

25 August 2024

Last Price

\$0.01

Valuation, 12mths

\$0.023

Implied return from valuation

Capital growth	130%
Dividend yield	0%
Total expected return	130%

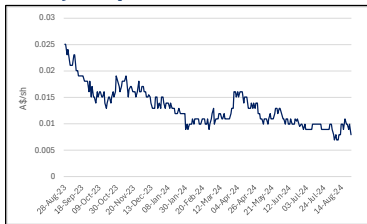
Company data

Market capitalisation	A\$38.5m
Enterprise value	A\$35.8m
Issued capital (shares)	3.8bn
Free float	94% ^m
Average daily vol (3mths)	4.5m
Price range (12mths)	A\$0.007-0.25
GICS sector	Materials

Share price performance

Period	1 mth	3 mths	12 mths
Price (A\$)	0.09	0.0131	0.025
Change (%)	11%	-23	-60

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.

Web: www.sunstonemetals.com.au

Analyst: Trent Allen
tallen@gbacapital.com.au

Sunstone Metals (ASX:STM)

Limon drilling points to gold resource

Assays from drilling at the Limon epithermal system (Bramaderos Project) confirm previous results showing widespread and near -surface gold and silver. These results, which show mineralisation extends into new areas and lithotypes, should support the conversion of the Limon Exploration Target (0.9-1.7Moz AuEq) to a Mineral Resource Estimate (MRE). Two holes from this program are still to be reported. The boundaries of Limon are yet to be defined, with large-scale targets still to be tested. We maintain our Valuation at A\$0.023/sh.

Key points

- Limon assays:** Resource drilling (1,500m DC) is ongoing at the Limon gold-silver epithermal system, which has an Exploration Target of 0.9-1.7Moz @ 0.9-1.2g/t AuEq (gold-equivalent). Results support a picture of widespread near-surface mineralisation (e.g. 50.8m at 1.43g/t AuEq; 246m at 0.53g/t AuEq). The strategy is to develop a gold-silver pit before mining larger gold-copper porphyry systems at Bramaderos (2.7Moz AuEq). Overall, STM is targeting +10Moz AuEq (= Au+Cu+Ag).
- El Palmar and Verde Chico:** While the focus is on drilling at Limon, STM is working on an initial resource for El Palmar – this could be ready in DecQ24.
- Corporate:** Cash at 30-Jun-24 was A\$2.7m (unaudited), after raising \$3.7m via a share placement at 1:9 non-renounceable Entitlement Offer at 1.1cps.
- Commodities:** Price outlook for gold remains very positive, 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: 130% valuation gap to A\$0.023/sh

We reiterate our Valuation of A\$0.023/sh, with upside risk to \$0.034/sh. STM is trading at or around A\$0.08-0.10/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 Bramaderos and El Palmar. The key to closing this valuation in the near-term should be the FY25 drilling at Limon, leading to a gold-silver resource in CY25. Continuing exploration success and resource definition at STM's porphyry targets (e.g. El Palmar) would also add value.

Production and Financial Forecasts

YEAR END: 30 June	Jun-24a	Sep-24F	FY-23a	FY-24a	FY-25F
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	4,060	3,082	3,852	4,466
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	8.5
Funding from JV partners (A\$m)	0	0	0	0	0
Cash (A\$m)	2.7	2.6	10.3	2.7	1.2
Cash Backing (Ac/share)	3.8	3.3	11.6	3.1	1.5

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

Sunstone Metals (ASX:STM)

Drilling advances Limon target towards Resource

Limon drilling confirms widespread gold and silver mineralisation that should support a near-surface resource calculation.

Since our initiation report on 24-July-24, STM has reported two batches of assays from its ongoing drilling program at the 1.7km x 1km Limon epithermal gold-silver system, within the Bramaderos Project. The aim of this drilling program is to convert the Limon Exploration Target (Nov'23), which is 30-44Mt @ 0.9-1.2g/t gold-equivalent (AuEq*, see definition on Valuation page) for a contained 0.9-1.7Moz AuEq, to a JORC-Qualifying Resource, that could underpin open-pit mining. The targeted mineralisation is epithermal Au-Ag but there is potential for Au-Cu-Ag porphyry systems at depth.

The Target is founded on previous trenching and drilling results including 243m at 1.32g/t AuEq with 42m at 3.9g/t AuEq (Central Target, drill hole LMDD030); and 14.95m at 4.8g/t Au and 2.1g/t Ag with 6.2m at 10.7g/t Au and 3.5g/t Ag (Western Target, trench LM-05c).

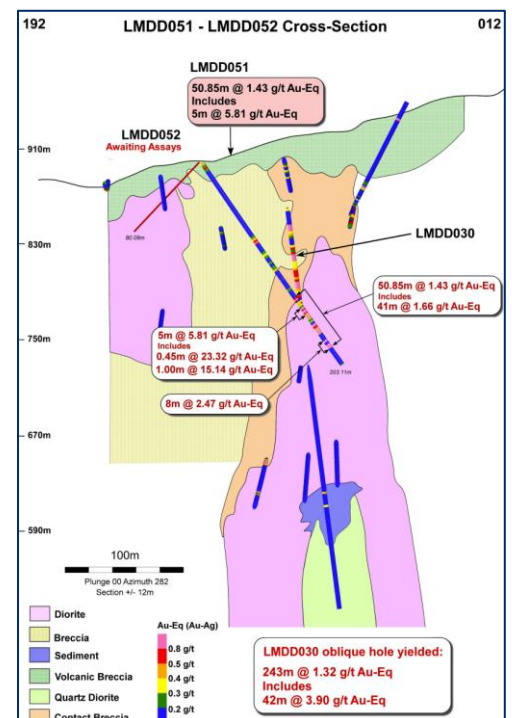
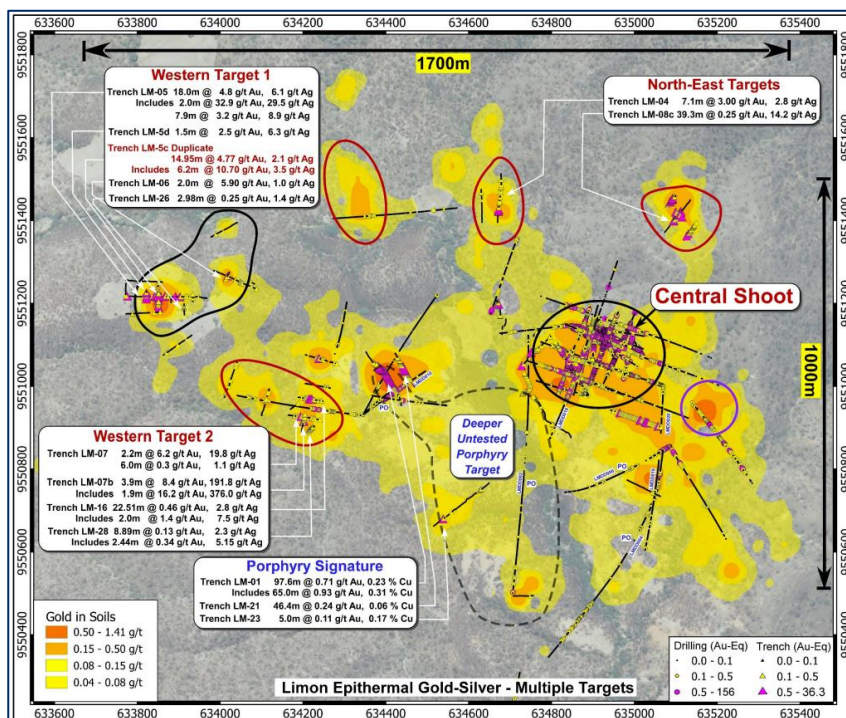
Assays from two of the 11 holes drilled are yet to be reported

The drilling, initially with a single DC rig, has been focusing on Central Shoot and Western Targets 1 (see Figure 1 for hole locations). The full program is of 11 diamond core (DD) holes (LMDD044-54) for a total of 1,500m. The first two (holes 44 and 45) were drilled at Western Target 1, while the others were all at Central Shoot; of these, only assays from holes 53 and 54, aimed at a south-eastern extension of Central, are yet to be reported. We won't reprint them all here – refer to STM's ASX announcements of 6-Aug and 21-Aug for the full list – but we've chosen some that represent progress towards a resource.

Central Shoot

Hole LMDD051 - 50.85m at 1.43g/t AuEq (1.01g/t gold and 34.0g/t silver) from 135.15m down-hole, including 5.00m at 5.81g/t AuEq (3.38g/t gold and 199.4g/t silver) from 145m; silver grades of up to 1,610g/t over 0.45m from 145m.

Figures 1 and 2: Limon epithermal targets plan view (left); and Central Shoot cross section (right)



Source: Company reports

The program has returned intercepts that are consistent with the Exploration Target in terms of scale and grade.

Hole LMDD048 - 60m at 0.5g/t AuEq (0.49g/t gold and 0.8g/t silver) from 12m, including 16.35m at 1.06g/t AuEq* (1.05g/t gold and 1.0g/t silver) from 45m down-hole.

Hole LMDD047 - 246m at 0.53g/t AuEq (0.39g/t gold and 11.6g/t silver) from 14m down-hole, including 21.5m at 1.59g/t AuEq (1.51g/t gold and 6.9g/t silver) from 238.5m.

Discussion

In our view, the drilling so far has been positive, showing widespread Au-Ag mineralisation, persisting from surface to depths of +400m: hole 47 ran a potentially economic 130m gram-metres from surface (AuEq x apparent width, in this case); while hole 51, at the heart of the Central Shoot, not only exceeded the Target grade range (0.9-1.2g/t AuEq) but is close in tenor to an adjacent but obliquely angled hole grading 243m @ 1.32/t AuEq (LMDD030), which was drilled in an earlier program. Significantly, the grade in hole 51 is predominately in diorite intrusive rock, while in hole 30 it's in the overlying contact breccia, showing mineralisation is persistent through different lithotypes in the deposit, which has positive implications for scale. Holes 53 and 54, drilled towards the open the south-east extension of Central, are yet to be reported.

Western Target 1

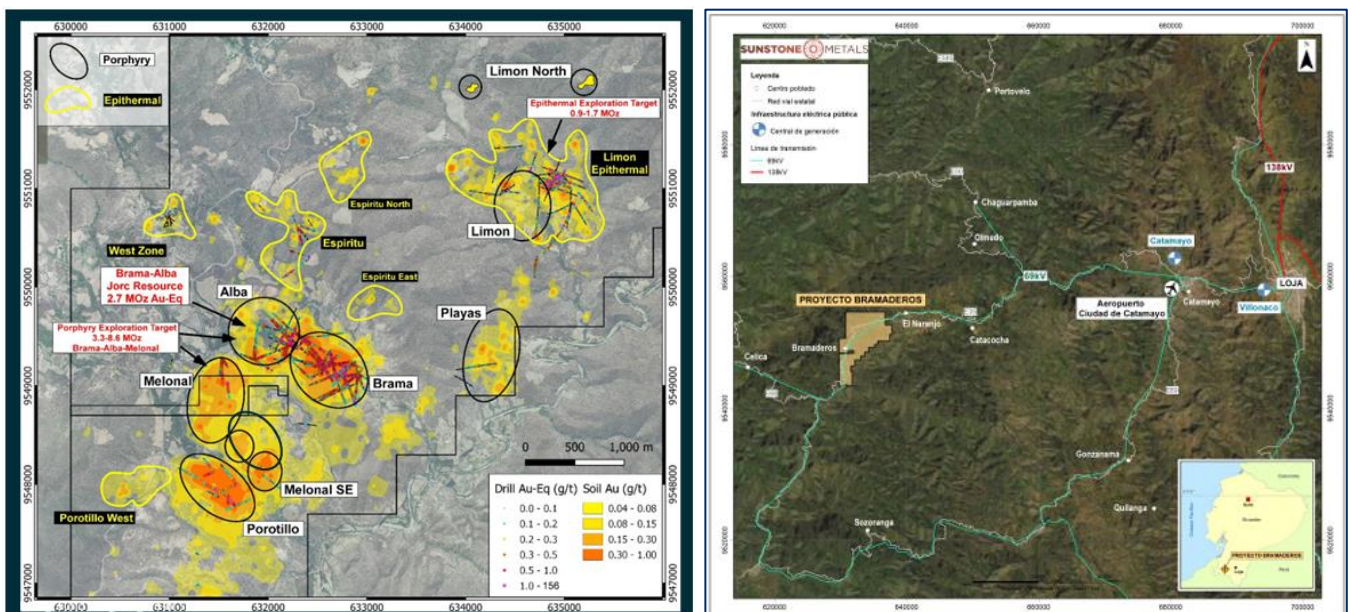
Hole LMDD044 - 77m at 0.07/gt AuEq (0.05g/t gold and 1.5g/t silver) from surface; similar result from LMDD045.

Discussion

This was an interesting result because STM drilled 44-45 underneath a very high-grade trench (LM-05c), but the holes only intersected low grade of metal. Why? Epithermal systems often take the form of vein-fields, and their geometry can be hard to predict from surface; in this case, the shallow holes may have been drilled sub-parallel to the expected high-grade mineralisation. The advantage of diamond-core drilling – and the reason it's being used here – is that it provides geological and structural insights, as well as assays. STM can use this information to determine where the high-grade might run at depth.

* Note on AuEq calculations
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-Nov-22).

Figures 3 and 4: Bramados regional targets plan view (left); and location (right)



Source: Company reports

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 5: 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 Llurimagua porphyry copper-molybdenum deposit (Codelco).

Figure 6: 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	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

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

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

Our valuation of STM, of \$0.023/sh (2.3cps) is unchanged since our Initiation report, which was published on 16-July-24, and uses the same Sum of the Parts (SOTP) method.

- We value Bramaderos by applying the ratios of STM’s enterprise value (EV in A\$m) to total gold-equivalent resources (2.7Moz AuEq at Brama Alba) – which is A\$15/oz – to the 3.3-8.6Moz porphyry Exploration Target and 0.9-1.7Moz Limon (epithermal) Exploration Target, with a weighting for risk.
- El Palmar and Verde Chico are earlier stage, so are given a conceptual valuation based on a likely three-year exploration spend.
- 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.

Figure 7: STM valuation, August 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								
<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
Bramaderos total							86	
El Palmar				70	10	100	5	Pre-resource, conservative value
Verde Chico				0		100	2	Pre-resource, no equity yet, conservative value
Exploration potential: +5%							5	Additional 5% of asset SOTP
Corporate (NPV)							-14	NPV (5% nominal) of forecast corporate costs (10yrs)
Cash (JunQ24 est)							3	After placement in JunQ24
Debt (JunQ24 est)							0	No bank debt expected yet
Total							87	Sum of the parts
Shares on issue (JunQ24 est): m							3,852	Post placement in May'24
Value, base case: A\$/sh							0.023	Base case valuation, 12mths
Upside case: A\$/sh							0.034	Medium term valuation, average industry EV multiple
Current price: A\$/sh							0.010	As at 15 July 2024
Implied 12mth gain/loss							126%	12-month gain implied by base-case valuation

Source: Company report, GBA Capital

For STM as an explorer, 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.

Key catalysts – drill out the gold resource at Limon.

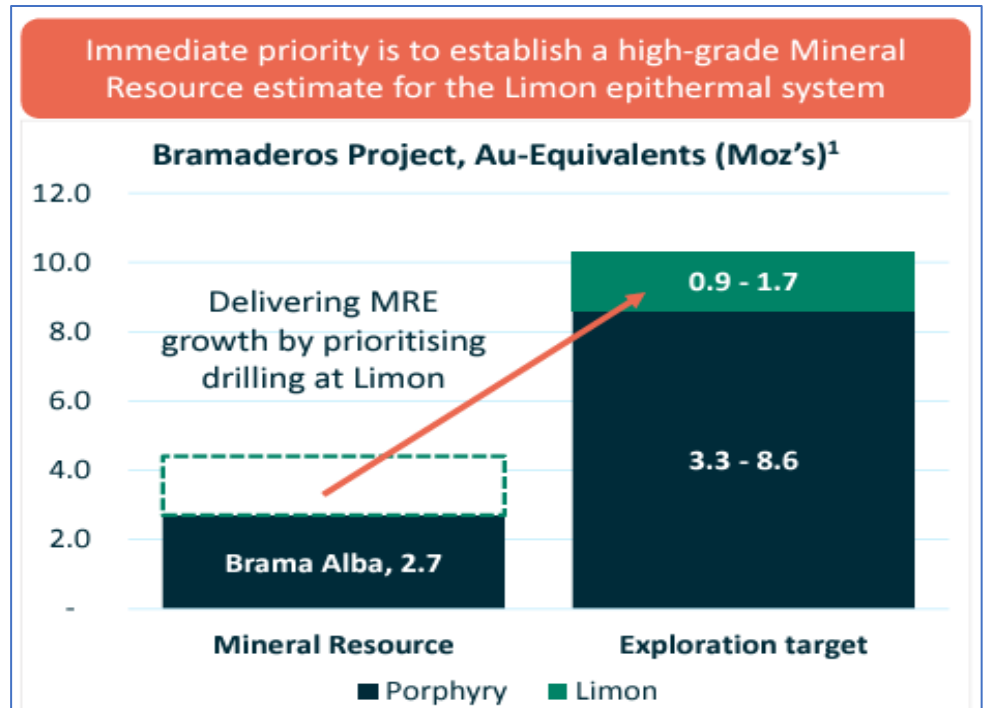
This results in a Valuation of A\$0.023/sh. Achieving this target will be subject to adding ounces by drilling, initially at Limon, leading to a maiden epithermal resource in 2025.

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.

Figure 8: STM’s key strategy -= grow the resource base via Limon

The over-all Mineral Resource for STM at Bramaderos could be as high as 10Moz AuEq.



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. A resource update at El Palmar in the near to medium term is also possible.

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

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.

Comparable companies

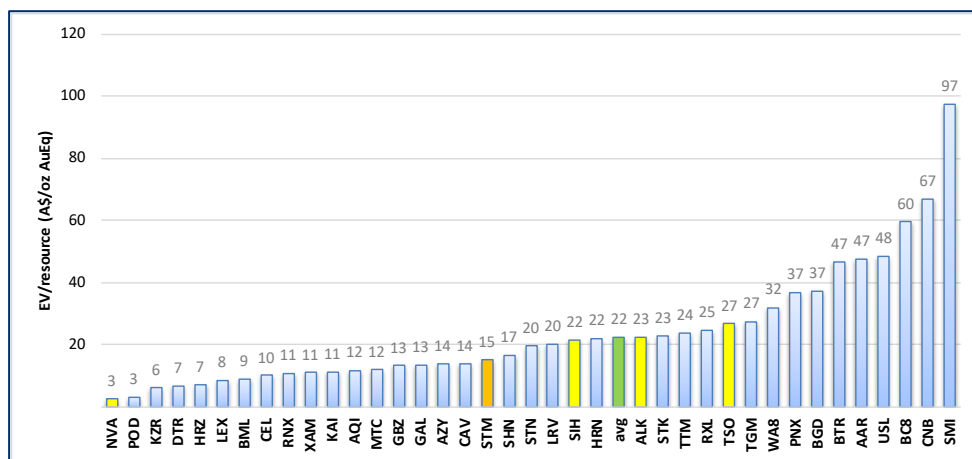
Figure 9 shows a chart of EV/resource (enterprise value to resource, A\$m/oz AuEq) values for ASX-listed gold companies. Criteria for selection: companies are that they have >1Moz AuEq in JORC-qualifying Resource (all categories) but are pre-production; we don't claim that our list is exhaustive.

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.

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.

Figure 9: EV/resource values for ASX gold equities



Source: Gold Nerds, GBA Capital

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.

Team

Research & Sales

Trent Allen	Research Director	tallen@gbacapital.com.au
Simon Blakeney	Director – Institutional Sales	sblakeney@gbacapital.com.au
Brandon Loo	Director	bloo@gbacapital.com.au
Cedric Koh	Equity Sales	ckoh@gbacapital.com.au
Josh Duff	Equity Sales	jduff@gbacapital.com.au

Corporate

Sebastian Jurd	Managing Director	sjurd@gbacapital.com.au
Flynn Huang	Corporate Finance Assoc.	fhuang@gbacapital.com.au
Martin Nguyen	Corporate Finance Analyst	mnguyen@gbacapital.com.au

Advisory Board

Stephen Weir	Advisor	sweir@gbacapital.com.au
Luke Heath	Advisor	
David Werdiger	Advisor	

GBA Capital Pty Ltd

ACN 643 039 123
AFSL 554 680
Level 2, 68 Pitt Street
Sydney, NSW, Australia, 2000
Telephone +612 9037 2010
www.gbacapital.com.au

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