

SUNSTONE METALS LTD (STM)

Ecuador drilling nears

Sunstone Metals is likely to begin drilling at Bramaderos (STM right to earn 80%), Ecuador in early 2018. Bramaderos is a porphyry gold-copper system, where previous exploration defined 6 targets and drilled 32 holes within an 8km alteration trend, beside an outcropping porphyry.

Getting insight from Tujuh Bukit experience

Sunstone's surface work since mid-2017 has confirmed the potential for a large, low grade Au-Cu porphyry deposit analogous to Tujuh Bukit in Indonesia, and the alkalic porphyry systems of Western Canada. The Company's geological team discovered Tujuh Bukit (1.9 Bt at 0.45% Cu, 0.45 g/t Au and 93 g/t Mo in resource) in 2010. Tujuh Bukit and Bramaderos are associated with diorite hosted, low silica, alkalic porphyry intrusions.

Deep drilling at Bramaderos Main planned first up

Previous drilling and surface work at Bramaderos Main has encountered mineralisation consistent with outer quartz stockwork and pyrite/chalcopyrite zones. Sunstone's drilling will test for deeper, broader zones nearer the core of the intrusive complex. One of the first holes will test to 500m depth beneath a previous hole that intersected 248m at 0.56 g/t Au and 0.14% Cu, including 30m at 0.8 g/t Au and 0.22% Cu to the end of the hole.

West Zone and Limon prospects to follow

Historic programs were also curtailed before key prospects at West Zone (42m at 3.7g/t in trenching) and Limon were drilled. Earlier in 2017 Sunstone reported more trench results associated with hydrothermal breccias at West Zone, including 22m at 4.8g/t Au. West Zone has never been drilled and extensive colluvial cover masks the potential scale of the system.

Sunstone has also outlined large zoned soil anomalies at Limon. The Company interprets overlapping gold, copper & moly in soils flanked by zinc and lead anomalism at Limon as a classic porphyry signature. Rocks chipped from limited outcrops at Limon have assayed up to 1.2 g/t, 0.4% Cu. Sunstone will be the first to drill test Limon.

Drilling approvals slated for early 2018.

The start date for STM's drilling at Bramaderos is most likely late January or early February 2018. Sunstone's JV partner, and project operator, Cornerstone (CGP.tsx) submitted a water use permit application and completed a draft EIA in early December.

After public and stakeholder feedback periods the regulatory authority should be in position to consider approval in January 2018, with a maximum 1-month response period.

Maintain Speculative Buy

Drilling in 2018 will test potential high value, conventional gold-copper targets at Bramaderos. We recommend Sunstone shares as a Speculative Buy in anticipation of good results and a successful exploration campaign in 2018.

3 Jan 2018

Share Price	\$0.028
Valuation	\$0.040
Price Target (12 month)	\$0.040

Brief Business Description:
Copper and gold explorer

Hartleys Brief Investment Conclusion
Gold and copper explorer in Ecuador, Sweden and Finland with excellent large discovery potential. Leveraged to copper price.

Chairman & MD

Graham Ascough (Non-Exec Chairman)
Malcolm Norris (Executive Director and CEO)

Top Shareholders

Darren Carter	8.2%
Valbonne II	6.6%
Acorn Capital Ltd	5.2%
Marilei International Limited	5.0%

Company Address

9 Gardner Close
Milton, Qld 4064

Issued Capital 1107m

- fully diluted 1280m

Market Cap A\$31m

- fully diluted A\$36m

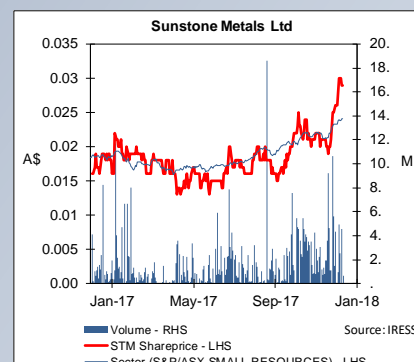
Cash (21 Nov '17) A\$5.8m

Debt (21 Nov '17) A\$0m

EV A\$25m

Prelim. (A\$m)	FY19e	FY20e	FY21e
Prod (kt Cu)	5	25	25
Op Cash Flw (A\$m)	-2	65	57
Norm NPAT (A\$m)	-7.6	26.4	20.0
CF/Share (cps)	-0.2	5.1	4.4
EPS (cps)	-0.6	2.1	1.6
P/E		1.4	1.8

	Cu	
Resources (kt)	616	kt
Reserves (kt)	0	kt



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Hartleys has completed capital raisings in the past 12 months for Sunstone Metals Limited ("Sunstone") for which it has earned fees. Hartleys has provided corporate advice within the past 12 months and continues to provide corporate advice to Sunstone for which it may earn fees in the future. Hartleys has a beneficial interest in 22.5 million options in Sunstone.

SUMMARY MODEL

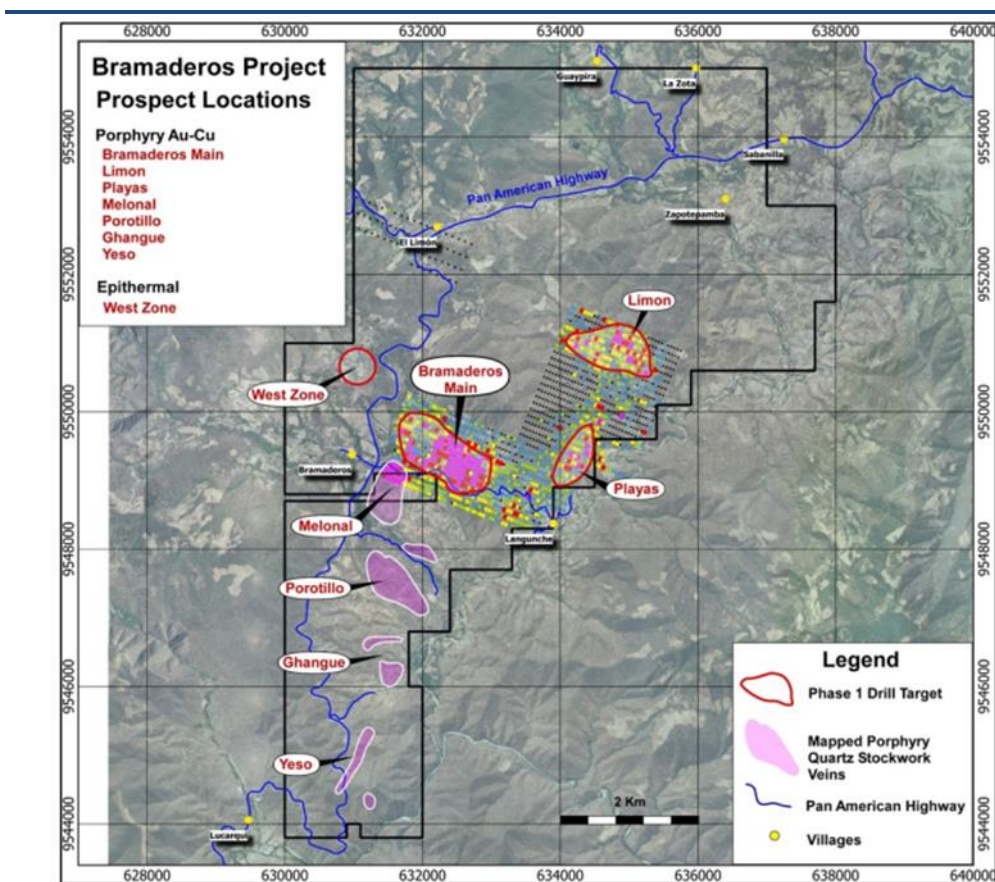
<div>Sunstone Metals</div> <div>STM</div>				<div>Share Price</div> <div>\$0.028</div>		<div>3/01/2018</div> <div>Speculative Buy</div>							
Key Market Information						Directors and Key Management		Company Details					
Share Price				\$0.028		Graham Ascough (Non-Exec Chairman)				9 Gardner Close			
Market Capitalisation				\$31.0M		Malcolm Norris (Executive Director and CEO)				Milton, Qld 4064			
Cash				\$5.8M		Stephen Stroud (Non-Exec Director)				+61 7 3368 9888			
Debt				\$0.0M		Don Hyma (Non-Exec Director)				www.sunstonemetals.com.au			
Net cash (debt) Nov '17				\$5.8M									
Fully paid, issued Capital				1107M									
Options				168M									
Issued Capital (fully diluted all options)				1275M									
EV				\$25M									
Valuation & Price Target				\$0.040									
Projects				Interest		Location		Commodity					
Viscaria				100%		Sweden		Copper					
Southern Finland *				100%		Finland		Gold					
Bramaderos **				rte 80%		Ecuador		Gold/Copper					
* JV Partners interest: Nortec Minerals diluting to 20% in selected tenure													
** JV Partners interest: Cornerstone Capital Resources diluting to 20%													
Reserves & Resources June '16				Mt		%		kt					
Viscaria Cu Resource				52.4		1.2		616					
Measured				14.6		1.8		259					
Indicated				12.7		1.0		128					
Inferred				25.2		0.9		230					
P&L				FY2014A		FY2015A		FY2016A		FY2017A			
				A\$		A\$		A\$		A\$			
Net Revenue				0.0		0.1		0.0		0.1			
Total Costs				(4.2)		(2.0)		(1.6)		(2.3)			
EBITDA				(4.2)		(1.9)		(1.6)		(2.2)			
Deprec/Amort				(0.1)		(0.0)		(1.7)		(0.0)			
EBIT				(4.2)		(1.9)		(3.3)		(2.2)			
Net Interest				0.0		0.0		0.0		0.0			
Pre-Tax Profit				(4.2)		(1.9)		(3.2)		(2.2)			
Tax Expense				-		-		-		-			
NPAT				(4.2)		(1.9)		(3.2)		(2.2)			
Abnormal Items				(1.4)		(0.0)		0.4		(1.3)			
Reported profit (loss)				(5.6)		(2.0)		(2.8)		(3.5)			
Sources: IRESS, Company Information, Hartleys Research													
Investment Summary													
Copper and gold exploration company. Advanced asset at Viscaria confers potential development exposure to copper above US\$3/lb. Green field exploration in Ecuador began in 2017 with several objectives apparent within a large, outcropping porphyry system.													
Key Milestones/Newsflow						Project							
Deep drilling program completed at D Zone						Dec-15		Viscaria					
Viscaria Scoping study results announced						Dec-15		Viscaria					
Exploration portfolio in Finland acquired						May-16		S. Finland					
1st assays from Satulinmaki drilling						Sep-16		S. Finland					
83m at 1.2g/t at Satulinmaki						Oct-16		S. Finland					
Scout drilling completed						Nov-16		S. Finland					
Drilling commences at Viscaria						Apr-17		Viscaria					
AVI farms in to Ecuador Au/Cu project						Apr-17		Bramaderos					
Geophysics extends Satulinmaki prospectivity						May-17		S. Finland					
Initial drilling results from Viscaria						Jun-17		Viscaria					
Final drilling results from 4-hole program at Viscaria						Jun-17		Viscaria					
Surface sampling results from Bramaderos						Jul-Nov 17		Bramaderos					
Fieldwork and geophysics results						Jan-18		Bramaderos					
Drilling target generation and permitting complete						Jan-18		Bramaderos					
Drilling commences at Bramaderos						Feb-18		Bramaderos					
Unpaid Capital						No (M)		\$ (M)		Ave Ex.		% Ord	
Options/Performance Rights													
30-Jun-18		Perf. Rights		26.9								2%	
30-Jun-19		Options		13.2		0.9		0.07				1%	
30-Jun-20		Options		154.8		4.6		0.03				14%	
Total				194.9		5.5		0.03				18%	

BRAMADEROS

Sunstone Metals is likely to begin drilling at Bramaderos, Ecuador in early 2018.

Bramaderos is a porphyry gold-copper system. Previous exploration (2006-2009) defined 6 targets and drilled 32 holes (20 at one prospect) within an 8km alteration trend, beside an outcropping porphyry. Sunstone believes previous exploration was misled by weakly mineralised pyrite halos and misinterpreted structural geology. The program was also curtailed before key prospects at West Zone (42m at 3.7g/t in trenching) and Limon (1.8% Cu, 1.5g/t Au rock chip sampling) were drilled.

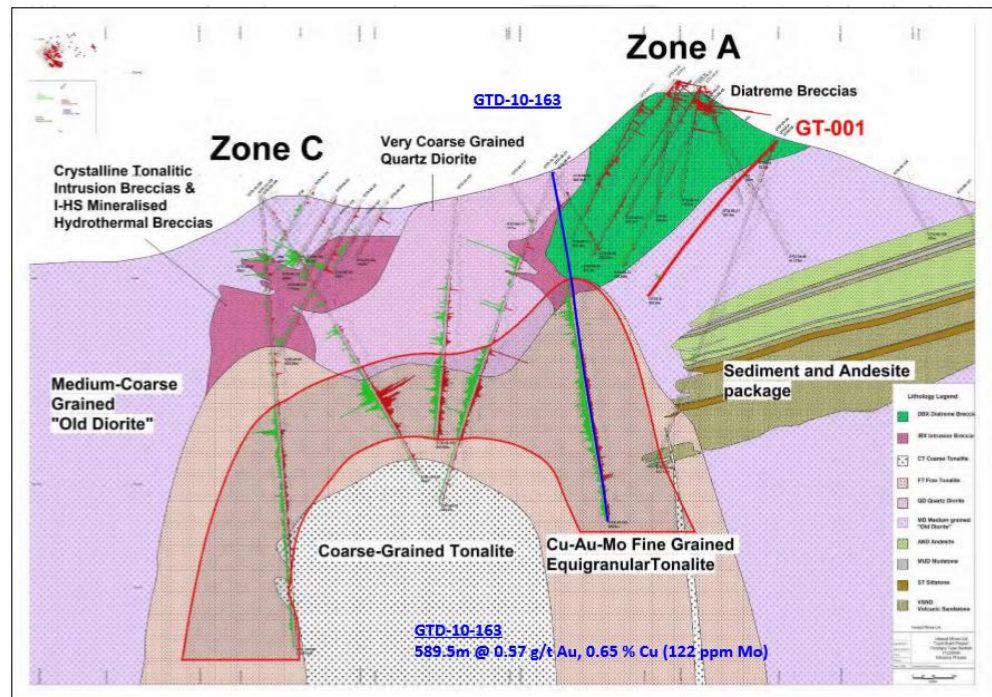
Fig. 1: Bramaderos prospect area showing mapped quartz stockwork zones and surface geochemistry survey coverage 2017.



Source: Sunstone Metals

Sunstone's surface work since mid-2017 has confirmed the potential for a large, low grade Au-Cu porphyry deposit analogous to Tujuh Bukit in Indonesia, and the alkalic porphyry systems of Western Canada. The Company's geological team discovered Tujuh Bukit (JORC Compliant Resource of 1.9 billion tonnes of ore at an average grade of 0.45% Cu, 0.45 g/t Au and 93 g/t Mo, see figure 2) in 2010. Both Tujuh Bukit and Bramaderos are interpreted to be diorite hosted, low silica, alkalic porphyry intrusive systems.

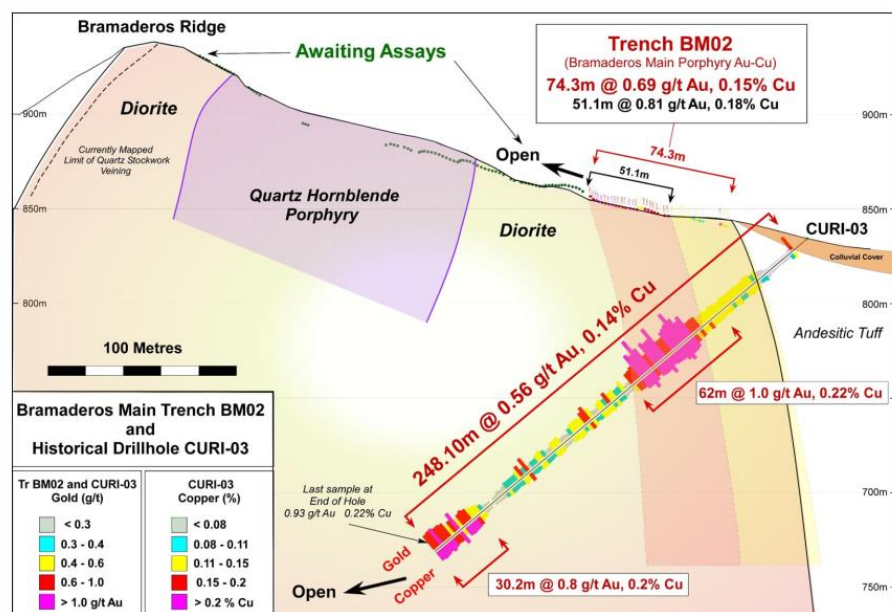
Fig. 2: *Tujuh Bukit schematic section 2011. STM is targeting a similar system at Bramaderos, with a higher Au:Cu ratio.*



Source: Intrepid Mines, 2011

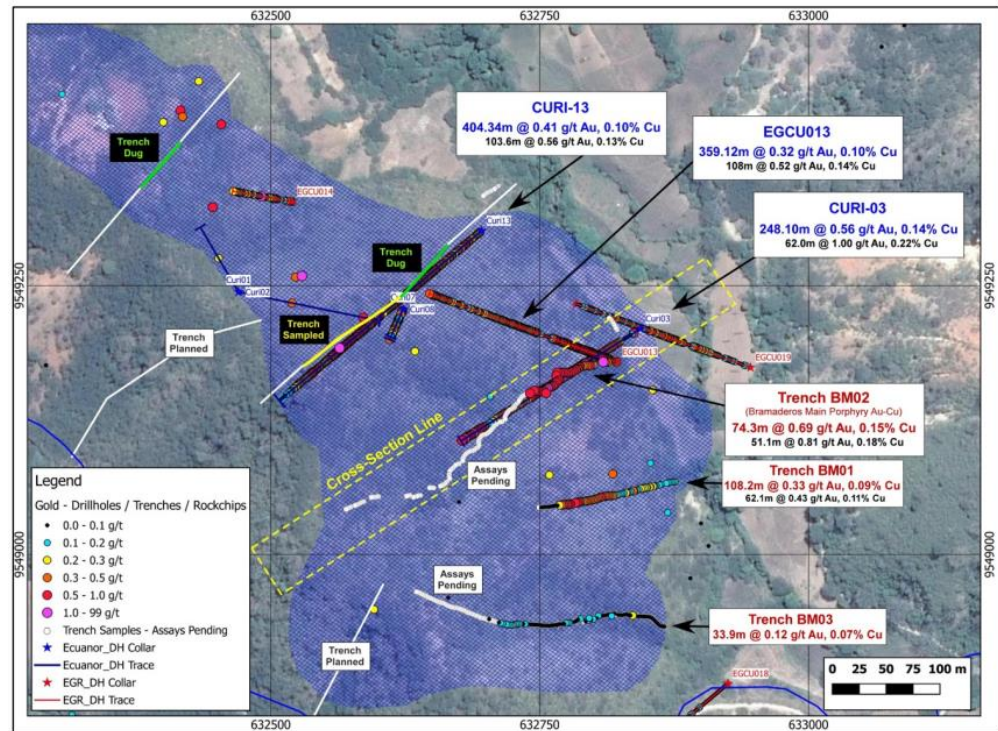
Previous drilling and surface work at Bramaderos Main has encountered mineralisation consistent with outer quartz stockwork and pyrite/chalcopyrite zones. Sunstone's drilling will test for deeper, broader zones nearer the core of the intrusive complex. One of the first holes is a 500m hole beneath and at a steeper angle to CURI-03, which ended in 0.93 g/t Au and 0.22% Cu. (see figure 4).

Fig. 3: *Bramaderos Main schematic section 2017. Sunstone is planning a hole beneath and steeper than CURI-03, drilled in 2007.*



Source: Sunstone Metals

Fig. 4: Bramaderos Main plan showing trenching and historical drilling locations. Blue shading is the area of mapped quartz stockworks.



Source: Sunstone Metals

Earlier in 2017 Sunstone reported trench results from West Zone including 22m at 4.8g/t Au. Results from the additional trenches include 8.9m at 6.1g/t Au, 11.6m at 1.8g/t Au and 8.4m at 1.2g/t Au. West Zone mineralisation is associated with hydrothermal breccias. West Zone has never been drilled and extensive colluvial cover masks the potential scale of the system.

Sunstone has also outlined large zoned soil anomalies at the Limon prospect. The Company interprets overlapping gold, copper & moly in soils flanked by zinc and lead anomalism at Limon as a classic porphyry signature. Rocks chipped from limited outcrops at Limon have assayed up to 1.2 g/t, 0.4% Cu. Sunstone will be the first to drill test Limon.

The start date for STM's drilling at Bramaderos is most likely late January or early February. Sunstone's partner and Cornerstone (CCC.tsx) submitted a water use permit application and completed a draft EIA in early December. After public and stakeholder feedback periods the regulatory authority should be in position to consider approval in January 2018, with a 1-month response period.

MANAGEMENT AND DIRECTORS

Fig. 5: STM Management exposure, 2017.

Economic exposure of Board and key management		Opts	Perf. rights	shares	Exposure	Rank
	Position	M	M	M	M	
G Ascough	Non exec Chair	0.9	1.5	8.9	11.3	4
M Norris	CEO, MD	3.1	5.9	10.1	19.1	1
D Hyma	NED		1.5	0.7	2.2	6
R Robinson	GM Studies	2.3	7.0	3.4	12.7	3
G Leicht	CFO, Coy Sec.	2.4	6.8	3.5	12.7	2
B Rohrlach	GM Geology	1.6	6.8	2.1	10.5	5
S Stroud	NED		1.5		1.5	7

Source: Sunstone Metals, IRESS

Graham Ascough appointed Chairman November 2013

Geophysicist. Mr Ascough was the Managing Director of Mithril Resources Ltd from October 2006 until June 2012. Prior to joining Mithril in 2006, he was the Australian Manager of Nickel and PGM Exploration at the major Canadian resources house, Falconbridge Limited. He is currently non-executive Chairman of PNX Metals Limited, Mithril Resources Limited and Musgrave Minerals Limited. Councillor of the South Australian Chamber of Mines and Energy and Chair of its Exploration Committee from 2006 ~ 2012 and has strong ties to the SA Resources industry.

Malcolm Norris CEO and Managing Director.

MSc in Geology and a Masters in Applied Finance. More than 30 years of industry experience and in the last 15 years has focused primarily on corporate roles. Previous experience has included 23 years with WMC Resources, followed by roles with Intrepid Mines and SolGold.

Stephen Stroud Non-Executive Director

Mr Stroud is an experienced CPA qualified corporate finance executive with over 20 years experience advising across all aspects of corporate finance both as an advisor and client. He has advised boards and management teams across a broad range of transactions including public and private equity raisings, debt/hybrid debt, Initial Public Offerings, mergers & acquisitions, sell-downs and restructures both in Australia and overseas.

Based in Melbourne, Mr Stroud is Director - Corporate Finance with CCZ Equities, with a key focus on the small-mid cap market listed space on the ASX working across a broad range of sectors including IT, retail, FMCG, healthcare, metals and mining, energy, property and general industrials. Mr Stroud possesses strong relationships across buy and sell side clients across Australia, Asia, UK and North America. Mr Stroud is also a Non-Executive Director of Explaurum Limited an ASX listed gold explorer.

Don Hyma Non-Executive Director

BSc in Mining Engineering and an MSc in Mineral Processing. 25 years' experience in the resource sector, principally in copper, nickel and iron ore in Canada, Chile, New Caledonia and Australia. Currently Chief Technical Officer with Mitsui & Co and previously Vice-President Projects for the Iron Ore Company of Canada and General Manager Mine and Infrastructure Projects for Rio Tinto Iron Ore.

VALUATION, TARGET PRICE, RISKS

Viscaria has value as a large, marginal, undeveloped copper resource with exploration upside, near developed infrastructure.

The values of agreements to earn interests in the Bramaderos and Southern Finland projects are subject to market swings and geological interpretation. Hartleys ascribes nominal value of \$35M to Bramaderos on the strength of its geological potential and location in a sought after jurisdiction.

Viscaria can be modelled with open pit inventories as indicated in STM's scoping studies. At current spot price (US\$3.27/lb), returns from Viscaria, as modelled, are sufficient to attract development funding, although further permitting is required. Viscaria has value as a large, undeveloped inventory of near commercial copper, in an area well serviced by infrastructure. Hence, Sunstone is investable as a call option on the copper price. The improved project appeal due to STM's drilling in 2017 at Viscaria, also informs Hartleys' nominal valuation of A\$35M.

Net of future corporate overheads and equity dilution Hartleys values Sunstone at A\$52M or 4.0cps. A Speculative Buy recommendation is retained with a 12 month target price of 4.0cps, reviewable as exploration results from Bramaderos come to hand.

Fig. 6: Assumptions and risks for valuation

Assumption	Risk of not realising assumption	Downside risk to valuation if assumption is incorrect	Comment
Exploration within 1 year at Bramaderos will reveal a near commercial project.	High	Medium	Exploration is at an early stage. STM will work to a 3 year program.
The copper price will hold above US\$3/lb in the next 2-5 years	Medium	High	Hartleys assumes copper demand remains strong through this period, which depends largely on continued economic growth in China.
STM can obtain capital at reasonable prices	Low	High	Sunstone is dependent on new equity for future funding. Existing share value may be diluted by raisings completed at less than valuation.
<i>Conclusion</i>	<i>Sunstone shares are a high risk, speculative investment with corresponding high potential reward.</i>		

Source: Hartleys

HARTLEYS CORPORATE DIRECTORY

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Note: personal email addresses of company employees are structured in the following manner: first.name.last.name@hartleys.com.au

Hartleys Recommendation Categories

Buy	Share price appreciation anticipated.
Accumulate	Share price appreciation anticipated but the risk/reward is not as attractive as a "Buy". Alternatively, for the share price to rise it may be contingent on the outcome of an uncertain or distant event. Analyst will often indicate a price level at which it may become a "Buy".
Neutral	Take no action. Upside & downside risk/reward is evenly balanced.
Reduce / Take profits	It is anticipated to be unlikely that there will be gains over the investment time horizon but there is a possibility of some price weakness over that period.
Sell	Significant price depreciation anticipated.
No Rating	No recommendation.
Speculative Buy	Share price could be volatile. While it is anticipated that, on a risk/reward basis, an investment is attractive, there is at least one identifiable risk that has a meaningful possibility of occurring, which, if it did occur, could lead to significant share price reduction. Consequently, the investment is considered high risk.

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