

01 May 2025

Interest in strategic process is lifting

NEED TO KNOW

- Strategic process remains near term focus for STM
- Additional parties showing interest
- Cash balance boosted by \$4m placement

Interest in strategic process is lifting: The key near term focus for STM remains working to conclude the strategic process underway to identify a partner for its Bramaderos and El Palmar projects in Ecuador. Comments on the process were largely similar to prior updates, however, in the quarterly it was noted that additional parties are expressing interest in taking part in the process, suggesting interest continues to increase. Successfully concluding this process will be a key catalyst for STM, and a start to unlocking the value of the 4Moz gold-equivalent resource base that STM has built in Ecuador.

Corporate activity continues in Ecuador: There has been a number of transactions in Ecuador over the last 18 months including Silvercorp's US\$146m acquisition of Adventus, Hancock Prospecting acquiring exploration rights from the government mining entity ENAMI for US\$120m, while Barrick and Zijin have also been corporately active. Most recently, last week saw China's CMOC agree to acquire Canada's Lumina Gold for C\$581m, a 71% premium to its last traded price. This ongoing activity gives us confidence STM will be successful in bringing on a partner or partners for its projects.

Cash balance: March 31 cash of A\$0.9m was subsequently boosted through the receipt of the A\$3.3m balance of funds from the late March A\$4m placement. This gives STM the cash runway to reach the conclusion of its strategic process. Cash outflows reduced 24% from the prior quarter as the company continues its strategic discussions ahead of returning focus to on-the-ground activity.

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 & Risks: Base case 2.8c, upside case 3.9c

We value 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, we use this multiple to set our base case valuation of 2.8c. As the Exploration Target is converted to resource we see STM moving towards our upside case of 3.9c (see valuation section for details).

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

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Materials

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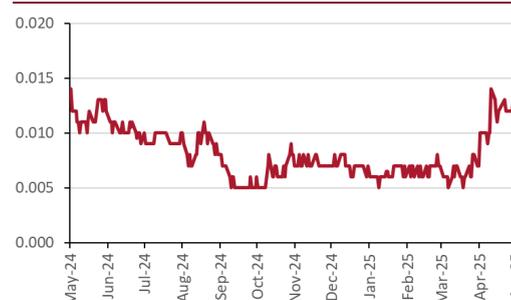
Sunstone Metals is advancing two major gold-copper projects in Ecuador - Bramaderos and El Palmar. It has already established a 4Moz Au-equivalent resource base, with clear potential to continue to grow well beyond that as reflected in the significant JORC compliant Exploration Targets Sunstone has established 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	A\$0.028 (unchanged)
Current price	A\$0.012
Market cap	A\$72m
Cash on hand	\$4m (pro-forma post 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 resource

Share Price (A\$)



Source: FactSet, MST Access

Figure 1: Financial Summary

Sunstone Metals Ltd							STM.ASX				
Year end 30 June											
MARKET DATA											
Share Price	A\$/sh						0.012				
52 week high/low	A\$/sh						0.004 - 0.014				
Valuation	A\$/sh						0.028				
Market Cap (A\$m)	A\$m						72				
FY25 Y/E Net Cash / (Debt) (A\$m)	A\$m						6				
Enterprise Value (A\$m)	A\$m						66				
Shares on Issue	m						5,968				
Options/Performance shares	m						836				
Other Equity	m						0				
Fully Diluted Shares on Issue	m						6,803				
12-Month Relative Performance vs S&P/ASX Metals & Mining											
INVESTMENT FUNDAMENTALS (June Y/E)											
		FY23A	FY24A	FY25E	FY26E	FY27E					
EPS Reported (undiluted)	cps	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)					
EPS Underlying (undiluted)	cps	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)					
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\$	0.01	0.01	0.02	0.02	0.02					
Price / Book	x	0.92	0.85	0.79	0.70	0.72					
Year End Shares	m	3,082	3,838	5,950	5,950	5,950					
Market Capitalisation (current)	A\$m	72	72	72	72	72					
Net Cash / (Debt)	A\$m	10	3	6	12	3					
Enterprise Value	A\$m	61	69	66	60	69					
EV/EBITDA	x	nm	nm	nm	nm	nm					
Net Debt / Enterprise Value	x	(0.2)	(0.0)	(0.1)	(0.2)	(0.0)					
Net Debt / Equity	%	-13%	-3%	-6%	-12%	-3%					
Resource											
	Tonnes	Au	Cu	Ag	Au-eq	Au-eq					
	Mt	g/t	%	g/t	g/t	Moz					
Bramaderos (STM 87.5%)											
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					
El Palmar (STM 75%)											
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					
Exploration Target											
	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							
Management & Board ownership											
		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								
Profit & Loss (A\$m)											
		FY23A	FY24A	FY25E	FY26E	FY27E					
Revenue		-	-	-	-	-					
Expenses		(2.0)	(2.3)	(3.2)	(3.2)	(3.7)					
EBITDA		(2.0)	(2.3)	(3.2)	(3.2)	(3.7)					
D&A		(0.1)	(0.1)	(0.1)	(0.1)	(0.1)					
EBIT		(2.1)	(2.4)	(3.2)	(3.2)	(3.7)					
Interest		0.2	0.1	0.0	(0.0)	(0.1)					
Tax		-	-	-	-	-					
Underlying NPAT		(1.9)	(2.3)	(3.2)	(3.3)	(3.8)					
Exceptionals		-	-	-	-	-					
Reported Profit		(1.9)	(2.3)	(3.2)	(3.3)	(3.8)					
Profit before tax		(1.9)	(2.3)	(3.2)	(3.3)	(3.8)					
Balance Sheet (A\$m)											
		FY23A	FY24A	FY25E	FY26E	FY27E					
Cash		10.3	2.7	5.6	12.0	2.9					
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					
Assets		80.1	86.0	92.8	104.7	101.0					
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		-	-	-	-	-					
Liabilities		1.9	2.1	2.1	2.1	2.1					
Net Assets		78.1	83.9	90.7	102.6	99.0					
Cashflow (A\$m)											
		FY23A	FY24A	FY25E	FY26E	FY27E					
Net Cash From Operations		(2.0)	(1.5)	(3.0)	(3.0)	(3.5)					
Interest		0.2	0.1	0.0	(0.0)	(0.1)					
Tax		-	-	-	-	-					
Other		(0.0)	(0.0)	(0.0)	(0.0)	(0.0)					
Net Cash From Operations		(1.8)	(1.4)	(3.0)	(3.0)	(3.6)					
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	-					
Free Cash Flow		(24.9)	(15.9)	(7.0)	6.5	(9.1)					
Equity		12.0	8.7	10.6	-	-					
Borrowings drawn/(repaid)		-	-	-	-	-					
Other		(0.7)	(0.5)	(0.8)	-	-					
Net Increase / (Decrease) in Cash		(13.6)	(7.6)	2.9	6.5	(9.1)					

Source: MST, STM

Strategic process remains the near-term focus

With the ongoing strategic process to identify a partner for Sunstone's Ecuadorian exploration assets continuing, there were limited updates in the March 2025 quarterly update from STM. Comments around the strategic process itself were largely similar to those made previously with the exception of a new comment that "additional parties continue to express interest in taking part in the process, with requests for confidentiality agreements, and further site visits planned in the June Quarter." This reflects ongoing new interest and builds confidence in a successful conclusion being reached.

Cash balances were bolstered through a A\$4m placement undertaken at the end of March. March 31 cash stood at \$0.9m, the company noted that early April cash stood at A\$3.9m once funds were received. This provides more than enough runway to complete the strategic process. Alongside being a key valuation catalyst we would expect this to provide a further cash boost to STM.

We look to the conclusion of the strategic process as the key near term catalyst for Sunstone. We expect this to start to unlock the value in the 4Moz gold-equivalent resource base that the company has built. Once the partner (or partners) are in place, we expect a return to focus on building the resource base across the projects, and a start to formalising the development pathway for the assets.

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. 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	
Total Attributable Resource (Moz Au-eq)	3.3	
Valuation Multiple (A\$ EV/oz)	55	
	A\$m	A\$ps
Project Value	180	\$0.027
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
Equity Valuation	187	\$0.028
Current shares outstanding (m)	5950	
Outstanding options/perf rights (m)	836	
Fully diluted shares on issue (m)	6786	

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

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\$0.012 | Valuation A\$0.028;

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