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**ASX ANNOUNCEMENT**

26 OCTOBER 2018

# Annual General Meeting

Sunstone Metals Ltd (ASX: STM; “Sunstone”) advises that the attached Notice of Annual General Meeting and Explanatory Memorandum will today be dispatched to shareholders.

A personalised Proxy form will also be provided with the meeting materials

The Company’s 2018 Annual Report is also being dispatched to those shareholders who have requested a hard copy.

Electronic copies of the Annual General Meeting material and the 2018 Annual Report are available on the Company’s website.

Gavin Leicht

Company Secretary

For further information please visit [www.sunstonemetals.com.au](http://www.sunstonemetals.com.au)



**SUNSTONE METALS LTD  
ACN 123 184 412**

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**NOTICE OF ANNUAL GENERAL MEETING  
EXPLANATORY MEMORANDUM  
PROXY FORM**

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**Date of Meeting**

Tuesday 27 November 2018

**Time of Meeting**

11.30am  
(Brisbane time)

**Place of Meeting**

BDO Offices  
Level 10  
12 Creek Street  
("Blue Tower")  
Brisbane Qld 4000

**NOTICE OF ANNUAL GENERAL MEETING**  
**SUNSTONE METALS LTD**  
**ACN 123 184 412**

Notice is hereby given that the Annual General Meeting of Shareholders (**Meeting or AGM**) of Sunstone Metals Ltd ACN 123 184 412 (**Company**) will be held at **11.30am (Brisbane time) on Tuesday 27 November 2018** at the offices of BDO, Level 10, 12 Creek Street, Brisbane, Queensland.

**AGENDA**

The business of the Meeting will be to consider the Resolutions set out below. Full details on the nature of the Resolutions are set out in the Explanatory Memorandum accompanying this Notice of Meeting. Capitalised terms are defined in the Glossary to this Notice of Meeting and Explanatory Memorandum. This Notice of Meeting should be read in its entirety together with the Explanatory Memorandum and Proxy Form.

**ORDINARY BUSINESS**

**Financial Statements and Reports**

To receive the financial report of the Company and its controlled entities for the year ending 30 June 2018, together with the declaration of the directors, the directors' report, the Remuneration Report, and the auditor's report.

**RESOLUTION 1: Adoption of Remuneration Report**

To consider and, if thought fit, pass, with or without amendment, the following resolution as a non-binding ordinary resolution:

*'That, for the purpose of section 250R(2) of the Corporations Act and for all other purposes, approval is given for the adoption of the Remuneration Report as contained in the Company's annual financial report for the financial year ended 30 June 2018.'*

**RESOLUTION 2: The Sale of Avalon Minerals Viscaria AB to Copperstone Resources AB**

To consider and, if thought fit, pass, with or without amendment, the following resolution as an ordinary resolution:

*'That, for the purposes of meeting the conditions of the agreement between the Company and Copperstone Resources AB (publ), and for all other purposes, approval is given for the sale by Sunstone Metals Ltd of all its shares in Avalon Minerals Viscaria AB (owner of the Viscaria Copper Project in Sweden) to Copperstone Resources AB (publ) on the terms and conditions set out in the Explanatory Memorandum.'*

**RESOLUTION 3: Issue of Performance Rights to Mr Malcolm Norris**

To consider and, if thought fit, pass, with or without amendment, the following resolution as an ordinary resolution:

*'That, for the purposes of section 208 of the Corporations Act 2001 (Cth), Listing Rule 10.14 and for all other purposes, approval is given to the issue by the Company of a total of 4,100,000 Performance Rights under the Employee Performance Rights Plan to Mr Malcolm Norris (or his nominee) on the terms and conditions set out in the Explanatory Memorandum.'*

#### **RESOLUTION 4: Approval of Employee Performance Rights Plan**

To consider and, if thought fit, pass with or without amendment, the following resolution as an ordinary resolution:

*'That, for the purposes of being approved as an exemption from Listing Rule 7.1 pursuant to Listing Rule 7.2, exception 9 and for all other purposes, approval is given for the issue of securities and the implementation of the Employee Performance Rights Plan (EPRP) on the terms set out in the Explanatory Memorandum.'*

#### **RESOLUTION 5: Re-election of Director, Mr Graham Ascough**

To consider and, if thought fit, pass, with or without amendment, the following resolution as an ordinary resolution:

*'That in accordance with the Constitution of the Company, Mr Graham Ascough who retires by rotation and being eligible, be re-elected as a Director of the Company.'*

#### **SPECIAL BUSINESS**

##### **RESOLUTION 6: Approval of 10% Placement Facility**

To consider and, if thought fit, pass, with or without amendment, the following resolution as a **special** resolution:

*'That, for the purposes of Listing Rule 7.1A and for all other purposes, Shareholders approve the issue of Equity Securities up to 10% of the issued Shares (at the time of the issue) calculated in accordance with the formula prescribed in Listing Rule 7.1A.2 and on the terms and conditions set out in the Explanatory Memorandum.'*

#### **How to Vote**

You may vote by attending the Meeting in person, by proxy or authorised representative. Registration will commence just prior to the Meeting. To vote in person, attend the Meeting on the date and at the place set out above.

#### **Voting entitlement**

In accordance with regulation 7.11.37 of the *Corporations Regulations 2001 (Cth)*, the Board has determined that the Shareholders who are on the Company's share register at 7.00 pm (Sydney time) on 25 November 2018 (being not more than 48 hours before the Meeting on 27 November 2018) will be taken, for the purposes of the Meeting, to be entitled to attend and vote at the Meeting. If you are not the registered holder of a relevant share at that time, you will not be entitled to vote at the Meeting.

#### **Voting at the Meeting**

Ordinary resolutions require the support of more than 50% of the votes cast. Special resolutions require the support of at least 75% of the votes cast. All the Resolutions at this Meeting, other than Resolution 6, are ordinary resolutions. Resolution 6 is a special resolution.

Every question arising at this Meeting will be decided in the first instance by a show of hands. A poll may be demanded in accordance with the Company's Constitution.

On a show of hands, every Shareholder who is present in person or by proxy, representative or attorney, will have one vote. Upon a poll, every person who is present in person or by proxy, representative or attorney will have one vote for each Share held by that person.

## Voting Exclusion Statements

### (a) Resolution 1

A vote on Resolution 1 must not be cast (in any capacity) by or on behalf of any of the following persons:

- (i) a member of the Key Management Personnel, details of whose remuneration are included in the Remuneration Report; or
- (ii) a Closely Related Party of such a member.

However, a person described above may cast a vote on Resolution 1 as a proxy if the vote is not cast on behalf of a person described above and either:

- (i) the person is appointed as a proxy by writing that specifies the way the proxy is to vote on the resolution; or
- (ii) the person is the chair of the meeting and the appointment of the chair as proxy:
  - does not specify the way the proxy is to vote on the resolution; and
  - expressly authorises the chair to exercise the proxy even if the resolution is connected directly or indirectly with the remuneration of a member of the Key Management Personnel for the Company or, if the Company is part of a consolidated entity, for the entity.

### (b) Resolutions 3 and 4

- (i) For the purposes of the Corporations Act, a person appointed as proxy must not vote, on the basis of that appointment, on any of Resolutions 3 and 4 if:
  - the person is either:
    - a member of the Key Management Personnel for the Company or, if the Company is part of a consolidated entity, for the entity; or
    - a Closely Related Party of such a member, and
  - the appointment does not specify the way the proxy is to vote on the Resolution.

However, the Company will not disregard a vote if:

- the person is the chair of the meeting at which the Resolution is voted on; and
  - the appointment expressly authorises the chair to exercise the proxy even if the Resolution is connected directly or indirectly with the remuneration of a member of the Key Management Personnel for the Company or, if the Company is part of a consolidated entity, for the entity.
- (ii) For the purposes of the Listing Rules, the Company will disregard any votes cast in favour of Resolutions 3 and 4 by or on behalf of any Director of the Company (except one who is ineligible to participate in the Employee Performance Rights Plan) and any associates of that Director of the Company.

However, subject always to paragraph (b)(i), the Company will not disregard a vote if:

- it is cast by the person as proxy for a person who is entitled to vote, in accordance with directions on the proxy form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

(c) **Resolution 6**

The Company will disregard any votes cast in favour of Resolution 6 by or on behalf of a person (and any associates of such a person) who may participate in the 10% Placement Facility and a person (and any associates of such a person) who might obtain a material benefit, except a benefit solely in the capacity of a holder of ordinary shares, if Resolution 6 is passed.

However, the Company will not disregard a vote if:

- (i) it is cast by the person as proxy for a person who is entitled to vote, in accordance with directions on the proxy form; or
- (ii) it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

**Proxies**

A Shareholder who is entitled to attend this Meeting and vote is entitled to appoint a proxy to attend and vote for the Shareholder at the Meeting. A proxy need not be a Shareholder. If the Shareholder is entitled to cast two or more votes at the Meeting the Shareholder may appoint two proxies and may specify the proportion or number of votes which each proxy is appointed to exercise. A form of proxy accompanies this Notice.

To be valid, the appointment of a proxy (made using a properly completed and executed Proxy Form) must be received by the Company no later than 11.30am (Brisbane time) on 25 November 2018.

Proxy Forms can be submitted by the below methods:

- (a) Online by visiting [www.investorvote.com.au](http://www.investorvote.com.au) and entering the 6-digit control number found on the front of the Proxy Form. Intermediary Online subscribers (Custodians) may lodge proxy instructions at [www.intermediaryonline.com](http://www.intermediaryonline.com);
- (b) by mail to Computershare Investor Services Pty Limited, GPO Box 242, Melbourne Victoria 3001; and
- (c) by facsimile 1800 783 447 (within Australia) or +61 3 9473 2555 (outside Australia)

Please note that if the Chairman of the Meeting is your proxy (or becomes your proxy by default), you expressly authorise the chair to exercise your proxy on Resolutions 1, 3, and 4 even though they are connected directly or indirectly with the remuneration of a member of the Key Management Personnel for the Company, which includes the chair. If you appoint the chair as your proxy you can direct the chair to vote for or against or abstain from voting on any of Resolutions 1, 3 and 4 by marking the appropriate box on the Proxy Form.

***The chair intends to vote undirected proxies in favour of each item of business.***

### **Corporate Representative**

Any corporate Shareholder who has appointed a person to act as its corporate representative at the Meeting should provide that person with a certificate or letter executed in accordance with the Corporations Act authorising him or her to act as that company's representative. The authority may be sent to the Company and/or registry in advance of the Meeting or handed in at the Meeting when registering as a corporate representative.

**NOTE:** Please refer to the Explanatory Memorandum accompanying this Notice of Meeting for further information regarding all of the above Resolutions.

By order of the Board

A handwritten signature in black ink, appearing to read 'Gavin Leicht', with a stylized flourish at the end.

Gavin Leicht  
Company Secretary  
25 October 2018

## **EXPLANATORY MEMORANDUM GENERAL INFORMATION**

This Explanatory Memorandum contains an explanation of, and information about, the Resolutions to be considered at the Annual General Meeting of Shareholders of Sunstone Metals Ltd, to be held on **Tuesday 27 November 2018**.

The Explanatory Memorandum is to assist Shareholders in understanding the background to and the legal and other implications of the Notice of Meeting and the reasons for the Resolutions proposed. Shareholders should read the Explanatory Memorandum in full.

The Explanatory Memorandum forms part of the accompanying Notice of Meeting and should be read with the Notice of Meeting.

The Explanatory Memorandum does not take into account the individual investment objectives, financial situation and needs of individual Shareholders or any other person. If you are in doubt about what to do in relation to the Resolutions, you should consult your financial or other professional adviser.

Capitalised words used in the Notice of Meeting and in the Explanatory Memorandum are defined in the Glossary at the end of the Explanatory Memorandum.

The information contained in this Explanatory Memorandum has been prepared by the Company and is the responsibility of the Company. Other than the information set out in this Explanatory Memorandum, the Directors believe that there is no other information that could reasonably be required by Shareholders to consider Resolutions 1 to 6 (inclusive).

A copy of this Notice of Meeting and Explanatory Memorandum was lodged with ASX pursuant to the Listing Rules and ASIC in accordance with section 218 of the Corporations Act. Neither ASX or ASIC nor any of their officers take any responsibility for the contents of this Notice of Meeting and Explanatory Memorandum.

### **ORDINARY BUSINESS**

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#### Financial Statements and Reports

In accordance with the Constitution, the business of the Meeting will include receipt and consideration of the Annual Report together with the declaration of the directors, the directors' report, the Remuneration Report, and the auditors' report.

The Company will not provide a hard copy of the Company's Annual Report to Shareholders unless specifically requested to do so. The Company's Annual Report can be found on its website at [www.sunstonemetals.com.au](http://www.sunstonemetals.com.au).

## Resolution 1 – Adoption of Remuneration Report

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### Remuneration Report

The Remuneration Report sets out the Company's remuneration arrangements for the Directors and senior management of the Company. The Remuneration Report is part of the directors' report contained in the Annual Report.

A reasonable opportunity will be provided for discussion of the Remuneration Report at the Meeting.

### “Two Strikes”

The Corporations Act requires that at a listed company's annual general meeting, a resolution that the remuneration report of the company be adopted must be put to the Shareholders. However, such a resolution is advisory only and will not bind the Directors or the Company.

The *Corporations Amendment (Improving Accountability on Director and Executive Remuneration) Act 2001* (Cth) which came into effect on 1 July 2011, amended the Corporations Act to provide that Shareholders will have the opportunity to remove the whole Board except the Managing Director if the Remuneration Report receives votes against of 25% or more (**Strike**) at two consecutive annual general meetings.

Where a resolution on the Remuneration Report receives a Strike at two consecutive annual general meetings, the Company will be required to put to Shareholders at the second annual general meeting a resolution (**Spill Resolution**) on whether another meeting should be held (within 90 Days) (**Spill Meeting**), at which all Directors (other than the Managing Director) who were in office at the date of approval of the applicable Directors' Report, must cease to hold office immediately before the end of the Spill Meeting and must stand for re-election, unless the Company put to Shareholders a Spill Resolution at the first annual general meeting.

The Company did not receive a Strike at its 2017 annual general meeting and as a result, if the Remuneration Report receives a Strike at this Meeting, the Company will not be required to put a Spill Resolution. However, if the Remuneration Report receives a Strike at this Meeting and a second Strike at the 2019 annual general meeting, the Company will then be required to put a Spill Resolution.

### Proxies

Resolution 1 is an ordinary resolution.

The Corporations Act places certain restrictions on the ability of “Key Management Personnel” (including the Chairman of the Meeting) and their “Closely Related Parties” to vote on Resolution 1 and also places restrictions on “Key Management Personnel” and their “Closely Related Parties” where they are voting as proxy for another shareholder on resolutions connected with the remuneration of Key Management Personnel.

To ensure that your vote is counted on Resolution 1, you are encouraged to direct your proxy how to vote on that item by indicating your preference by completing the “For”, “Against” or “Abstain” boxes on the Proxy Form. If you provide an undirected proxy in relation to Resolution 1 to a director (other than the Chairman of the Meeting) or other Key Management Personnel or their Closely Related Parties, such a proxy will not vote on Resolution 1. To allow such a proxy to vote on Resolution 1, you must direct the proxy how to vote by completing the “For”, “Against” or “Abstain” boxes on the Proxy Form.

If you appoint the Chairman of the Meeting as your proxy in relation to Resolution 1, but do not complete the “For”, “Against” or “Abstain” boxes on the Proxy Form for Resolution 1, the Chairman will exercise your proxy even though Resolution 1 is connected directly or indirectly with the remuneration of Key Management Personnel. The Chairman intends to vote all available proxies in favour of Resolution 1. If you wish to appoint the Chairman as proxy with a direction to vote against, or to abstain from voting on, Resolution 1, you must specify this by completing the “Against” or “Abstain” box on the Proxy Form.

## **RESOLUTION 2 – The Sale of Avalon Minerals Viscaria AB to Copperstone Resources AB**

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### **Background**

Resolution 2 seeks Shareholder approval for the Sale of its Swedish subsidiary Avalon Minerals Viscaria AB to Copperstone Resources AB.

On 3 October 2018, the Company announced that it and Copperstone Resources AB ("Copperstone") (a public company listed on Nasdaq First North Stockholm) had entered into a conditional Share Sale and Purchase Agreement for the sale of all the shares of Avalon Minerals Viscaria AB, the owner of the Viscaria Copper Project in Sweden. The Agreement is conditional on, amongst other things, the receipt of Shareholder approval for both parties. Prior to this agreement, a non-binding Letter of Intent (LOI) regarding the transaction was announced on 9 August 2018.

A summary of the Viscaria Copper Project is included at Annexure A of this Explanatory Memorandum.

The key terms of the Agreement are set out below. A more detailed summary of the Share Sale and Purchase Agreement is set out in Annexure B of this Explanatory Memorandum.

The consideration is via two instalments:

1. Swedish Kronor ("SEK") 40 million in cash and 160 million B-shares of Copperstone payable at closing; and
2. SEK 20 million in cash and 46 million B-shares of Copperstone will be payable upon receipt of the Environmental Permit.

Completion of the Sale will result in Sunstone ceasing to own the Viscaria Copper Project, however Sunstone will retain exposure to the Project through the shares issued in Copperstone, which also holds other prospective copper assets in Sweden, whereby Sunstone will become the largest shareholder in Copperstone and hold around 30% of shares. Following the Sale, the cash proceeds received will be utilised primarily to fund activities at Sunstone's Bramaderos Project in Ecuador and activities in Finland.

### **Key terms of the Share Purchase Agreement**

A summary of the key terms of the Agreement are as follows.

#### **1. Consideration**

The total consideration payable for the Sale of shares in Avalon Minerals Viscaria AB, as at 1 October 2018, equates to approximately A\$47.3 million (based on Copperstone's volume weighted average share price of SEK 1.1866 per share between the date of the LOI (8 August 2018) and 1 October 2018):

- a) Initial cash payment of SEK 40 million (approx. A\$6.2 million) on closing;
- b) Initial issue of 160 million shares in Copperstone on closing (valued at SEK 189.8 million or A\$29.5 million)
- c) Further cash payment of SEK 20 million (approx. A\$3.1 million) on receipt of the environmental permit for the Viscaria Copper Project; and
- d) Further issue of 46 million shares in Copperstone on receipt of the environmental permit for the Viscaria Copper Project (valued at SEK 54.6 million or A\$8.5 million)

This total consideration value represents a premium of 21% on the Company's average market capitalisation of A\$39 million for the 6 months prior to the announcement of the LOI on 9 August 2018, and assumes that the cash and share issue referred to in c) and d) above, which is contingent upon approval of the environmental permit for the Viscaria Copper Project, is achieved.

It is important for Shareholders to note that this value may change due to movements of Copperstone's share price which may go up or down at any time in the future, and exchange rates between AUD and SEK.

## 2. Conditions Precedent

Completion is subject to and conditional upon the satisfaction or waiver of the following conditions precedent (among others):

- Copperstone having secured financing of a minimum SEK 80 Million;
- Sunstone Shareholders having approved the Sale (the subject of Resolution 2); and
- Copperstone Shareholders having approved the purchase and issue of new shares to Sunstone;

Following completion Sunstone may hold more than 30% of the shares in Copperstone and has therefore obtained an exemption from the Swedish Securities Council relating to the mandatory offer requirements for holding more than 30% of shares in a company.

## 3. Completion

Completion shall take place on the tenth (10th) Business Day after satisfaction or waiver, as the case may be, of the conditions precedent.

At Completion Sunstone shall enter entering into a lock-up agreement on the Copperstone shares for a period of 18 months after completion.

### ***Effect of the Sale on the Company***

#### 1. Profit & Loss Impact

The Viscaria Copper Project is in Feasibility Study stage and as such does not currently generate any operating revenue for Sunstone.

The total carried value for Avalon Minerals Viscaria AB as at 30 June 2018 was A\$43.3 million, incorporating capitalized Exploration and Evaluation costs for the Viscaria Copper Project of A\$38.9 million, accumulated losses for Avalon Minerals Viscaria AB, related to impairment of relinquished tenements and corporate overheads, of A\$2.4 million, and other Net Assets and Foreign Currency Reserves of A\$2 million.

This carried value is less than the current expected total consideration to be received of approximately A\$47.3 million, however, any recognised gain or loss on disposal of Avalon Minerals Viscaria AB will not be known until the date of completion, based on the Copperstone share price and exchange rates between AUD and SEK at that time, and allowing for the discounting of the future consideration to present value for accounting purposes.

The value of the shares in Copperstone will be marked to market at each balance date and may result in future gains or losses on this investment based on the market price of Copperstone shares and the relevant exchange rate.

## 2. Statement of Financial Position

If the Sale is completed, the Company will retain and continue to financially support its Bramaderos Project in Ecuador, as well as the gold and lithium projects in Finland, and become the largest shareholder in Copperstone. The estimated cash held by the Company will increase by approximately A\$5 million following completion of the Sale, net of fees associated with the transaction.

The impact on Sunstone's Statement of Financial Position will be an increase in cash and investments (representing shares issued in Copperstone) and receivables (representing future cash and shares to be issued in Copperstone, discounted to present value). The carried Exploration and Evaluation costs for the Viscaria Copper Project will become nil, with little change to Current and Non-Current Liabilities.

An unaudited and summarised pro-forma Consolidated Statement of Financial Position as at 30 June 2018 illustrating the financial position of the Company if the Sale is completed is set out in Annexure C.

## 3. Effect on capital structure

The Sale will not affect the capital structure of the Company. For clarity, the Company will not reduce or issue any new securities as a result of the Sale. Sunstone will, however, become the largest shareholder in Copperstone.

## 4. Tax impact

It is not expected that the Sale will give rise to a tax liability for Sunstone, as Sunstone will be disposing of shares in a foreign subsidiary that comprises active foreign business assets.

## 5. Intentions if the Sale does not proceed

If the Sale does not complete under the terms of the Agreement, the Directors intend to continue progressing the feasibility studies on the Viscaria Copper Project and will potentially look at listing the Swedish subsidiary, Avalon Minerals Viscaria AB on Nasdaq First North Stockholm and issuing up to 25% of its shares under an Initial Public Offering to raise funds to complete the feasibility study.

In such eventuality, no part of the consideration will be payable to the Company.

## **Advantages of the Sale**

The Board dedicated considerable time and attention to the proposed Sale prior to resolving to enter into the Agreement with Copperstone, including forming a view on the advantages and disadvantages of the Sale for the Company and its Shareholders.

The principal matters the Directors considered are set out below, which after being taken into consideration, the Directors unanimously concluded that the Sale would be in the best interests of Sunstone Shareholders.

### 1. Strengthened balance sheet

Completion of the Sale will leave Sunstone in a strong financial position, with an increased cash balance to fund the exploration program at Bramaderos and Finland.

If the Sale were not to complete then the Company would need to fund these exploration programs, as well as ongoing Feasibility Studies and potential development of the Viscaria Copper Project. This may require funding of capital expenditure which may result in the Company acquiring debt and/or conducting a dilutive capital raising.

## 2. Realisation of value at a substantial premium to market

The Sale price implies a significant premium to Sunstone's recent market prices. The consideration under the Agreement is approximately A\$47.3 million, payable in cash and shares in Copperstone. However, it is important for Shareholders to note that this value may change due to movements of Copperstone's share price which may go up or down at any time in the future, and exchange rates between AUD and SEK.

Sunstone's average market capitalization over the 6 months up to the date of the LOI on 9 August 2018 was A\$39m, therefore the transaction represents a premium of around 21% to this average.

These premiums do not take into account the value of the Bramaderos Project or the Southern Finland Gold Project that Sunstone retains following completion of the Sale and that each Shareholder will continue to retain exposure to.

This factor was the material factor in the Directors determining that the Sale price is fair.

## 3. Sunstone retains some exposure to the Viscaria Copper Project

In addition to realising a value for the Viscaria Copper Project in excess of that implied from recent trading levels of Sunstone Shares, completion of the Sale also sees Sunstone retain some level of exposure to the Viscaria Copper project through becoming the largest shareholder in Copperstone as part of the consideration. In addition to this, Sunstone gains exposure to Copperstone's other prospective copper assets in Sweden.

In an increasing copper price environment, the value of these shares in Copperstone could potentially increase.

## 4. Continued exposure to the Sunstone team and remaining assets

In addition to the consideration received from Copperstone for the Sale (if successfully implemented), Shareholders will continue to hold Shares in Sunstone which, after the Sale, will:

- retain all members of the current Sunstone team that have a proven record of discovery, development and operation;
- continue to progress the Bramaderos and Southern Finland Gold Projects;
- consider corporate or asset transactions which deliver Shareholder value; and
- hold an increased cash balance to advance the Bramaderos and Southern Finland Gold Projects and assess other opportunities as appropriate.

## 5. Impact on Sunstone Share price

Whilst the impact on Sunstone's Share price cannot be predicted, Shareholders should be aware that it is possible that in the event the Sale is not approved by Shareholders, the market price of Sunstone may fall from current levels.

## 6. Low Counterparty Risk

Copperstone is a Swedish publically listed company that holds exploration tenements over prospective copper areas in Sweden. Copperstone had a market capitalisation of approximately SEK343 million (A\$52.9 million) immediately prior to the announcement of signing the SPA, and strong Scandinavian support to fund the Viscaria Copper Project as well as their existing copper exploration projects.

Copperstone will fund its completion obligations under the Agreement, as well as additional working capital funding for the Viscaria Copper Project from a capital raising on Nasdaq First North Stockholm.

A Swedish company with strong Scandinavian shareholder support such as Copperstone is a natural acquirer of the Viscaria Copper Project. The Company considers that Copperstone is a low risk counterparty and provides greater certainty to Shareholders that the Sale will be completed.

Details of Copperstone and public reports are available on its web site (<https://copperstone.se/>).

### **Disadvantages of the Sale**

The Board is of the view that the proposed Sale has few potential disadvantages. The principal disadvantages are set out below:

#### 1. Principal Asset Sale

The Sale involves the Company selling a principal asset, which may not be consistent with the investment objectives of all Shareholders. Although the Viscaria Copper Project is viewed as a principal asset due to the carried capitalised exploration expenditure to date, the Company has been focusing on the Bramaderos project in Ecuador over the last 12 months and sees that project as its core objective going forward.

#### 2. Viscaria Copper Project

The Viscaria Copper Project is an attractive development proposition in an increasing copper price environment. The Company and its Shareholders would no longer have 100% exposure to the potential upside of the Viscaria Copper Project, although the Company will retain some exposure to the project through a substantial shareholding in Copperstone as the new owner, while the Sunstone team will also remain involved in the Feasibility Study on the Viscaria Copper Project.

#### 3. Shares in Copperstone

As part of the Consideration for the Sale, the Company will become a substantial shareholder in Copperstone. Although this allows Shareholders to retain exposure to the Viscaria Copper Project, Copperstone is involved in mineral exploration which is highly speculative in nature and as such the Copperstone share price may rise or fall following the issue of shares to Sunstone, resulting in gains or losses being recognised by the Company.

It is noted that the Copperstone share price has moved from SEK 1.02 per share prior to the announcement of the Letter of Intent on Nasdaq First North (Stockholm) on 8 August 2018 to SEK 1.42 as at 1 October 2018, with the minimum and maximum prices in that period being SEK 0.85 and SEK 1.50 per share respectively, and the volume weighted average price equating to SEK 1.1866 per share.

The Board considers that these risks do not outweigh the benefits of the Sale.

**Directors' interests**

No Director will receive a payment or benefit of any kind as a result of the Sale, other than as security holder of the Company or as contemplated by Resolution 2.

**Directors' Recommendation**

The Directors unanimously recommend that Shareholders vote in favour of Resolution 2.

Each Director that is eligible to vote on Resolution 2 intends to vote all Shares which they control in favour of Resolution 2.

In making the recommendation the Directors considered the advantages and disadvantages of the Sale, including those factors discussed in this Explanatory Memorandum. The Directors also considered whether there were alternatives which would produce a more favourable outcome for Shareholders. The Sale and these alternatives (if any) were assessed against a number of criteria, including:

- a) the value delivered to the Company and to the Shareholders; and
- b) the level of certainty, and the likely timing of, any alternative being effectively executed and completed.

The Directors concluded that, the Sale represents a favourable outcome for Shareholders.

**Other Information**

Other than as set out in this Notice of Meeting and information previously disclosed to Shareholders, there is no information known to Directors which might reasonably be expected to be material to the making of a decision by Shareholders whether or not to vote in favour of Resolution 2.

## **RESOLUTION 3 – Approval to issue up to 4,100,000 Performance Rights to CEO/Managing Director, Malcolm Norris or his nominee.**

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### **Background**

The Board is seeking Shareholder approval for Resolution 3 referred to in the accompanying Notice of Meeting for the purposes of Chapter 2E of the Corporations Act and Listing Rule 10.14.

### **Corporations Act**

Chapter 2E of the Corporations Act regulates related party transactions. Pursuant to section 228, Mr Norris is a related party of the Company given he is a director of the Company.

Section 208 of the Corporations Act provides that, unless an exception applies, a public company must obtain the approval of its members in accordance with sections 217 to 227 of the Corporations Act before it gives a financial benefit to a related party. The benefit for which Shareholder approval is obtained must be given within 15 months of that approval.

The issue of the Performance Rights proposed under Resolution 3 is an example of giving a financial benefit to a related party under the Corporations Act. It is on this basis that approval to Resolution 3 is being sought.

### **Listing Rules**

Listing Rule 10.14 requires a listed company to obtain Shareholder approval by ordinary resolution prior to the issue of equity securities under an employee incentive scheme to a director of the entity. The definition of 'equity securities' under the Listing Rules includes a 'right to a share or unit or option'. Further, as noted above, Mr Norris is a director of the Company, hence Shareholder approval under Listing Rule 10.14 is being sought.

In accordance with Listing Rule 7.2, Exception 14, the general prohibition under Listing Rule 7.1 in relation to the 15% threshold will not apply to the Performance Rights issued under Resolution 3 provided Shareholder approval is obtained under Listing Rule 10.14. If Shareholder approval is given under Listing Rule 10.14, approval is not required under Listing Rule 7.1.

### **Corporations Act and Listing Rule disclosure**

Details of the proposed issues under Resolution 3 as required by the Corporations Act and further expanded upon in ASIC Regulatory Guide 76 (Related Party Transactions) and Listing Rule 10.15 are as follows:

<b>Required disclosure</b>	
Proposed allottees	Mr Malcolm Norris, or his nominee
Nature of relationship with Sunstone	Mr Malcolm Norris is a related party of the Company because of his role as CEO/Managing Director.
Maximum number of securities to be issued	Subject to Shareholder approval, it is proposed that Mr Norris will be issued up to 4,100,000 Performance Rights to subscribe for new ordinary shares in the Company.  For the purposes of relying on the Shareholder approval obtained for this Resolution, all Performance Rights will be issued no later than 1 month after this General Meeting.
Issue Price/ Use of funds	Nil. No funds will be raised on the initial issue of the Performance Rights to Mr Norris as they are being granted for no consideration.

<p>Terms of issue</p>	<p>The terms and conditions of the Performance Rights to be issued to Mr Norris under Resolution 3 are set out in Annexure D to this Explanatory Memorandum.</p> <p>Each Performance Right proposed to be granted entitles the holder to subscribe for one new ordinary share in the Company, upon satisfying the performance conditions. Shares issued on vesting of the Performance Rights will rank equally in all respects with the existing fully paid ordinary shares in the Company.</p> <p>There are no Loans associated with the Issue.</p>
<p>Performance Conditions, and expiry date</p>	<p>In relation to Mr Norris, the Performance Rights to be issued and the performance conditions required for vesting are as follows:</p> <p>(i) 4,100,000 Performance Rights, with an exercise period of 3 years commencing on the date Shareholder approval is granted and expiring on the third anniversary of that date; and</p> <p>(ii) Performance Conditions for Vesting of:</p> <p>a) Tranche 1 – 33.33% or 1,366,667 Performance Rights to vest upon the later of both the following vesting conditions occurring:</p> <ul style="list-style-type: none"> <li>• Closing Price of Sunstone Shares being the higher of \$0.05 or more, or 50% above the 15 day VWAP prior to the date of shareholder approval, for 10 consecutive trading days; and</li> <li>• 12 months after issue.</li> </ul> <p>b) Tranche 2 – 33.33% or 1,366,667 Performance Rights to vest upon TSR performance as measured against the ASX Small Resources Index, as follows:</p> <ul style="list-style-type: none"> <li>• Performance below the index no shares will vest.</li> <li>• Performance equal to the index will see 50% vest, increasing linearly with outperformance of the index by up to 25%, such that 100% of shares will vest should Sunstone's performance be greater than 25% above the index performance.</li> <li>• Testing will be annually on 30<sup>th</sup> June; and</li> </ul> <p>c) Tranche 3 – 33.33% or 1,366,666 Performance Rights to vest upon the later of both the following vesting conditions occurring:</p> <ul style="list-style-type: none"> <li>• Closing Price of Sunstone Shares being the higher of \$0.065 or more, or 100% above the 15 day VWAP prior to the date of shareholder approval, for 10 consecutive trading days; and</li> <li>• 12 months after issue.</li> </ul>
<p>Why the Performance Rights are being issued to the allottees</p>	<p>The primary purpose of the issue of the Performance Rights is to provide cost effective remuneration and incentives for Mr Norris in his role as Managing Director and reflects what the Board considers to be appropriate in the circumstances.</p> <p>It is considered appropriate to grant the Performance Rights to Mr Norris as a means of:</p> <ul style="list-style-type: none"> <li>• retaining his services by providing a competitive remuneration package;</li> <li>• providing incentives linked to the performance of the Company, thereby aligning his interests more closely with that of the Company; and</li> <li>• providing him with an opportunity to acquire equity in the Company.</li> </ul> <p>It is further considered that the performance of Mr Norris and the performance and value of the Company will be closely related.</p>

	<p>Mr Norris brings a wealth of experience to the Company and valuable fundraising experience, mine development and mining exploration contacts.</p> <p>The Directors (other than Mr Norris) believe that the proposed issue of Performance Rights are in the best interests of the Company and promote the interests of the Company on the basis that the Managing Director will be increasingly committed to improving the performance of the Company for the benefit of Shareholders.</p>
<p>Why the number of Performance Rights and value of the Performance Rights was chosen</p>	<p><i>Why the number of Performance Rights?</i></p> <p>The number of Performance Rights was chosen following a review of similar organisations to be market competitive. The Performance Rights will be granted as a key component of the Managing Director's remuneration in order to retain services and provide incentives linked to the performance of the Company. It is further considered that the performance of the Managing Director and the performance and value of the Company will be closely related.</p> <p><i>What is the value of the Performance Rights?</i></p> <p>Pitcher Partners, as independent valuers, has determined that the total value of the Performance Rights to be issued to Mr Norris is (as at the date of the Valuation) \$103,593.</p> <p>Attaining all the exercising conditions will also mean a significant increase in the share price. If such a share price increase is attained the Board (excluding Mr Norris) determined that the financial reward to Mr Norris was appropriate and aligned his interests with that of all Shareholders.</p>
<p>Why the three performance related vesting conditions were chosen</p>	<p>The three performance related vesting conditions were chosen in order to closely align rewards for performance of key employees with the achievement of the Company's growth and strategic objectives for the 2019 financial year and beyond, to deliver superior performance that creates shareholder value.</p> <p><i>Closing share price being the higher of \$0.05 or more for 10 consecutive days?</i></p> <p>This vesting condition was chosen as it represents a share price triple the Volume Weighted Average Price ("VWAP") paid by shareholders for any Equity issues during the 2018 financial year (\$0.017); a 163% premium to the highest placement price in that period (\$0.019); and a 73% premium to the 12 month VWAP to 30 June 2018 (\$0.029). The vesting condition will increase to 50% above the 15 day VWAP prior to the date of shareholder approval should this be above \$0.05</p> <p><i>TSR Performance against the ASX Small Resources Index?</i></p> <p>This vesting condition was chosen as it represents the performance of the Company against a relevant index of resource companies, comparing the growth of the Company with the growth of the index. No shares will vest under this condition unless the Company's performance is equal to or above that of the index.</p> <p><i>Closing share price \$0.065 or more for 10 consecutive days?</i></p> <p>This vesting condition was chosen as it represents almost 4 times the VWAP paid by shareholders for any Equity issues during the 2018 financial year; and a 136% premium to the 12 month VWAP to 30 June 2018. The vesting condition will increase to 100% above the 15 day VWAP prior to the date of shareholder approval should this be above \$0.065</p>

Valuation of the financial benefit	<p>The Company engaged Pitcher Partners to undertake valuations of the Performance Rights proposed to be issued to Mr Norris. Pitcher Partners valued the Performance Rights using the Monte Carlo simulation for the valuation of the tranches with share price hurdles (Tranches 1 and 3) and for Tranche 2, the Hoadley Hybrid ESO model, a correlated Monte Carlo Simulation to simultaneously simulate the performance of the Company's share price and the ASX Small Resources Index taking into account the correlation between the two.</p> <p>The valuation models use the following variables to determine the value of the Performance Rights:</p> <ul style="list-style-type: none"> <li>a) value of the underlying asset – share price of \$0.038 being the closing share price on ASX as at 2 July 2018, being the date of the Offer of the Performance Rights;</li> <li>b) vesting conditions – as referred to above, with Tranche 1 share price hurdle being \$0.057 and Tranche 3 being \$0.076, representing 50% and 100% above the share price referred to in a) above;</li> <li>c) expected volatility of the share price – 100% as calculated by an average of the 6 month, 1, 2 and 3 year historical volatility;</li> <li>d) expected volatility of the ASX Small Resources Index – 26% based on 3-year index volatility;</li> <li>e) risk free rate – the Australian Government 3-year bond rate as at 6 July 2018 of 2.08%;</li> <li>f) time to maturity – the Performance Rights expire 3 years from the date of issue; and</li> <li>g) expected dividend yield – Nil, given the Company is a mineral exploration company with no history of paying dividends.</li> </ul> <p>Based on the assumptions outlined above, Pitcher Partners calculated the value of the Performance Rights to be \$103,593, with a total value for each Tranche as follows:</p> <ul style="list-style-type: none"> <li>• Tranche 1 – \$0.0260 per Share Right = \$35,533</li> <li>• Tranche 2 – \$0.0266 per Share Right = \$36,353</li> <li>• Tranche 3 – \$0.0232 per Share Right = \$31,707</li> </ul> <p>However, it is important for Shareholders to note that this stated value of the Performance Rights may go up or down at any time despite the Valuation. This is because the value of the Performance Rights will depend on the valuation methodology used in any future valuation, together with the relevant assumptions made under this Valuation compared to any future valuations.</p> <p>The Board (other than Mr Norris) believes, having taken appropriate expert advice on the matter, that the valuation and use of the Monte Carlo simulation was appropriate in the circumstances. The Board has not used any other valuation model in proposing the terms or number of Performance Rights.</p>
Directors' interest in the outcome	Other than the interests that Mr Norris has in the resolution, none of the other Directors have an interest in the outcome of Resolution 3.

Date of issue of the Performance Rights	If Resolution 3 is passed, the Performance Rights to be issued to Mr Norris (or his nominee) will be issued no later than one month after the date of the Meeting.																
Disclosure of total remuneration package	<p>As noted above, the Performance Rights are proposed to be issued to Mr Norris as a means of providing cost effective remuneration and incentives for him in his role as Managing Director. These Performance Rights are proposed to be part of the annual remuneration of Mr Norris, under the approved Employee Performance Rights Plan, with the annual value being subject to the discretion of the Board and also subject to shareholder approval.</p> <p>The remuneration and emoluments from the Company for Mr Norris for current financial year are:</p> <table border="1" data-bbox="411 622 1380 869"> <thead> <tr> <th data-bbox="411 622 730 689">Related party</th> <th data-bbox="735 622 1380 689">Current financial year remuneration*</th> </tr> </thead> <tbody> <tr> <td data-bbox="411 696 730 869">Mr Malcolm Norris</td> <td data-bbox="735 696 1380 869">\$301,560 per annum comprised of a salary of \$275,400 per annum and superannuation of 9.5%  4,100,000 Performance Rights per Resolution 3</td> </tr> </tbody> </table> <p data-bbox="411 891 1125 920">*Paid pursuant to service contracts with the Company.</p>	Related party	Current financial year remuneration*	Mr Malcolm Norris	\$301,560 per annum comprised of a salary of \$275,400 per annum and superannuation of 9.5%  4,100,000 Performance Rights per Resolution 3												
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Mr Malcolm Norris	\$301,560 per annum comprised of a salary of \$275,400 per annum and superannuation of 9.5%  4,100,000 Performance Rights per Resolution 3																
Securities held in the Company	<p>The relevant current interests (i.e. before Resolution 3 is approved) of Mr Norris in the securities of the Company are set out below*:</p> <table border="1" data-bbox="411 1032 1369 1167"> <thead> <tr> <th data-bbox="411 1032 699 1099">Related party</th> <th data-bbox="703 1032 911 1099">Shares</th> <th data-bbox="916 1032 1082 1099">Options</th> <th data-bbox="1086 1032 1369 1099">Performance Rights</th> </tr> </thead> <tbody> <tr> <td data-bbox="411 1106 699 1167">Mr Malcolm Norris</td> <td data-bbox="703 1106 911 1167">13,953,126</td> <td data-bbox="916 1106 1082 1167">3,125,000</td> <td data-bbox="1086 1106 1369 1167">4,632,338</td> </tr> </tbody> </table> <p data-bbox="411 1189 1439 1279">If Resolution 3 is approved by shareholders, the relevant interests (i.e. after the Resolution is approved) of Mr Norris in the securities of the Company will be as set out below:</p> <table border="1" data-bbox="411 1301 1369 1435"> <thead> <tr> <th data-bbox="411 1301 699 1368">Related party</th> <th data-bbox="703 1301 911 1368">Shares</th> <th data-bbox="916 1301 1082 1368">Options</th> <th data-bbox="1086 1301 1369 1368">Performance Rights</th> </tr> </thead> <tbody> <tr> <td data-bbox="411 1375 699 1435">Mr Malcolm Norris</td> <td data-bbox="703 1375 911 1435">13,953,126</td> <td data-bbox="916 1375 1082 1435">3,125,000</td> <td data-bbox="1086 1375 1369 1435">8,732,338</td> </tr> </tbody> </table> <p data-bbox="411 1451 906 1480">* Includes direct and Indirect holdings</p>	Related party	Shares	Options	Performance Rights	Mr Malcolm Norris	13,953,126	3,125,000	4,632,338	Related party	Shares	Options	Performance Rights	Mr Malcolm Norris	13,953,126	3,125,000	8,732,338
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Related party	Shares	Options	Performance Rights														
Mr Malcolm Norris	13,953,126	3,125,000	8,732,338														
Dilution effect the issue of the Performance Rights will have on existing Shareholders	If all the Performance Rights currently held by Mr Norris and to be granted to Mr Norris pursuant to Resolution 3 vest, a total of 8,732,338 Shares would be allotted and issued. This would increase the total number of Shares on issue from 1,147,546,911 to 1,156,278,449 (assuming no other Performance Rights or Shares are issued or Options exercised), with the effect that the shareholding of existing Shareholders would be diluted by 0.8%.																

The following table demonstrates the dilution of all other shareholdings in the Company upon exercise of the Performance Rights and Share Options issued to Mr Norris, assuming that Shareholders pass Resolution 3:

Current shares issued	1,147,546,111
Shares issued assuming all existing Options are exercised	3,125,000
Shares issued assuming exercise of all the Performance Rights currently held by Mr Norris and to be granted to Mr Norris pursuant to Resolution 3	8,732,338
<b>Total shares</b>	1,159,403,449
Dilution effect	1.0%

#### **Additional information and Directors' recommendation**

Mr Norris declines to make a recommendation to Shareholders in relation to Resolution 3 due to his material personal interest in the outcome of the Resolution. The other Directors, who do not have a material interest in the outcome of Resolution 3, recommend that Shareholders vote in favour of Resolution 3. The Board are not aware of any other information which would reasonably be required by Shareholders to allow them to make a decision whether it is in the best interests of the Company to pass Resolution 3.

**Recommendation:** The Board, with Mr Norris abstaining, unanimously recommend that Shareholders vote in favour of Resolution 3.

## **RESOLUTION 4 – Approval of Employee Performance Rights Plan**

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### **Background**

This resolution seeks Shareholder approval for the Company's updated Employee Performance Rights Plan (**EPRP**). The EPRP was last approved by shareholders at the 2015 AGM, and the updated EPRP, the subject of this resolution, contains no material changes to the previously approved EPRP.

The Board recognises the need to adequately incentivise and remunerate staff, but is keen to ensure that the Company's cash reserves are invested in development of Sunstone's Bramaderos Project in Ecuador. As such, predominantly equity based incentives continue to provide the best and most viable means for the Company to recognise and reward performance. The Remuneration Committee and the Board have undertaken a review of peer companies to ensure that the type of plan and the nominal dollar value of grants under the plan are consistent with these peer companies.

The EPRP is designed to:

- (a) align employee incentives with members' interests;
- (b) encourage broad-based share ownership by employees; and
- (c) assist employee attraction and retention.

### **Regulatory requirements**

Listing Rule 7.1 allows the Company to issue a maximum of 15% of its capital in any 12 month period without requiring Shareholder approval. Pursuant to Listing Rule 7.2, exception 9, an issue under an employee incentive plan will not count toward a company's 15% limit provided the plan was approved by Shareholders within three years before the date of the securities being issued.

This resolution proposes that Shareholders consider and approve the EPRP in accordance with Listing Rule 7.2, exception 9, which will enable securities issued under the EPRP in the course of the next three years to be excluded from the Company's 15% limit for the purpose of Listing Rule 7.1.

Approval for the issue of Performance Rights under the EPRP is sought by way of ordinary resolution to satisfy the requirements of the Listing Rules. If the resolution is passed, the Company may rely on this exception for issues under the EPRP during the period of three years from the date of the Annual General Meeting.

No issues of Performance Rights to non-executive directors can be made under the EPRP. No issues of Performance Rights to executive directors can be made under the EPRP without separate Shareholder approval under the Listing Rules.

At this time, 32,573,000 Performance Rights have been issued under the currently approved EPRP, representing 2.8% of total shares on issue. Of these Performance Rights issued, 1,484,676 have lapsed due to cessation of employment, while 8,717,101 have vested with corresponding ordinary shares issued.

The Company proposes to issue up to a maximum of 12,000,000 Performance Rights to existing employees (including 4,100,000 Performance Rights to the Managing Director subject to Resolution 3) no later than 27 February 2019 (3 months after the date of the Annual General Meeting).

The following information is included for compliance with Listing Rule 7.2, exception 9.

## Summary of EPRP Rules

<b>Eligibility</b>	<p>Any person, including an Executive Director, who is engaged in full time or part time employment (including contractors) of the Company or an associated body corporate of the Company or any person acquiring and holding any EPRP share or option for the benefit of any such person.</p> <p>If an Executive Director is to participate in the EPRP, the issues of Performance Rights to the Executive Director will be subject to first obtaining shareholder approval.</p> <p><u>Non-Executive Directors are not eligible to participate in the EPRP.</u></p>
<b>Performance Conditions</b>	<p>Vesting conditions may be imposed by Directors for each grant under the Plan. These vesting conditions may differ for each grant of Performance Rights under the Plan, as they consider appropriate.</p>
<b>Grant of Performance Rights</b>	<p>Unless the Board otherwise determines, all Performance Rights are to be offered to Participants for no consideration. The offer must be in writing and specify, amongst other things, the number of Performance Rights for which the Participant may apply, any conditions to be satisfied before vesting, and the expiry date (if any) (as determined by the Board).</p>
<b>Performance Right Limit</b>	<p>The maximum number of Performance Rights the Board may grant under this Plan (including any Rights previously issued under this Plan within the last 3 years) is 5% of the ordinary shares of the Company on issue as at the Invitation.</p>
<b>Vesting</b>	<p>The Performance Rights may vest, subject to the performance related vesting conditions imposed by the Board, prior to the expiry date. The Company will apply for official quotation of any Shares issued on vesting of any Share Rights.</p>
<b>Lapse</b>	<p>Unless the Board otherwise determines, the Performance Rights shall lapse in accordance with specific offer terms or events contained in the EPRP rules, including termination of employment or resignation, redundancy, death or disablement (subject to the Directors' discretion to extend the term of exercise in restricted cases).</p>
<b>Rights of Participants</b>	<p>Once Shares are allotted upon exercise of the Performance Rights the participant will hold the Shares free of restrictions. The Shares will rank equally in all respects with all other ordinary shares on issue except as regards any rights attaching to ordinary shares by reference to a Record Date before the date of their allotment.</p> <p>Should the Company undergo a reorganisation or reconstruction of capital or any other such change, the terms of the Performance Rights will be reorganised in the manner provided for by the Listing Rules.</p> <p>Subject to the terms and conditions of a grant of Performance Rights and Applicable Laws, in the event of a change of control, all Performance Rights will automatically vest and convert to ordinary shares.</p> <p>A holder of Performance Rights is not entitled to participate in dividends, a new issue of Shares or other securities made by the Company to Shareholders merely because he or she holds Performance Rights.</p> <p>If there is a bonus share issue of securities, the number of shares over which Performance Rights are exercisable will be increased by the number of shares which the Participant would have received if the Performance Rights had been exercised before the record date for the bonus issue.</p>

<b>Assignment</b>	The Performance Rights are not transferable or assignable without the prior written approval of the Board.
<b>Administration</b>	The EPRP will be administered by the Board which has an absolute discretion to determine appropriate procedures for its administration and resolve questions of fact or interpretation and formulate special terms and conditions (subject to the Listing Rules) in addition to those set out in the EPRP.
<b>Termination and amendment</b>	The Board has, subject to certain restrictions contained in the EPRP, the Corporations Act, the Listing Rules or the Company's Constitution, the discretion or power to alter, modify or add to the EPRP.

**Recommendation:** The Board, with Mr Norris abstaining, unanimously recommend that Shareholders vote in favour of Resolution 4.

## **RESOLUTION 5 – Re-election of Director – Mr Graham Ascough**

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In accordance with the Company's Constitution, Mr Graham Ascough retires by rotation and, being eligible, offers himself for re-election as a Director of the Company. Mr Ascough was appointed as an independent, non-executive Director and Chairman on 29 November 2013.

Graham is a member of the Company's Audit and Financial Risk Committee and the Remuneration Committee. He is a senior resources executive with more than 25 years of industry experience evaluating mineral projects and resources in Australia and overseas. Mr Ascough spent 15 years at Falconbridge Limited, and is currently Chairman of four ASX listed junior resource companies.

**Recommendation:** The Board (excluding Mr Ascough) recommends that Shareholders vote in favour of Resolution 5.

## SPECIAL BUSINESS

### RESOLUTION 6 – Approval of 10% Placement Facility

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#### **Purpose of resolution**

The purpose of Resolution 6 is to enable the directors to issue Equity Securities up to 10% of the Company's issued share capital under Listing Rule 7.1A during the 12-month period following this Meeting (**10% Placement Period**), without subsequent Shareholder approval and without using the Company's 15% placement capacity under Listing Rule 7.1 (**Placement Facility**).

Resolution 6 is a special resolution. Accordingly, at least 75% of votes cast by Shareholders present and eligible to vote at the Meeting must be in favour of Resolution 6 for it to be passed.

**Recommendation:** The Board recommends that Shareholders vote in favour of Resolution 6.

#### **General information**

Listing Rule 7.1A enables "eligible entities" to issue Equity Securities up to 10% of its issued share capital through placements over a 12-month period after the annual general meeting (**10% Placement Facility**). The 10% Placement Facility is in addition to the Company's 15% placement capacity under Listing Rule 7.1.

An "eligible entity" for the purposes of Listing Rule 7.1A is an entity that is not included in the S&P/ASX 300 Index and has a market capitalisation of \$300 million or less. The Company is an eligible entity for the purposes of Listing Rule 7.1A as it is not included in the S&P/ASX 300 Index and has a market capitalisation of \$36.7 million (on the basis of the Company's closing share price of \$0.032 on 16 October 2018).

If Shareholders approve Resolution 6, the exact number of Equity Securities to be issued under the 10% Placement Facility will be determined in accordance with the formula prescribed in Listing Rule 7.1A.2 (refer to the formula for calculating 10% Placement Facility set out in (iii) below).

#### **Description of Listing Rule 7.1A**

##### **(i) Shareholder approval**

The ability to issue Equity Securities under the 10% Placement Facility is subject to shareholder approval by way of a special resolution at an annual general meeting.

##### **(ii) Equity Securities**

Any Equity Securities issued under the 10% Placement Facility must be in the same class as an existing quoted class of Equity Securities of the Company.

The Company, as at the date of the Notice of Meeting, has on issue one class of quoted Equity Securities, namely Shares.

##### **(iii) Formula for calculating 10% Placement Facility**

Listing Rule 7.1A.2 provides that eligible entities which have obtained Shareholder approval at an annual general meeting may issue or agree to issue, during the 12-month period after the date of the annual general meeting, a number of Equity Securities calculated in accordance with the following formula:

$$(A \times D) - E$$

**A** is the number of shares on issue 12 months before the date of issue or agreement:

- a) plus the number of fully paid shares issued in the 12 months under an exception in Listing Rule 7.2;

- b) plus the number of partly paid shares that became fully paid in the 12 months;
- c) plus the number of fully paid shares issued in the 12 months with approval of holders of shares under Listing Rules 7.1 and 7.4. This does not include an issue of fully paid shares under the entity's 15% placement capacity without shareholder approval;
- d) less the number of fully paid shares cancelled in the 12 months.

Note that **A** has the same meaning in Listing Rule 7.1 when calculating an entity's 15% placement capacity.

**D** is 10%

**E** is the number of Equity Securities issued or agreed to be issued under Listing Rule 7.1A.2 in the 12 months before the date of the issue or agreement to issue that are not issued with the approval of Shareholders under Listing Rule 7.1 or 7.4.

**(iv) Listing Rule 7.1 and Listing Rule 7.1A**

The ability of an entity to issue Equity Securities under Listing Rule 7.1A is in addition to the entity's 15% placement capacity under Listing Rule 7.1.

At the date of this Notice of Meeting, the Company has on issue 1,147,546,111 Shares with 600,000 of those issued under Listing Rule 7.1 and therefore has a capacity to issue:

- a) 171,441,917 Equity Securities under Listing Rule 7.1; and
- b) 114,694,611 Equity Securities under Listing Rule 7.1A.

The actual number of Equity Securities that the Company will have capacity to issue under Listing Rule 7.1A, subject to Shareholder approval being obtained under Resolution 6, will be calculated at the date of issue of the Equity Securities, or the agreement date, in accordance with the formula prescribed in Listing Rule 7.1A.2 (refer to the formula for calculating 10% Placement Facility set out in (iii) above).

**(v) Minimum Issue Price**

The issue price of Equity Securities issued under Listing Rule 7.1A must be not less than 75% of the volume weighted average price of Equity Securities in the same class calculated over the 15 Trading Days immediately before:

- a) the date on which the price at which the Equity Securities are to be issued is agreed; or
- b) if the Equity Securities are not issued within 5 Trading Days of the date in paragraph (a) above, the date on which the Equity Securities are issued.

**(vi) 10% Placement Period**

Shareholder approval of the 10% Placement Facility under Listing Rule 7.1A is valid from the date of the annual general meeting at which the approval is obtained and expires on the earlier to occur of:

- a) the date that is 12 months after the date of the annual general meeting at which the approval is obtained; or
- b) the date of the approval by Shareholders of a transaction under Listing Rules 11.1.2 (a significant change to the nature or scale of activities) or 11.2 (disposal of main undertaking).

**(10% Placement Period).**

### **Specific information required by Listing Rule 7.3A**

Pursuant to and in accordance with Listing Rule 7.3A, the information below is provided in relation to the approval of the 10% Placement Facility:

#### **7.3A.1 Minimum Price**

The Equity Securities will be issued at an issue price in accordance with (v) above.

#### **7.3A.2 Risk of voting dilution**

If Resolution 6 is approved by Shareholders and the Company issues Equity Securities under the 10% Placement Facility, the existing Shareholders' voting power in the Company will be diluted as shown in the table in Appendix 1 to this Explanatory Memorandum. There is a risk that:

- a) the market price for the Company's Equity Securities may be significantly lower on the date of the issue of the Equity Securities than on the date of the Meeting; and
- b) the Equity Securities may be issued at a price that is at a discount to the market price for the Company's Equity Securities on the issue date or the Equity Securities are issued as part of consideration for the acquisition of a new asset, which may have an effect on the amount of funds raised by the issue of the Equity Securities.

The table in Appendix 1 shows the dilution of existing Shareholders on the basis of the current market price of Shares and the current number of ordinary securities for variable "A" calculated in accordance with the formula in Listing Rule 7.1A.2 as at the date of this Notice of Meeting.

#### **7.3A.3 Date of issue**

The Company will only issue and allot the Equity Securities during the 10% Placement Period. The approval under Resolution 6 for the issue of the Equity Securities will cease to be valid in the event that Shareholders approve a transaction under Listing Rule 11.1.2 (a significant change to the nature or scale of activities) or Listing Rule 11.2 (disposal of main undertaking).

#### **7.3A.4 Purpose of issue under 10% Placement Facility**

The Company may seek to issue the Equity Securities for the following purposes:

- a) non-cash consideration for the acquisition of the new resources assets and other investments. In such circumstances, the Company will provide a valuation of the non-cash consideration as required by Listing Rule 7.1A.3; or
- b) cash consideration. In such circumstances, the Company intends to use the funds raised towards an acquisition of new assets or other investments (including expense associated with such acquisition), continued exploration and feasibility study expenditure on the Company's current assets and/or general working capital.

The Company will comply with the disclosure obligations under Listing Rules 7.1A (4) and 3.10.5A upon issue of any Equity Securities.

#### **7.3A.5 Allocation under 10% Placement Facility**

The Company's allocation policy is dependent on the prevailing market conditions at the time of any proposed issue pursuant to the 10% Placement Facility. The identity of the allottees of Equity Securities will be determined on a case-by-case basis having regard to the factors including but not limited to the following:

- a) the methods of raising funds that are available to the Company, including but not limited to, a rights issue or other issue in which existing security holders can participate;
- b) the effect of the issue of the Equity Securities on the control of the Company;
- c) the financial situation and solvency of the Company; and
- d) advice from corporate, financial, and broking advisers (if applicable).

The allottees under the 10% Placement Facility have not been determined as at the date of this Notice of Meeting but may include existing substantial Shareholders and/or new Shareholders who are not related parties or associates of a related party of the Company.

### **7.3A.6 Previous approval of 10% Placement Facility under Listing Rule 7.1A**

The Company previously obtained shareholder approval under Listing Rule 7.1A at its 2017 AGM.

During the previous 12 months, the Company has made the following equity security issues:

- a) The Company has issued 273,165,129 Equity Securities in the previous 12 months (261,665,129 ordinary shares; 4,500,000 Options and 7,000,000 Performance Rights under the Company's Employee Performance Rights Plan), representing 30.8% of the total number of Equity Securities on issue at the commencement of that 12-month period.
- b) Details of the Equity Securities is as follows:

On 6 November 2017, the Company issued 221,400,000 shares (incorporating 88,517,853 shares, issued under the 10% capacity under Listing Rule 7.1A), as ratified by Shareholders at the General Meeting held on 8 January 2018, the details of which are as follows:

Date of issue:	6 November 2017
Number issued:	221,400,000
Class/Type of equity security:	Ordinary shares
Summary of terms:	As per ASX Announcement dated 30 October 2017. Issued upon the same terms and conditions as existing quoted ordinary shares.
Names of persons who received securities or basis on which those persons was determined:	Sophisticated investor applicants as determined by the Board. The allottees were not related parties.
Price:	\$0.019
Discount to market price (if any):	No discount to 15-day VWAP prior to announcement
<i>For cash issues</i>	
Total cash consideration received:	\$4,206,600
Amount of cash consideration spent:	\$3,000,000
Use of cash consideration:	<ul style="list-style-type: none"> <li>• exploration at the Bramaderos gold-copper project in southern Ecuador;</li> <li>• evaluation of PFS stage Viscaria Copper Project; and</li> <li>• working capital</li> </ul>
Intended use for remaining amount of cash (if any):	<ul style="list-style-type: none"> <li>• As above</li> </ul>

On 12 January 2018, the Company issued 34,421,057 shares (incorporating 8,421,057 shares issued to directors), as approved by Shareholders at the General Meeting held on 8 January 2018, the details of which are as follows:

Date of issue:	12 January 2018
Number issued:	125,500,000 and 1,000,000
Class/Type of equity security:	Ordinary shares
Summary of terms:	As per ASX Announcement dated 30 October 2017. Issued upon the same terms and conditions as existing quoted ordinary shares.
Names of persons who received securities or basis on which those persons was determined:	Sophisticated investor applicants as determined by the Board, as a Tranche 2, that was subject to shareholder approval, to the Placement on 6 November 2017. The allottees were not related parties. 2,105,264 shares each issued to Mr Malcolm Norris, Mr Graham Ascough, Mr Stephen Stroud and Mr Crispin Henderson in exchange for \$40,000 each, following shareholder approval
Price:	\$0.019
Discount to market price (if any):	No discount to 15-day VWAP prior to announcement
<i>For cash issues</i>	
Total cash consideration received:	\$654,000
Amount of cash consideration spent:	\$NIL
Use of cash consideration:	<ul style="list-style-type: none"> <li>• exploration at the Bramaderos gold-copper project in southern Ecuador;</li> <li>• evaluation of PFS stage Viscaria Copper Project; and</li> <li>• working capital</li> </ul>
Intended use for remaining amount of cash (if any):	<ul style="list-style-type: none"> <li>• As above</li> </ul>

On 5 July 2018, the Company issued 600,000 shares as follows:

Date of issue:	5 July 2018
Number issued:	600,000
Class/Type of equity security:	Ordinary shares
Summary of terms:	Consideration for the sale/transfer to Sunstone of the allottees 20% interest in Scandian Metals Pty Ltd which holds Sunstone's lithium interests in Finland.
Names of persons who received securities or basis on which those persons was determined:	Haustella Pty Ltd and Wilron Marine Pty Ltd as owners of 20% shareholding in Scandian Metals Pty Ltd
Price:	NIL
Discount to market price (if any):	NIL

On 28 September 2018, the Company issued 5,244,072 shares vesting under the Employee Performance Rights Plan, the details of which are as follows:

Date of issue:	28 September 2018
Number issued:	5,244,072
Class/Type of equity security:	Ordinary shares
Summary of terms:	Performance Rights vesting upon performance hurdles being met. Issued upon the same terms and conditions as existing quoted ordinary shares.
Names of persons who received securities or basis on which those persons was determined:	<ul style="list-style-type: none"> <li>Employees of Sunstone Metals Ltd</li> </ul>
Price:	NIL
Discount to market price (if any):	NIL

During the previous 12 months, the Company issued 4,500,000 options, the details of which are as follows:

Date of issue:	24 November 2017
Number issued:	4,500,000
Class/Type of equity security:	Options
Summary of terms:	Options issued to non-executive directors following shareholder approval; exercisable at \$0.03 cents per option, expiry 31 August 2019
Names of persons who received securities or basis on which those persons was determined:	Non-executive directors of Sunstone Metals Ltd
Price:	NIL
Discount to market price (if any):	NIL

During the previous 12 months, the Company issued 7,000,000 Performance Rights, the details of which are as follows:

Date of issue:	22 December 2017 and 13 March 2018
Number issued:	6,000,000 and 1,000,000
Class/Type of equity security:	Unlisted Performance Rights
Summary of terms:	<p>6,000,000 Performance Rights vesting upon later of both the following vesting conditions occurring:</p> <ul style="list-style-type: none"> <li>• Closing share price of \$0.042 per share for 10 consecutive trading days; and</li> <li>• 12 months after issue.</li> </ul> <p>1,000,000 Performance Rights vesting upon later of both the following vesting conditions occurring:</p> <ul style="list-style-type: none"> <li>• Closing share price of \$0.062 per share for 10 consecutive trading days; and</li> <li>• 12 months after issue.</li> </ul> <p>Expiry 3 years from grant date.</p>
Names of persons who received securities or basis on which those persons was determined:	Employees of Sunstone Metals Ltd
Price:	NIL
Value:	\$120,400 <sup>^</sup>

<sup>^</sup> The value of the performance rights is measured using the Monte Carlo simulation.

The valuation models use the following variables to determine the value of the Performance Rights:

- a) value of the underlying asset – share price of \$0.025 being the closing share price on ASX as at the date of the Valuation, 15 January 2018;
- b) vesting conditions – as referred to above;
- c) expected volatility of the share price – 100% as calculated on historical volatility for a 3-year period;
- d) risk free rate – the Australian Government 3-year bond rate as at 20 December 2017 of 2.09%;
- e) time to maturity – the Performance Rights expire 3 years from the date of issue; and
- f) expected dividend yield – Nil, given the Company is a mineral exploration company with no history of paying dividends.

### **7.3A.7 Voting Exclusion**

A voting exclusion statement is included in the Notice of Meeting. At the date of the Notice of Meeting, the Company has not approached any particular existing shareholder or security holder or an identifiable class of existing security holder to participate in the issue of the Equity Securities which would be issued under Listing Rule 7.1A. No existing shareholder's votes will therefore be excluded under the voting exclusion in the Notice of Meeting.

**Recommendation:** The Board believes that the resolution under Resolution 6 is in the best interests of the Company and unanimously recommends that Shareholders vote in favour of this Resolution.

## GLOSSARY

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In this Explanatory Memorandum and Notice of Annual General Meeting the following expressions have the following meanings unless stated otherwise or unless the context otherwise requires:

**\$** means Australian dollars.

**10% Placement Facility** has the meaning given in the Explanatory Memorandum for Resolution 6.

**10% Placement Period** has the meaning given in the Explanatory Memorandum for Resolution 6.

**Annual General Meeting, AGM or Meeting** means the meeting convened by the Notice.

**Applicable Law** means each of:

- (a) the Corporations Act;
- (b) the Corporations Regulations;
- (c) the Listing Rules;
- (d) any other applicable securities laws;
- (e) the Constitution of the Company;
- (f) applicable taxation laws; and
- (g) any practice note, policy statement, class order, declaration or guideline relating to any of the items in paragraphs (a) to (f) of this definition.

**ASIC** means the Australian Securities and Investments Commission.

**ASX** means ASX Limited ACN 008 624 691 or the Australian Securities Exchange, as the context requires.

**Board** means the current board of directors of the Company.

**Chairman or Chair** means the Chairman of the Board.

**Closely Related Party** of a member of Key Management Personnel means:

- (a) a spouse or child of the member;
- (b) a child of the member's spouse;
- (c) a dependant of the member or of the member's spouse;
- (d) anyone else who is one of the member's family and may be expected to influence the member, or be influenced by the member, in the member's dealings with the entity;
- (e) a company the member controls; or
- (f) a person prescribed as such by the *Corporations Regulations 2001* (Cth).

**Company** or **Sunstone** means Sunstone Metals Limited ACN 123 184 412.

**Constitution** means the constitution of the Company currently in force.

**Corporations Act** means the *Corporations Act 2001* (Cth).

**Director** means a director of the Company as at the date of the Explanatory Memorandum.

**Equity Securities** has the same meaning as in the Listing Rules.

**Explanatory Memorandum** means the explanatory memorandum that accompanies and forms part of the Notice of Meeting.

**Key Management Personnel** has the same meaning as in the accounting standards as defined in section 9 of the Corporations Act (so the term broadly includes those persons having authority and responsibility for planning, directing, and controlling the activities of the Company, directly or indirectly, including any director, whether executive or otherwise, of the Company).

**Listing Rules** means the official listing rules of the ASX.

**Notice** or **Notice of Meeting** means the notice of Annual General Meeting including the Explanatory Memorandum and the Proxy Form.

**Option** means an option to acquire a fully paid ordinary share in the Company.

**Performance Right** means a right to be issued, for no consideration, a fully paid ordinary share in the capital of the Company upon the satisfaction of specified performance conditions.

**Proxy Form** means the proxy form accompanying the Notice.

**Resolution** means a resolution as set out in the Notice.

**Share** means a fully paid ordinary share in the Company.

**Shareholder** means a holder of a Share in the Company.

**Shareholding** means the aggregate of shares held by a Shareholder.

**Trading Day** means a day determined by ASX to be a trading day in accordance with the Listing Rules.

**VWAP** means volume weighted average market price.

## APPENDIX 1

The table below shows the dilution of existing Shareholders on the basis of the current market price of Shares and the current number of ordinary securities for variable "A" calculated in accordance with the formula in Listing Rule 7.1A.2 as at the date of this Notice of Meeting.

The table also shows:

- (i) an example where variable "A" has increased by 50% and 100%. Variable "A" is based on the number of ordinary securities the Company has on issue. The number of ordinary securities on issue may increase as a result of issues of ordinary securities that do not require Shareholder approval (for example, a pro rata entitlements issue or scrip issued under a takeover offer) or future specific placements under Listing Rule 7.1 that are approved at a future Shareholders' meeting; and
- (ii) an example of the result of the issue price of ordinary securities decreasing by 50% and increasing by 100% as against the current market price.

Variable 'A' in Listing Rule 7.1A.2		Dilution		
		\$0.0016 50% decrease in Issue Price	\$0.032 Issue Price	\$0.064 100% Increase in Issue Price
<b>Current Variable A</b> 1,141,702,039 Shares	<b>10% Voting Dilution</b>	1,147,546,111 Shares	1,147,546,111 Shares	1,147,546,111 Shares
	<b>Funds raised</b>	\$ 1,836,074	\$ 3,672,148	\$ 7,344,295
<b>50% increase in current Variable A</b> 1,712,553,059 Shares	<b>10% Voting Dilution</b>	1,721,319,167 Shares	1,721,319,167 Shares	1,721,319,167 Shares
	<b>Funds raised</b>	\$ 2,754,111	\$ 5,508,221	\$ 11,016,443
<b>100% increase in current Variable A</b> 2,283,404,078 Shares	<b>10% Voting Dilution</b>	2,295,092,222 Shares	2,295,092,222 Shares	2,295,092,222 Shares
	<b>Funds Raised</b>	\$ 3,672,148	\$ 7,344,295	\$ 14,688,590

The number of Shares on issue (variable A in the formula) could increase as a result of the issue of Shares that do not require Shareholder approval (such as under a pro-rata rights issue or scrip issued under a takeover offer) or that are issued with Shareholder approval under Listing Rule 7.1.

The table has been prepared on the following assumptions:

- (i) The current Shares on issue are the Shares on issue as at the date of this Notice of Meeting.
- (ii) The current issue price is \$0.032, being the closing price of the Company's Shares on ASX on 16 October 2018.
- (iii) The Company issues the maximum number of Equity Securities available under the 10% Placement Facility.
- (iv) No Options or Performance Rights are exercised into Shares before the date of the issue of the Equity Securities.
- (v) The 10% voting dilution reflects the aggregate percentage dilution against the issued share capital at the time of issue. This is why the voting dilution is shown in each example as 10%.
- (vi) The table does not show an example of dilution that may be caused to a particular Shareholder by reason of placements under the 10% Placement Facility, based on that Shareholder's holding at the date of the Meeting.
- (vii) The table shows only the effect of issues of Equity Securities under Listing Rule 7.1A, not under the 15% placement capacity under Listing Rule 7.1.

## ANNEXURE A – VISCARIA COPPER PROJECT

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The Viscaria Copper Project is a high quality, PFS-stage copper project, with excellent exploration upside, holding significant value in a strengthening copper price environment.

The Viscaria Copper Project is located in northern Sweden, 1,200km north of Stockholm, approximately 5 km west of the mining town of Kiruna. It is close to major infrastructure, including the E10 highway, the Luleå-Kiruna-Narvik railway, and the established hydro-power grid. Kiruna is home to the world's largest underground iron ore mine called Kiirunavaara that is operated by LKAB (owned by the Swedish Government). Kiirunavaara has been in production since 1899 and has produced more than a billion tons of magnetite ore.

Historically, the A Zone deposit at the Viscaria Copper Project produced 12.5Mt of ore at 2.3% copper. Sunstone's development plans envisage open pit development of the A and B Zone deposits, and open pit and underground development of the D Zone deposit. The Viscaria Copper Project has an estimated global resource of 52.4 million tonnes of copper mineralisation at 1.2% copper, containing 608,900 tonnes of copper (refer to the Resources Statement in the Company's 2018 Annual Report, lodged with the ASX on Tuesday 14 August 2018).

The results of drilling in 2017 demonstrate significant potential strike extent of mineralisation immediately southwest of D Zone, and potential extends beyond this to the even larger D Zone South target, which has a strike extent of 4km (refer to ASX Announcement dated 26 June 2017). The widespread and consistent copper mineralisation within the sparsely tested D Zone South environment is very encouraging and brings this highly prospective 4km-long anomaly to the top of the exploration priority list for future testing with potential to significantly expand the Viscaria copper project.

At D Zone itself, each hole Sunstone has drilled outside of the current D Zone mineral resource, targeting higher grade shoots has delivered >2% copper - a 100% hit rate with 3 from 3 holes, VDD 195, VDD 196 and VDD 200 intersecting intervals of >2% copper. Systematic drilling of the >2% copper shoots has been planned and will be undertaken as a component of pre-feasibility studies.

The environmental permitting is the primary focus of activities at this stage to further de-risk the project and support ongoing development studies.

The Viscaria ESIA process aims to deliver the necessary documents for application for a Permit to Mine from the Swedish Land and Environmental Court. The process is focussed on the immediate Viscaria area and supports planning for mine development initially within the approved Exploitation Concessions K3 and K4 (valid to 2037).

The K7 Exploitation Concession at Viscaria was approved by the Swedish Mines Inspectorate during the 2018 year, and subsequently appealed. Approved Exploitation Concessions K3 and K4, which cover the main areas of Viscaria copper mineralisation, remain in force and are not affected by this development.

In addition to extensions to the existing zones of the Viscaria mineral resource, several other exploration prospects exist within 15km of the Mineral Resources that compose the Viscaria Copper Project. The most prospective are interpreted to be: West Nukutus, Nihka and Bahpagobba.

## ANNEXURE B – SUMMARY OF SHARE SALE AND PURCHASE AGREEMENT

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The Agreement sets out the terms upon which Sunstone ("Seller") is to sell all of the shares in Avalon Minerals Viscaria AB to Copperstone Resources AB ("Purchaser") ("Sale").

The key terms of the Agreement are as follows:

- (a) (Acquisition of Sale Shares): Copperstone will acquire the Sale Shares at Completion.
- (b) (Consideration): the consideration payable for the Sale Shares is:

### I. Purchase Price

The purchase price for the shares shall consist of (i) a cash payment of SEK 40,000,000 (the "Cash Amount") and (ii) 160,000,000 new shares of class B in the Purchaser (the "Consideration Shares"), (jointly the "Purchase Price").

The number of Consideration Shares shall be subject to standard recalculation provisions, taking into account potential changes of the share capital or outstanding number of shares in the Purchaser prior to issuance of the Consideration Shares, due to share splits, reversed share splits, rights issues and other corporate events. Such recalculation shall not be made in connection with any directed equity issues or conversion of convertible loans of the Purchaser.

### II. Additional Purchase Price

In addition to the Purchase Price, the Seller shall be entitled to an additional purchase price consisting of (i) an additional cash amount of SEK 20,000,000 (the "Additional Cash Amount") and (ii) an additional 46,000,000 new shares of class B in the Purchaser (the "Additional Consideration Shares"), (jointly the "Additional Purchase Price").

The Additional Purchase Price is conditional upon the issuance by the Land and Environment Court of an Environmental Permit for the Viscaria Copper project.

Upon receipt of the Environmental Permit, the Purchaser shall:

- 1) within ten (10) Business Days summon an extra ordinary shareholders meeting of the Purchaser for the issuance of the Additional Consideration Shares; and
- 2) within ninety (90) days pay the Additional Cash Payment to the Seller.

Should the Purchaser not summon the extra ordinary shareholders meeting or should the extra ordinary shareholders meeting not vote in favour of the issue of the Additional Consideration Shares, the Seller shall instead be entitled to an additional cash payment, equal to the market value of the Additional Consideration Shares to which the Seller was entitled, valued at the average trading price of the shares of the Purchaser during the ten (10) Business Days period following the public announcement by the Purchaser (or Avalon Minerals Viscaria AB as the case may be), of the receipt of the Environmental Permit.

If Avalon Minerals Viscaria AB has not received the Environmental Permit within the eighth (8th) anniversary of the Completion Date, the right to receive the Additional Cash Amount shall forfeit. For the avoidance of doubt, there shall be no limitation in time with regard to the right to the Additional Consideration Shares.

If the Purchaser or Avalon Minerals Viscaria AB, as the case may be, prior to the payment of the Additional Purchase Price, in any way dispose of the Viscaria project without the Seller's prior written consent, the Additional Purchase Price shall immediately become due for payment to the Seller. In such case the Purchaser shall summon the extra ordinary shareholders meeting for the issuance of the Additional Consideration Shares within ten (10) Business Days and pay the Additional Cash Payment to the Seller within ninety (90) days upon the Seller giving notice in writing to the Purchaser requesting payment.

- (c) (Conditions Precedent): Completion of the Sale is subject to and conditional upon:
- (i) the Shareholders of both the Seller and the Purchaser having approved the Sale;
  - (ii) the Purchaser securing financing of SEK 80,000,000;
  - (iii) an extra ordinary shareholders meeting of the Purchaser shall have (i) approved the Transaction in accordance with the terms of the exemption granted by the Swedish Securities Council and (ii) authorised the board of directors of the Purchaser to issue the Consideration Shares to the Seller in accordance with terms of this Agreement; and
- (d) (Completion): Completion shall take place on tenth (10th) Business Day after satisfaction or waiver, as the case may be, of the conditions precedent (the "Completion Date").
- (e) (Post Completion): The Purchaser shall within ten (10) Business Days of Completion convene an extraordinary general meeting of the Purchaser and propose the appointment of two (2) new board members to the board of directors of the Purchaser nominated by the Seller.
- (f) (Warranties): Sunstone has provided certain warranties and representations in favour of Copperstone relating to Avalon Minerals Viscaria AB and their operations and assets, standard for a transaction of this type, including (among others) in relation to:
- (i) the ownership structure and issued capital of Avalon Minerals Viscaria AB;
  - (ii) the solvency of Avalon Minerals Viscaria AB;
  - (iii) the proper maintenance of corporate records;
  - (iv) the accounts are true, complete and accurate and have in all material respects been prepared in accordance with the Accounting Principles, and in a manner consistent with the three (3) preceding fiscal years;
  - (v) agreements and contracts entered into by Avalon Minerals Viscaria AB;
  - (vi) employees of Avalon Minerals Viscaria AB;
  - (vii) taxation matters;
  - (viii) machinery, vehicles, equipment and other assets owned or used by Avalon Minerals Viscaria AB;
  - (ix) insurances of Avalon Minerals Viscaria AB are in full force;
  - (x) compliance with all applicable laws (including environmental laws), regulations, judgements and orders of public authorities;
  - (xi) any permits, licences or authorisation held by Avalon Minerals Viscaria AB;
  - (xii) litigation involving Avalon Minerals Viscaria AB; and
  - (xiii) the Due Diligence Documents and the information provided during, or as a part of, the Due Diligence Investigation, in each case with regard to historical data, is to the best of the Seller's Knowledge in all material respects true and correct.

## ANNEXURE C – PROFORMA STATEMENT OF FINANCIAL POSITION (UNAUDITED)

	Following Completion	
	30-Jun-18	30-Jun-18
	\$	\$
<b>Current assets</b>		
Cash and cash equivalents	7,430,642	2,653,789
Trade and other receivables	11,647,466	79,969
Total current assets	<b>19,078,108</b>	2,733,758
<b>Non-current assets</b>		
Plant and equipment	6,073	68,476
Exploration and evaluation	5,555,933	44,474,691
Investments	29,491,737	
Total non-current assets	<b>35,053,743</b>	44,543,167
<b>Total assets</b>	<b>54,131,851</b>	47,276,925
<b>Current liabilities</b>		
Trade and other payables	150,986	165,460
Provisions	144,790	144,790
Total current liabilities	<b>295,776</b>	310,250
<b>Total liabilities</b>	<b>295,776</b>	310,250
<b>Net assets</b>	<b>53,836,075</b>	46,966,675
<b>Equity</b>		
Contributed equity	77,502,820	77,502,820
Reserves	4,062,182	2,210,518
Accumulated losses	(27,719,374)	(32,737,110)
Equity attributable to owners of Sunstone Metals Limited	<b>53,845,628</b>	46,976,228
Non-controlling interests	(9,553)	(9,553)
<b>Total equity</b>	<b>53,836,075</b>	46,966,675

Note: The figures above reflect the values calculated for the consideration based on Copperstone's volume weighted average share price between the dates of the LOI and SPA and exchange rates as at 1 October 2018. The consideration to be received in the future has not been discounted to present value.

**ANNEXURE D – TERMS AND CONDITIONS OF  
CEO/MANAGING DIRECTOR PERFORMANCE RIGHTS**

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1. Each Performance Right entitles the holder to one ordinary share in the Company on the vesting of the Performance Right.
2. A Performance Right will only vest if:
  - a) the Vesting Conditions applicable to that Performance Right are satisfied;
  - b) the Vesting Conditions applicable to that Performance Right are waived by the Board; or
  - c) a Change of Control event occurs.
3. 4,100,000 Performance Rights issued to the CEO/Managing Director are subject to the following performance related vesting conditions:
  - a) Tranche 1 – 33.33% or 1,366,667 Performance Rights to vest upon the later of both the following vesting conditions occurring:
    - a. Closing Price of Sunstone Shares being the higher of \$0.05 or more, or 50% above the 15 day VWAP prior to the date of shareholder approval, for 10 consecutive trading days; and
    - b. 12 months after issue.
  - b) Tranche 2 – 33.33% or 1,366,667 Performance Rights to vest upon TSR performance as measured against the ASX Small Resources Index, as follows:
    - a. Performance below the index no shares will vest.
    - b. Performance equal to the index will see 50% vest, increasing linearly with outperformance of the index by up to 25%, such that 100% of shares will vest should Sunstone's performance be greater than 25% above the index performance.
    - c. Testing will be annually on 30<sup>th</sup> June; and
  - c) Tranche 3 – 33.33% or 1,366,666 Performance Rights to vest upon the later of both the following vesting conditions occurring:
    - a. Closing Price of Sunstone Shares being the higher of \$0.065 or more, or 100% above the 15 day VWAP prior to the date of shareholder approval, for 10 consecutive trading days; and
    - b. 12 months after issue.
4. Unless the Board determines otherwise in its absolute discretion, a Performance Right will lapse upon the earliest to occur of:
  - a) if a Performance Rights Holder purports to transfer or grant a security interest over a Performance Right that Performance Right will immediately lapse;
  - b) cessation of employment;
  - c) fraudulent or dishonest actions;
  - d) winding up of the Company;
  - e) the Vesting Conditions in respect of a Performance Right not being met within any applicable period;
  - f) any date specified in the relevant Invitation by which the Performance Rights will automatically lapse; or
  - g) the 3 year anniversary of the Grant Date (subject to testing of vesting conditions).

5. Unless otherwise determined by the Board, if a Performance Rights Holder ceases to be an Eligible Employee, any Performance Rights of that Performance Rights Holder that have not as at that time already vested to Shares automatically lapse. In the case of cessation of employment due to death or ill health, the Board may determine that any of that Performance Rights Holder's Performance Rights vest, and the terms on which those Performance Rights vest. If the Board does not make such a determination within 3 months of the Performance Rights Holder ceasing to be an Eligible Employee, the Performance Rights of that Performance Rights Holder will be deemed to have lapsed on the date the Performance Rights Holder ceased to be an Eligible Employee.
6. Any shares that vest will be subject to Avalon's Security Trading Policy which states certain closed periods where trading in shares is prohibited. The Policy also requires all employees to seek approval from the Company Secretary and/or Chairman to trade in the Company's shares.
7. The Company will not apply to ASX for official quotation of the Performance Rights.
8. The Company will make application for official quotation on ASX of new shares allotted on vesting of the Performance Rights. Those shares will participate equally in all respects with existing issued ordinary shares, and in particular new shares allotted pursuant to Performance Rights will qualify for dividends declared after the date of their allotment.
9. Performance Rights can only be transferred with Board approval, except that if at any time before expiry of the Exercise Period the Performance Rights Holder dies, the legal personal representative of the deceased Performance Rights Holder may:
  - a) elect to be registered as the new holder of the Performance Rights;
  - b) whether or not he becomes so registered, exercise those Performance Rights in accordance with the terms and conditions on which they were granted; and
  - c) if the deceased has already exercised Performance Rights, pay the exercise price in respect of those Performance Rights.
10. If there is a bonus issue to the holders of ordinary shares in the capital of the Company, the number of ordinary shares over which the Performance Rights are exercisable will be increased by the number of ordinary shares which the holder of the Performance Rights would have received if the Performance Rights had vested before the record date for the bonus issue.
11. If, during the currency of the Performance Rights the issued capital of the Company is reorganised, those Performance Rights will be reorganised to the extent necessary to comply with ASX Listing Rules.
12. Subject to the terms and conditions of a grant of a Performance Right and the applicable laws, if a Change of Control occurs, all Performance Rights will immediately vest.