

SUNSTONE METALS LTD (STM)

Bramaderos worth the wait

Sunstone is still seeking a drilling permit for its Bramaderos JV with Cornerstone Capital Resources (TSX-V:CGP). A backlog of permit applications at the Ecuadorian Ministry of Mines has built up with the increase in exploration activity in the country. The Sunstone/Cornerstone application passed the Water Permit stage in April 2018. Sunstone has been drill ready since early 2018, and expects approval in due course.

Neighbour gets approval, Bramaderos to follow

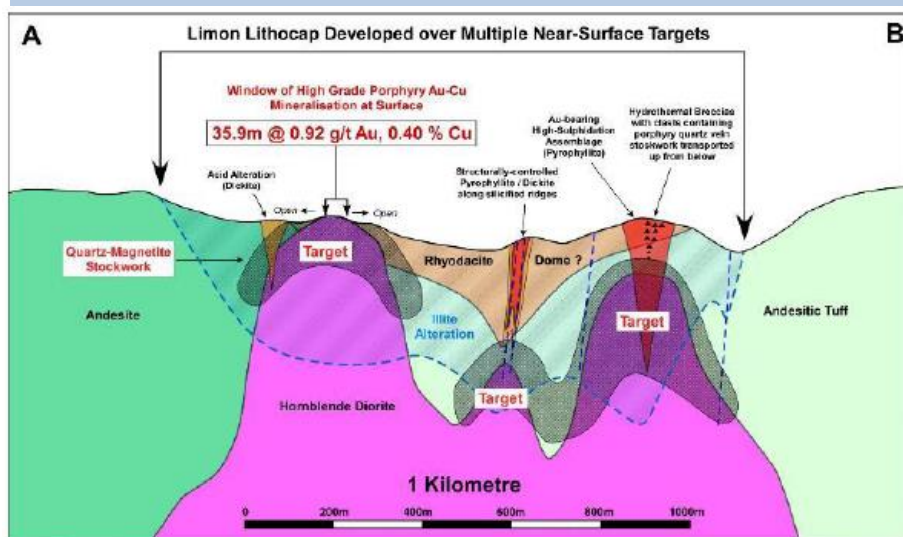
Neighbouring Canadian company Core Gold (TSX-V: CGLD) received an exploration permit in March 2018 for its Copper Duke project, 10km to the east of Bramaderos in the same province (Core also operates the Dynasty open pit gold mine bordering Bramaderos to the west).

Limon trench gives window to target

Surface work at Bramaderos has continued. There is now broad scale evidence of +0.5-0.6 g/t Au, 0.1-0.2% Cu material at surface, at both Bramaderos Main and Limon. Sunstone interprets the surface mineralisation as potassic altered rims or lithocaps of higher grade cores to gold-copper porphyry bodies.

At Limon an outcropping section of higher grade material has been sampled in a trench, averaging 0.92 g/t Au and 0.40% Cu over 36m, representing a potential outcropping window of a porphyry core. The average grades shown in this trench at Limon are broadly equivalent to the bulk grades that Sunstone is planning to find at Bramaderos.

Fig. 1: Schematic section showing interpreted targets at Bramaderos in relation to the Limon trench.



Source: Sunstone Metals

Maintain Speculative Buy

Sunstone's surface work at Bramaderos suggests the drilling is worth waiting for. Steps towards Viscaria's commercialisation could also be supportive. We maintain our Speculative Buy recommendation.

22 May 2018

Share Price	\$0.034
Valuation	\$0.044
Price Target (12 month)	\$0.044

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	8.8%
Valbonne II	6.4%
Marlei International Limited	4.8%
Acorn Capital Ltd	4.6%

Company Address

9 Gardner Close
Milton, Qld 4064

Issued Capital	1142m
- diluted ITM	501m

Market Cap	A\$39m
- fully diluted	A\$17m

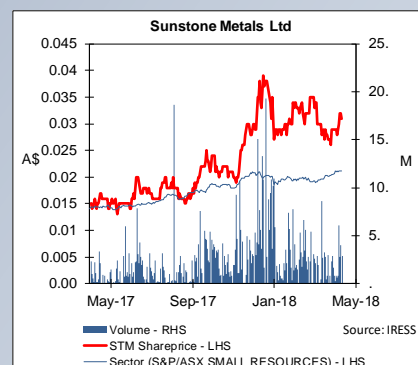
Cash (31 Mar '18)	A\$4.4m
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Debt (31 Mar '18)	A\$0m
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EV	A\$34m
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Cash flows (A\$M)	FY16	FY17	1HFY18
Cash flows from ops	-1.7	-1.7	-0.8
Exploration expenditure	-4.1	-2.8	-1.2
Equity raised	3.3	4.3	7.5
Net increase in cash	-2.6	-0.2	5.0
Cash at end	0.6	0.5	5.5

	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

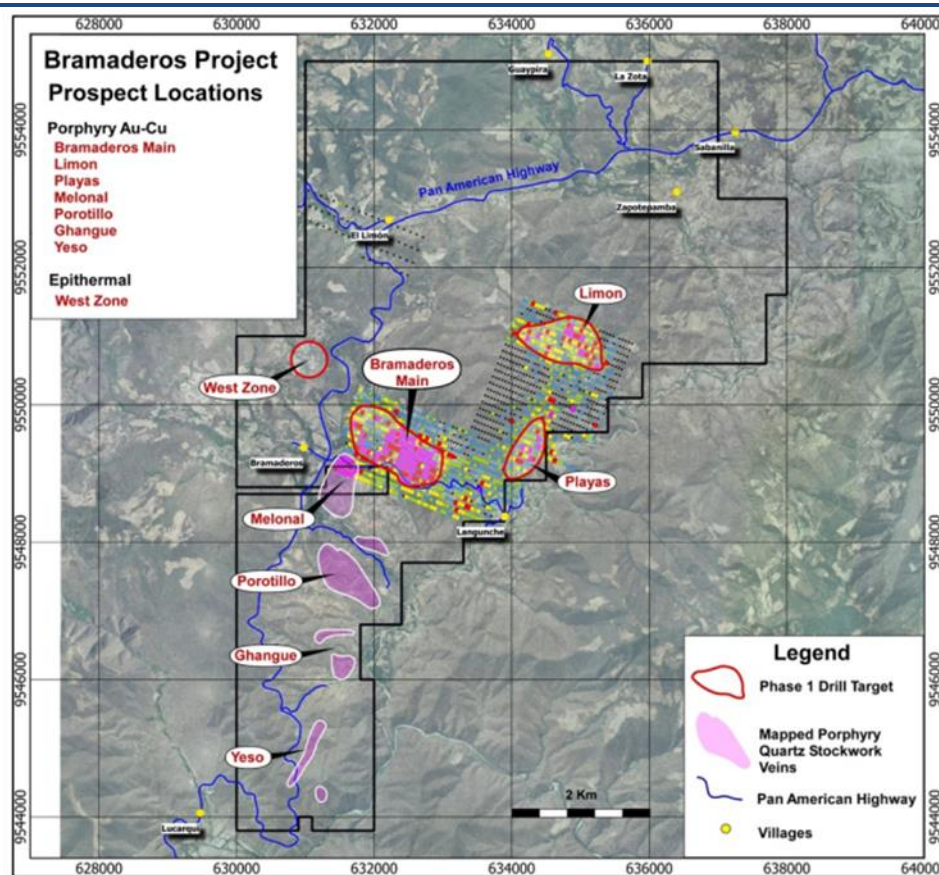
Sunstone Metals STM		Share Price \$0.034		22/05/2018 Speculative Buy	
Key Market Information					
Share Price		\$0.034			
Market Capitalisation		\$38.8M			
Cash		\$4.4M			
Debt		\$0.0M			
Net cash (debt) Mar '18		\$4.4M			
Fully paid, issued Capital		1142M			
Options		168M			
Issued Capital (fully diluted ITM options)		1310M			
EV		\$34M			
Valuation & Price Target		\$0.044			
Projects					
Interest		Location		Commodity	
Viscaria		100%		Sweden	
Southern Finland *		100%		Finland	
Bramaderos **		rte 80%		Ecuador	
				Copper	
				Gold	
				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		%	
Viscaria Cu Resource		52.4		1.2	
Measured		14.6		1.8	
Indicated		12.7		1.0	
Inferred		25.2		0.9	
P&L					
FY2015A		FY2016A		FY2017A	
FY2018		1HFY18			
A\$		A\$		A\$	
Net Revenue		0.1		0.0	
Total Costs		(2.0)		(1.6)	
EBITDA		(1.9)		(2.3)	
Deprec/Amort		(1.6)		(0.9)	
EBIT		(1.7)		(0.0)	
Net Interest		(1.9)		(3.3)	
Pre-Tax Profit		0.0		(2.2)	
Tax Expense		0.0		(0.9)	
NPAT		-		-	
Abnormal Items		(1.9)		(3.2)	
Reported profit (loss)		(2.0)		(2.8)	
		(3.5)		(0.2)	
Sources: IRESS, Company Information, Hartleys Research					
Directors and Key Management					
Graham Ascough (Non-Exec Chairman)				9 Gardner Close	
Malcolm Norris (Executive Director and CEO)				Milton, Qld 4064	
Stephen Stroud (Non-Exec Director)				+61 7 3368 9888	
Don Hyma (Non-Exec Director)				www.sunstonemetals.com.au	
Shareholder					
M shs		%			
Darren Carter		100		8.8%	
Valbonne II		73		6.4%	
Marilei International Limited		55		4.8%	
Potezna Gromadka Ltd		55		4.8%	
Acorn Capital Ltd		52		4.6%	
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	
STM 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 17-Jan 18		Bramaderos	
Helimagnetic survey results		Feb-18		Bramaderos	
Limon trench assays		Apr-18		Bramaderos	
Bramaderos Main 615m long trench results		May-18		Bramaderos	
Commercialisation plan for Viscaria		Mid-2018		Viscaria	
Drilling target generation and permitting		Mid-2018		Bramaderos	
Drilling commences at Bramaderos		Mid-2018		Bramaderos	
Unpaid Capital					
No (M)		\$ (M)		Ave Ex.	
% Ord					
Options/Performance Rights					
30-Jun-18		Perf. Rights		27.9	
30-Jun-19		Options		13.2	
30-Jun-20		Options		154.8	
Total		195.9		5.5	
		0.03		17%	

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.

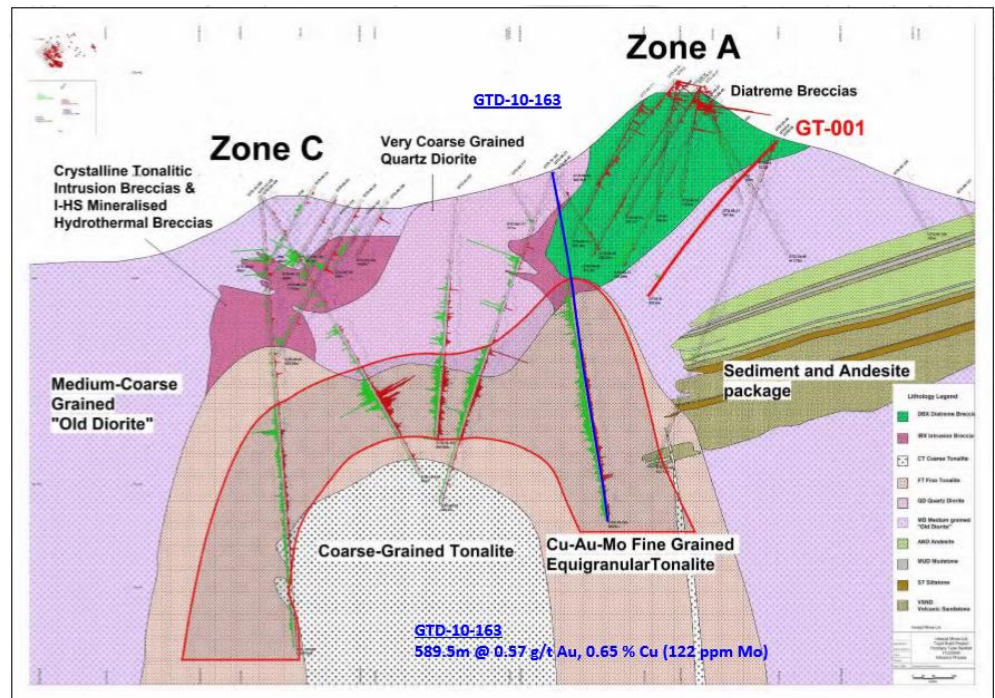
Fig. 1: Bramaderos prospect area showing mapped quartz stockwork zones and surface geochemistry survey coverage 2017.



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.

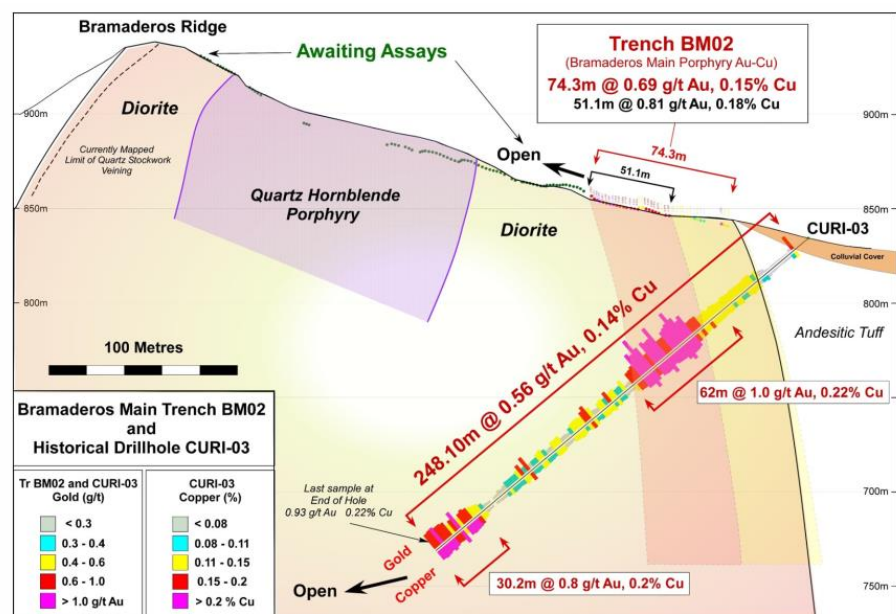
Fig. 2: *Tujuh Bukit schematic section 2011. STM is targeting a similar system at Bramaderos, with a higher Au:Cu ratio.*



Source: Intrepid Mines, 2011

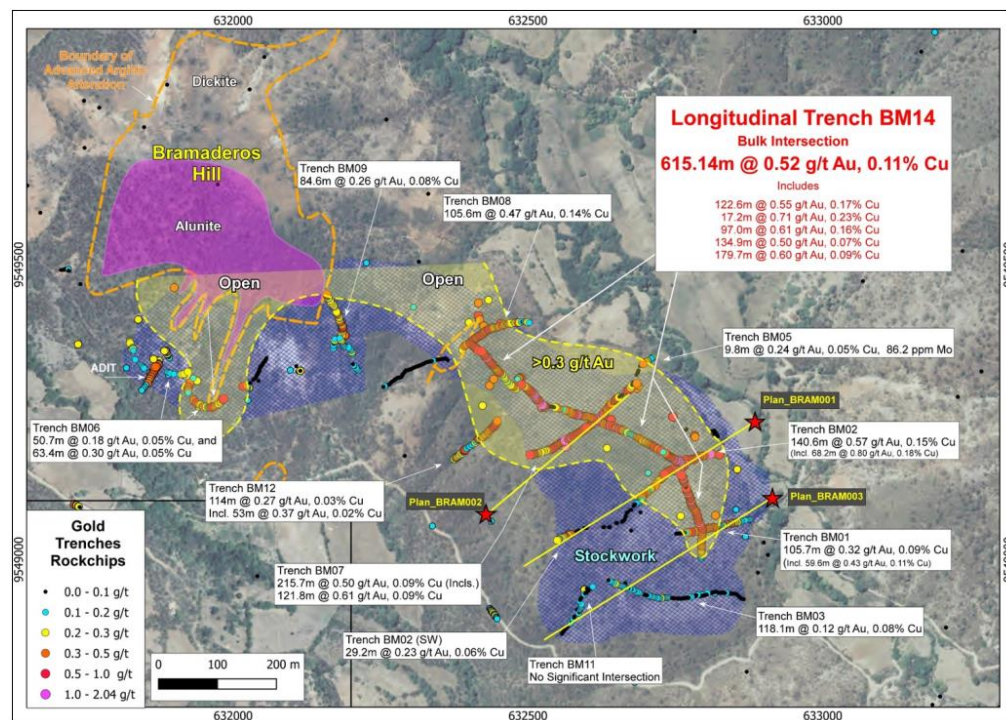
Previous drilling and surface work at Bramaderos Main has encountered mineralisation consistent with outer quartz stockwork and pyrite/chalcopyrite zones. Sunstone's drilling will test for deeper, broader zones nearer the core of the intrusive complex. One of the first holes is a 500m hole beneath and 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. outcropping section of higher grade material has been sampled in a trench at Limon in April 2018, averaging 0.92 g/t Au and 0.40% Cu over 36m, representing a potential outcropping window of a porphyry core. Sunstone will be the first to drill test Limon.

The start date for STM's drilling at Bramaderos is pending award of permit. Sunstone's partner and Cornerstone (CCC.tsx) completed a draft EIA in early December, and received a water use permit in April 2018. After public and stakeholder feedback periods the regulatory authority should be in position to consider approval in mid-2018.

MANAGEMENT AND DIRECTORS

Fig. 5: STM Management exposure, 2018.

Economic exposure of Board and key management		Opts	Perf. rights	shares	Exposure	Rank
	Position	M	M	M	M	
G Ascough	Non exec Chair	2.4		11.0	13.4	4
M Norris	CEO, MD	3.1	5.9	12.4	21.4	1
D Hyma	NED	1.5		0.7	2.2	6
R Robinson	GM Studies	1.3	7.0	3.4	11.7	3
G Leicht	CFO, Coy Sec.	1.4	6.8	3.5	11.8	2
B Rohrlach	GM Geology	0.8	6.8	2.1	9.7	5
S Stroud	NED		1.5	2.1	3.6	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 Explarum 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\$3.06/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\$50M or 4.4cps. A Speculative Buy recommendation is retained with a 12 month target price of 4.4cps, 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.
Conclusion	<i>Sunstone shares are a high risk, speculative investment with corresponding high potential reward.</i>		

Source: Hartleys Research

HARTLEYS CORPORATE DIRECTORY

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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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