



Sunstone Metals Limited (ASX: STM)

21 March 2022

Ecuador projects continue to deliver (Update)

Recommendation: Spec Buy

Our View

Sunstone Metals' ("Sunstone" or "the Company") has continued to successfully progress its Ecuadorean porphyry copper-gold projects, which are also prospective for epithermal gold-silver mineralisation. Having now exited all Scandinavian properties, the Company's sole focus is on Ecuador.

Ongoing drilling, subsequent to our November 2021 initiation, has further advanced the Alba discovery at the Bramaderos Project in Southern Ecuador, and the El Palmar prospect within the overall El Palmar Project in Northern Ecuador, which is nearby to Solgold's (LON: SOLG, market cap of ~A\$1.2 billion) Cascabel Project, which includes the 2.6 Bt Alpala deposit.

At Alba, ongoing drilling following up the discovery hole (BMDD012, 111 m @ 2.35 g/t Au) has continued to define a coherent high level, gold rich zone, above more copper rich porphyry mineralisation, with all mineralisation being open along strike and at depth – a recently completed magnetotellurics "MT" survey has indicated the potential for significant size. The Company is accelerating drilling at Alba, with results to be incorporated with those from the ongoing resource drilling at the Brama prospect, with an initial Mineral Resource Estimate ("MRE") for the combined Brama/Alba prospects to be delivered later in 2022.

Drilling at El Palmar, which includes intersections of up to 163.55 m @ 0.71 g/t Au and 0.2% Cu, continues to deliver quality intersections. However, with only 12 holes completed (and assays received for six) it is early days yet at this 1,500 m x 700 m interpreted porphyry intrusive complex, which has the potential to host a major deposit.

The Company is actively working on both projects, with this including drilling the main targets (with four rigs currently operating), and target generation work outside of the key zones. Both projects also have several compelling prospects that have either not been drilled, or else only had a few holes into them.

In summary Sunstone is a well credentialed and funded company that looks to have made significant recent discoveries at both the Alba prospect at Bramaderos and at El Palmar in addition to the recognised mineralisation at the Brama deposit at Bramaderos. These discoveries also highlight the potential for both projects to further deliver with work on the areas outside of the core targets.

Key Points

- **Quality assets in a highly prospective region:** Work to date has highlighted the prospectivity of the projects, located within the highly productive cordillera of Western South America, the world's largest copper producing region.
- **Cashed up, insulated from the vagaries of the market:** By virtue of the sale of the Scandinavian assets, the Company is well cashed up with ~A\$12 million in cash and liquid assets. This is an important consideration for porphyry explorers, given that they can, by virtue of the style of mineralisation, take significant drilling to "crack the code", and even when that is done some drill holes may not be up to investors' expectations. As such Sunstone is largely insulated from the short-term thinking on what are longer term projects.
- **Personnel with the right experience:** The key personnel in Sunstone have extensive applicable and successful experience, including being involved in the Tujuh Bukit (Indonesia) and Cascabel (Ecuador) porphyry discoveries – this experience is now being applied successfully to El Palmar and Bramaderos.
- **Well served by infrastructure:** Both projects are in areas of good transport and utility infrastructure and are located at relatively low RLs (up to 1,500 m) and manageable topography in the Cordillera Occidental of Ecuador – the tenements cover a mixture of farming and wooded land, with the Company having good relationships with locals.
- **Ecuador has turned the corner:** A change to more mining friendly politics over recent years has made Ecuador a more attractive destination, with several majors now committed to exploration and mining.
- **Ongoing news flow:** The Company has significant exploration and evaluation programmes going forward which should result in steady newsflow.

Summary (AUD)

Structure and Cash	
Market capitalisation (undiluted)	\$186 m
Share price (18 March 2022)	\$0.083
52 week low	\$0.012
52 week high	\$0.123
Cash and liquid assets (current)	~\$12 m
Cash on in-money option conversion	\$0.34 m
Ordinary shares (undiluted)	2,240 m
Unlisted options	20.0 m
Performance rights	51.2 m
In-money options	8.0 m
Diluted for in-money options	2,248 m
Fully diluted	2,311 m

One year share price graph (AUD)



Directors & Management

Mr Graham Ascough	Non-Executive Chairman
Mr Malcolm Norris	CEO & Managing Director
Mr Stephen Stroud	Non-Executive Director
Dr Bruce Rohrlach	General Manager - Geology
Mr Ray Robinson	GM – Studies and Technical Services
Mr Gavin Leicht	CFO & Company Secretary

Significant Shareholders

Valbonne III	5.79%
Top 20	36.76%
Directors	4.0%

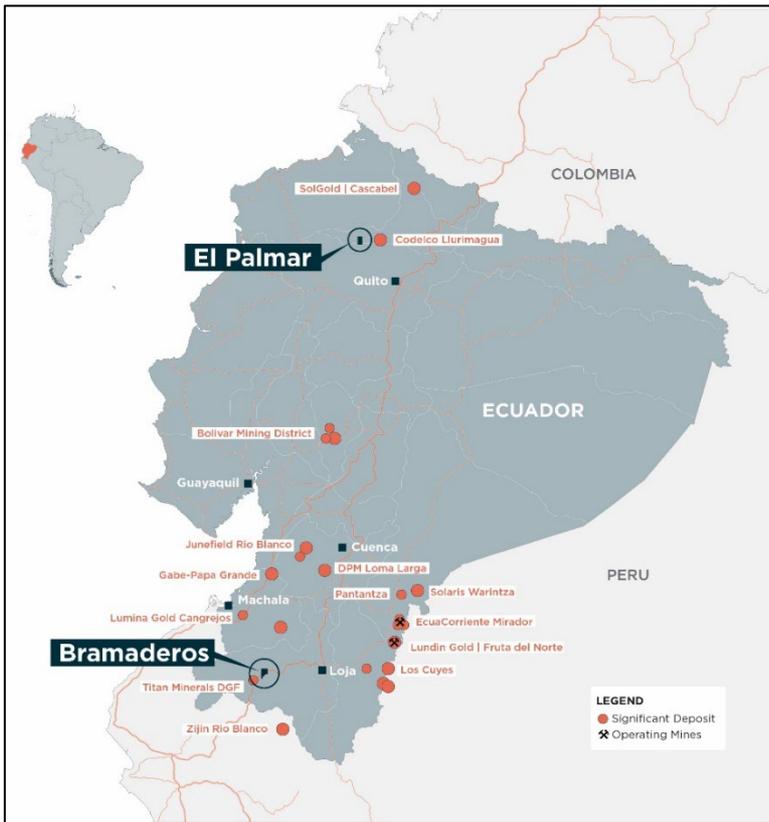
Our conflicts of interest are disclosed on the last page of this report

Background & Strategy

Background and Strategy

Sunstone Metals (on which we initiated in November 2021) is an Ecuadorean focused porphyry and epithermal Cu-Au-Ag explorer (with a Head Office in Brisbane, Queensland), with two properties in the Cretaceous to Tertiary arc rocks of the Cordillera Occidental. Ongoing work on the properties, El Palmar and Bramaderos (Figure 1) has confirmed the potential and vindicates the Company's 2017 decision to change focus from Viscaria in Sweden to the opportunity that arose in Ecuador.

Figure 1: Project locations (Source Sunstone)



The subsequent sale of the European assets has now left Sunstone well-funded and in a position to give Ecuador the attention that porphyry targets require. One of the strategic outcomes of the change in focus was to secure a balance sheet such that the Company did not need to go back to the market and dilute shareholders at the then low share price.

The original Ecuadorian acquisition was Bramaderos in 2017, followed by El Palmar in 2020. The Company has undertaken significant work at Bramaderos. However, rather than just being a one-trick pony, Sunstone took hold of the El Palmar opportunity, which has delivered on the relatively limited work to date, and for which drilling is to continue for the foreseeable future.

Activities completed since our November 2021 Initiation Report include:

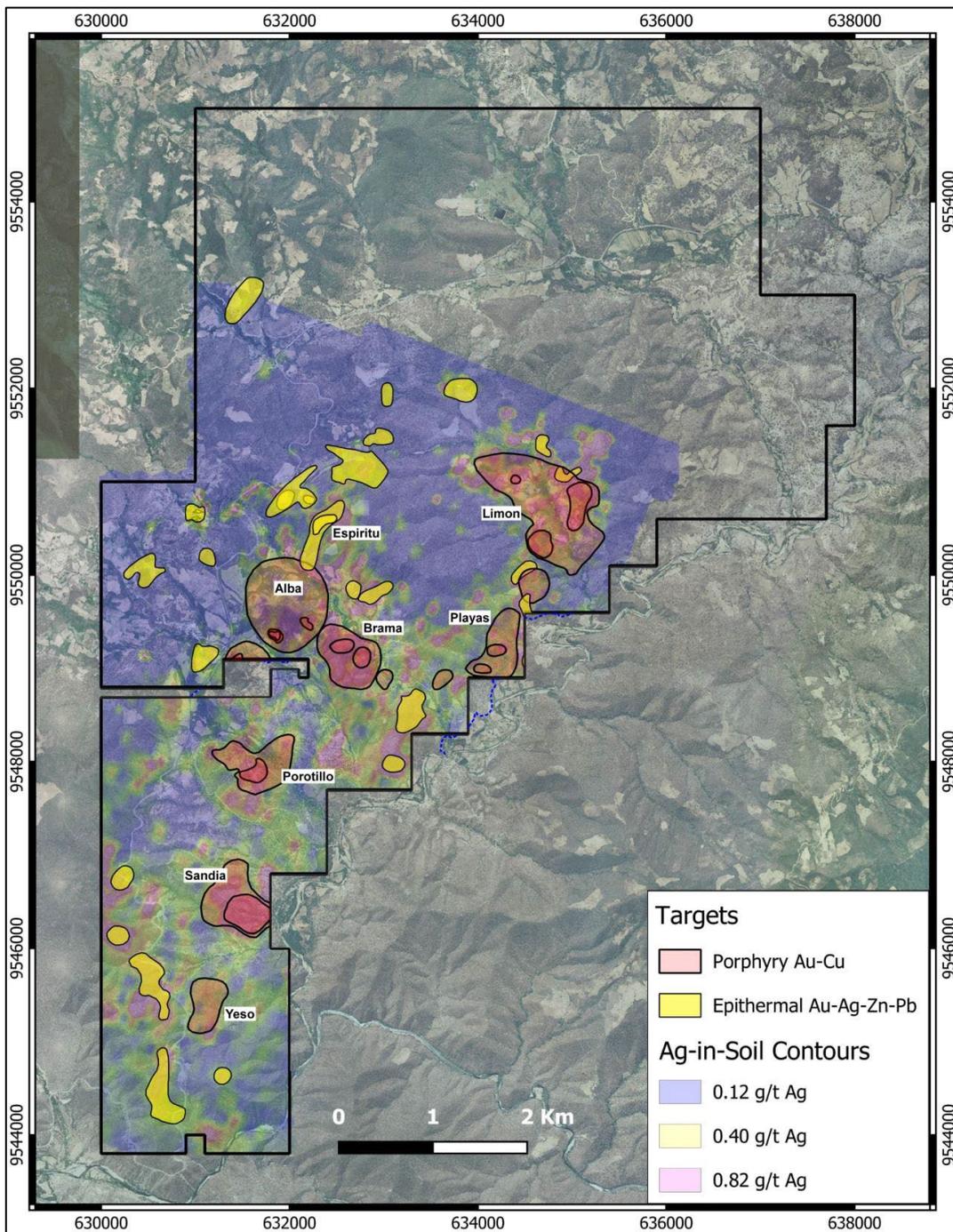
- Ongoing drilling at the Alba discovery at the Bramaderos Project,
- Ongoing resource drilling on the Brama prospect at Bramaderos,
- Ongoing drilling at the El Palmar Project,
- Induced polarisation ("IP") and magnetotellurics ("MT") geophysical surveys at Bramaderos (an MT survey is due to commence at El Palmar in a few weeks),
- Working up other targets at both projects, including geological mapping and geochemical sampling; and,
- Sale of the Finnish lithium assets (which was the last of the European properties) – this netted A\$920,000 in cash and in shares in CSE-listed United Lithium Corporation (CSE: ULTH).

Bramaderos Porphyry Copper-Gold Project – 87.5%, partner is loan carried to commercial production

Following the late 2021 discovery of high-grade gold at the Alba prospect (which included an intersection of 211 m @ 2.35 g/t Au in hole BMDD012, Figures 3 and 4), the Company has continued exploration and evaluation drilling at Alba, as well as resource drilling at the adjacent Brama prospect.

As shown in Figure 2 (and as discussed in our Initiation Note) Bramaderos comprises several porphyry targets marked by both magnetics and soil geochemistry. Work initially concentrated on Limon and then Brama, with the Alba discovery then further highlighting the upside potential of the Project – several prospects, both porphyry Cu-Au and epithermal Au-Ag remain largely untested.

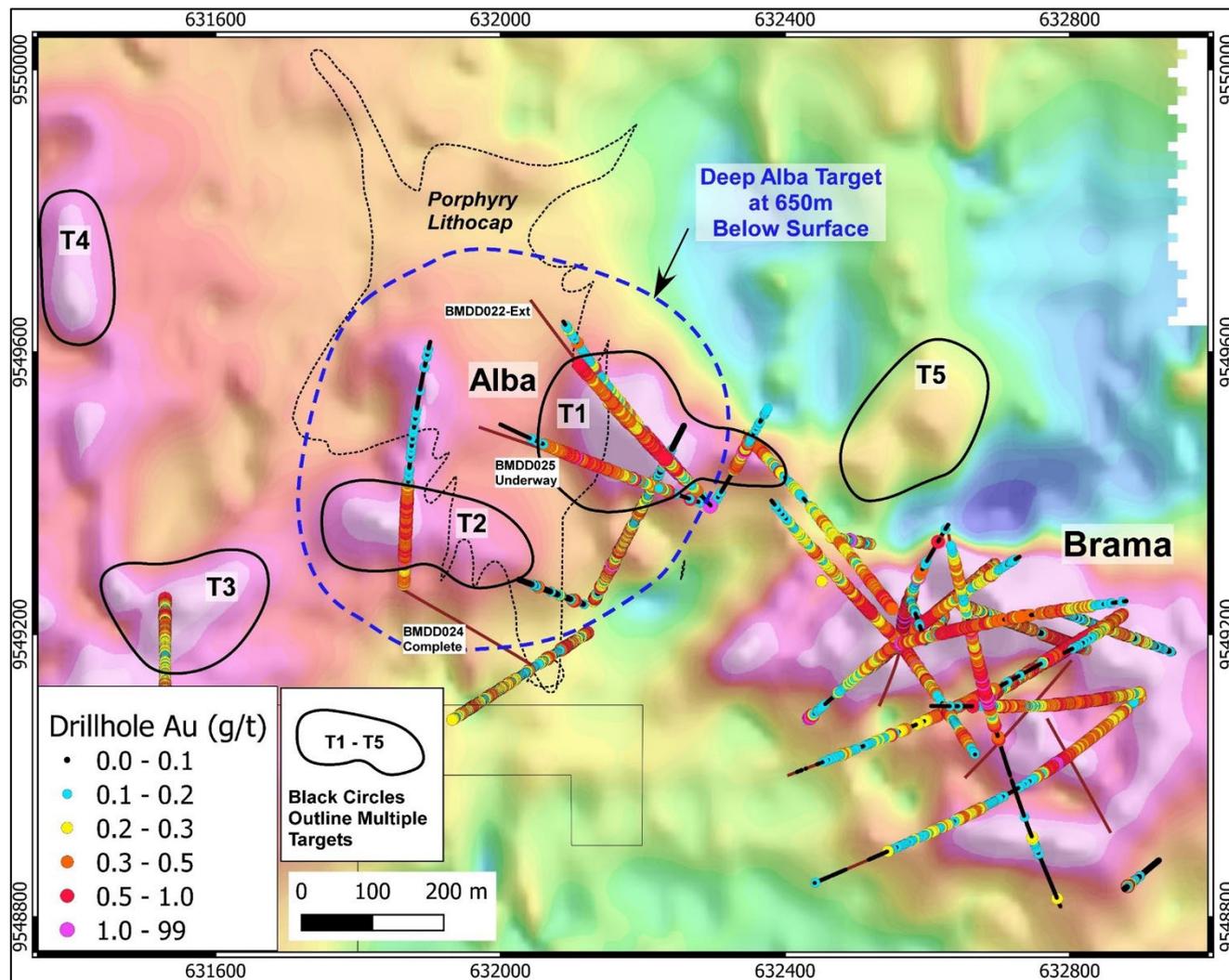
Figure 2: Bramaderos tenement, soils, prospects and targets (Source: Sunstone)



To date, assays for six holes for 2,221 m (BMDD012, 13, 20 to 23) have been received from the current programme at Alba, with the focus being on testing underneath and around the high-grade intersection in hole BMDD012 (Figures 3 and 4, and the highest-grade gold intersection from any drilling to date at Bramaderos) – to date this drilling has been successful in defining a coherent zone of gold-rich porphyry mineralisation. Another goal is to find zones of higher-grade copper mineralisation – an encouraging sign is the presence of patches of the higher tenor copper minerals covellite and bornite in the drilling to date. Interestingly, Alba has returned higher Mo contents (40 ppm) than the other prospects.

In addition to the subsequent drilling as shown in Figure 3 (holes BMDD0024 and BMDD0025), hole BMDD022 has been extended by 131 m, with the original hole ending in mineralisation with an open interval of 7.9 m @ 0.84 g/t Au and 0.21% Cu from 341 m (Figure 4).

Figure 3: Alba and Brama prospects showing drilling on magnetics image (Source: Sunstone)



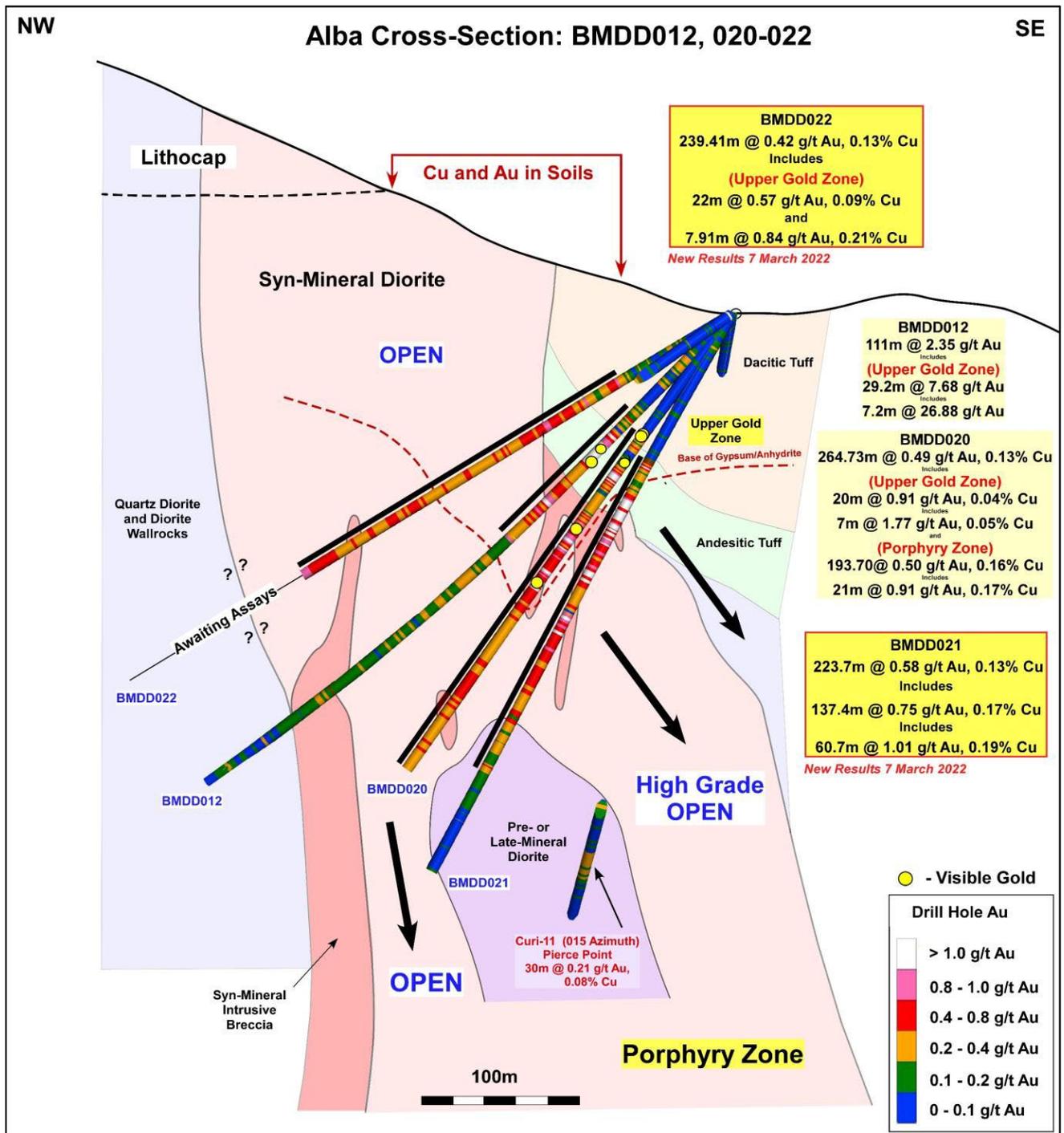
Sunstone is now accelerating drilling at Bramaderos – one rig is being moved from El Palmar to join the two currently on site. This will also result in the planned H1/2022 Brama initial MRE being pushed back so as Alba can be included.

With the presence of a lithocap (the altered top of a porphyry system, Figures 3 and 4), Alba represents a compelling target, with the potential to host mineralisation from a shallow, gold-rich high-sulphidation (possibly telescoped) epithermal/porphyry top (possibly telescoped), down to the deeper, more copper rich porphyry mineralisation – mineralised porphyry systems commonly have vertical extents of well over 1,000 m.

A northeast trending epithermal corridor has been interpreted for Bramaderos, which extends to the SW to the 2.15 Moz Dynasty Goldfield, outside of the Company's property.

It has been commented that the system appears similar to Newcrest's 50% owned Wafi-Golpu project, which has high-sulphidation gold mineralisation and a spatially and temporally related vertically extensive porphyry copper-gold system, also marked by the presence of a lithocap with advanced argillic and quartz-alunite alteration.

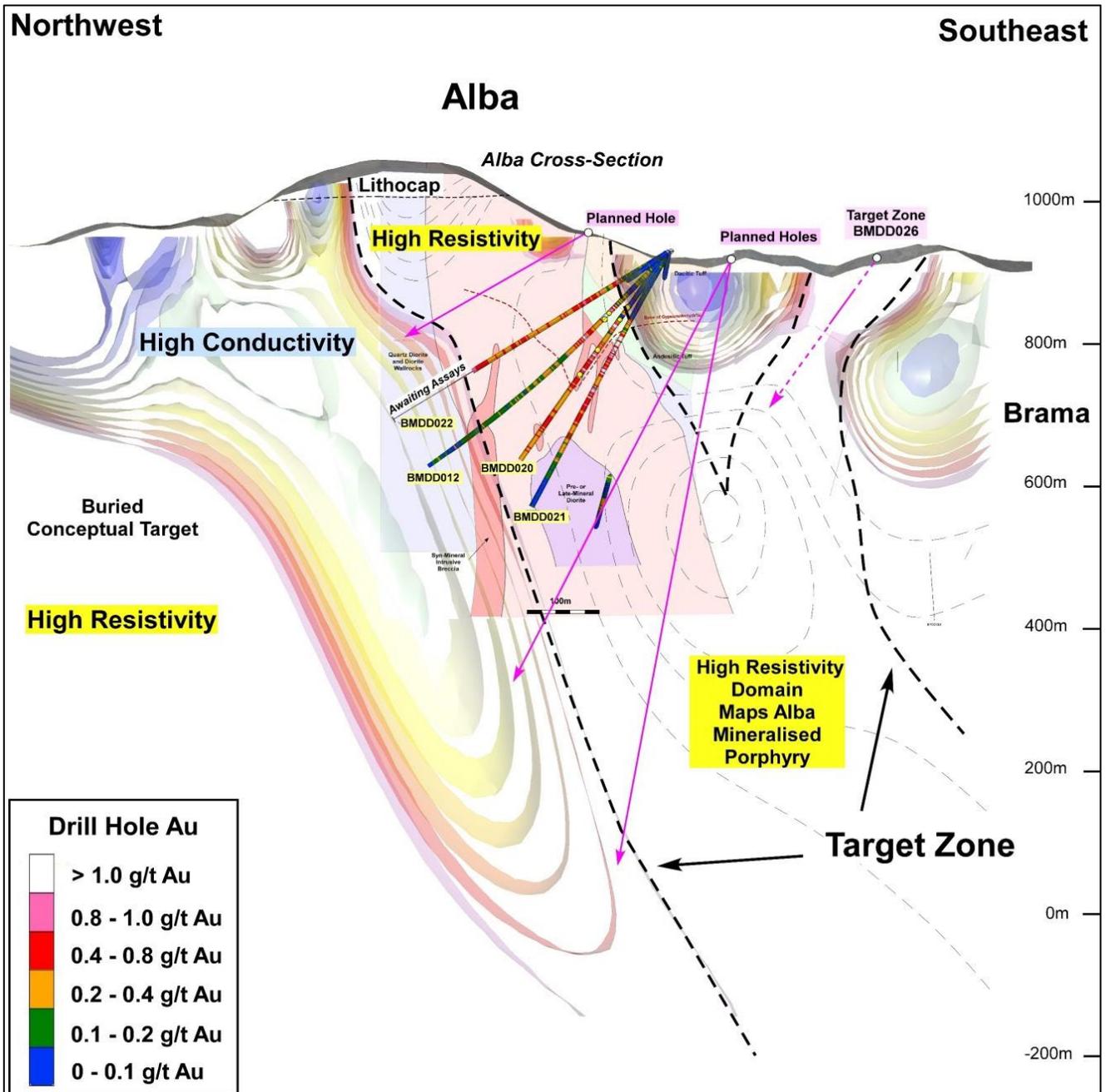
Figure 4: Alba section looking NE (Source: Sunstone)



Other activities include completed IP and MT surveys at Alba (including interpretation, Figure 5), with surveys now commencing at Limon (Figure 6). These electrical geophysical methods are designed to largely look at the resistivity and conductivity characteristics of the rock mass, and can be useful in defining structure, different rock and alteration types and areas of disseminated sulphides. The results of this work will be used to plan further drilling.

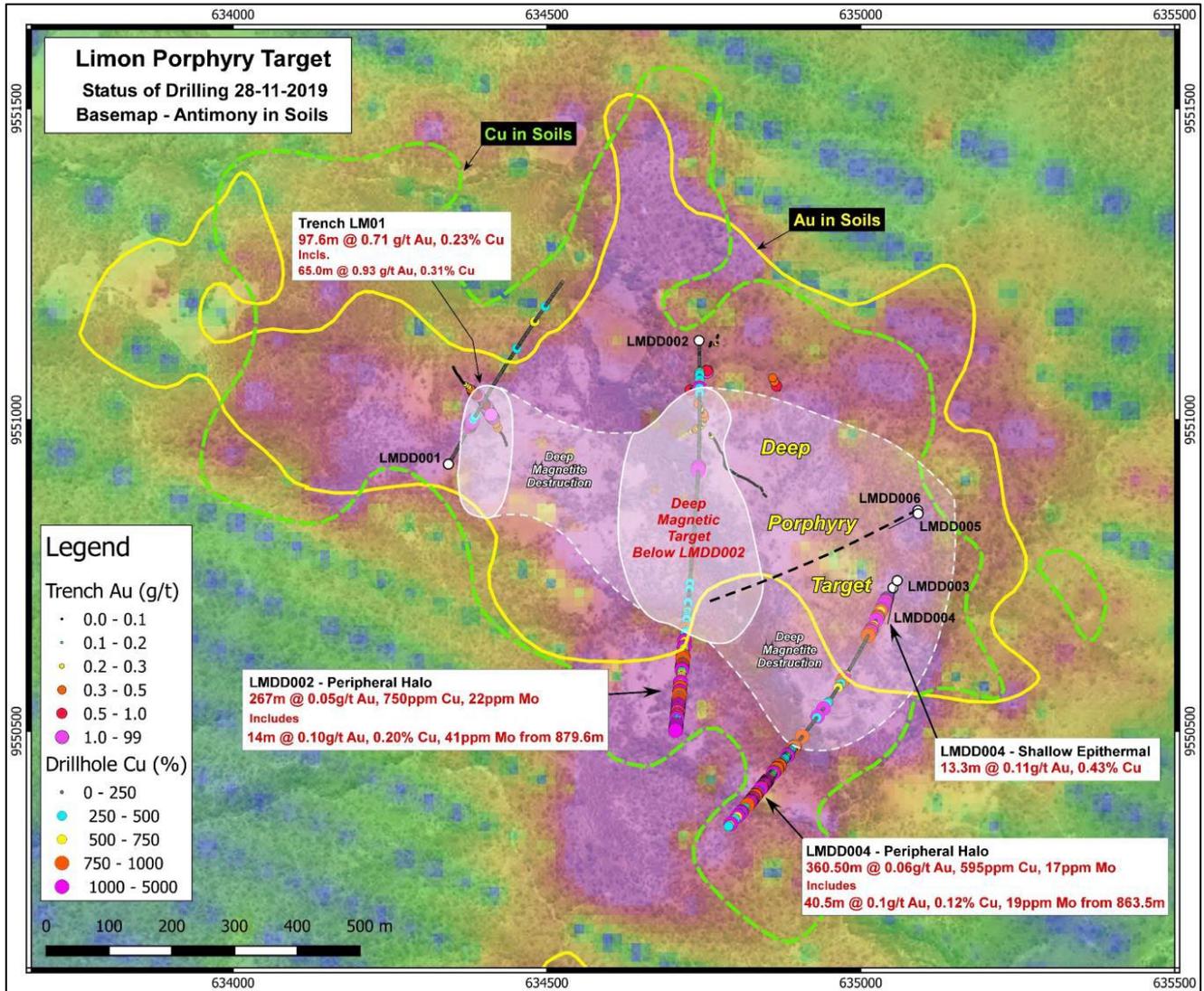
At Alba, the MT survey highlights a resistive target zone coincident with the intersected mineralisation, and which indicates that the system may extend to a depth of at least 1,000 m (Figure 5), giving the potential for significant scale. In addition, the pole-dipole IP survey mapped a chargeable domain in the shallow portions of the zone, pointing towards a lateral extent of at least 250 m. The geophysical surveying also highlighted similar characteristics at nearby targets (Figure 3).

Figure 5: Alba MT section (Source: Sunstone)



Limon is geologically similar to Alba, hosting both shallow epithermal and deeper porphyry mineralisation and being marked on the surface by an advanced argillic lithocap, again indicating the potential for there to be a significant vertical extent. Drilling has returned shallow gold intersections that have not had any drilling below. As can be seen in Figure 6 overall drilling at Limon is sparse, with this large target being only lightly tested.

Figure 6: Limon drill plan on magnetics and geochemistry (Source: Sunstone)



El Palmar Porphyry Copper-Gold Project – 70%, right to earn 100%

Drilling has continued at El Palmar, following the 2021 discovery, which included an intersection of 163.55 m @ 0.7% Cu and 0.21 g/t Au in hole EPDD001 (Figures 7 and 8). As of February 23, 2022, 11 holes for 6,941 m had been completed at the project, with a further two underway. However, the Company has received assay results for only six holes (EPDD001 to EPDD006) to date, with the drilling continuing to define the porphyry system.

All holes assayed to date have returned encouraging results, with these shown in Table 1 – drill hole locations are shown in Figure 6, and a section showing holes EPDD001 and EPDD006 in Figure 8.

Events subsequent to the latest market release include the completion of the deep hole EPDD012 at around 1200 m, which was designed to test deep targets defined by modelling of the magnetics data. This data (Figure 9) indicates the presence of several apophyses sourced from a deeper, larger intrusive, a common feature of porphyry copper-gold occurrences. This also highlights the vertical extent – the base of the model in Figure 9 is 1,200 m below surface.

Drilling subsequent to EPDD001 has continued to intersect broad zones of largely moderate grade mineralisation (with some intersections of similar grade to that in EPDD001 – Table 1). Our view is that there is plenty of room for a single, or even multiple high grade mineralised porphyries to be present at the El Palmar prospect. With a diameter of ~700 m (not including

the peripheral targets), El Palmar comprises a large target, and, with only 12 holes completed to date, can be considered in the early stages of exploration/evaluation.

Given the relatively fast drilling advance, there is currently a significant backlog of core to be cut, which is exacerbated by slow assay laboratory turnaround times. As mentioned earlier, the Company is moving one drill rig from El Palmar to Bramaderos, leaving a single rig on site.

This will allow time to catch up, and importantly, as with any new discovery, a chance to have an un-rushed look at the geology, which in porphyries can be complex given multiple intrusive and mineralisation phases. Along with the re-modelling of the magnetics data (which will incorporate the results of hole EPDD012), and the soon to commence MT survey, this will allow for more targeted planning of upcoming drilling.

Sunstone has also been working up other targets peripheral to El Palmar as shown in Figures 9 and 10. These have been defined by both magnetics and soil geochemistry.

One of these, the NE Satellite Porphyry Target, exhibits geochemistry indicative of high-level mineralisation (as well as a deeper porphyry system), possibly indicating an epithermal system. The others, namely the SE Satellite Porphyry Target and Eastern Anomalous Zone provide potential extensions to the main El Palmar prospect.

There is ongoing assessment of these targets, to be used in drill planning.

Table 1: El Palmar drilling results (Source: Sunstone)

Drill Hole	From (m)	To (m)	Interval (m)	Au (g/t)	Cu (%)	Mo (ppm)	Ag (g/t)
EPDD001	11.3	492.15	480.85	0.41	0.15	3.4	0.74
<i>incl</i>	52.35	215.9	163.55	0.71	0.2	1.4	1.14
<i>incl</i>	66.9	96.8	29.9	0.73	0.2	0.7	1.06
<i>incl</i>	147.25	163.3	16.05	0.8	0.2	1.4	2.69
EPDD002	4.7	34	29.3	0.18	0.06	1.3	0.57
	52.65	58.7	6.05	0.22	0.07	0.7	1.48
	250	463.75	213.75	0.48	0.22	3.8	1.58
<i>incl</i>	250	417.5	167.5	0.58	0.26	3.5	1.81
<i>incl</i>	252	274	22	1.06	0.33	3.9	1.49
<i>and</i>	388.75	398	9.25	1.22	0.19	4.4	6.92
EPDD003	10.44	270	259.56	0.41	0.14	1.8	0.8
	27.3	203	175.7	0.55	0.18	1.5	0.8
	31.91	137	105.09	0.75	0.2	1.1	0.89
	46.1	106.1	60	0.89	0.21	1	0.91
EPDD004	138	592.75	454.75	0.26	0.09	3.9	0.34
<i>incl</i>	194	291	97	0.43	0.11	5.1	0.43
<i>incl</i>	194	237.8	43.8	0.51	0.13	6.1	0.47
<i>and</i>	424	491	67	0.34	0.13	8	0.42
EPDD005	10.35	82.5	72.15	0.27	0.1	2.3	0.37
<i>Abandoned at 330m</i>	10.35	328.49	318.14	0.17	0.06	3.1	0.24
EPDD006	10.65	495	484.35	0.27	0.12	4.22	0.63
<i>incl</i>	10.65	135	124.35	0.41	0.16	1.7	1.1
<i>and</i>	314	364	50	0.43	0.24	4.55	0.79

Figure 7: El Palmar drilling on magnetics image (Source: Sunstone)

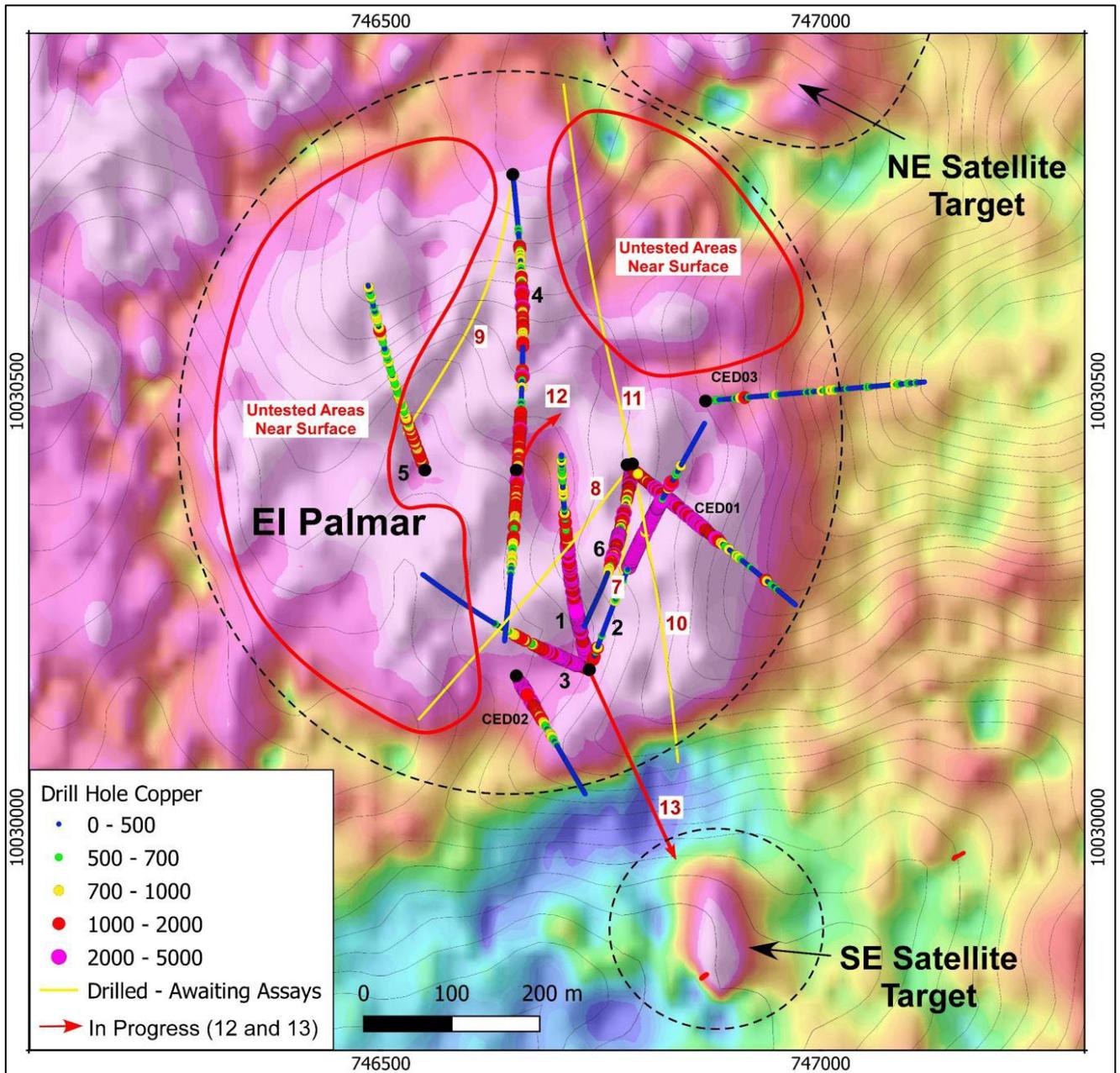


Figure 8: El Palmar EPDD006 cross section (Source: Sunstone)

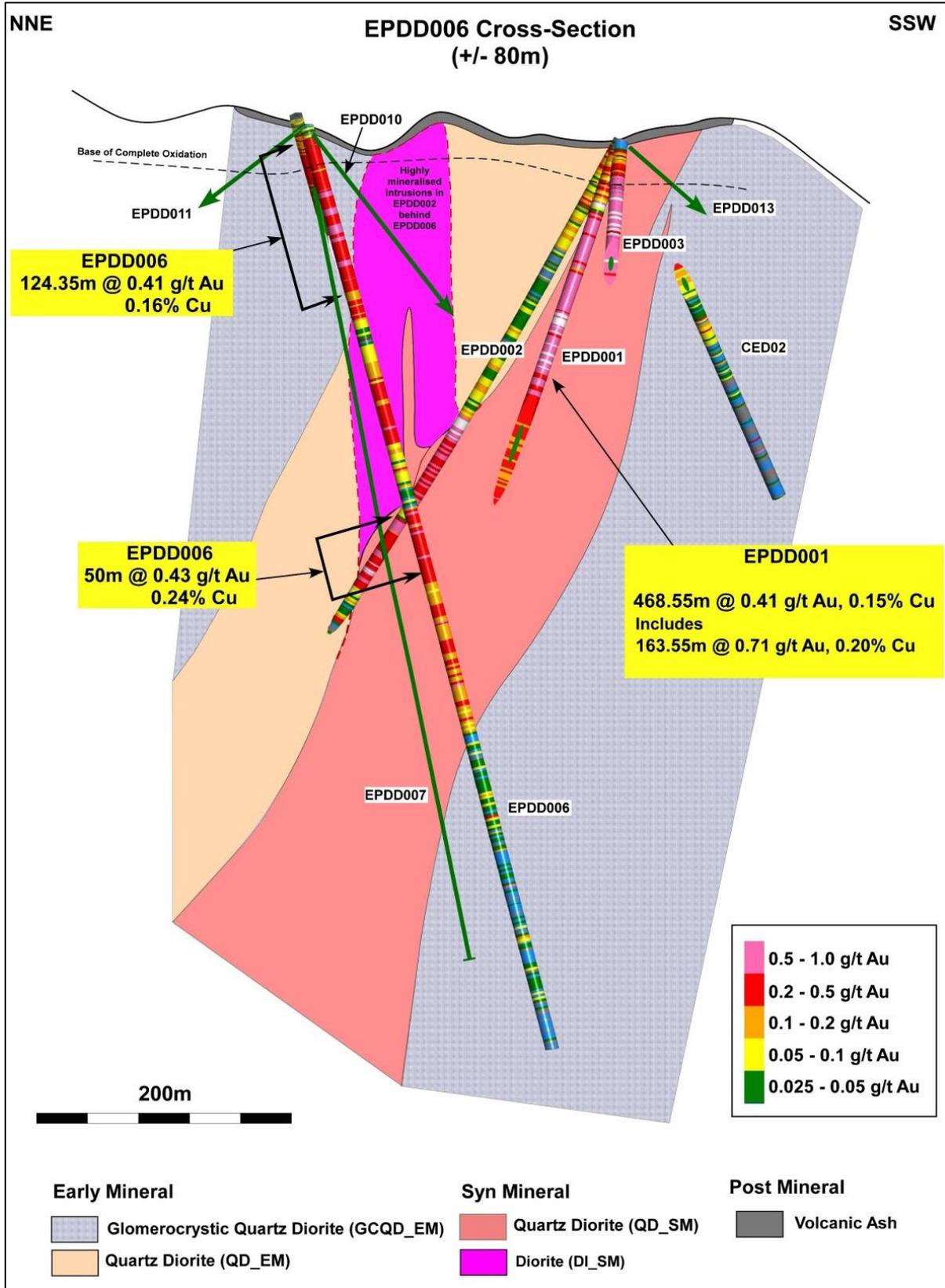


Figure 9: El Palmar magnetic model (Source: Sunstone)

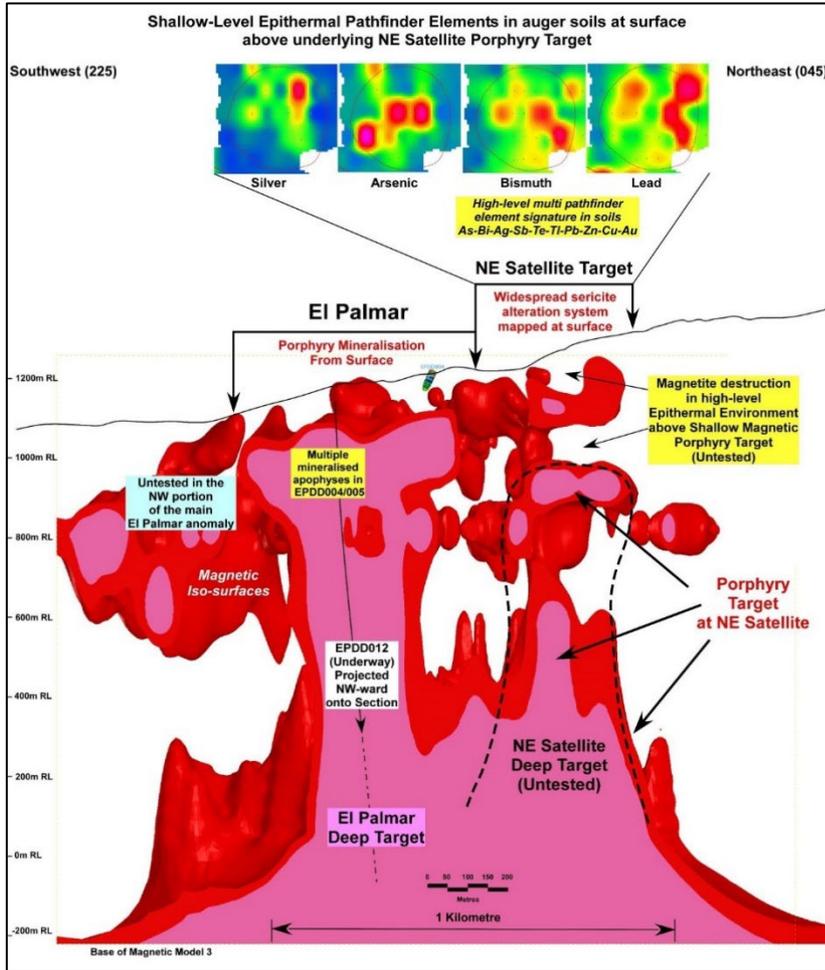
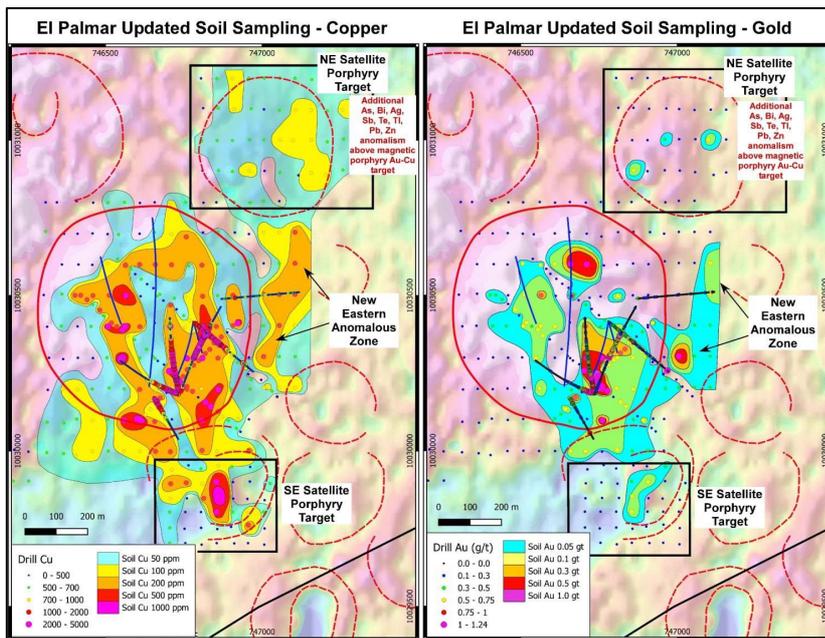


Figure 10: Satellite target soil sampling results (Source: Sunstone)



Threats/Risks

- **Exploration, Evaluation and Resource Results:** This is the key risk, and one that faces any junior. At El Palmar this will, at least initially, relate to the results of follow up drilling to determine the potential size and grade at the recent El Palmar discovery. At Bramaderos, there will be risks associated with the quantum of the initial MRE, and the potential technical and economic viability. There is also risk associated with the exploration of other targets at both projects.
- **Equity Markets:** Equity markets can be fickle and can turn on a dime. This will affect investor (both debt and equity) sentiment, and hence the potential for successful exploration and evaluation funding and, possibly down the track, project financing. This has a potential extra impact on Sunstone, given that the Company has ~A6 million in shares in Copperstone – a significant fall in the market could have a significant effect on the value of these, and hence the ability to fund activities in the medium term (+ 1 year).
- **Metals Prices:** These feed into the equity market sentiment – falling metals prices will negatively affect investor sentiment and vice versa. This will have less effect on robust projects.

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