

31 March 2025

## Partnership discussions advancing

### NEED TO KNOW

- STM has provided a corporate update highlighting positive developments with its strategic processes to bring on a partner for its Bramaderos and/or El Palmar projects.
- It has also advised that it is considering a transaction related to a nearer term gold development asset
- Raising A\$4m, well-funded to conclude strategic process

**Raising A\$4m:** STM has announced it has raised A\$4m via an institutional placement at 0.5cps. The price reflects a discount of 17% to the last traded price and 19% to the 10-day vwap. With a post-raise pro-forma cash balance of ~\$5-6m, STM is well funded to the conclusion of its strategic process.

**Strategic process delivering:** STM has provided an update on its strategic process, through which it is seeking to bring on partners for its Bramaderos and/or El Palmar projects in Ecuador. The update noted several parties were in the dataroom and have undertaken site visits, with one proposal close to finalising a non-binding indicative offer (NBIO). A successful conclusion to this process will be a key catalyst for STM, set to unlock the value of its 4Moz gold-equivalent resource base across its two projects. There has been elevated corporate interest in Ecuadorian mining assets in recent years, suggesting interest in the STM asset base should be strong.

**Considering acquisition of near-term gold asset:** The corporate update also noted STM is considering a business transaction related to a nearer term gold asset. We think such a transaction, subject to asset quality and price, would be a strong strategic fit with the larger-scale, longer-dated opportunities that STM are currently pursuing.

### Investment Thesis

**Building a Resource base that cannot be ignored:** Sunstone has a proven management team that is well on its way to developing a resource base of significant scale that we expect to ultimately be of interest to major miners. The current 4Moz resource is all pit constrained, so is literally just scratching the surface of the potential scale at Bramaderos and El Palmer. Limon adds material value as either a stand-alone operation or as potential higher-grade feed to a larger Bramaderos porphyry development. The H1 2025 strategic partnership process will be a key valuation marker in our view, with STM turning to accelerating its resource development once this is concluded.

### Valuation: Base case 2.8c, upside case 3.9c

We have valued STM on an EV/oz basis identifying a peer group of +1Moz ASX listed explorers who are yet to conclude studies. STM is currently trading on 11x EV/oz vs these peers on an average of 55x. Applying a bottom of the peer group multiple of A\$5/t to the STM Exploration Target lifts our valuation to 3.9c as an upside case. We see STM moving towards this as the Exploration Target is converted to resource

### Risks

Key risks include exploration success, commodity prices, funding, currencies, environmental factors, and jurisdiction.

### Equity Research Australia

#### Materials

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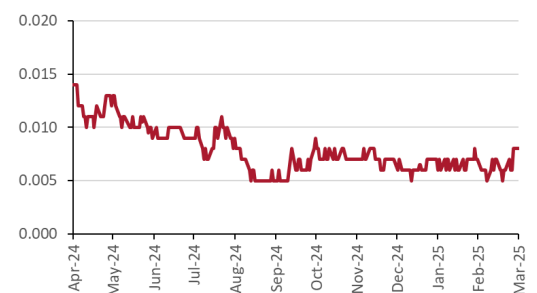
Sunstone Metals is advancing two major gold-copper projects in Ecuador - Bramaderos and El Palmar. It has already established a 4Moz Au-equivalent resource base, with clear potential to continue to grow well beyond that as reflected in the significant JORC compliant Exploration Targets Sunstone has established across the projects. It has a proven management team, responsible for major porphyry discoveries in Indonesia and Ecuador, as well as bringing mines in Australia and New Caledonia into production. The company has established a portfolio that is on track to deliver a large-scale gold-copper resource base that will be of interest to major miners globally.

Valuation	<b>A\$0.028</b> (from A\$0.023)
Current price	<b>A\$0.008</b>
Market cap	<b>A\$41m</b>
Cash on hand	<b>~A\$6m</b> (31 Dec 24 plus A\$4m raise)

### Upcoming Catalysts / Next News

Period	
H1 2025	Strategic partnership process
2025	Establish maiden resource at Limon
2025	Grow El Palmar resource
2025	Grow Bramaderos porphyry resource

### Share Price (A\$)



Source: FactSet, MST Access

Figure 1: Financial Summary

Sunstone Metals Ltd							STM.ASX				
<b>Year end 30 June</b>											
<b>MARKET DATA</b>							<b>12-Month Relative Performance vs S&amp;P/ASX Metals &amp; Mining</b>				
Share Price	A\$/sh										
52 week high/low	A\$/sh	0.004 - 0.016									
Valuation	A\$/sh	0.028									
Market Cap (A\$m)	A\$m	41									
FY25 Y/E Net Cash / (Debt) (A\$m)	A\$m	7									
Enterprise Value (A\$m)	A\$m	35									
Shares on Issue	m	5,150									
Options/Performance shares	m	836									
Other Equity	m	0									
Fully Diluted Shares on Issue	m	5,986									
<b>INVESTMENT FUNDAMENTALS (June Y/E)</b>							<b>Profit &amp; Loss (A\$m)</b>				
EPS Reported (undiluted)	Cps	(0.1)	(0.1)	(0.0)	(0.0)	(0.0)					
EPS Underlying (undiluted)	Cps	(0.1)	(0.1)	(0.0)	(0.0)	(0.0)					
DPS	Cps	0.0	0.0	0.0	0.0	0.0					
FCF/Share	A\$	(0.00)	(0.00)	(0.00)	0.00	(0.00)					
Book Value / Share	A\$	0.02	0.02	0.02	0.02	0.02					
Price / Book	x	0.53	0.49	0.45	0.39	0.40					
							<b>Balance Sheet (A\$m)</b>				
Year End Shares	m	3,082	3,838	5,950	5,950	5,950					
Market Capitalisation (current)	A\$m	41	41	41	41	41					
Net Cash / (Debt)	A\$m	10	3	7	14	6					
Enterprise Value	A\$m	31	39	35	27	35					
EV/EBITDA	x	nm	nm	nm	nm	nm					
Net Debt / Enterprise Value	x	(0.3)	(0.1)	(0.2)	(0.5)	(0.2)					
Net Debt / Equity	%	-13%	-3%	-7%	-13%	-6%					
<b>Resource</b>							<b>Cashflow (A\$m)</b>				
	Tonnes	Au	Cu	Ag	Au-eq	Au-eq					
	Mt	g/t	%	g/t	g/t	Moz					
<b>Bramaderos (STM 87.5%)</b>											
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 (100% basis)	156	0.35	0.11%	1.3	0.53	2.7					
<b>El Palmar (STM 75%)</b>											
Indicated	5	0.42	0.15%	0.81	0.63	0.1					
Inferred	59	0.40	0.13%	0.65	0.59	1.2					
Total (100% basis)	64	0.41	0.13%	0.66	0.60	1.3					
Total Combined	220				0.55	4.0					
<b>Exploration Target</b>											
	Tonnes	Gold		Cu	Au-eq						
	Mt	g/t		%	Moz						
Bramaderos	255 - 360	0.25 - 0.38		0.10 - 0.12	3.3 - 8.6						
El Palmar	1035 - 1228	0.3 - 0.7		0.1 - 0.3	15 - 45						
Limon (Epithermal)	30 - 44	0.9 - 1.2			0.9 - 1.7						
Total Combined	1320 - 1632				19.2 - 55.3						
<b>Management &amp; Board ownership</b>											
				Shares	Perf Rights	Options					
				m	m	m					
Malcolm Norris (Chair)				51.1	11.6	1.0					
Patrick Duffy (MD & CEO)				30.1	34.4	11.0					
Stephen Stroud (NED)				18.9		8.0					
Neal O'Conner (NED)				1.8							
Bruce Rohrlach (GM Geology)				23.7	9.9						
Ray Robinson (GM Studies)				24.7	9.9						
<b>Assets</b>											
Cash	10.3						2.7	6.7	13.9	6.2	
Receivables	0.1						0.3	0.3	0.3	0.3	
Inventory	-						-	-	-	-	
PP&E	1.1						1.6	2.1	2.5	2.9	
Exploration	68.3						81.2	84.7	89.7	94.7	
Other	0.3						0.1	0.1	0.1	0.1	
<b>Assets</b>	<b>80.1</b>						<b>86.0</b>	<b>93.9</b>	<b>106.6</b>	<b>104.3</b>	
Creditors	1.0						0.5	0.5	0.5	0.5	
Debt	-						-	-	-	-	
Leases	0.6						1.4	1.4	1.4	1.4	
Provisions	0.4						0.2	0.2	0.2	0.2	
Other	-						-	-	-	-	
<b>Liabilities</b>	<b>1.9</b>						<b>2.1</b>	<b>2.1</b>	<b>2.1</b>	<b>2.1</b>	
<b>Net Assets</b>	<b>78.1</b>						<b>83.9</b>	<b>91.8</b>	<b>104.5</b>	<b>102.2</b>	
<b>Cashflow (A\$m)</b>											
Net Cash From Operations	(2.0)						(1.5)	(1.9)	(2.2)	(2.2)	
Interest	0.2						0.1	0.0	(0.0)	(0.0)	
Tax	-						-	-	-	-	
Other	(0.0)						(0.0)	(0.0)	(0.0)	(0.0)	
<b>Net Cash From Operations</b>	<b>(1.8)</b>						<b>(1.4)</b>	<b>(1.9)</b>	<b>(2.2)</b>	<b>(2.2)</b>	
Capex	(0.0)						(0.7)	(0.5)	(0.5)	(0.5)	
Capitalised Exploration	(25.1)						(13.7)	(3.5)	(5.0)	(5.0)	
Other	1.9						-	-	15.0	-	
<b>Free Cash Flow</b>	<b>(24.9)</b>						<b>(15.9)</b>	<b>(5.9)</b>	<b>7.3</b>	<b>(7.7)</b>	
Equity	12.0						8.7	10.6	-	-	
Borrowings drawn/(repaid)	-						-	-	-	-	
Other	(0.7)						(0.5)	(0.8)	-	-	
<b>Net Increase / (Decrease) in Cash</b>	<b>(13.6)</b>						<b>(7.6)</b>	<b>4.0</b>	<b>7.3</b>	<b>(7.7)</b>	

Source: MST, STM

# Capital Raising & Corporate Update

Sunstone has been engaged in a process to seek development or financing partners for its Bramaderos and El Palmar gold-copper projects in Ecuador. It has provided an update on this process flagging interest from several parties including dataroom access and site visits. The final structure could be any of either a corporate transaction, project level JV earn-in, or an asset combination with complementary near-term development assets. The update outlined that with regard to one opportunity, it has advanced to a point where an NBIO is expected to be finalised. As part of the update, STM has also flagged that it is separately advancing its own due diligence on a potential business combination with a near-term gold development asset currently held privately.

## Strong recent precedent for deals in Ecuador

This strategic process is not without risk, in that there is no certainty any deal will be concluded. However, there is recent precedent for such a transaction with a number of deals taking place over mining assets in Ecuador through 2024 including:

- Silvercorp's US\$146m acquisition of Adventus, to secure the permitted and funded El Domo project, from which first production is expected in 2026,
- Hancock Prospecting entering into a JV with the Ecuadorian government mining entity ENAMI in a US\$120m deal earning a 49% interest in six exploration concessions,
- Hancock Prospecting earn-in with Titan Minerals over its Linderos copper project, under the deal Hancock can earn up to 80% of the project through spending US\$120m,
- Barrick's acquisition of the Valle de Tigre exploration assets off Somerset Minerals for US\$320k,
- China's Zijin Mining Group attempting to acquire a 15% stake in explorer Solaris Resources for US\$97m in order to advance its Warintza project, ultimately Canada's restrictive critical minerals policy saw this deal rejected by Canadian regulators.

Alongside these transactions, global majors including BHP, Newmont, Codelco, and FMG are all active in Ecuador, primarily focused on exploration and earlier stage pre-production assets. We look for a deal to conclude by around mid-year.

## Raising A\$4m

Alongside the corporate update, STM has announced that it has completed a A\$4m raise via an institutional placement at 0.5cps. This represents a discount of 17% to the last traded price and 19% to the 10-day vwap. Post the raise, the pro-forma cash balance will be approximately A\$6m (31 Dec 2024 cash was A\$2.4m). This ensures the company is well funded to see its corporate process through to the conclusion, likely around mid-year.

Once the strategic process is concluded and the partner and deal structure is known, this will clarify the optimal pathway forward for the STM assets. In turn, this will see activity on the ground step up again in a manner that is aligned with that optimal development pathway.

## Valuation - 2.8cps base case; 3.9cps upside case

Our valuation approach is based on peer comparison EV to resource ounce multiples. We have chosen a peer group based on ASX listed mining companies that have a resource base that exceeds 1Moz gold, but are yet to undertake feasibility studies on their projects. This group is aligned with Sunstone's position as a large scale, early-stage exploration company. The average EV/oz multiple for this peer group is 53x (up from 41x in our last note). We adopt a multiple of 55x for use in our equity valuation resulting in a base case valuation of 2.8c per share.

Figure 2: Sunstone Metals valuation

Attributable Resource	Moz	
Bramaderos	2.4	
El Palmar	0.9	
<b>Total Attributable Resource (Moz Au-eq)</b>	<b>3.3</b>	
<b>Valuation Multiple (A\$ EV/oz)</b>	<b>55</b>	
	<b>A\$m</b>	<b>A\$ps</b>
<b>Project Value</b>	<b>180</b>	<b>\$0.027</b>
Less: NPV Corporate Costs	-5.5	-\$0.001
Add: Cash from option exercise in FD shares	5.6	\$0.001
Add: Net Cash (30 June 2025)	6.7	\$0.001
<b>Equity Valuation</b>	<b>187</b>	<b>\$0.028</b>
Current shares outstanding (m)	5950	
Outstanding options/perf rights (m)	836	
<b>Fully diluted shares on issue (m)</b>	<b>6786</b>	

Source: MST, STM

### Large scale Exploration Target underpins upside case valuation of 3.9cps

We have conservatively ignored STM's JORC compliant Exploration Target in our valuation. If we take a bottom of the range EV/oz peer multiple of 5x and apply it to the bottom end of the Exploration Target range in terms of ounces of contained gold, this would add A\$0.011c to our valuation. Adding this to our base case valuation results in an upside case valuation of 3.9cps. This highlights the material upside if STM is able to convert even some of this Exploration Target into resource.

Figure 3: Exploration Target - Upside case valuation addition

Exploration Target		
<b>Attributable Exploration Target (low end)</b>		
Bramaderos	2.9	
El Palmar	11.2	
El Limon	0.8	
<b>Total Attributable Resource (Moz Au-eq)</b>	<b>14.8</b>	
<b>Valuation Multiple (A\$ EV/oz)</b>	<b>5</b>	
<b>Exploration Target - Value</b>	<b>74</b>	<b>\$0.011</b>
<b>Upside Case Equity Valuation</b>	<b>261</b>	<b>\$0.039</b>

Source: MST, STM

Overall, we see significant potential upside to our valuation as the company concludes the strategic partnership process, grows its resource base, and advances its projects.

## Key Catalysts

- **Strategic partnership:** The next key catalyst for Sunstone will be securing a partner for its projects. This will be an important validation step for the company and likely provide a valuation benchmark that we would expect to be well above its current market capitalisation. Global majors have been active in the country, with companies including Barrick, Newcrest, Codelco, Fortescue and Hancock Prospecting all acquiring exploration assets and tenements in the areas that STM operates. This gives us confidence that interest will be material. We expect a conclusion to the process during the first half of 2025.
- **Limon maiden resource:** Once the strategic partnership process is concluded, we expect the focus to return to project development. The most immediate value accretive opportunity we see would be to establish a maiden resource at the Limon epithermal deposit. This will require additional drilling which we would expect to commence by mid-year, likely enabling a resource to be in place by year end.
- **Grow El Palmar resource:** Alongside Limon, we see growing the surface resource at El Palmar as an additional strongly value accretive opportunity for Sunstone. This is likely to be advanced in the second half of the year once the strategic process has concluded.

## Key Risks

- **Exploration Success:** Sunstone is still at an early stage of its overall development pathway. Adding scale to the existing resource base will require ongoing success with drilling. While results to date have been very encouraging, and there is evidence of broader mineralisation and potential scale across the prospects, there is no guarantee ongoing exploration will be successful.
- **Commodity prices:** As a junior explorer, Sunstone is subject to commodity price driven volatility in its share price. Material weakness in the gold or copper price would likely have an impact on the share price.
- **Financing:** In the near term, Sunstone remains reliant on equity market funding for its exploration activities. This is likely going to be addressed through the strategic partnership process, however, if there are delays or no agreeable outcome is reached, ability to raise funds remains a risk for Sunstone as it is for all non-cash generating exploration companies.
- **Currency:** Currency movements can impact Sunstone in a number of ways. Ecuador operates with the US\$ as its national currency. Significant swings in the value of the US dollar vs the A\$, will impact A\$ cash burn and asset valuations.
- **Development risks:** All exploration and development companies face timing and cost risks as they advance projects and ultimately look to transition into production. While Sunstone's focus remains exploration, this still brings cost and timing risks, delays with project advancement will likely impact market sentiment towards the stock.
- **Environmental risks:** Ecuador is home to extensive rainforest and associated biodiversity which makes it a relatively environmentally sensitive jurisdiction. We would expect some degree of opposition to any mining project in Ecuador, however, mining companies are used to such opposition and are very capable of working in environmentally sensitive areas. Development of the projects to strict global standards such as the Equator Principles and the IFC Standards will ensure environmental management is given an elevated focus.

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Chris Drew received assistance from the subject company or companies in preparing this research report. The company provided them with communication with senior management and information on the company and industry. As part of due diligence, they have independently and critically reviewed the assistance and information provided by the company to form the opinions expressed in this report. They have taken care to maintain honest and fair objectivity in writing this report and making the recommendation. Where MST Financial Services or its affiliates has been commissioned to prepare content and receives fees for its preparation, please note that NO part of the fee, compensation or employee remuneration paid has, or will, directly or indirectly impact the content provided in this report.

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Sunstone Metals Ltd (STM.AX) | Price A\$0.008 | Valuation A\$0.028;

*Price and valuation as at 31 March 2025 (\* not covered)*

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