

25 October 2024

Last Price

0.6 cps (AUD)

Valuation, 12mths

2.6 cps

Implied return from valuation

Capital growth	340%
Dividend yield	0%
Total expected return	340%

Company data

Market capitalisation	A\$30.7m
Enterprise value	A\$28m
Issued capital (shares)	3.8bn
Free float	94% ^m
Average daily vol (3mths)	6.7m
Price range (12mths)	0.6-1.9cps
GICS sector	Materials

Share price performance

Period	1 mth	3 mths	12 mths
Price (cps)	0.5	0.9	1.6
Change (%)	20%	-33	-63

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)

El Palmar sets Tier 1 target

The initial Resource and Exploration Target at El Palmar (Ecuador) have exceeded our expectations, with a gold-equivalent Resource of 1.2Moz AuEq (including copper) and a mid-range Exploration Target of c.30Moz AuEq. We lift our 12-month Valuation to 2.6cps with a medium-term Valuation of 9cps. Share price drivers could be further exploration and resource expansion drilling at El Palmar, Bramaderos and Verde Chico, and finding a strategic partner to assist with El Palmar's development.

Key points

- Resource:** STM has defined an initial open-pit Mineral Resource (MRE) at its El Palmar Project, of 64Mt @ 0.60g/t for 1.2Moz AuEq (gold-equivalent, including copper). This could be sufficient scale and grade, in our view, for a start-up mine, that could later be expanded to accommodate bulk underground production, e.g. by block caving.
- Exploration Target:** Beyond the MRE, there's a Target estimate of 1-1.2Bt @ 0.3-0.7g/t Au & 0.1-0.3% Cu, containing 10-27Moz Au and 1.0-3.7Mt Cu, or 15-45Moz AuEq – we estimate that means a grade of 0.82g/t AuEq. The Target is likely to grow with further drilling.
- Corporate:** Cash at 30-Jun-24 was A\$2.7m – we expect the balance to be similar at 31-Dec-24 after STM raised c.\$6.5m at 0.5cps in 2H24, well-funded for exploration.
- Commodities:** The gold price remains near record highs at c.US\$2735/oz, driven by ongoing and heightened geopolitical risks with expectations of falling global interest rates; the outlook for copper also remains positive, in our view.

Investment View: 340% valuation gap to 2.6cps

We increase our Valuation to 2.6cps from 2.3cps, with upside risk to 9cps. This is a bold and high-risk view – but in our view STM's current price of 0.6cps doesn't reflect fair value for a stock with almost 5Moz AuEq of resources and upside from Exploration Targets to +40Moz AuEq. The key to closing this valuation gap in the near-term should be ongoing drilling to convert Targets to Resources and continued exploration of near-term production opportunities from the epithermals at Bramaderos. STM could hold considerable appeal to larger industry players seeking exposure to a significant resource inventory with potential for +300kozpa AuEq production.

Production and Financial Forecasts

YEAR END: 30 June	Jun-24a	Sep-24F	FY-23a	FY-24a	FY-25F
Gold Production (koz)	na	na	na	na	na
Cash Costs (US\$/oz)	na	na	na	na	na
Exploration and Evaluation (A\$m)	2	2	24	15	8
Staff and Corporate (A\$m)	0.8	0.5	3.1	2.6	2.0
Exploration/(Expl.+ Corporate) (%)	70.0	80.0	88.6	85.2	80.0
Shares on issue (pr end) (m shares)	3,838	4,308	3,082	3,852	5,635
Drilling - AC/RAB (m)	0	0	0	0	0
Drilling - RC/Diamond (m)	930	0	22,657	9,157	0
Land holding ('km ²)*	60	0	na	60	0
Capital Raisings (A\$m)	3.7	2.4	12.0	8.9	13.8
Funding from JV partners (A\$m)	0	0	0	0	0
Cash (A\$m)	2.7	2.4	10.3	2.7	6.1
Cash Backing (Ac/share)	3.8	3.0	11.6	3.1	7.7

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

Sunstone Metals (ASX:STM)

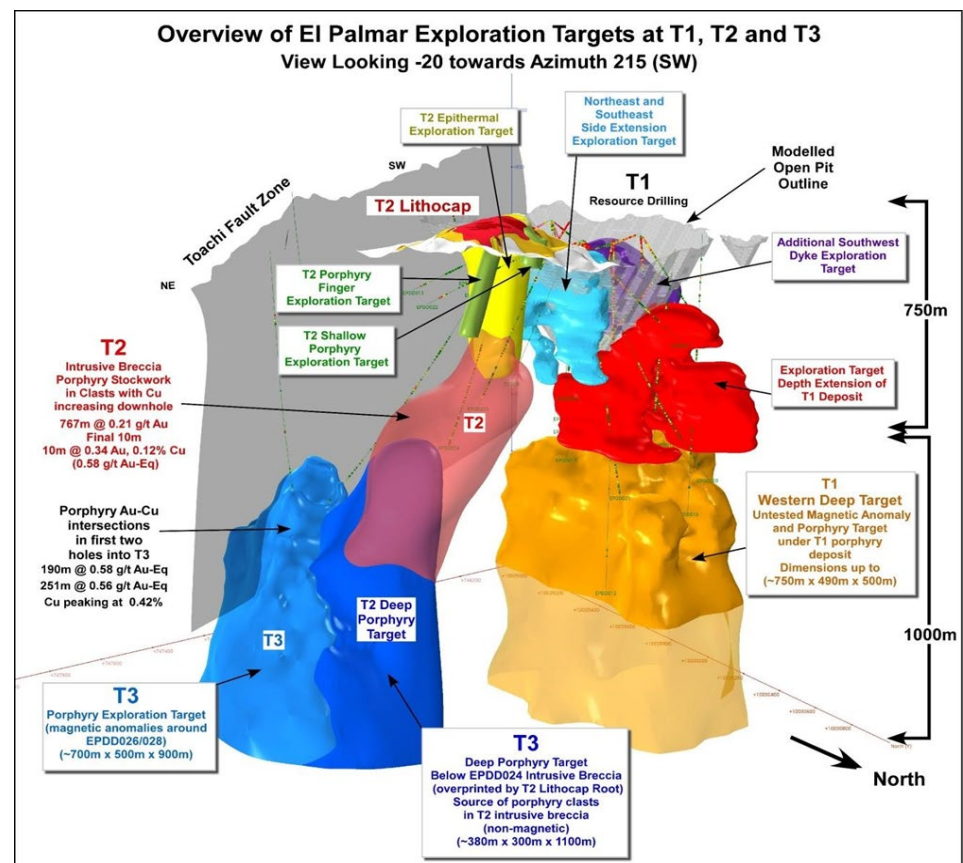
STM says El Palmar has the potential to be Tier 1 mining project. One definition of a Tier 1 gold asset is one that produces the equivalent of +300kozpa Au for +10yrs, with opex in the first half of the cost curve. It's early days but El Palmar certainly has this potential, in our view.

Give a big hand for El Palmar

Sunstone Metals Ltd has confirmed the potential Tier-1 scale of its El Palmar Project (STM 75%, earning 100%), with an initial **JORC-qualifying Mineral Resource Estimate (MRE) of 1.2 million ounces (Moz) of gold equivalent (AuEq) metal**, including copper (cu), from the T1 gold-copper porphyry deposit. The project also has an initial **Exploration Target (ET), defined over multiple zones, of 1.0 to 1.2 billion tonnes (Bt) of mineralisation containing 15 to 45Moz AuEq**, with significant potential to expand beyond this range.

The areas comprising the MRE and ET are shown in Figures 1-3, while data are summarised in Appendix 2. In Appendix 1 we show STM compared to other ASX gold explorers on an EV/resource (A\$/oz) basis, and list some porphyry projects that have reached Reserve status and/or production. AuEq calculations (Au +Cu + Ag) are explained in Appendix 1.

Figure 1: El Palmar Exploration Targets and open pit / resource outline



In summary, STM has initially drilled and delineated an open-pit Resource at the outcropping T1 porphyry, and defined an Exploration Target range for other areas of known mineralisation that are yet to be tested to the level of an MRE. There are other areas to explore, outside the current ET.

Source: Company report

Resource: 1.2Moz gold-equivalent

The initial MRE for El Palmar is based solely on the **outcropping T1 gold-copper porphyry deposit**, which contains **64Mt @ 0.60g/t for 1.2Moz AuEq**, with a cut-off grade of 0.4 g/t AuEq (or 600koz AuEq at the highest 0.6g/t cut-off). Of this, 3Mt is in oxide material grading 0.55g/t AuEq, with the rest in transitional or fresh rock.

The T1 MRE is based on 28 diamond drill holes for a combined 17,699m (August 2021 to July 2023) - that's quite little drilling for a porphyry so there's **potential to expand and upgrade the resource**, which is only 8% in the Indicated category with the rest Inferred.

It's too early to be making forecasts about future mining rates and costs, but we've made an attempt anyway.

Northern Ecuador is no stranger to giant gold and copper deposits - El Palmar is in the same geological belt as Solgold's Cascabel Alpala and Codelco's Llurimagua. Porphyries require considerable investment to develop so STM will be seeking a

T1 has the potential to be a **large, low-strip open pit operation** - we'd expect mining at an initial +10Mtpa. STM has constrained the resource using an initial pit shell, with mining costs US\$2/t and processing of US\$6.80/t – processing costs could be low, partly due to the availability of cheap hydro power in Ecuador. Based on STM's conceptual mining costs and allowing for sustaining capex, in our view **T1 could sit in the second or even first quartile of the industry cost curve** (currently c.US\$1100-1400/oz AISC). An open pit operation could pave the way for **underground mining of deeper porphyries**, likely by caving and potentially at larger scale – other, similar operations commonly run at +25Mtpa, which could mean **+300kozpa AuEq for El Palmar** (see a list in Appendix 1).

Exploration Target: 15-45Moz gold equivalent

Figures 1-3 show the areas at El Palmar that comprise the Exploration Target. The initial estimate of **1-1.2Bt has an expected grade range of 0.3-0.7g/t Au and 0.1-0.3% Cu**, which means a contained-metal range of 10-27Moz Au and 1.0-3.7Mt Cu, or **15-45Moz AuEq**. This target is in addition to the maiden Mineral Resource Estimate (MRE) – total contained metal is therefore in the range 16.2-46.2Moz AuEq.

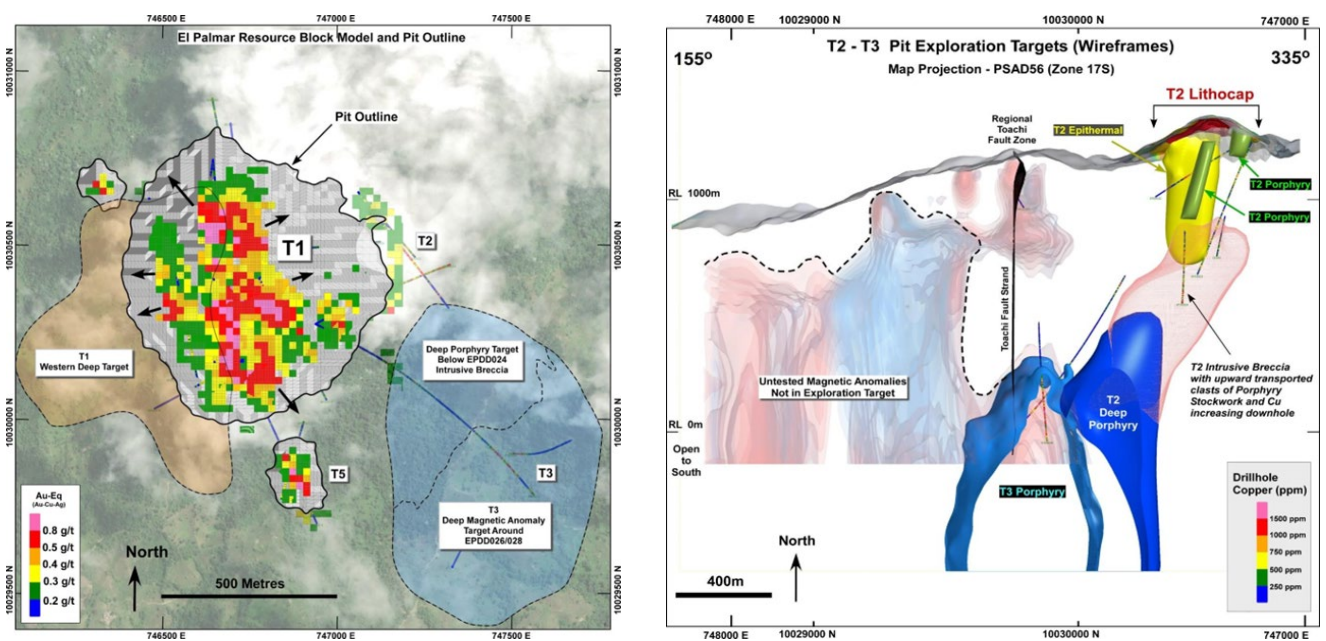
A noteworthy aspect of the ET is that it **only includes three deposits T1/2/3. Other areas of mineralisation, which at this stage haven't been sufficiently tested to include in the MRE or ET, could be included in future.** For example, of great interest is the magnetic anomaly, shown in Figure 3 – we expect this to be a priority for drilling.

STM hasn't reported an AuEq grade range for the Target – nor could it, without enough specific metallurgical data – but using the same parameters as the MRE calculation, **we estimate the AuEq is 0.82g/t at the mid-range.** This is higher than the 0.6g/t in the MRE.

Development strategy: grow the resource, with a partner

El Palmar is in northern Ecuador, close to deposits such as SolGold's giant copper-gold Cascabel (Alpala, 2.7Bt @ 0.53%CuEq) and the Llurimagua Cu-Mo deposit (1Bt @ 1% CuEq), which have seen +US\$100m investments from companies like Franco-Nevada and Hancock. **With the MRE/ET in hand, showing that El Palmar is of potentially commercial scale and grade, STM is likely to advance discussions with strategic partners.**

Figure 2 and 3: T1 resource area plan view, including pit outline (left); and targets for further testing (right)



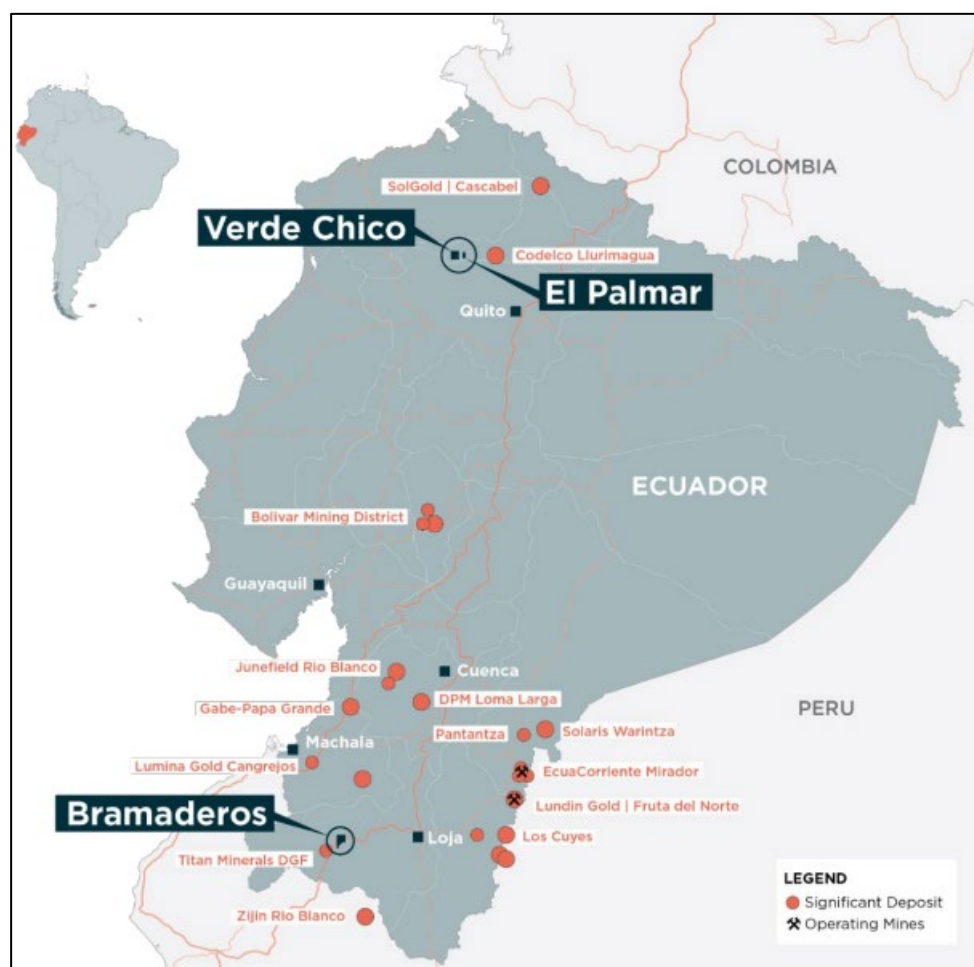
Source: Company report

Summary of operations

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 4: Map of STM’s Ecuadorian projects



Source: Company report

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 Llorimagua porphyry copper-molybdenum deposit (Codelco).

Figure 5: Key Projects

Project	Ownership	Metal	JV Partner	Target Type	Area (km ²)	Project Status	Location
Bramaderos	87.5%	Au-Cu-Ag	LON.SOLG	Porphyry/epithermal	49.8	Advanced Expl	Ecuador
El Palmar	75%	Au-Cu-Ag	GOEX	Porphyry/epithermal	8	Advanced Expl	Ecuador
Verde Chico	(Agreement)	Au-Cu-Ag	Verde Chico Gp	Porphyry/epithermal	28.7	Early Expl.	Ecuador

Valuation – 2.6cps with upside risk to 9cps

Our Valuation of STM is 2.6cps, with upside risk to 9cps.

The new Resource and Target at El Palmar increase its valuation from a nominal A\$10m up to A\$89m.

This large increase in SOTP value, from A\$87m to A\$135m, is partly offset by the higher share count after 2H24 equity issues.

For STM as an explorer, a key to increasing the share price – in our view - is to hold or improve its current EV/resource multiple of A\$7/oz AuEq, while adding resource ounces.

Our valuation of STM, of 2.6cps has increased from the 2.3cps in our Aug'24 report due to the increase in value at El Palmar, offset by a fall in EV/oz value and increase in share count; we apply the same Sum of the Parts (SOTP) method as before. **This is a high-risk valuation.**

- We value **Bramaderos and El Palmar** by applying the ratio of STM's enterprise value (EV in A\$m) to total gold-equivalent Resources (2.7Moz AuEq at Bramaderos and 1.2Moz AuEq at El Palmar) – **which is A\$7/oz** – to the company's Exploration Targets (Bramaderos, Limon epithermals 0.9-1.7Moz, Brama Alba porphyries 3.3-8.6Moz; El Palmar porphyries 15-45Moz AuEq), with a weighting for risk.
- Verde Chico** is at an earlier stage, so is given a conceptual valuation based on a likely three-year exploration spend.
- Corporate costs and cash** are adjusted for in the usual way.

There is an upside risk to this target towards 9cps from higher-than-expected resource estimates and from the market rewarding STM with a taller EV/resource multiple (**peer average is A\$22/oz**); there is downside risk from missing targets, and from dilution to the capital structure via raising capital to fund exploration and feasibility studies.

Possible share-price catalysts

The key share price driver for STM over the coming 12 months should be **an initial MRE at Limon, in 2025**; this will be a milestone as it should lead into economic studies. Drilling to **expand the MRE and Exploration Target at El Palmar, likely with a strategic partner**, could have great impact, given large-scale industry investment in nearby projects and operations.

Figure 6: STM valuation, October 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	
Bramaderos								
Epithermal (Limon) exploration	Min	0.9	7	87.5	6	85	5	Minimum exploration target
	Max	1.7	7	87.5	12	85	9	Maximum exploration target
	Average						7	Base case value of exploration target
Porphyry exploration	Min	3.3	7	87.5	23	70	14	Minimum exploration target
	Max	8.6	7	87.5	60	70	37	Maximum exploration target
	Average						26	Base case value of exploration target
Brama-Alba resource		2.7	7	87.5	19	100	17	Contained resource
Total Bramaderos							49	
El Palmar								
Exploration target (less deeps T1, T3)	Min	4.9	7	75	34	70	18	Minimum exploration target
	Max	14.2	7	75	99	70	52	Maximum exploration target
	Average						35	Base case value of exploration target
Exploration target (deeps T1, T3)	Min	10.1	7	75	71	50	27	Minimum exploration target
	Max	30.8	7	75	216	50	81	Maximum exploration target
	Average						54	Base case value of exploration target
El Palmar resource		1.2	7	75	8	100	6	Contained resource
Total El Palmar							95	
Verde Chico				0		100	5	Pre-resource, no equity yet, conservative value
Exploration potential: +5%							7	Additional 5% of asset SOTP
Corporate (NPV)							-20	NPV (5% nominal) of forecast corporate costs
Cash (DecQ24 est)							3.4	Placement expected JunQ25
Debt (SepQ24 est)							0	No bank debt expected yet
Total							135	Sum of the parts
Shares on issue (DecQ24 est): m							5,123	Post placement in Oct'24
Value, base case: cents per share (A\$ cps)							2.6	Base case valuation, 12mths
Upside case: A\$ cps							9.0	Medium term valuation, average industry EV multiple
Current price: A\$ cps							0.6	As at 24 October 2024
Implied 12mth gain/loss							338%	12-month gain implied by base-case valuation

Source: Company report, GBA Capital

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: Comparable companies and projects

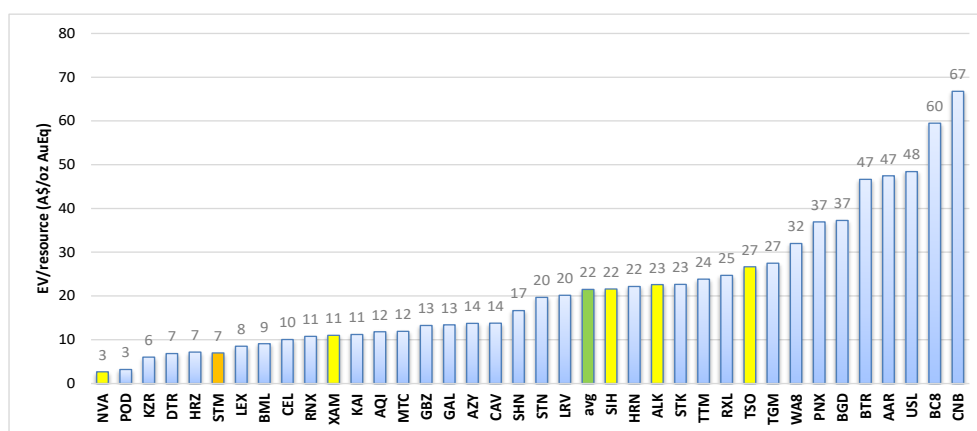
Currently, STM's share price is discounting an EV/resource multiple well below to the market average for its peer group.

If the El Palmar Exploration Target converts to Reserve status – we assume 50% of the Target tonnes with no grade uplift - it could be comparable to other porphyry projects in production.

* The gold equivalent calculation formula used by STM is AuEq (g/t) = (Au grade x Au price x Au recov / 31.1035) + (Ag grade x Ag price x Ag recov / 31.1035) + (Cu grade x Cu price x Cu recov / 100) / (Au price x Au recov / 31.1035). The prices applied were US\$1,800/oz gold, US\$9,921/t copper and US\$22/oz silver. Recoveries are estimated at 90% for gold, 78% for copper (excluded for oxide material), and 60% for silver (90% for epithermals) based on

Figure 7 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\$7/oz, 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) applies this multiple of A\$7/oz to all the company's gold equivalent ounces in both Resource and Exploration Targets; the latter are risk-weighted at 85% for Limon/epithermals, 70% for other Bramaderos porphyries and El Palmar shallower targets, and 50% for El Palmar deep targets.

Figure 7: EV/resource values for ASX gold equities



Source: Gold Nerds, GBA Capital

Figure 8 shows some porphyry projects to El Palmar, both pre- and in production, with their start-up Reserves. In our view, these comps clearly illustrate that the combined El Palmar Resource and Exploration Target, after a 50% conversion to Reserves, **could be of commercial scale and grade.**

Figure 8: Comparable projects for El Palmar based on its exploration target

Mine / Project	Location	Startup Ore Reserve	Grade (AuEq)	Moz AuEq	Startup Year	Plant	Operator
Tujuh Bukit	Indonesia	289Mt@0.56% Cu, 0.65g/t Au	1.55	14.40			Merdeka
Cascabel	Ecuador	540Mt@0.6%Cu, 0.54g/t Au	1.50	26.05			Solgold
Hemi	Australia	121Mt@1.5g/t	1.50	5.84			De Grey
Cowal	NSW	64Mt @ 1.2g/t Au	1.20	2.47	2006	9Mtpa float	Evolution
Cadia Hill	NSW	200Mt @ 0.75g/t Au, 0.18% Cu	1.04	6.69	1998	17Mtpa float	Newmont
Boddington	WA	966Mt @ 0.69g/t Au, 0.11% Cu	0.94	29.20	2009	40Mtpa float	Newmont
Cangrejos	Ecuador	338Mt @ 0.69g/t Au, 0.12% Cu	0.88	9.56		20Mtpa float	Lumina
Red Chris	BC	300Mt @ 0.27g/t Au, 0.36% Cu	0.85	8.20	2014	11Mtpa float	Newmont
La Chapada	Brazil	300Mt @ 0.26g/t Au, 0.35% Cu	0.84	8.10	2007	60Mtpa float	Lundin
El Palmar (50% Target)	Ecuador	600Mt @ 0.5g/t Au, 0.2% Cu	0.82	15.82			Sunstone
Candelaria	Chile	350Mt@0.44%Cu, 0.1g/t Au	0.80	7.72	1995	25Mtpa float	Lundin
Ban Houayxai	Laos	28Mt @ 0.8g/t Au	0.80	0.72	2010	5Mtpa CIL	PanAust
Mt Polley	BC	190Mt @ 0.28g/t Au, 0.27% Cu	0.71	4.34			Imperial Metals
Lindero Porphyry	Argentina	80Mt @ 0.69g/t Au, 0.11% Cu	0.69	1.77		8Mtpa HL	Fortuna Silver
Mt Milligan	BC	496Mt @ 0.36g/t Au, 0.19% Cu	0.66	10.53	2013	23Mtpa float	Centerra
Ilovica	Macedonia	200Mt @ 0.32g/t Au, 0.21% Cu	0.66	4.24		10Mtpa float	Euromax
Eva Copper	QLD	120Mt @ 0.40% Cu	0.64	2.47		12Mtpa float	Copper Mountain
Caserones	Chile	890Mt@0.36%CuEq	0.56	16.03			Lundin
Constancia	Peru	480Mt@0.33% Cu	0.53	8.18	2011	30Mtpa float	Hudbay
Kharmagtai	Mongolia	730Mt @ 0.21% Cu, 0.17g/t Au	0.51	11.97			Xanadu
Copper Mountain	BC	480Mt @ 0.10g/t Au, 0.23% Cu	0.47	7.25		20Mtpa float	Copper Mountain

Source: Company, GBA Capital

Appendix 2: Resources and Reserves

Figure 9: Initial JORC resource at El Palmar

Material Type	Category	Tonnage Mt	Average Grade					Material Content		
			AuEq (g/t)	Au (g/t)	Ag (g/t)	Cu (ppm)	Cu (%)	AuEqOz (Koz)	Cu (Mlbs)	Cu (Kt)
Oxide	Indicated	-	0.55	0.54	1.14	1438	0.14	0	0	0
	Inferred	3	0.55	0.55	0.71	1075	0.11	100	0	0
	TOTAL	3	0.55	0.54	0.75	1109	0.11	100	0	0
Transitional and Fresh	Indicated	5	0.64	0.42	0.79	1457	0.15	100	20	7
	Inferred	56	0.60	0.40	0.65	1298	0.13	1,100	160	73
	TOTAL	61	0.60	0.40	0.66	1311	0.13	1,200	180	80
ALL	Indicated	5	0.63	0.42	0.81	1456	0.15	100	20	7
	Inferred	59	0.59	0.40	0.65	1290	0.13	1,100	160	73
	TOTAL	64	0.60	0.41	0.66	1301	0.13	1,200	180	80

Figure 10: Exploration Target at El Palmar

Target	Area	Tonnes Lower (Mt)	Tonnes Upper (Mt)	Gold Grade Range (g/t)	Copper Grade Range (%)	Type
T1	Additional Southwest Dyke target	18	22	0.30-0.60	0.10-0.18	Porphyry
T1	Northeast and Southeast Side Extension (In and Out of Pit)	35	41	0.30-0.60	0.10-0.18	Porphyry
T1	In-Pit infill between Dykes	8	9	0.30-0.60	0.10-0.18	Porphyry
T1	Depth Extensions of Main Orebody	50	55	0.20-0.40	0.10-0.30	Porphyry
T1	Western Deep Target	300	340	0.30-0.60	0.10-0.20	Porphyry
T2	Shallow Porphyry Mineralisation around Collars of EPDD022/023	1	2	0.20-0.40	0.1-0.2	Porphyry
T2	Porphyry finger above/below EPDD022: 217-287m intersection	3	4	0.20-0.40	0.10-0.20	Porphyry
T2	Vertical extents of epithermal domain above/below EPDD024	20	30	0.30-0.40	0.02-0.05	Epithermal
T2	Deep Porphyry Target below EPDD024 intrusive breccia	200	225	0.30-0.70	0.10-0.30	Porphyry
T3	Magnetic anomalies around EPDD026/028	400	500	0.30-0.70	0.10-0.30	Porphyry
Subtotal		1035	1228	0.30-0.70	0.10-0.30	
				Grade Weighted, Rounded		
Contained gold		10.0 - 27.6 Mozs				
Contained copper		1.0 - 3.7 Mt				
Contained gold-equivalent		15 - 45 Mozs				

Figure 11: Initial JORC Resource at Brama Alba (Bramaderos) – Exploration Target 4.2-10.3Moz AuEq

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
Total	156	0.35	0.11	1.3	0.53	2.7

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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