SUNSTONE METALS

ABN 68 123 184 412

Half-Year Financial Report 31 December 2018

Contents

CORPORATE DIRECTORY

Directors
Graham Ascough – Non-Executive Chairman
Malcolm Norris – CEO/Managing Director
Don Hyma - Non-Executive Director
Stephen Stroud - Non-Executive Director

Company Secretary
Gavin Leicht

Securities Exchange Listing
Sunstone Metals Limited shares are listed on the Australian Securities Exchange
Ordinary fully paid shares (ASX Code: STM)
Listed Options (ASX Code: STMO)

Share Registry
Computershare Investor Services Pty Ltd
200 Mary Street
Brisbane Qld 4000
Investor Enquiries: 1300 850 505
Website: www.computershare.com.au

Auditor
BDO Audit Pty Ltd
Level 10/12 Creek Street
Brisbane Qld 4000

Bank
National Australia Bank
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Registered Office and principal place of business

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Directors' Report

Your Directors present their report on Sunstone Metals Limited ("Sunstone" or "Company") and the entities it controlled ("Consolidated Entity" or "Group") for the half-year ended 31 December 2018.

Directors

The following persons were Directors of Sunstone at any time during the half-year and up to the date of this report unless otherwise stated:

Mr Graham Ascough	Non-Executive Chairman
Mr Malcolm Norris	CEO/Managing Director
Mr Don Hyma	Non-Executive Director
Mr Stephen Stroud	Non-Executive Director

Principal activities

During the period the principal activities of the Group consisted of mineral exploration and evaluation.

Dividends

No dividends were paid or recommended to members during the financial period.

Review of operations

A summary of consolidated revenues and results is set out below:

	Half-year ended	
	31-Dec-18	31-Dec-17
	$	$
Revenue and other income	**11,486**	9,425
Profit/(loss) before income tax	**(4,792,049)**	(850,994)
Income tax expense	**-**	-
Profit/(loss) attributable to members of Sunstone Metals Limited	**(4,790,876)**	(849,309)
Profit/(loss) attributable to non-controlling interests	**(1,173)**	(1,685)
Earnings per share	**31-Dec-18**	31-Dec-17
	cents	cents
Basic earnings per share	**(0.4)**	(0.1)

Directors' Report

Financial Performance

During the half-year ended 31 December 2018 the Group incurred a loss of $4,792,049 (2017: loss of $850,994). The loss for this period is largely due to impairment expenses recognised for non-current assets available for sale, (representing the calculated value of the transaction to sell Avalon Minerals Viscaria AB with the future consideration receivable discounted to present value), the corporate costs incurred to fund the progression of activities in Ecuador, Sweden and Finland and the expensing of exploration costs on relinquished tenements.

Financial Position

The Company's non-current assets decreased from $44,543,167 at 30 June 2018 to $44,484,060 at 31 December 2018, primarily due to the impairment referred to above, offset by capitalised exploration and study expenses and foreign currency revaluations.

During the half-year, the Company had a net increase in contributed equity of $2,004,319 as a result of:

- A placement of 67,330,665 fully paid shares for consideration of $2 million excluding fees (3 cents per share) in November 2018;
- Vesting of 5,244,072 performance rights with a value of $66,529; and
- Issue of 600,000 shares to acquire the 20% minority shareholding in Scandian Metals Pty Ltd.

At the end of the financial period, the Group had cash balances of $2,557,468 (June 2018 $2,653,789) and net assets of $46,750,883 (June 2018: $46,966,675). Total liabilities amounted to $381,718 (June 2018: $310,250) and included trade, other payables and provisions.

Projects

<u>Bramaderos</u>

Sunstone is earning a majority interest in the 4,949 hectare "Bramaderos" concession in southern Ecuador held by La Plata Minerales S.A. ("PLAMIN"), a subsidiary of Cornerstone Capital Resources Inc ("Cornerstone") (TSXV-CGP).

The Sunstone team has worked previously with Cornerstone on other projects in Ecuador which have led to significant discoveries and shareholder value growth, and the Sunstone team will work towards repeating that success at Bramaderos.

The Bramaderos concession is located in Loja province, some 90 km (1.5-hour drive) from the city of Catamayo and is considered to be highly prospective for the discovery of large gold-copper systems. Easy access is provided by the sealed Pan American Highway that crosses the western part of the concession.

Subsequent to the end of the half-year an Environmental Impact Assessment (EIA) required for the issuance of an Environmental Licence for exploratory diamond drilling was approved by the Ecuadorian Ministry of Environment on 13 March 2019, with drilling due to commence at the Limon target within 2-3 weeks of this approval.

Multiple new targets have been defined based on the integration of new detailed heli-magnetic and radiometric survey results, trenching, geological mapping and soil sampling results, and existing targets have been strengthened. The defined areas of interest comprise 10 targets for porphyry gold-copper and an additional 10 targets for epithermal gold-silver.

Directors' Report

Trenching at Bramaderos Main delivered several encouraging intersections (refer to ASX Announcements dated 9 May 2018 and 1 February 2018) including:

- 615m at 0.52g/t gold and 0.11% copper from trench BM14, with cumulative intervals from the trench that are >0.3g/t gold and >10m length totalling 397m @ 0.69g/t gold and 0.14% copper;
- 140.6m at 0.57g/t gold and 0.15% copper, including 68.2m at 0.80g/t gold and 0.18% copper from trench BM02; and
- 215.7m at 0.50g/t gold and 0.09% copper, including 121.8m at 0.61g/t gold and 0.09% copper from trench BM07, which was positioned over the top of the historical diamond drill hole CURI-13 and is parallel and 200m away from trench BM02 sited over the top of hole CURI-03.

Historical drilling results at Bramaderos Main include wide intervals such as 260m at 0.6g/t gold and 0.14% copper, and 404.30m @ 0.41g/t gold, 0.10% copper (from 3.66m depth), including 187m @ 0.50g/t gold, 0.10% copper (from 131m depth). The historic drill holes further reinforce the potential for significant vertical extent to the mineralised zones intersected by trenching at surface, adds significant strike extent, and demonstrates excellent lateral continuity in grade.

At Bramaderos Main, a large magnetic body has been modelled with a vertical depth of 1km and a surface expression that coincides with the areas of best historical drilling and significant gold anomalism defined in the recent trenching program. The main magnetic area has not been drill tested and occurs just beyond the highest assay results from historical hole CURI-03, which included 30.2m at 0.8g/t gold and 0.2% copper at the bottom of the hole.

Previous surface sampling in the Limon area has returned up to 1.8% copper and 1.45g/t gold in rock chip samples, and paired samples of 1.24g/t gold and 0.23% copper, and 1.45g/t gold and 0.45% copper. Historic soil sampling has defined areas of coincident copper, gold and Molybdenum anomalies over an area of approximately 1.4km x 0.5km.

Trench LM-01 undertaken by Sunstone at Limon intersected 97.6m grading 0.71g/t gold and 0.23% copper, including 65.0m @ 0.93g/t gold and 0.31% copper. Laterally, the trench sampled strongly altered rocks which overprint the underlying porphyry gold-copper system (refer to ASX Announcement dated 29 May 2018). Peak gold and copper assays are 1.94m at 1.20g/t gold and 1.25% copper and 2.06m at 1.74g/t gold and 0.41% copper from separate samples.

The intensely altered 'lithocap' at Limon is typical of the higher-level rock alteration associated with porphyry gold-copper systems, and the strongly mineralised diorite, over which the trench was cut, is interpreted to be an outcropping window of a more extensive mineralised diorite body at depth.

Trenching results at the West Zone breccia include a zone of 42m at 3.7g/t gold. Importantly the West Zone target, which has strong surface evidence of a well mineralised gold epithermal system, also has an associated larger geophysical porphyry target.

The magnetic modelling has also enhanced the Porotillo target, located 1.5km south of Bramaderos Main, by providing context for areas of significant gold-in-soil anomalies, and historical drilling which it appears may have been drilled mostly on the periphery of the magnetic target zone. The 3-D modelling has defined a large magnetic body, which transitions near surface into a cluster of magnetic bodies, with a vertical extent exceeding 1.7km and coinciding at surface with anomalous gold and copper soil sampling results. This magnetic pattern is seen in other porphyry systems.

This work has also defined a widespread and continuous area of alteration covering over 17 km^2 which coalesces around, and envelopes, many of these target areas. Some of the porphyry and epithermal targets overlap, which is to be expected from a technical perspective.

Regular meetings with stakeholders are being held to keep them informed of progress on current exploration activities.

Directors' Report

Viscaria Copper Project

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. It is located in northern Sweden, 1,200km north of Stockholm, approximately 5 km west of the mining town of Kiruna. Viscaria 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.

During the half-year ended 31 December 2018, the Company signed a Letter of Intent (LOI) followed by a Share Sale and Purchase Agreement (SPA) to sell its wholly owned subsidiary and holder of the Viscaria Copper Project, Avalon Minerals Viscaria AB, to a Swedish copper exploration company, Copperstone Resources AB (publ)("Copperstone"), which is listed on NASDAQ First North (Stockholm).

Under the terms of the SPA, announced 3 October 2018, Sunstone will receive upon closing of the transaction cash of 40 million Swedish Kronor (MSEK) equal to approximately A$6 million and 160 million shares in Copperstone. In addition, further consideration of 20 MSEK cash, approximately A$3 million, and 46 million shares in Copperstone, will be received upon receipt of an environmental permit for the Viscaria Copper Project.

Shareholder approval for the transaction for both Sunstone and Copperstone was received on 27 November 2018.

Subsequent to the end of the half-year an amendment to the SPA was announced on 25 February 2019, whereby the initial cash to be received upon closing of 40 MSEK was amended to be 20 MSEK at closing followed by the remaining 20 MSEK, plus interest accruing at 7% per annum, within 4 months.

Completion of the transaction occurred on 8 March 2019 with 20 MSEK cash received and 160 million shares in Copperstone issued (valued at approximately A$24.4 million at Copperstone share price at closing), which results in Sunstone holding approximately 39% of the shares in Copperstone, and thus retaining significant exposure to Viscaria as well as to Copperstone's existing copper exploration projects in Sweden, with potential synergies across the projects.

Further details on Copperstone can be found on their website www.copperstone.se

Gold Portfolio

Sunstone holds an 80% interest in claim areas that include two known gold opportunities, Satulinmäki and Riukka. Historical drilling was undertaken by the Finnish Geological Survey (GTK) and only tested to ~70m below surface, delivering results including 22m @ 3.6 g/t gold from 50 metres (hole 391) at Satulinmäki.

Conductivity results from a large Induced Polarisation (IP) geophysical survey at Satulinmäki have identified discrete anomalies that coincide with the high-grade intersections delivered by holes such as SMDD007, 23.5m at 3.3g/t gold including 9.2m at 7.3g/t gold (refer ASX announcement dated 14 November 2016).

Geophysical mapping of interpreted sericite alteration and distribution of sulphides, both known to be associated with gold mineralisation from drilling, has shown two main trends –

- The main Satulinmäki gold trend, which had been outlined over a ~300m strike length from drilling, has been extended to 1.2 kilometres by the IP survey; and
- A new northwest trending zone measuring 800m long.

During the half-year an Ionic leach soil sampling program was undertaken that is designed to detect pathfinder metal ions related to gold mineralisation. This survey was conducted to identify anomalous areas that lie along the Satulinmäki to Riukka gold trend on the Tammela Gold Project.

Based on Sunstone's regional assessment of gold prospectivity in southern Finland, areas of interest are held under approved Exploration Reservations, and recently applications have been lodged for Exploration Permits and additional Exploration Reservations covering known gold occurrences. These areas are held 100% by Sunstone and will be explored systematically.

Directors' Report

Lithium Portfolio

Sunstone's 100% owned subsidiary Scandian Metals Pty Ltd (Scandian) holds an 80% interest in the lithium rights within claim areas that include the Kietyönmäki lithium occurrence which was discovered by the Finnish Geological Survey (GTK) in the mid-1980's. Scandian also holds a portfolio of other, 100% owned, exploration permits in Scandinavia considered prospective for lithium.

During the half-year Sunstone issued 600,000 Sunstone shares in consideration for the sale/transfer to Sunstone of the recipients' 20% minority interest in Scandian, in addition to Sunstone agreeing to transfer the Ladum Project tenements in Sweden to the recipients.

There was no significant field activity during the half-year.

Events occurring after reporting period

Subsequent to the end of the half-year an amendment to the SPA regarding the sale of Avalon Minerals Viscaria AB to Copperstone Resources AB was announced on 25 February 2019, whereby the initial cash to be received upon closing of 40 MSEK was amended to be 20 MSEK at closing followed by the remaining 20 MSEK, plus interest accruing at 7% per annum, within 4 months.

Completion of the transaction occurred on 8 March 2019 with 20 MSEK cash received and 160 million shares in Copperstone issued (valued at approximately A$24.4 million at Copperstone share price at closing), which results in Sunstone holding approximately 39% of the shares in Copperstone. The future consideration to be received has been discounted to present value resulting in a calculation of total transaction value, net of fees, of A$38.1 million and recognition of an impairment against the non-current assets available for sale at 31 December 2018 of A$3.9 million.

When the sale is recognised in the annual accounts, a further loss on sale of approximately A$1million is expected to be recognised due to movements in the AUD:SEK exchange rate between 31 December 2018 and 8 March 2019.

No other matter or circumstance has arisen since 31 December 2018 that has significantly affected, or may significantly affect the Group's position, the results of those operations, or the Group's state of affairs in future financial periods, except as already disclosed in the half-year financial statements.

Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under section 307C of the Corporations Act 2001 is set out on page 9.

This report is made in accordance with a resolution of the Directors.

Graham Ascough

Chairman
Sunstone Metals Ltd

15 March 2019

Auditor's Independence Declaration

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DECLARATION OF INDEPENDENCE BY A J WHYTE TO THE DIRECTORS OF SUNSTONE METALS LTD

As lead auditor for the review of Sunstone Metals Ltd for the half-year ended 31 December 2018, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Sunstone Metals Ltd and the entities it controlled during the period.

A J WHYTE
Director

Brisbane, 15 March 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the half-year ended 31 December 2018

	Note	Half-year ended 31-Dec-18 $	31-Dec-17 $
Revenue	4	**11,486**	9,425
Employee Benefits Expense	5	**(431,098)**	(379,443)
Corporate and administration expenses		**(364,699)**	(473,671)
Depreciation expense		**(4,205)**	(5,327)
Impairment expense		**(3,999,781)**	-
Interest paid		**(3,752)**	(1,978)
Profit/(Loss) before income tax		**(4,792,049)**	(850,994)
Income tax expense		**-**	-
Net profit/(loss) for the period		**(4,792,049)**	(850,994)
Other comprehensive income / (loss)			
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation differences – foreign operations		**76,336**	721,461
Foreign currency translation differences – non-current assets held for sale		**2,527,286**	-
Total comprehensive profit/(loss) for the period		**(2,188,427)**	(129,533)
Net profit/(loss) for the period is attributable to:			
Members of Sunstone Metals Ltd		**(4,790,876)**	(849,309)
Non-controlling interests		**(1,173)**	(1,685)
		(4,792,049)	(850,994)
Total comprehensive profit/(loss) for the period attributable to:			
Members of Sunstone Metals Ltd		**(2,180,568)**	(132,676)
Non-controlling interests		**(7,859)**	3,143
		(2,188,427)	(129,533)
Earnings per share for profit/(loss) attributable to the ordinary equity holders of the Company:			
		Cents	Cents
Basic earnings per share		**(0.4)**	(0.1)
Diluted earnings per share		**(0.4)**	(0.1)

The Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position
As at 31 December 2018

	Note	31-Dec-18 $	30-Jun-18 $
Current assets			
Cash and cash equivalents		**2,557,468**	2,653,789
Trade and other receivables	6	**91,073**	79,969
Total current assets		**2,648,541**	2,733,758
Non-current assets			
Plant and equipment		**5,746**	68,476
Non-current assets held for sale	7	**38,076,904**	-
Exploration and evaluation	8	**6,401,410**	44,474,691
Total non-current assets		**44,484,060**	44,543,167
Total assets		**47,132,601**	47,276,925
Current liabilities			
Trade and other payables	9	**215,777**	165,460
Provisions		**165,941**	144,790
Total current liabilities		**381,718**	310,250
Total liabilities		**381,718**	310,250
Net assets		**46,750,883**	46,966,675
Equity			
Contributed equity	10	**79,507,139**	77,502,820
Reserves	11	**4,788,927**	2,210,518
Accumulated losses		**(37,527,986)**	(32,737,110)
Equity attributable to owners of Sunstone Metals Limited		**46,768,080**	46,976,228
Non-controlling interests		**(17,197)**	(9,553)
Total equity		**46,750,883**	46,966,675

The Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

SUNSTONE METALS

Consolidated Statement of Changes in Equity

For the half-year ended 31 December 2018

2018	Contributed Equity	Share Based Payments Reserve	Foreign Currency Translation Reserve	Accumulated Losses	Total	Non-controlling interests	Total equity
	$	$	$	$	$	$	$
At the beginning of the financial year	**77,502,820**	**3,732,841**	**(1,522,323)**	**(32,737,110)**	**46,976,228**	**(9,553)**	**46,966,675**
Profit/(loss) for the year				**(4,790,876)**	**(4,790,876)**	**(1,173)**	**(4,792,049)**
Other comprehensive Income			**2,610,308**		**2,610,308**	**(6,686)**	**2,603,622**
Total comprehensive income/(loss) for the half-year	-	-	**2,610,308**	**(4,790,876)**	**(2,180,568)**	**(7,859)**	**(2,188,427)**
Shares issued	**2,109,249**				**2,109,249**	**215**	**2,109,464**
Share issue costs	**(104,930)**				**(104,930)**		**(104,930)**
Share based payment transactions		**(31,899)**			**(31,899)**		**(31,899)**
Total Equity at 31 December 2018	**79,507,139**	**3,700,942**	**1,087,985**	**(37,527,986)**	**46,768,080**	**(17,197)**	**46,750,883**

2017	Contributed Equity	Share Based Payments Reserve	Foreign Currency Translation Reserve	Accumulated Losses	Total	Non-controlling interests	Total equity
	$	$	$	$	$	$	$
At the beginning of the financial year	**69,799,393**	**3,629,353**	**(749,535)**	**(30,987,440)**	**41,691,771**	**(7,275)**	**41,684,496**
Profit/(loss) for the year				(849,309)	(849,309)	(1,685)	(850,994)
Other comprehensive Income			716,633		716,633	4,828	721,461
Total comprehensive income/(loss) for the half-year	-	-	**716,633**	**(849,309)**	**(132,676)**	**3,143**	**(129,533)**
Shares issued	7,500,074				7,500,074	245	7,500,319
Share issue costs	(419,808)				(419,808)		(419,808)
Share based payment transactions		34,572			34,572		34,572
Total Equity at 31 December 2017	**76,879,659**	**3,663,925**	**(32,902)**	**(31,836,749)**	**48,673,933**	**(3,887)**	**48,670,046**

The Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows

For the half-year ended 31 December 2018

	Note	Half-year ended 31-Dec-18 $	31-Dec-17 $
Cash flows from to/from operating activities			
Payments to suppliers and employees		**(753,633)**	(827,916)
Interest paid		**(3,752)**	(1,978)
Interest received	4	**11,486**	9,425
Net cash outflow from operating activities		**(745,899)**	(820,469)
Cash flows to/from investing activities			
Payments for plant and equipment		**(3,878)**	-
Exploration and evaluation expenditure	8	**(1,237,147)**	(1,082,518)
Research and development rebate		**-**	(141,952)
Net cash used in investing activities		**(1,241,024)**	(1,224,470)
Cash flows to/from financing activities			
Proceeds from issue of securities		**2,019,920**	7,467,065
Costs of share issues		**(104,930)**	(419,808)
Net cash provided by financing activities	10	**1,914,990**	7,047,257
Net increase/(decrease) in cash		**(71,933)**	5,002,318
Effect of exchange rate fluctuations on cash held		**(24,388)**	(1,161)
Cash and cash equivalents at the beginning of the financial year		**2,653,789**	475,682
Cash at the end of the financial year		**2,557,468**	5,476,839

The Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

Notes to the Financial Statements
For the half-year ended 31 December 2018

Note 1 Basis of preparation and changes in accounting policies

a) Basis of preparation

This general purpose condensed financial report for the half-year reporting period ended 31 December 2018 has been prepared in accordance with AASB 134 Interim Financial Reporting and the Corporations Act 2001.

The half-year financial report does not include all of the notes of the type normally included in an annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2018 and any public announcements made by Sunstone Metals Limited during the half-year reporting period in accordance with the continuous disclosure requirements of the ASX Listing Rules. The annual report and any public announcements issued can be located on the company's website www.sunstonemetals.com.au.

The same accounting policies and methods of computation have generally been followed in these half-year financial statements as compared with the most recent annual financial statements except for the adoption of new and amended standards as set out below.

b) New and amended standards adopted by the group

A number of new or amended standards became applicable for the current reporting period and the group had to change its accounting policies as a result of adopting the standards. The impact of the adoption of these standards and the new accounting policies are disclosed below. The other standards did not have any impact on the group's accounting policies and did not require retrospective adjustments.

AASB 9 Financial Instruments – Impact of adoption

AASB 9 replaces the provisions of AASB 139 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of AASB 9 Financial Instruments from 1 July 2018 resulted in changes in accounting policies. The new accounting policies are set out in note below. In accordance with the transitional provisions in AASB 9(7.2.15) and (7.2.26), comparative figures have not been restated.

(i) Classification and Measurement

On 1 July 2018 (the date of initial application of AASB 9), the group's management has assessed which business models apply to the financial assets held by the group and has classified its financial instruments into the appropriate AASB 9 categories. The main effects resulting from this reclassification was the classification of 'Financial assets held to maturity' to 'Term deposits'. There was no change to the measurement of these assets.

(ii) Impairment of financial assets

The group has one type of financial asset that is subject to AASB 9's new expected credit loss model, trade and other receivables.

The group was required to revise its impairment methodology under AASB 9. There was no material impact of the change in impairment methodology on the group's retained earnings and equity.

While cash and cash equivalents are also subject to the impairment requirements of AASB 9, there was no material impairment loss identified.

AASB 9 Financial Instruments – Accounting policies applied from 1 July 2018

Investments and other financial assets

(i) Classification and Measurement

From 1 July 2018, the group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI, or through profit or loss); and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The group reclassifies debt investments when and only when its business model for managing those assets changes.

At initial recognition, the group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

(ii) Impairment of financial assets

For trade receivables, the group applies the simplified approach permitted by AASB 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

c) Impact of standards issued but not yet effective

AASB 16 Leases

AASB 16 was issued in February 2016. It will result in almost all leases being recognised on the statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. Exceptions include mining and exploration leases, short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the group's operating leases. As at the reporting date, the group has non-cancellable operating lease commitments of $170,555. However, the group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under AASB 16.

The standard is mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2019. The group does not intend to adopt the standard before its effective date.

d) Going Concern

The consolidated entity made a net loss of $4,792,049 for the half year ended 31 December 2018. As at 31 December 2018 the consolidated entity has net cash reserves of $2,557,468 and a net current asset surplus of $2,266,823.

The ability of the Group to continue as a going concern is principally dependent upon one or more of the following:

- the ability of the company to raise additional capital in the future; and
- the successful exploration and subsequent exploitation of the Group's tenements.

The directors believe that the going concern basis of preparation is appropriate due to the following reasons:

- Subsequent to the end of the half-year, the transaction to sell Avalon Minerals Viscaria AB closed on 8 March 2019 and the Group received approximately A$3 million in cash before costs, with a further approximately A$3 million to be received before 8 July 2019;
- To date the Group has funded its activities through issuance of equity securities and it is expected that the Group will be able to fund its future activities through further issuances of equity securities; and
- The directors believe there is sufficient cash available for the Group to continue operating until it can raise sufficient further capital to fund its ongoing activities.

Should the consolidated entity be unable to continue as a going concern, it may be required to realise its assets and extinguish its liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial statements.

This financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts or classification of liabilities and appropriate disclosures that may be necessary should the consolidated entity be unable to continue as a going concern.

e) Fair Values

The fair values of the group's financial assets and financial liabilities approximate their carrying values due to their short-term nature. No financial assets or financial liabilities are readily traded on organised markets in standardised form.

Notes to the Financial Statements
For the half-year ended 31 December 2018

Note 2. Accounting estimates and judgements

Estimates and judgement are continually evaluated and are based on historical experience and other factors including expectation of future events that may have a financial impact on the Group and the are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Below are the key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next period.

The Group has carrying balances for exploration and evaluation assets. Exploration and evaluation assets have been capitalised on the basis that the Group will commence commercial production in the future from which the costs will be amortised in proportion to the depletion of the mineral resources. A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

The Group has recognised the Viscaria assets as held for sale and have measured these taking into account, among other things, the fair value of the deferred consideration on sale. Key assumptions made in measuring the deferred consideration are detailed in Note 7.

Note 3 Segment reporting

The Group has determined its operating segment based upon reports reviewed by the Board (Chief Operating Decision Makers) for making strategic decisions. The Board has identified four operating segments being corporate expenditure in Australia, and exploration for and evaluation of copper, gold and lithium projects in Sweden, Finland, and in Ecuador.

The reportable segment is based on aggregated operating segments determined by the geographical similarity of the Group's areas of interest and the economic environments in which the Group operates.

The Group continues to review and assess other resource projects both within Australia and overseas as opportunities arise. The accounting policies used by the Group in reporting segments internally are the same as those used in preparing the financial report.

	2018	2017
	$	$
Revenue/Income		
Australia	**11,482**	9,424
Sweden	**-**	1
Finland	**4**	-
	11,486	9,425
Non-current assets		
Australia	**416,673**	419,326
Sweden	**38,076,904**	40,151,264
Finland	**2,756,735**	2,352,184
Ecuador	**3,233,748**	498,893
	44,484,060	43,421,667

Notes to the Financial Statements
For the half-year ended 31 December 2018

Note 4 Revenue and Other Income

	Half-year ended	
	31-Dec-18	31-Dec-17
	$	$
Interest Revenue	11,486	9,425

Note 5 Expenses

Profit/(Loss) before income tax includes the following:	Half-year ended	
	31-Dec-18	31-Dec-17
	$	$
Employee benefits expense*		
Salaries & wages	203,411	193,705
Directors' fees	82,159	93,125
Defined contribution superannuation expense	19,324	22,325
Share based payments	57,430	67,581
Movement in leave provisions	21,151	(7,034)
Other	47,623	9,741
	431,098	379,443

* Excludes employee costs capitalised to exploration and evaluation expenditure

Rental expense related to operating lease	22,225	39,240

Note 6 Receivables

	31-Dec-18	30-Jun-18
	$	$
Other debtors	48,987	48,797
Deposits	15,225	15,225
Prepayments	26,861	15,947
	91,073	79,969

Notes to the Financial Statements

For the half-year ended 31 December 2018

Note 7 Non-current assets held for sale

	31-Dec-18 $	30-Jun-18 $
Balance at 1 July	**-**	-
Exploration and evaluation expenditure by Avalon Minerals Viscaria AB	**41,866,665**	-
Impairment recognised	**(3,854,878)**	
Property, plant and equipment held by Avalon Minerals Viscaria AB	**65,117**	-
Balance	**38,076,904**	-

During the half-year ended 31 December 2018, the Company signed a Letter of Intent (LOI) followed by a Share Sale and Purchase Agreement (SPA) regarding the sale of Avalon Minerals Viscaria AB to a Swedish copper exploration company, Copperstone Resources AB (publ)("Copperstone"), which is listed on NASDAQ First North (Stockholm). As a result, the property, plant and equipment and the exploration and evaluation assets held in Avalon Minerals Viscaria AB have been re-classified as Non-current assets held for sale.

Completion of the transaction occurred on 8 March 2019 with 20 MSEK cash received and 160 million shares in Copperstone issued (valued at approximately A$24.4 million at Copperstone share price at closing), which results in Sunstone holding approximately 39% of the shares in Copperstone.

The future consideration of 20 MSEK and 46 million shares in Copperstone which is receivable on the issuance of an environmental permit for Viscaria has been discounted to present value using a discount rate of 12% and assuming the environmental permit will be issued within three years. Factoring in this discounting results in a calculation of total transaction value, net of fees, of A$38.1 million and recognition of an impairment against the non-current assets available for sale at 31 December 2018 of A$3.9 million.

When the sale is recognised in the annual accounts, a further loss on sale of approximately A$1million is expected to be recognised due to movements in the AUD:SEK exchange rate between 31 December 2018 and 8 March 2019.

Note 8 Exploration and evaluation assets

	31-Dec-18 $	30-Jun-18 $
At Cost - less amounts written off	**6,401,410**	44,474,691
Balance at 1 July	**44,474,691**	41,628,671
Exploration and evaluation expenditure	**1,361,302**	3,904,897
Relinquished tenement expenditure written off	**(144,903)**	(204,668)
Research and development rebate	**-**	(96,192)
Effect of movement in foreign exchange	**2,576,985**	(758,017)
Non-current assets held for sale	**(41,866,665)**	-
Balance	**6,401,410**	44,474,691

Recoverability of the carrying amount of exploration assets is dependent on the successful development and commercial exploitation of areas of interest, and the sale of minerals or the sale of the respective areas of interest.

Notes to the Financial Statements
For the half-year ended 31 December 2018

Note 9 Trade and other payables

	31-Dec-18 $	30-Jun-18 $
Trade payables	176,287	123,126
Sundry payables and accrued expenses	39,490	42,334
	215,777	165,460

Note 10 Equity securities issued

	Number of shares	2018 $
Ordinary shares - fully paid	1,214,876,776	79,507,139

		Number of shares	Issue price $	$
	Balance as at 1 July 2017	**650,847,134**		**69,799,393**
Jul-17	Share placement	162,711,777	0.014	2,277,965
Jul-17	Share Purchase Plan	70,178,615	0.014	982,500
Jul-17	Vesting of Employee Performance Rights	2,143,456	0.015	33,009
Nov-17	Share placement	221,400,000	0.019	4,206,600
Jan-18	Share placement	34,421,057	0.019	654,000
	Share issue costs			(450,647)
	Balance as at 30 June 2018	**1,141,702,039**		**77,502,820**

		Number of shares	Issue price $	$
	Balance as at 1 July 2018	**1,141,702,039**		**77,502,820**
Jul-18	Consideration for 20% holding in Scandian Metals Pty Ltd	600,000	0.038	22,800
Sep-18	Vesting of Employee Performance Rights	5,244,072	0.013	66,529
Nov-18	Share placement	67,330,665	0.030	2,019,920
	Share issue costs			(104,930)
	Balance as at 31 December 2018	**1,214,876,776**		**79,507,139**

Ordinary shares participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held. At shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands. Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

Notes to the Financial Statements
For the half-year ended 31 December 2018

Note 10 Equity securities issued (continued)

Options and Performance Rights

During the half-year, a total of 12,000,000 performance rights have been issued to employees, with 4,100,000 of these being issued to the Managing Director. The performance rights expire upon the earlier of cessation of employment or three years from issue and are split into three separate tranches, Tranche 1 - 4,000,000 rights vesting upon the closing price of the Company's share price being $0.05 or more for 10 consecutive ASX trading days and minimum 12 months from issue date until vesting; Tranche 2 - 4,000,000 rights vesting dependent on the Company's Total Shareholder Return performance against the ASX Small Resources Index; Tranche 3 - 4,000,000 rights vesting upon the closing price of the Company's share price being $0.065 or more for 10 consecutive ASX trading days and minimum 12 months from issue date until vesting.

During the period, 5,583,766 Employee Performance Rights lapsed following the expiry date.

Note 11 Reserves

	31-Dec-18 $	30-Jun-18 $
Share based payments reserve	**3,700,942**	3,732,841
Foreign currency translation reserve	**1,087,985**	(1,522,323)
Total reserves	**4,788,927**	2,210,518
Movements in reserves were as follows:		
Share based payments reserve		
Opening balance	**3,732,841**	3,629,353
Share based payments - employees	**34,630**	136,497
Shares Issued on vesting	**(66,529)**	(33,009)
Closing balance	**3,700,942**	3,732,841
Foreign currency translation reserve		
Opening balance	**(1,522,323)**	(749,535)
Foreign exchange gains/(losses) on translation	**83,022**	(772,788)
Foreign exchange gains on translation - non-current assets available for sale	**2,527,286**	-
Closing balance	**1,087,985**	(1,522,323)

Notes to the Financial Statements
For the half-year ended 31 December 2018

Note 12 Commitments

Commitments on Tenements	31-Dec-18 $	30-Jun-18 $
Existing Tenements		
- not later than 12 months	**1,570,726**	2,051,150
- between 12 months and 5 years	**-**	119,440
	1,570,726	2,170,590

Operting lease payable	31-Dec-18 $	30-Jun-18 $
- not later than 12 months	**93,191**	90,336
- between 12 months and 5 years	**77,364**	98,227
	170,555	188,563

Existing Tenements

Exploration tenement fees are required to keep licenses in good standing. The Group is committed to this expenditure on the current tenements.

The earn-in agreement in Ecuador requires Sunstone to spend USD 3.4 million to earn 51% of the Cornerstone Bramaderos project. It is anticipated that the remainder of these expenditure requirements to meet the earn-in stage will be spent within the next 12 months. Direct expenditure on the Bramaderos project (excluding Sunstone employee's time) up to 31 December 2018 was approximately USD 2 million.

Note 13 Dividends

There were no dividends declared or paid during the half-year (2017: Nil).

Note 14 Events occurring after reporting period

Subsequent to the end of the half-year an amendment to the SPA regarding the sale of Avalon Minerals Viscaria AB to Copperstone Resources AB was announced on 25 February 2019, whereby the initial cash to be received upon closing of 40 MSEK was amended to be 20 MSEK at closing followed by the remaining 20 MSEK, plus interest accruing at 7% per annum, within 4 months.

Completion of the transaction occurred on 8 March 2019 with 20 MSEK cash received and 160 million shares in Copperstone issued (valued at approximately A$24.4 million at Copperstone share price at closing), which results in Sunstone holding approximately 39% of the shares in Copperstone. The future consideration to be received has been discounted to present value resulting in a calculation of total transaction value, net of fees, of A$38.1 million and recognition of an impairment against the non-current assets available for sale at 31 December 2018 of A$3.9 million.

When the sale is recognised in the annual accounts, a further loss on sale of approximately A$1million is expected to be recognised due to movements in the AUD:SEK exchange rate between 31 December 2018 and 8 March 2019.

No other matter or circumstance has arisen since 31 December 2018 that has significantly affected, or may significantly affect the Group's position, the results of those operations, or the Group's state of affairs in future financial periods, except as already disclosed in the half-year financial statements.

Directors' Declaration

In the opinion of the Directors:

(a) the financial statements and notes of the Consolidated Entity as set out on pages 9 to 21 are in accordance with the Corporations Act 2001, including:

    (i) giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2018 and of its performance for the half year ended on that date; and

    (ii) complying with Accounting Standard 134 Interim Financial Reporting and the Corporations Regulations 2001;

(b) subject to the achievement of matters described in note 1(b), there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is signed in accordance with a resolution of the Board of Directors.

On behalf of the Board

Graham Ascough

Chairman

Brisbane, Queensland

15 March 2019

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INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Sunstone Metals Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of Sunstone Metals Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year then ended, notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001* including:

(i) Giving a true and fair view of the Group's financial position as at 31 December 2018 and of its financial performance for the half-year ended on that date; and

(ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001.*

Directors' responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2018 and its financial performance for the half-year ended on that date and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Group, would be in the same terms if given to the directors as at the time of this auditor's review report.

BDO Audit Pty Ltd

BDO

Anthony Whyte

Director

Brisbane, 15 March 2019