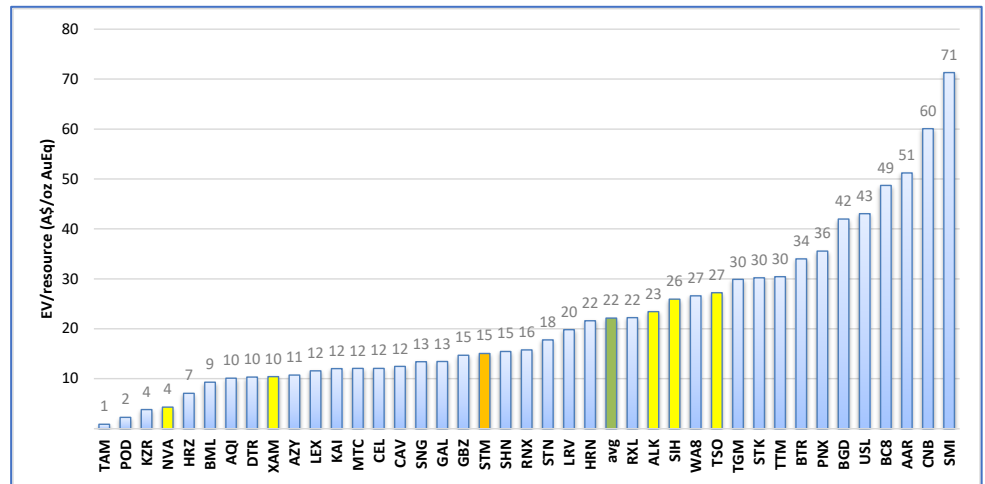
## Appendix 2 – Comparable companies

Figure 13 shows a chart of EV/resource (enterprise value to resource, A\$m/oz AuEq) values for ASX-listed gold companies. Criteria for selection: companies are that they have >1Moz AuEq in JORC-qualifying Resource (all categories) but are pre-production; we don't claim that our list is exhaustive.

- The average EV/resource multiple of A\$22/oz is shown in **green**.
- STM with its current multiple of A\$15/oz, based on the Brama-Alba resource of 2.7Moz AuEq, is shown in **orange**.
- Some other companies with porphyry and epithermal-style projects are shown in **yellow**.

Our base-case valuation of STM as an equity (see Valuation section) adopts the approach of applying this multiple of A\$15/oz to all the company's gold equivalent ounces in both Resource and Exploration Targets; the latter, being pre-resource, are risk-weighted at 70% for Limon/epithermals and 50% for other porphyries.

Figure 13: EV/resource values for ASX gold equities



Source: Gold Nerds, GBA Capital

Currently, STM's share price is discounting an EV/resource multiple slightly below to the market average for its peer group. The key to increasing the share price is to hold this multiple while adding ounces and without diluting the capital structure.



## Appendix 3 – Commodity outlook

### Gold

Gold had a strong performance in 2023/4, outperforming many other commodities, bonds, and stock markets. The price has increased by 14.5% over the past 12mths, reaching a record high price of c.US\$2,449.57/oz in May'24. The current price is US\$2410/oz or A\$3553/oz.

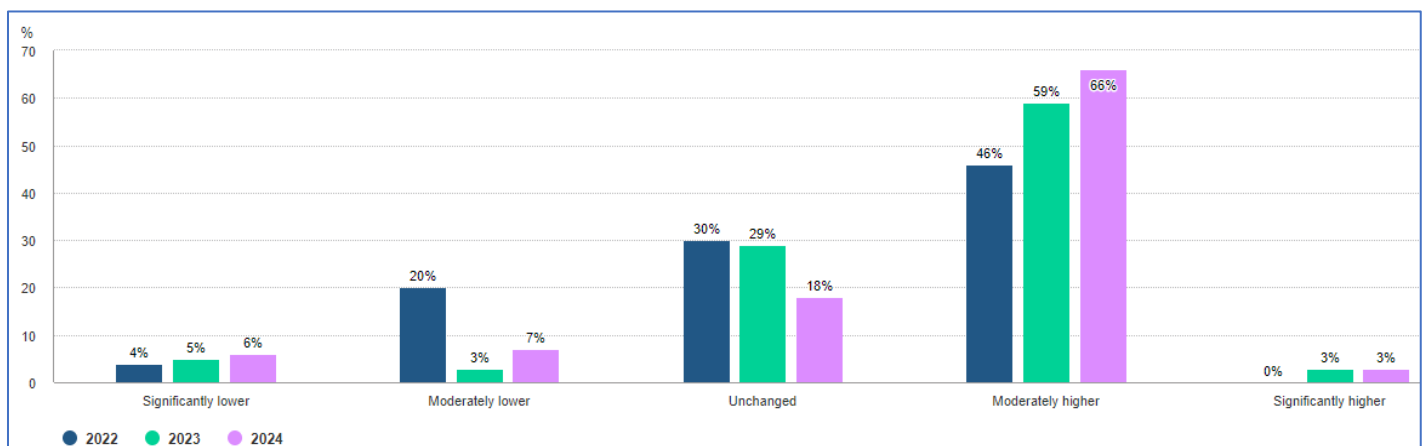
### Outlook for 2024/25

The outlook for gold is always uncertain, but sentiment towards the metal is positive.

- The gold-price rally stalled in JunQ24 due to uncertainty about the timing of rate cuts by the Fed Reserve and other central banks but has since resumed its upwards trend with a break above US\$2400/oz – low rates are positive for gold.
- Global recession, or a recession in certain economies, is still a possibility if central banks mistime the easing of interest rates, which were set higher to combat inflation – economic trouble is also positive for gold.
- Heightened geopolitical tensions (especially in this key election year for major economies) remain a tailwind for gold. Recently, the attempted assassination of former President Trump, compounding the current uncertainty about the physical fitness of President Biden to remain in office, is likely to create much consternation in the US headed into the Nov'24 election.
- A World Gold Council survey of central banks found the top-three reasons for their holding gold were: interest rates (96%); followed by inflation (86%) and geopolitical instability (72%).
- Central banks are likely to increase their gold purchases over the next 5yrs.
- Individual investors may consider gold as an effective hedge in their portfolios.

Overall, we expect the gold price to remain within a very broad range of US\$1950-\$2750/oz for the next 12 months.

**Figure 14: Central Bank expectations 2022-24, when surveyed about changing proportion of gold in reserves over 5yrs**



Source: World Gold Council

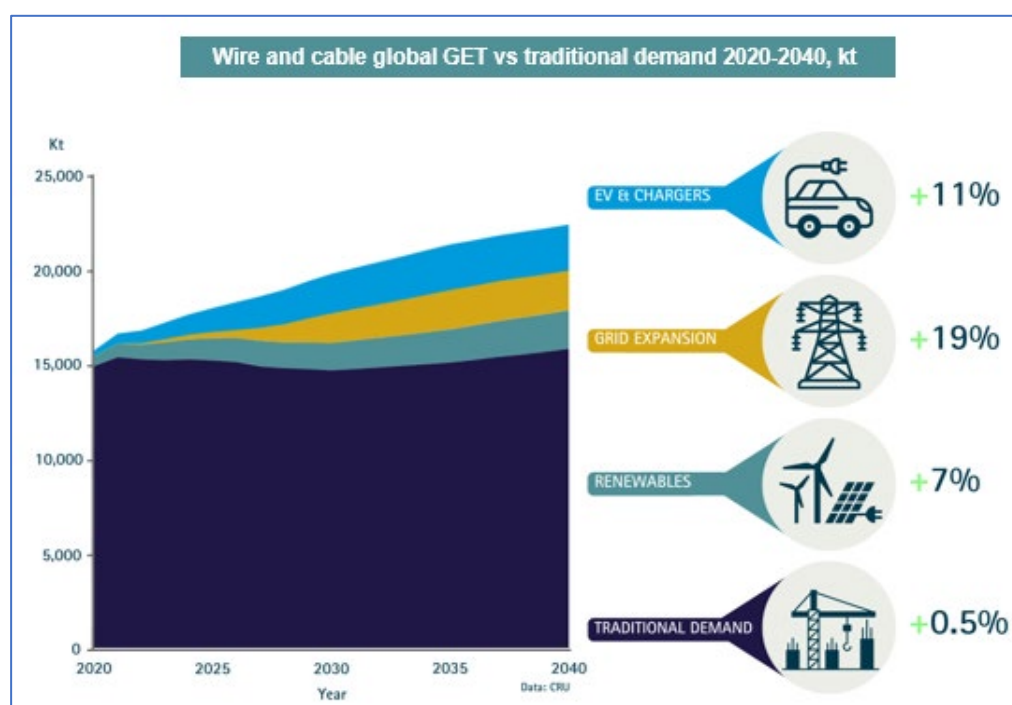
## Copper

Copper prices increased in 1H2024. The current price is US\$2082/oz or A\$3192/oz. The factors supporting copper are traditionally the opposite of those supporting gold – except in terms of interest rates, where they’re more closely aligned – so we’ve repeated a couple of points from the previous section.

### Outlook for 2024/25

- Copper prices lifted from 2023 and into 2024 on expectations that interest rates might fall, stimulating growth, although the run has slowed due to uncertainty about the timing of rate cuts by the Fed Reserve and other central banks. The current price is US\$4.39/lb (A\$6.48/lb) or US\$9678/t, up c.13% YoY.
- Global recession, or a recession in certain economies, is still a possibility if central banks mistime the easing of interest rates, which were set higher to combat inflation – economic trouble is negative for copper.
- Heightened geopolitical tensions (especially in this key election year for major economies) remain a headwind for copper; although, sadly, the outbreak of conflicts is often positive for industrial metal demand.
- Looking forward, copper demand is expected to grow from copper demand from the 28.3Mt we saw in 2020, up to to 40.9Mt in 2040, which is a 1.85% compound annual growth rate (CAGR). The key driver of this is electrification and in particular grid expansion, as expressed by demand for copper wires and cables.
- In line with market consensus, we expect copper prices to reapproach their record intraday high of US\$5.20/lb Cu (US\$11,460/lb) in 2025 after consolidating in 2H24.

Figure 14: Key drivers of demand for copper wire and cable



Source: ICA, CRU

## Appendix 4 – Resources, Targets and Metal Conversions

### Resources and Exploration Targets

The Brama-Alba deposit, within the Bramaderos concession contains a JORC-qualifying **Mineral Resource estimate** of 156Mt at 0.53g/t AuEq for 2.7Moz gold-equivalent (2022).

**Figure 14: Key drivers of demand for copper wire and cable**

JORC Classification	Tonnage (Mt)	Au (g/t)	Cu (%)	Ag (g/t)	AuEq (g/t)	AuEq (Mozs)
Indicated	9	0.38	0.09	1.1	0.53	0.2
Inferred	147	0.35	0.11	1.3	0.53	2.5
<b>Total</b>	<b>156</b>	<b>0.35</b>	<b>0.11</b>	<b>1.3</b>	<b>0.53</b>	<b>2.7</b>

Source: Company Report

In addition, Bramaderos hosts:

- The **porphyry exploration target** of between **3.3-8.6Moz AuEq** within 255-360Mt at a grade of 0.40-0.74g/t AuEq (see ASX release dated 13 December, 2022), and
- The **Limon epithermal gold-silver exploration target** of **0.9-1.7mill oz AuEq** within 30-44Mt at a grade of between 0.9-1.2g/t AuEq (see ASX release dated 5 February, 2024).

El Palmar and Verde Chico don't yet have resources or exploration targets but these are possible in future, depending on exploration success.

### Gold-equivalent conversions

STM's mineral deposits are polymetallic, containing (potentially) ore-grade concentrations of gold, copper, silver and possibly molybdenum. For ease of understanding and comparison, the grades of polymetallic deposits are often expressed in terms of the equivalent concentration of the most proportionally valuable or abundant metal – in the case of STM, that's gold-equivalent, abbreviated AuEq. The conversion requires assumptions about geology, metal prices and metallurgical recoveries.

#### For porphyry grades

For STM, the gold equivalent calculation formula for porphyry gold-copper-silver mineralisation is  $AuEq(g/t) = (Au \text{ grade} \times Au \text{ price} \times Au \text{ recov} / 31.1035) + (Ag \text{ grade} \times Ag \text{ price} \times Ag \text{ recov} / 31.1035) + (Cu \text{ grade} \times Cu \text{ price} \times Cu \text{ recov} / 100) / (Au \text{ price} \times Au \text{ recov} / 31.1035)$ . The prices used were US\$1,800/oz gold and US\$9,500/t copper and US\$22/oz silver. Recoveries are estimated at 89% for gold, 85% for copper, and 60% for silver based on metallurgical studies (see ASX release dated 13 December 2022).

#### For epithermal grades

For STM, the gold equivalent calculation formula for epithermal gold-silver mineralisation is  $AuEq(g/t) = Au(ppm) + (Ag(ppm)/82)$ . The prices used were US\$1,800/oz gold and US\$22/oz silver. Recoveries are estimated at over 90% for gold and 90% for silver from metallurgical studies (see ASX release dated 9 November 2022).



## Recommendation structure

**Buy:** Expected to outperform the overall market on a 12 month view.

**Hold:** Expected to perform in line with the overall market on a 12 month view.

**Sell:** Expected to underperform the market on a 12 month view.

**Not Rated:** GBA has a factual view of the company with no recommendation.

**High Risk:** A qualitative rating, based on our assessment of significantly higher-than market risk of share price volatility.

**Medium Risk:** A qualitative rating, based on our assessment of market-average risk of share price volatility.

**Low Risk:** A qualitative rating, based on our assessment of lower-than-market risk of share price volatility.

**If no Recommendation is stated, including 'Not Rated', then the note has been commissioned for publication by the subject company. A Valuation may be provided, but not a Price Target.**

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