TAYLOR COLLISON

Sharebrokers and Investment Advisers
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24 October 2018

Sunstone Metals Limited (*STM*)

Drill Watch: Bramaderos Drilling Permits Imminent

Recommendation: Speculative Buy

Current Share Price: $0.034

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Capital Summary

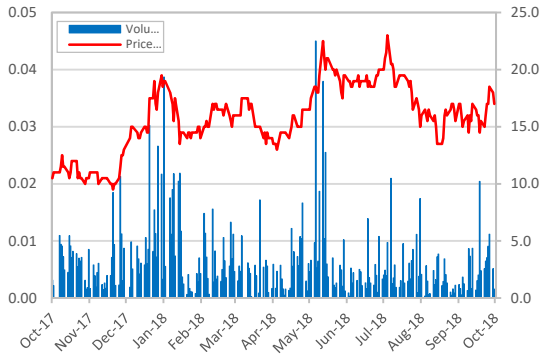
Issued Capital:	1,142.3m ords
	154.8m listed opts
	22.4m perf
	10.1m opts
Share Price (*23/10/18*):	**$0.034**
52 week low/high:	$0.018 / $0.048
Market Capitalisation (*undil.*):	**$39.0m**
Cash (*30/06/18*):	$2.7m
Debt (*30/06/18*):	-
Enterprise Value (*undil.*)[1]:	**$36.4m**
Market Capitalisation (*fully dil.*):	$45.4m
Cash after conv. of opts:	$7.9m
Enterprise Value (*fully dil.*):	$37.5m

[1] EV = Market capitalisation – cash + debt.

Board & Management

Graham Ascough	*Non-Executive Chairman*
Malcolm Norris	*Managing Director*
Don Hyma	*Non-Executive Director*
Stephen Stroud	*Non-Executive Director*
Ray Robinson	*General Manager – Studies & Technical Services*
Bruce Rohrlach	*General Manager – Geology*
Gavin Leicht	CFO & Company Secretary

Share Price Graph



Major Shareholders

Mr Darren Carter	100.5m	8.8%
Valbonne II	76.5m	6.7%
Marilei International Ltd	57.1m	5.0%

** Top 10 hold ~40%; Board & Management hold 3.5%.*

Key Points

- Sunstone Metals Ltd ("*Sunstone*" or "*the Company*") is a junior mineral exploration company predominantly focused on the Bramaderos Project located in the Loja province in southwestern Ecuador.
- The Bramaderos Project ("*Bramaderos*" or "*the Project*") is prospective for world-class porphyry Au-Cu and epithermal Au-Ag mineral systems.
- The Company is in a Joint Venture ("*the JV*") at Bramaderos with TSX-V listed Cornerstone Capital Resources Inc (*TSX-V: CGP*) where it can earn up to 70% by funding a BFS and can go to 80% by financing 100% of the cost of construction.
- Historic exploration and recent activities by the JV has identified 20 prospects with porphyry Au-Cu and epithermal Au-Ag potential.
- The Bramaderos Main prospect, the largest of the prospects, has confirmed porphyry Au-Cu mineralisation over an area of 615m x 220m and to at least 300m vertical depth. 3D modelling of heli-magnetic data indicates that the porphyry body extends to ~1km in depth.
- Trenching and historical drilling at Bramaderos Main intersected mineralisation over significant length confirming bulk tonnage potential. Significant results include **615m @ 0.52g/t Au & 0.11% Cu** (trench BM14) and **404.3m @ 0.41g/t Au & 0.10% Cu** (drill hole CURI_13).
- Additional porphyry targets with bulk tonnage potential have also been defined at Limon and Porotillo prospects. Trenching at Limon has confirmed its potential, recording **97.6m @ 0.71g/t Au & 0.23% Cu**. Limon has never been drilled.
- The West Zone epithermal Au-Ag prospect has also generated compelling trenching results, including **30m @ 3.6g/t Au, 1.5g/t Ag** (trench LB06) and **27.9m @ 3.87g/t Au, 1.7g/t Ag** (trench LB08).
- Coincident soil geochemical anomalies, mineralised stockwork veining, metal zonation patterns and indications of epithermal mineralisation overprinting porphyry Au-Cu mineralisation are strong supporting evidence for a large porphyry system.
- Drilling permit applications submitted and approval imminent.
- Management has a history of making world-class porphyry discoveries, including Tujuk Bukit (1.7Bt) and Cascabel (1.1Bt).
- **Recent partial divestment of Viscaria Copper Project in Sweden currently valued at A$50.6m**, more than the Company's current market capitalisation.

Our View

The Bramaderos Project contains all the key ingredients for hosting world-class porphyry Au-Cu and epithermal Au-Ag deposits. Management's experience in understanding these mineral systems and making discoveries increases our confidence that the full potential of the Project will be realised. We estimate the Bramaderos Main prospect alone has the potential to contain in excess of 350Mt with additional resource potential at the other prospects. With awarding of drilling permits imminent, an initial exploration program designed to generate significant intersections and injection of cash following satisfaction of the conditions precedent for the Viscaria Copper Project deal, ***we initiate coverage of Sunstone Metals with a Speculative Buy recommendation****.*

Project Location & Background

The Project is located in a region prospective for world-class base metal and precious metal deposits

The 4,949 hectare (49.5km^2) Bramaderos project ("*Bramaderos*" or "*the Project*") is located in Loja province, Southern Ecuador, ~130km from the provincial capital of Loja (*Fig. 1*). The project is easily accessible from the Pan American Highway which cuts the western part of the project. Bramaderos is considered highly prospective for the discovery of large Au-Cu porphyry deposits. It is also prospective for epithermal Au-Ag styles of mineralisation.

Bramaderos is situated within the Dynasty Cu-Au belt which extends from northern Peru into Ecuador. This structural zone hosts several significant epithermal, porphyry, mesothermal, S-type granitoid, VHMS and ultramafic precious metal and base metal mineral deposits. The formation of these deposits is related to subduction of the Nazca tectonic plate under South America.

Following changes to mining legislation, Ecuador is a highly desirable country for mining project discovery and development

Ecuador has been on the radar for its potential to host world-class deposits following the discovery of Cascabel Cu-Au porphyry by the Cornerstone / SolGold JV in 2012 – 2013. Historically the focus for Tier 1 discoveries has been elsewhere in South America as the barren landscapes were ideal for identifying mineral systems. The different geography of Ecuador has slowed the pace of discoveries but the prospectivity of the region has now emerged as modern exploration methods are applied.

Figure 1. *Bramaderos Project is located in a part of southern Ecuador that contains multiple ore deposits (Source: Modified company release).*

Option, Joint Venture & Royalty Agreement

The property is subject to an earn-in joint venture (JV) agreement with Cornerstone Capital Resources Inc (*TSX-V: CGP*; "*Cornerstone*"). The binding agreement with Cornerstone was signed in April 2017 and entitles Sunstone to earn a majority interest in Bramaderos. Cornerstone has a successful history of exploration operations in Ecuador, including the discovery of the Cascabel Cu-Au porphyry in joint venture with SolGold Plc. Cornerstone was awarded the concession in January, 2017 following a public bidding process.

STM has the right to earn a 51% interest in the project by spending US$3.4m over 3 years

STM can go to 70% by funding a BFS and making a cash payment based on Resource size

STM can earn 80% interest by financing 100% of the cost of construction

Sunstone initially has the right to earn 51% interest in the mineral rights to the Bramaderos concession by incurring exploration expenditures of US$3.4m over 3 years ("*First Option*"). Sunstone can then increase its ownership to a cumulative total of 70% by funding expenditure to the level of a feasibility study and cash payment of the greater of $250k or $1/oz AuEq classified as Measured and Indicated Resources ("*Second Option*"). If the Second Option exercise date does not occur by the 3rd anniversary of exercise of the First Option (which may be extended upon mutual agreement) the interests of the parties will remain at Cornerstoe - 49% and Sunstone - 51%.

Upon the Second Option exercise date, Sunstone then has the right to acquire an additional 10% interest in the Property (for a cumulative total of 80%) by providing 100% of the costs to achieve commercial production as a loan carry; or arranging project financing. Approximately two thirds of the Bramaderos concession surface area is subject to an underlying 2% NSR.

Historical Exploration

Sporadic exploration has occurred at Bramaderos in the 1970s and 1980s over what was referred to as the "Curiplaya" area. Historical soil surveys and geological mapping identified at least four partially overlapping centres of porphyry Au-Cu mineralisation associated with quartz stockwork zones and potassic-altered diorite intrusions (*Fig. 2*). The large size of the anomalies meant they were only partially tested by trenching and diamond drilling.

The majority of historic exploration work was undertaken between 2001 – 2007 by Ecuanor S.A. ("*Ecuanor*") and Ecuador Gold S.A. ("*Ecuador Gold*") which culminated in drilling at Bramaderos, Melonal and Porotillo porphyry prospects. Porphyry-style Au-Cu mineralisation was found associated with vein stockworks and breccias hosted by a cluster of porphyries that show typical gold-dominated porphyry alteration and mineralisation patterns (argillic/phyllic/potassic alteration; *Fig. 3*).

Reconnaissance work

Several stages of soil sampling, rock chip sampling, trenching and geophysical surveys were completed at Bramaderos, primarily by Ecuanor and Ecuador Gold. In total, 36 trenches were dug and channel sampled across the property and 31 line kilometres of Ground Magnetic and Induced Polarisation (IP) geophysical surveys was collected. In total, over 2,000 geochemical samples were collected during historical exploration work and a total of 10,416m of diamond drilling performed to test some of the anomalous areas.

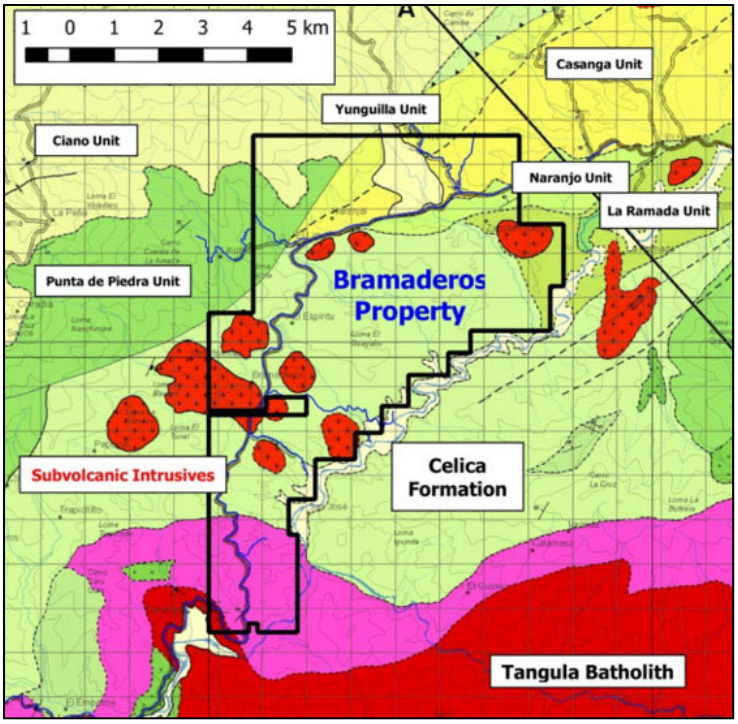


Figure 2. *Bramaderos geology map (Source: Modified from Company website).*

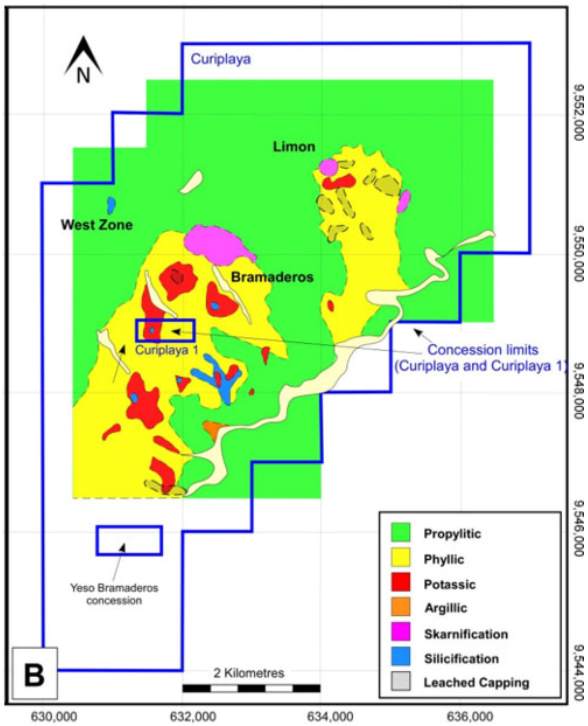


Figure 3. *Bramaderos alteration map (Source: Company website).*

Rock types, stockwork veining and alteration assemblages associated with porphyry mineral systems have been recorded at multiple locations across the Project

The historic work confirmed an extensive region containing Cu-Au mineralisation associated with quartz vein stockwork and breccias hosted by potassic-altered porphyritic intrusions (Bramaderos, Porotillo and Limon prospects). Breccia-hosted epithermal mineralisation was also identified at the West Zone prospect. In the central part of the property, a large Au-Cu(±Mo) geochemical anomaly measuring 5km x 1-2km was identified to be the most prospective region. Several other geochemically anomalous zones were recognised at the time but not followed-up including the Limon porphyry prospect where multiple Au-Cu mineralised rock chip samples were taken.

Historical drilling

Ecuanor completed 13 diamond drill holes on the project in 2001, most of which were at the Bramaderos Main prospect (*Tables 1 & 2*). Holes were also completed at Porotillo and Melonal prospects. Drill holes targeted soil and rock chip anomalies detected by earlier exploration activities. Drill holes CURI_01, CURI_02 and CURI_03 intersected low grade mineralisation over an area of approximately 400m x 200m x 220m (*Fig. 4*).

Extensive zone of low grade Au and Cu mineralisation previously defined at Bramaderos Main prospect

Ecuador Gold completed 22 diamond drill holes at Bramaderos in 2007. Drilling also focused on the Bramaderos Main, Melonal and Porotillo prospects. Drill hole EGCU-13 intersected similar gold grades to the Ecuanor drill holes CURI_03 and CURI-13, further confirming an extensive zone of mineralisation at Bramaderos Main prospect. Ecuador Gold ceased its activities in Ecuador following the rewriting of the Ecuadorian Constitution in 2007 – 2008 which included the "Ecuadorian Mining Mandate", which suspended all exploration activities and revoked 80% of the nation's mineral concessions and suspended the other 20%

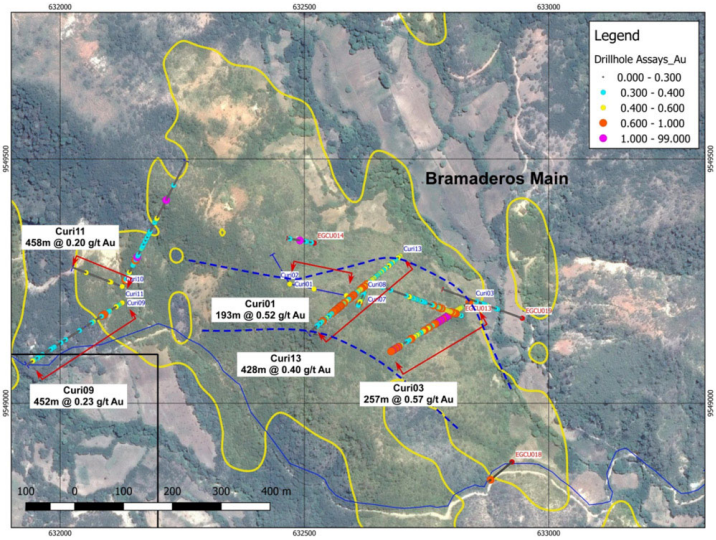


Figure 4. *Bramaderos Main historic drill holes and assay highlights. Extensive mineralised area delineated (Source: Company website).*

Table 1. *Ecuanor S.A. drilling highlights (Source: Company website).*

Prospect	Drill hole	Interval	Au g/t	Ag g/t
Bramaderos Main	CURI_01	193m	0.52	0.07
	CURI_02	100m	0.29	0.055
	CURI_03	**257m**	**0.57**	**0.14**
	incl.	*54m @ 1.07 g/t Au from 67m*		
	incl.	*26m @ 0.8 g/t Au from 231m*		
	CURI_11	458m	0.20	0.065
	CURI_13	**428m**	**0.40**	**0.10**
	incl.	*102m @ 0.57 g/t Au from 216m*		
Porotillo	CURI_05	263m	0.30	0.09
	incl.	*24m @ 1.2 g/t Au from 6m*		
	CURI_12	468m	0.07	0.05

Table 2. *Ecuador Gold S.A. drilling highlights (Source: Company website).*

Prospect	Drill hole	Interval	Au g/t
Bramaderos Main	EGCU-13	371.85m	0.32
	incl.	***120.4m @ 0.5 g/t Au***	
Porotillo	EGCU-03	490.72m	0.25

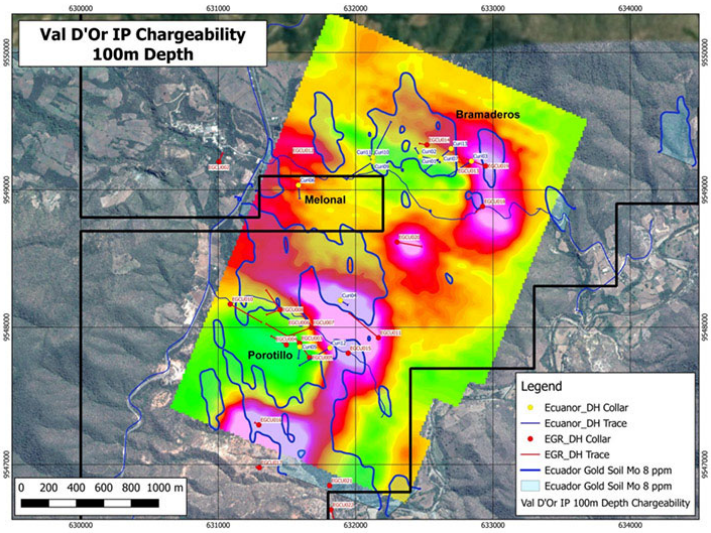


Figure 5. *IP chargeability at 100m depth over Bramaderos prospects (Source: Company website).*

Geophysics

Ecuador Gold completed both ground magnetics and an electrical geophysical IP and resistivity survey over the Bramaderos-Melonal-Porotillo area in 2007 to better understand the mapped extent of stockwork mineralisation and trenching. The IP survey highlights conductors at 100m depth that the JV interprets to most likely represent the outer pyrite-rich alteration domain of a porphyry system which are often Cu-Au poor (*Fig. 5*). The inference being that the central parts of the system would carry better grades.

Recent History – Cornerstone-Sunstone JV

Since the Cornerstone-Sunstone JV was entered into in April 2017, the JV has completed detailed geological mapping, regional soil and rock chip sampling programs, trenching and a heli-magnetics and radiometrics geophysical survey (*Fig. 6 & 7*). The tenement-wide heli-magnetic survey was crucial in assisting the JV unravel the geology and structure at Bramaderos and particularly useful in identifying porphyry targets at depth when coincident with metal anomalism and rock alteration features observed at surface. 3D modelling of these magnetic anomalies has further highlighted the potential depth extent of the mineralised porphyry bodies (*Fig. 8 & 9*). The quality porphyry targets were identified at Bramaderos Main and Limon prospects.

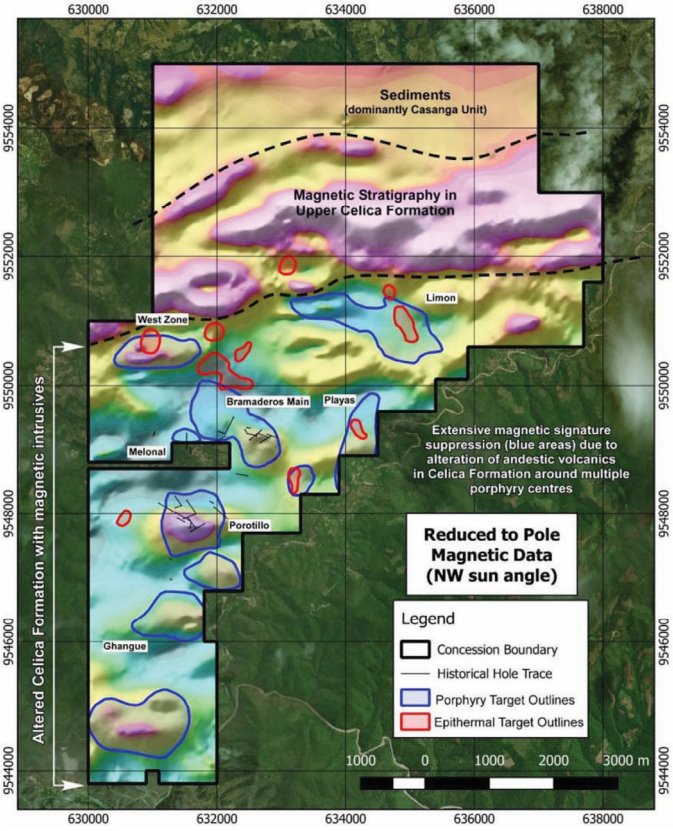


Figure 6. *Bramaderos Project area highlighting main prospects on heli-magetic image (Source: Company release).*

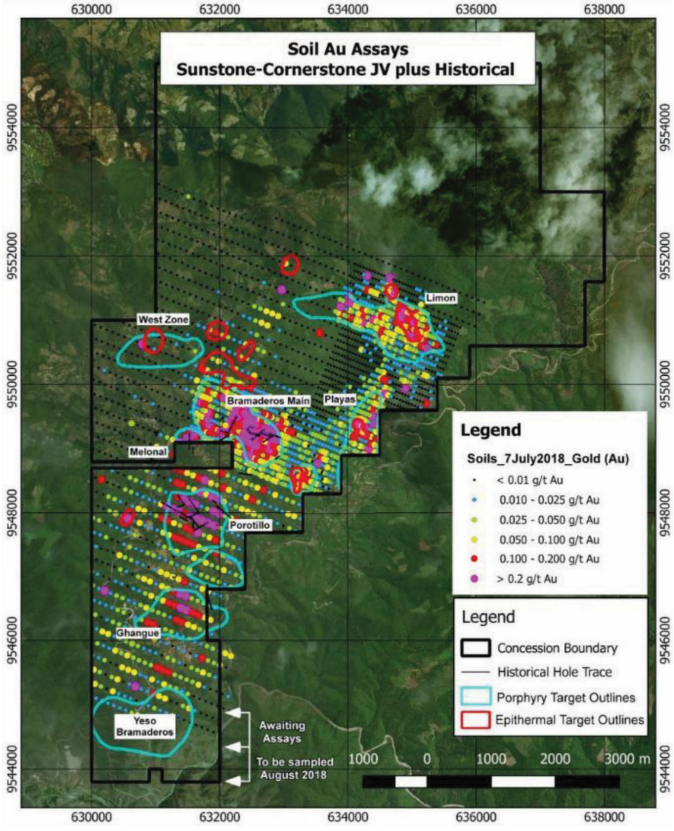


Figure 7. *Bramaderos Project area highlighting soil geochemistry (Source: Company release).*

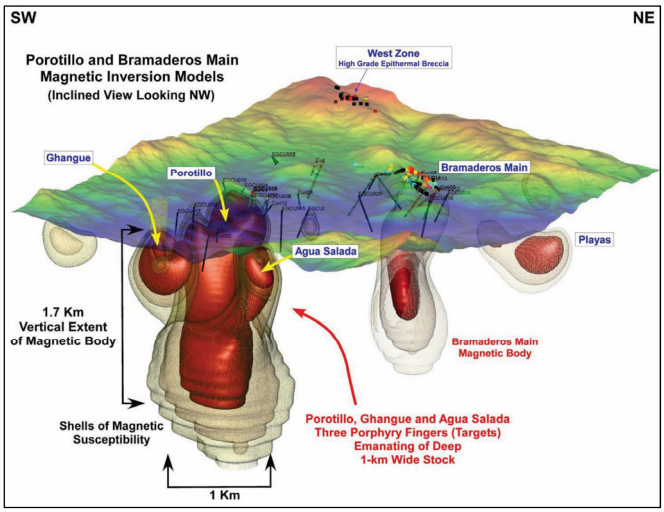


Figure 8. *3D model interpretation of heli-magnetics at Porotillo and Bramaderos Main prospects (Source: Company release).*

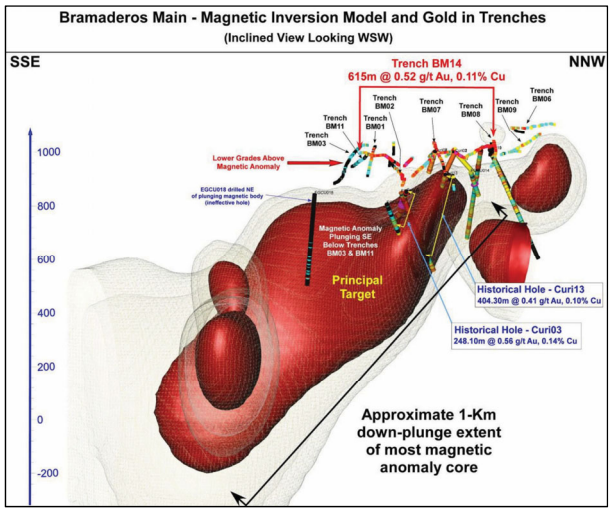


Figure 9. *3D model interpretation of heli-magnetics at Bramaderos Main prospect (Source: Company release).*

Bramaderos Prospects

Following the tenement-wide geophysical survey and its amalgamation with geological and geochemical datasets, the JV had delineated multiple targets based on overlapping or complimentary anomalies. Ten primary porphyry targets and ten epithermal targets have so far been identified with two of the epithermal targets also being associated with large underlying porphyry targets. Following is a summary of the main prospects at Bramaderos which will form the backbone of the impending drill program.

Bramaderos Main prospect

Multiple data sets point to a large porphyry mineral system at Bramaderos Main

The Bramaderos Main is a porphyry Au-Cu prospect located in the centre of the Project area. Following historic investigations (*see above*), which delineated an extensive zone of favourable geology and mineralisation, the JV completed additional geological mapping, geochemical sampling (including trenching) and geophysics. Collectively these datasets have upgraded the potential of Bramaderos Main. The most outstanding trenching result was recorded in trench BM14 which was cut along the long axes of the prospect (*Fig. 10*; *Table 3*). BM14 returned assay results of **615m @ 0.52g/t Au, 0.11% Cu**, including **123m @ 0.55g/t Au, 0.15% Cu** and **180m @ 0.6g/t Au, 0.09% Cu**. Higher grade sections in the trenching is interpreted to be controlled by structures with greater stockwork vein density.

Trenching and historic drilling has so far defined a mineral system measuring 615m x 220m

The trenching results, when looked at in conjunction with the historical drilling, provide an insight into the potential size of the target at Bramaderos Main. Historic drill hole CURI_13, drilled under trench BM07, intersected **404.3m @ 0.41 g/t Au, 0.10% Cu** from 3.66m, including 187m @ 0.5 g/t Au, 0.10% Cu from 131m (*Fig. 11*; *Table 1*). Drill hole CURI_03, drilled under trench BM02, intersected **248.1m @ 0.56 g/t Au, 0.14% Cu** (*Fig. 12*; *Table 1*). Both these drill holes prove that the mineralisation recorded at surface correlates with mineralisation intersected at depth. On the basis of trenching results and historical drilling the prospective zone at Bramaderos Main measures 615m x 220m to at least 300m vertical depth. Critically, both of the aforementioned drill holes ended in mineralisation indicating that mineralisation can be expected to continue to greater depths.

3D modelling of magnetics indicates a porphyry body potentially extends to ~1km depth

An indication of the potential depth extent of the porphyry body at Bramaderos Main can be interpreted from the heli-magnetics. 3D modelling resulted in the definition of a large magnetic body with a vertical depth of ~1km (*Fig. 9*). Critically the main magnetic target was not adequately tested by drill hole CURI_03 as the drill hole was terminated prior to intersecting the magnetic body. Furthermore, CURI_03 finished in mineralisation, with **30.2m @ 0.8g/t Au and 0.2% Cu at the bottom of hole** indicating that mineralisation can be expected to continue at depth. Mineralisation has been interpreted to extend and plunge to the SE below surficial cover (*Fig. 13*).

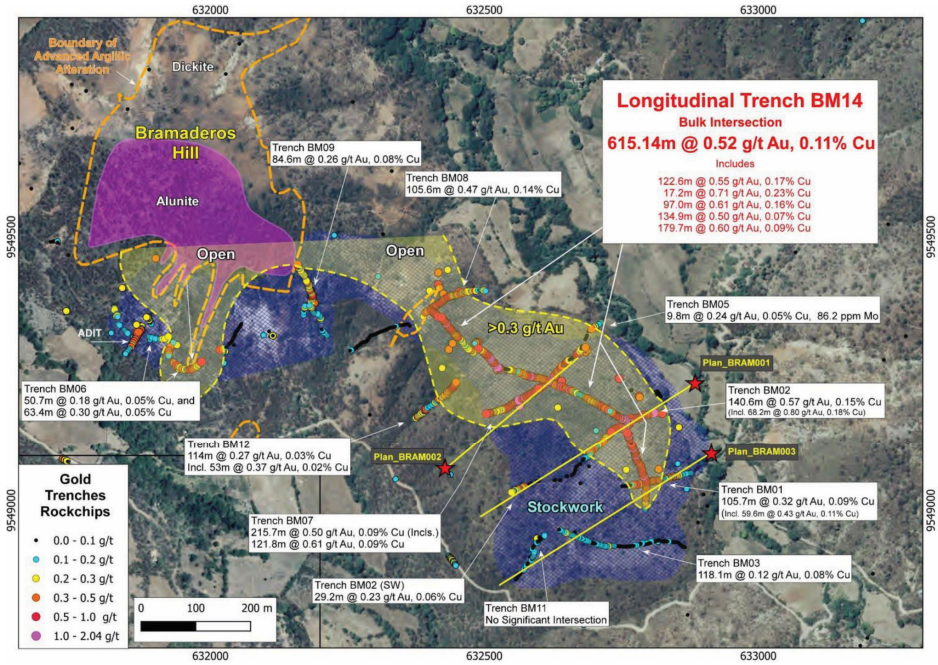


Figure 10. *Bramaderos Main prospect (plan view) highlighting trenching results and proposed drill hole localities (Source: Company release).*

Table 3. *Bramaderos Main trenching assay highlights (Source: Company release).*

Trench	Interval	Au (g/t)	Cu (%t)
BM01	105.7m	0.32	0.09
incl.	*59.6m*	*0.43*	*0.11*
BM02	140.6m	0.57	0.15
incl.	***68.2m***	***0.80***	***0.18***
BM03	118.1	0.12	0.08
BM06	50.7m	0.18	0.05
	63.4m	0.30	0.05
BM07	215.7m	0.50	0.09
incl.	***121.8m***	***0.61***	***0.09***
BM08	105.6m	0.47	0.14
incl.	***54.4m***	***0.61***	***0.20***
BM09	55.8m	0.27	0.08
	28.8m	0.24	0.08
BM12	114.0m	0.27	0.03
incl.	*53.0m*	*0.37*	*0.02*
BM14	**615.0m**	**0.52**	**0.11**
incl.	*122.64m*	*0.55*	*0.17*
and	*17.2m*	*0.71*	*0.23*
and	*97.0m*	*0.61*	*0.16*
and	*134.9m*	*0.50*	*0.07*
and	*179.7m*	*0.60*	*0.09*

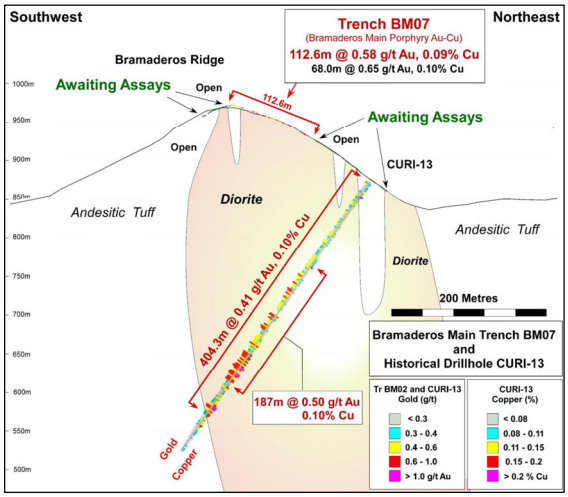


Figure 11. *Bramaderos Main prospect (cross-section) highlighting trench BM07 and depth extend to mineralisation in drill hole CURI_13 (Source: Company release).*

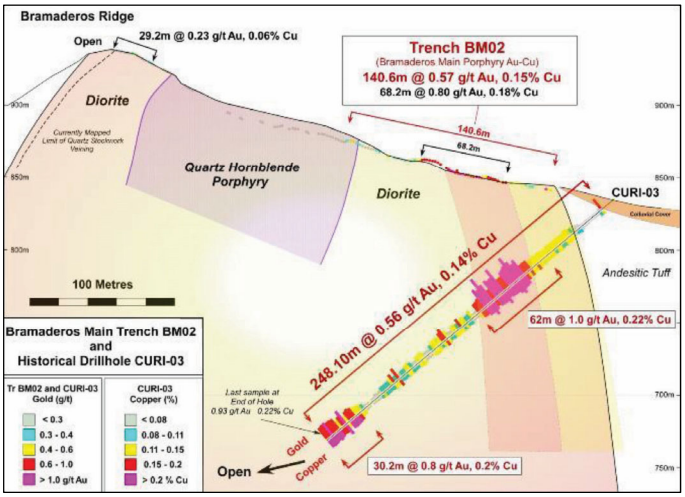


Figure 12. *Bramaderos Main prospect (cross-section) highlighting trench BM02 and continuation of mineralisation at depth in drill hole CURI_03 (Source: Company release).*

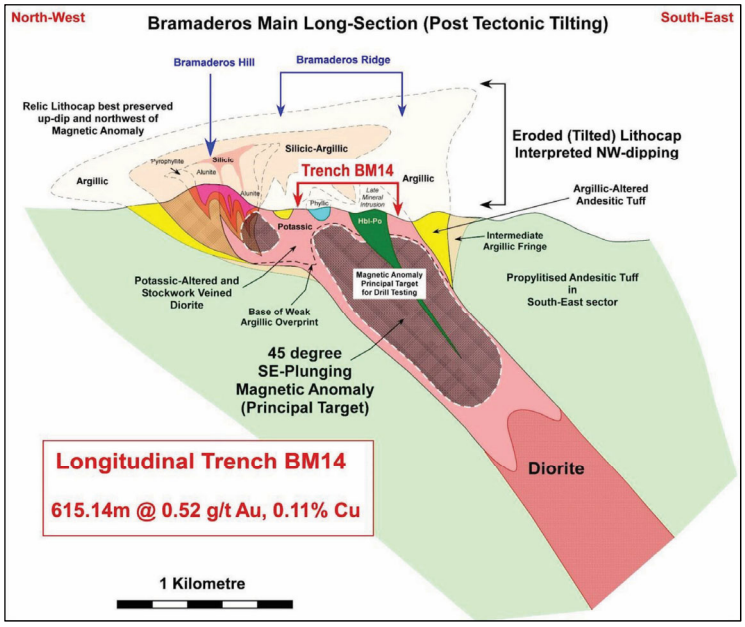


Figure 13. *Bramaderos Main prospect schematic long-section highlighting interpreted orientation of mineralised porphyry body (Source: Company release).*

West Zone prospect

A large epithermal Au-Ag system has been identified at West Zone

The West Zone prospect is a partially outcropping hydrothermal breccia-hosted epithermal Au-Ag system that has never been drilled. It is also associated with a large porphyry geophysical target. Trenching so far has defined a surface footprint of 150m x 150m (*Table 4*). More broadly, mapping and soil/rock sampling defined a prospective area of 700m x 400m based on a gold-in-soil anomaly and in conjunction with the trenching results confirm the potential for a significant gold discovery. Furthermore, the full extent of the prospect is yet to be defined with mineralisation still open in several directions. The JV has defined drill targets to test the sub-vertical, breccia-hosted gold system.

Limon prospect

Geochemical sampling and metal associations indicate a large porphyry system potential at depth at Limon

The Limon prospect is an undrilled porphyry Au-Cu system that lies northeast of the main NNE Bramaderos trend. Soil sampling has defined an area of coincident Cu, Au and Mo anomalies over an area of ~1.3km x 0.8km. This geochemical anomaly is surrounded by a halo of Zn and Pb anomalism which is an association often observed within porphyry Au-Cu systems (e.g. Tujuh Bukit). Based on copper anomalism in soils and rock alteration signatures, which are typical of the upper levels of porphyry Au-Cu systems, and a magnetic anomaly, the prospective area measures ~2km x 1km (*Fig. 15*).

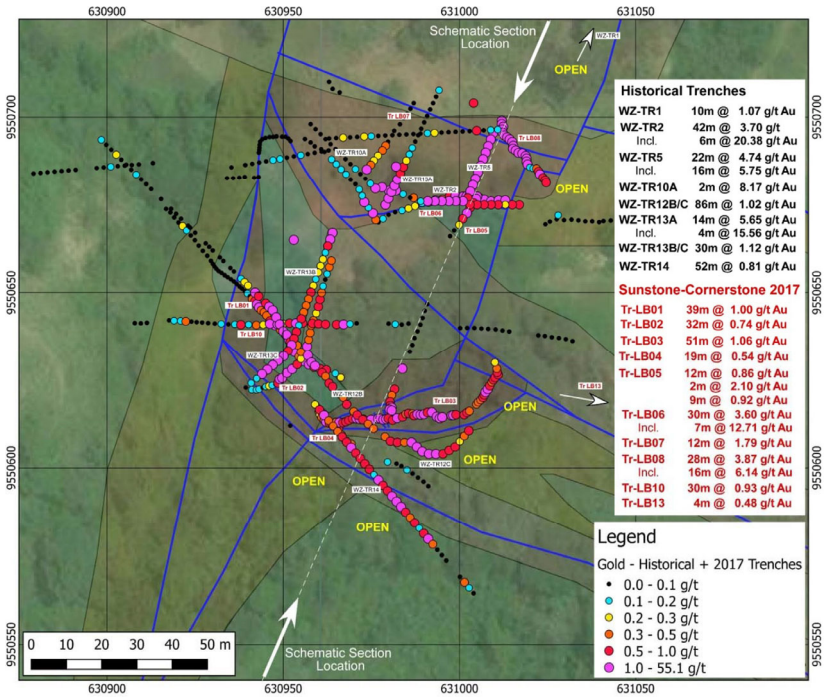


Figure 14. *West Zone epithermal Au-Ag prospect trenching results (Source: Company release).*

Table 4. *West Zone trenching assay highlights (Source: Company release).*

Trench	Interval (m)	Au (g/t)	Ag (g/t)
LB01	39.04	1.00	1.8
incl.	*12.1*	*1.55*	*2.1*
LB02	32.03	0.74	0.9
incl.	*9.93*	*1.40*	*2.0*
LB03	51.31	1.06	3.1
incl.	*11.58*	*1.35*	*9.3*
and	*9.04*	*1.92*	*1.1*
LB04	19.11	0.54	1.6
LB05	12.31	0.86	1.2
	9.16	0.92	2.4
LB06	**30.03**	**3.60**	**1.5**
incl.	*21.99*	*4.78*	*1.5*
incl.	*6.92*	*12.71*	*1.1*
	8.42	1.17	1.2
LB07	11.57	1.79	0.5
LB08	**27.85**	**3.87**	**1.7**
incl.	*15.59*	*6.14*	*2.2*
incl.	*6.98*	*7.18*	*1.5*
LB10	30.04	0.93	1.7
incl.	*9.75*	*1.70*	*3.5*

Limon prospect has never been drilled

Limon is dominated by an elongate zone of highly ferruginous and leached phyllic/argillic alteration that represents a classic leached cap ("lithocap") over the exposed quartz stockwork mineralisation and veining (*Fig. 16*). The Company believes the presence of elevated Cu values and intense leaching at surface indicates significant Cu grades at depth. This has been overprinted by an epithermal alteration system represented at surface by intense argillic alteration which surrounds the veining. Trenching completed by the JV highlights the potential at Limon (*Table 5*).

These results were from strongly altered rocks which overprint the underlying porphyry Cu-Au signature. The trenching anomaly is coincident with a ~1.5km long magnetic anomaly below the lithocap which the company is interpreting as the magnetic core to the porphyry system. The JV is encouraged about the prospectivity at Limon due to multiple overlapping and complimentary datasets that are observed in porphyry systems elsewhere. Three drill holes have been planned to test for both porphyry Au-Cu mineralisation at depth beneath the lithocap and shallower overprinting epithermal-style mineralisation.

Table 5. *Limon trenching assay highlights (Source: Company release).*

Trench	Interval (m)	Au (g/t)	Ag (g/t)
LM01	97.6	0.71	0.23
incl.	*65.0*	*0.93*	*0.31*
incl.	*65.0*	*0.93*	*0.31*

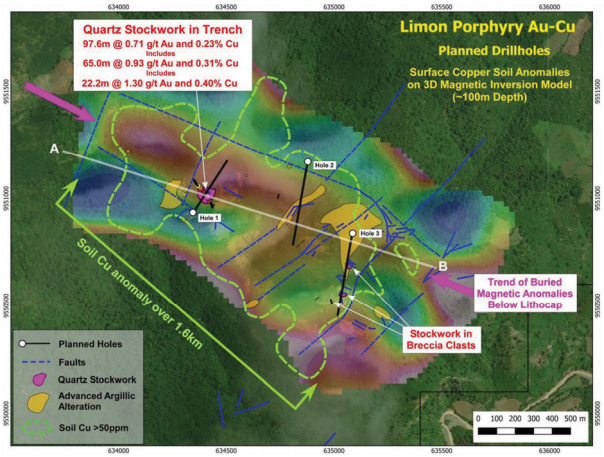


Figure 15*. Map highlighting trenching results, geological features and magnetic anomaly over lithocap of Limon prospect (Source: Company release).*

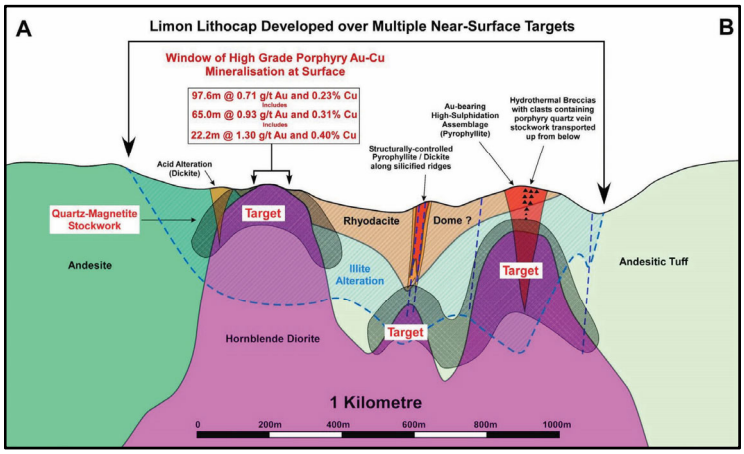


Figure 16*. Schematic long-section through Limon highlighting trenching results and key geological features (Source: Company release).*

Porotillo prospect

The Porotillo prospect is located ~1.5km south of Bramaderos Main and is also associated with a large magnetic body at depth with a modelled vertical extent of more than ~1.7km (*Fig. 8*). This anomaly coincides with anomalous geochemical sampling results at surface. Although historical drilling at the prospect did not intersect significant mineralisation, the Company has recognised that the drill holes did not intersect the main magnetic anomaly so the full potential of Porotillo is yet to be adequately tested.

Drilling Permits

Approval for the regional drilling permit or scout reconnaissance drilling is imminent

Cornerstone is managing the environmental permitting process to allow drilling to commence. The JV has submitted the necessary paperwork, including the Environmental Impact Assessment, Social Participation Process and water permit application, to the Ministry of Environment and to SENAGUA (National Water Agency) as required for drilling approval in Ecuador.

Regional drilling programme

The JV has been waiting the issuance of an environmental licence to allow drilling to commence at the Bramaderos concession. Under existing rules, an environmental licence is granted after approval of an environmental impact assessment (EIA). The JV partners submitted the EIA in late 2017 and are awaiting comments from the Ministry of Environment (ME). The JV received the Water Permit in April 2018 which is a key factor required for the environmental licence. Several components of the EIA have also been approved by the Ministry of Environment. Due to the large number of EIA approval applications in Ecuador, following the success of SolGold plc (*see below*) the EIA approval process can take several months to complete. Once the permit is issued, drilling can commence anywhere across the concession.

Scout reconnaissance drilling

In July 2018, the Ecuadorian government announced the "scout drilling" initiative which allows scout drilling on exploration concessions during the 4-year Initial Exploration Phase through a simplified permitting process. Up to 40 drilling platforms can be established on each concession and administrative approval is expedited. Once scout drilling is permitted, drilling can commence prior to approval of the EIS. The JV is awaiting details on the implementation of the scout drilling initiative.

Case Study: SolGold plc

Cascabel discovery hole CSD 13-001 intersects 302m @ 0.39% Cu & 0.48g/t Au from 16m, including 100m @ 0.65% Cu & 1.0g/t Au from 222m

SolGold's discovery at the Cascabel project highlights the potential value that can be unlocked following discovery and continued successful drilling. SolGold owns 85% of ENSA, the JV vehicle that owns Cascabel, with the remainder (15%) owned by Cornerstone. In January 2018, SolGold announced a maiden MRE at the Alpala prospect of **1,080Mt @ 0.4% Cu, 0.3g/t Au** (0.7% Cu Eq) for 5.2Mt Cu and 12.3Moz Au (7.4Mt Cu Eq), **including a high grade component of 120Mt @ 1.1% Cu, 1.3g/t Au** (1.8% Cu Eq) for 1.2Mt Cu and 4.7Moz Au (2Mt Cu Eq).

SolGold has raised in excess of £80m on the back of Cascabel and has Newcrest and BHP as major shareholders

The global interest that comes with a world-class discovery like Alpala is evident by the valuation placed on SolGold. At the time of writing of this report, **SolGold plc was valued at £752m (A$1,380m)**. Furthermore, funding exploration and development of exciting discoveries is relatively straightforward. Following several capital raisings, which raised in excess of £35m, in October 2016 SolGold accepted an offer by Newcrest to buy 10% of its shares for $US22.8 million (A$31.74) after a battle-off with BHP. It was touted that Newcrest's experience with block caving would make it the ideal partner. Newcrest has since subscribed for additional shares to help fund exploration, increasing its stake to 14.5%. In September 2018, BHP re-entered the fray by paying £27.4m (A$49m) for 6.1% of Solgold's London-listed shares under a transaction with Solgold shareholder Guyana Goldfields. BHP followed up its investment in October 2018 via a US$59.2m placement, paying a 32% premium to the volume weighted average price and taking its stake to 11.2%. It is not yet clear which major will win the battle for SolGold. What is clear is the value that is created with drilling success and prudent corporate management.

Sunstone's Management Team and SolGold

Key management personnel at Sunstone are the same team involved with the Cascabel and Tujuk Bukit discoveries

Malcolm Norris (CEO & MD) and Bruce Rohrlach (Chief Geologist) from Sunstone were previously employed by SolGold and involved in the acquisition and progression of the Cascabel project, including the positioning of the discovery hole. The same team were also involved in the discovery and delineation of the 1.7Bt Tujuk Bukit Au-Cu porphyry in Indonesia with Intrepid Mines. The Sunstone team brings with it a deep knowledge of porphyry mineral deposits and porphyry exploration. This vastly improves the Company's chances of exploration success and executing a work programme in a way that maximises the potential of the Project.

Viscaria Copper Project, Sweden

Sunstone has entered into a partnership with a Swedish listed company at Viscaria

In October 2018, Sunstone entered into a binding Share Sale and Purchase Agreement ("*SPA*") with Swedish listed Copperstone Resources AB (COPPB:SS; "*Copperstone*") for the sale of its wholly owned Viscaria Copper Project in Northern Sweden. Historically, the Viscaria Copper Project produced 12.5Mt of ore at 2.3% Cu and has excellent potential to become a producing mine again with a JORC (2012) Mineral Resource Estimate of 52.4Mt @ 1.2% Cu for 608.9kt contained Cu.

Under the SPA, the transaction with Copperstone will be completed in two stages:

Stage 1: Cash of 40 million Swedish Kronor (SEK) and 160 million Copperstone B-shares payable at closing (current value is A$6.2m and A$32m, respectively);

Stage 2: Subject to receipt of the Environmental Permit for Viscaria, comprising cash of 20 million SEK and 46 million Copperstone B-shares (current value is A$3.1m and A$9.2m, respectively).

The transaction is conditional upon Sunstone and Copperstone shareholder approval and Copperstone being able to fund working capital and the cash component of the deal via a capital raise. The Company is confident that all conditions precedent will be satisfied and Stage 1 of the transaction be completed in December 2018. Following satisfaction of the conditions precedent, Sunstone's shareholding in Copperstone will likely exceed 30%. Sunstone will be able to appoint two directors to the Board of Copperstone and has agreed to escrow its shares in Copperstone for a period of 18 months.

The current value of the Viscaria transaction is more that the fully diluted market capitalisation of Sunstone

At the time of signing the initial Letter of Intent with Copperstone, the total value of the transaction was valued at ~A$41m. **At current exchange rates and Copperstone share price, the total value of the transaction is ~A$50.6m**.

Catalysts

Receipt of drilling permits, commencement of drilling and assay results have the potential to be significant catalysts for share price appreciation

- **Drill permits:** approval for regional drilling or scout drilling is imminent. Drill tracks have been prepared and support infrastructure is in place. Once either of the permits is received, we anticipate this will stimulate a considerable amount of interest in the Company as it embarks on its maiden drilling programme on the project.
- **Viscaria deal closure:** upon approval of the SPA by the respective shareholders and the successful completion of financing by Copperstone, the Stage 1 cash payment and receipt of Copperstone shares will be material to Sunstone's balance sheet.
- **Drilling results:** the JV has several drill ready targets across the Project and initially plans on drilling three holes at each of Bramaderos Main, West Zone and Limon (Phase 1: ~4,500m in total). All the drill holes are located in sites known to contain either porphyry or epithermal styles of mineralisation, or both. Consequently, the chance of intersecting mineralisation is viewed to be very good and is likely to result in share price appreciation.
- **Financing discussions:** positive drill results will likely trigger a flurry of interest in the Company given the prospectivity in Ecuador for world-class mineral deposits. The Company has adequate funds to complete the first round of drilling but will need additional capital to embark on resource drilling and feasibility studies. The possibility of the Company attracting funding offers from large-cap mining companies is viewed to be high and has the potential to drive share price appreciation.

Risks

We consider the main risks to be:

We view the main risk to be receipt of the drilling permit in a timely fashion

- **Drill Permitting** – the Company is currently awaiting receipt of drilling permits for Bramaderos. Although the Company is confident of receiving the permits, there is no guarantee that it will receive the permits and the timing of receipt is unknown.
- **Funding** – .adverse macroeconomic conditions may impact on the Copperstone's ability to raise funds required as part of the Viscaria SPA as outlined above. Should Copperstone not be able to raise additional capital and thereby not satisfy all the conditions precedent, Sunstone will need to raise additional funds to advance the Bramaderos Project. Macroeconomic conditions may in-turn impact on Sunstone's capital raising abilities and ultimately developing the project.
- **Geological** – mineral deposits can often be associated with complex geological formations and structures. This can affect the grade and continuity of mineralisation over relatively short distances and determine whether an ore deposit is economic to extract.
- **Resource/Reserves** – the Company is yet to define a JORC (2012) Mineral Resource Estimate (MRE) at Bramaderos and there is no guarantee that a MRE will be defined. Furthermore, resource/reserve estimates depend on assumptions that may be inaccurate and may materially affect the quantity and value.
- **Funding** – macroeconomic conditions may impact on the company's ability to raise funds to continue exploring and ultimately develop the project.
- **Commodity** – commodity prices fluctuate with changes in global economic outlook and changes in supply and demand. The outlook for gold and copper is currently positive.
- **Sovereign & Country:** As was seen in 2008, developing countries like Ecuador can abruptly change its Constitution to the detriment of foreign entities. However, Ecuador is a stable political environment, as evidenced by general lack of any major political unrest, and has a stable to positive currency rating from the major credit ratings agencies. It is unlikely that the Government would want to upset this balance at a time when mining investment is increasing substantially. Furthermore, the mining industry in the country now has an established fiscal framework with which to work which will ultimately benefit all stakeholders.

TCL Exploration Target Estimate

We estimate that Bramaderos Main prospect could potentially contain up to 350Mt

The long drilling intersections and hence bulk tonnage nature of porphyry mineralisation encountered at the Bramaderos Main prospect, in addition to supporting geophysical and geochemical data, indicate that Bramaderos Main has the potential to host a large-volume Au-Cu ore body. To gauge an estimate on the potential size of the prize at Bramaderos Main, we have used the dimensions and grades from the trenching and historical drilling to calculate high-level estimates of tonnages based on scenarios (*Table 6*). On the basis of trenching (615m x 220m) and historical drilling (300m vertical depth), we estimate that Bramaderos Main could potentially contain over 100Mt as a starting point. When the depth of the modelled main magnetic anomaly is used for depth calculations (~1km), the porphyry body has the potential to contain in the order of 350Mt. It is acknowledged that the 1km depth extent of the modelled magnetic anomaly applies only to the central, most magnetic portion of the anomaly. The volume of mineralised rock could potentially be larger when the whole anomaly is considered in volume calculations. We note that our 'upside' case is in the order of size and grade to the Cadia-Ridgeway MRE and would be a company-maker for Sunstone. In addition to Bramaderos Main, the JV also has high hopes for delineating additional resources at its other prospects in the project area. Although we have not incorporated these into our "exploration target", we acknowledge the outstanding prospectivity of the Project and potential to host multiple resources.

There is good potential for additional resources to be defined at the Company's other Bramaderos prospects

***Table 6**. TCL estimate of exploration target at Bramaderos Main prospect.*

Scenario	Length (m)	Width (m)	Depth (m)	Tonnes[1] (Mt)	Average Grade[2] Au g/t	Cu %	Contained Metal Au Moz	Cu kt
Base	615	220	300	**105**	**0.53**	**0.12**	**1.8**	**126.6**
Upside	615	220	1,000	**352**	**0.53**	**0.12**	**6.0**	**422.1**

[1] Assumed density of 2.6 g/cc; [2] Based on average grade of trenches MB02 and BM07 and drill holes CURI_03 and CURI_13.

Recommendation

We initiate coverage of Sunstone Metals with a Speculative Buy recommendation

We view there to be considerable upside to Sunstone Metals valuation following receipt of drilling permits and/or satisfaction of Stage 1 of the Viscaria transaction. The drill permits will be a catalyst for regular news flow as drilling progresses. The Company intends to target those areas known to contain mineralisation and which are considered to be the most prospective based on historical activities. For those reasons, we view there to be a very good chance that significant intersections will be generated and act as a catalyst for share price appreciation. Furthermore, the Viscaria Stage 1 cash component of the transaction will be significant to the Balance Sheet of Sunstone and its ability to fund upcoming exploration activities. The Company is anticipating Stage 1 of the transaction will be completed in December 2018.

At this stage, drill permitting approval is considered to be the main risk for the Company and is likely keeping the marginal investor at bay until the permits are granted. We are of the view that it is a matter of when, not if, the permits will be received and look forward to this event in Q4 CY18 or early 2019. It is acknowledged that the "scout drilling" approval could occur much quicker than the full drilling approvals.

If the potential for bulk tonnage resources be realised at Bramaderos, there will be several mid- and large-cap mining companies circling to get a piece of the action in a similar fashion as SolGold has enjoyed. We look forward to the Company receiving the drilling permits at Bramaderos and embarking on its maiden drilling program. For these reasons, **we initiate coverage of Sunstone Metals with a Speculative Buy recommendation.**

Board & Management

Graham Ascough – Non-Executive Chairman
Geophysicist, *BSc, PGeo, MAusIMM*

Graham is a senior resources executive with more than 23 years of industry experience evaluating mineral projects and resources in Australia and overseas. He is currently non-executive Chairman of three other ASX listed companies. Mr Ascough, a geophysicist by training, has had broad industry involvement playing a leading role in setting the strategic direction for companies, completing financing and in implementing successful exploration programmes. He is a member of the Australian Institute of Mining and Metallurgy and is a Professional Geoscientist of Ontario, Canada. 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, which was acquired by Xstrata Plc in 2006.

Malcolm Norris – CEO & Managing Director
Geologist, *MSc, M App Fin, MAICD, FAusIMM*

Mr Norris is a senior mining industry professional with extensive experience in business management, mineral exploration, development of new business opportunities and asset transactions. His roles have covered a wide range of commodities, geographic locations and management of global portfolios of projects in both large and small organisations.
Mr Norris holds an MSc in Geology and a Masters in Applied Finance. He has 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.

Don Hyma – Non-Executive Director
Mining Engineer, *BSc, MSc, PEng, IED*

Mr Hyma has 25 years of progressive capital project experience in the resource sector, principally copper, nickel and iron ore in Canada, Chile, New Caledonia and Australia. His experience spans early stage studies through implementation and start-up. Mr Hyma holds a BSc in Mining Engineering and an MSc in Mineral Processing, along with an International Executive Management Diploma from INSEAD in France. Based in Perth, Mr Hyma is currently Chief Technical Officer with Mitsui & Co and previously held senior management positions with Rio Tinto including Vice-President Projects for the Iron Ore Company of Canada and General Manager Mine and Infrastructure Projects for Rio Tinto Iron Ore.

Stephen Stroud – Non-Executive Director
Accountant, *B.ACC, CPA, FINSIA*

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.

Ray Robinson – General Manager – Studies & Technical Services
Mining Engineer, *B.Eng(Mining)(Hons), LLB*

Mr Robinson is a mining engineer with over 18 years of industry experience in operating and developing mines in Australia, Papua New Guinea, Argentina and Laos. He has expertise in delivering feasibility studies from scoping study to detailed engineering level in both open-pit and underground projects across multiple commodities. Most recently he was employed by PanAust where he successfully delivered two prefeasibility studies for their Laos operations. Previous engagements have ranged from majors including Placer Dome at the Porgera mine, as well as juniors and mid-tiers. Mr Robinson holds a mining engineering degree from the West Australian School of Mines and a Bachelor of Laws.

Bruce Rohrlach – General Manager – Geology
Geologist, *PhD, MAusIMM*

Dr Rohrlach completed a PhD at the Research School of Earth Sciences, Australian National University, Canberra (1997-2002), and studied the Tectonic Evolution, Petrochemistry, Geochronology and Palaeohydrology of the Tampakan Porphyry - High Sulphidation Epithermal Cu-Au Deposit, Mindanao, Philippines. Dr Rohrlach has had a 27 year career in the mineral industry in Australia, Philippines, PNG, Indonesia and South America. This has included extensive experience in all stages of the exploration to development cycle, from establishment of exploration and ore genesis models to management of reconnaissance and advanced exploration programs in regional and mine environments. He has also had considerable experience in scoping studies, feasibility studies, and orebody delineation as Chief Geologist in two world class copper-gold deposits – at Tujuh Bukit and Cascabel.

Gavin Leicht – CFO & Company Secretary
Accountant, *BComm, CPA*

Mr Leicht is a senior finance professional with significant experience in resource sector finance, the global copper industry, and copper project development and construction. He has had 20 years' experience in various financial roles, including more than 10 years in senior financial positions in the resources sector in Australia and overseas with Rio Tinto and PanAust Limited. Most recently he was Group Manager Finance & Treasury with PanAust Limited. Mr Leicht holds a Bachelor of Commerce degree from the University of Newcastle. He is also a Member of the Australian Society of Certified Practising Accountants.

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