
SUNSTONE METALS

# CORPORATE DIRECTORY

## DIRECTORS

**Graham Ascough**
Non-Executive Chairman

**Malcolm Norris**
CEO & Managing Director

**Crispin Henderson**
Non-Executive Director

**Don Hyma**
Non-Executive Director

## COMPANY SECRETARY

**Gavin Leicht**

## REGISTERED OFFICE & PRINCIPAL PLACE OF BUSINESS

**AUSTRALIA**

9 Gardner Close
Milton Qld 4064

**T:** +61 7 3368 9888

**W:** sunstonemetals.com.au
**E:** info@sunstonemetals.com.au

**SWEDEN**

Fasadvagen 43
981 41 Kiruna
Sweden

## ACN

123 184 412

## SECURITIES EXCHANGE LISTING

Sunstone Metals Limited shares are listed on the Australian Securities Exchange

Ordinary fully paid shares
**ASX Code: STM**

Formerly Avalon Minerals Limited **ASX Code: AVI**

## SHARE REGISTRY

**Computershare Investor Services**

117 Victoria Street
West End Qld 4101

**T:** +61 7 3237 2100
**F:** +61 7 9473 2555

**W:** computershare.com.au

**Investor Enquiries**

**T:** 1300 850 505

## AUDITOR

**BDO Audit Pty Ltd**

Level 10/12 Creek Street
Brisbane Qld 4000

## BANK

**National Australia Bank Limited**

Level 23, 100 Creek Street
Brisbane QLD 4000

## SOLICITORS

**O'Loughlins Lawyers**

Level 2, 99 Frome Street
Adelaide SA 5000

# CONTENTS

# CHAIRMAN'S REVIEW

Dear Fellow Shareholders,

On behalf of the Board of Directors, it is my pleasure to present the 2017 Annual Report for Sunstone Metals Limited ('Sunstone' or 'Company'), formerly Avalon Minerals Limited and to thank all shareholders for your continued support of Sunstone.

Sunstone made a significant advancement during the year, signing an earn-in agreement with Cornerstone Capital Resources Inc ("Cornerstone") for the Bramaderos gold-copper project in southern Ecuador. Ecuador is host to world-class gold and copper-gold deposits in one of the most highly prospective belts for future discoveries. Major mining Companies such as BHP, Codelco, Newcrest and FMG are now active in Ecuador and many companies are expanding their presence. We believe that Sunstone is still the only junior mining company listed on the ASX to provide direct exposure to this exciting region.

On the back of this move into Ecuador, the Company changed its name from Avalon Minerals Limited to Sunstone Metals Limited. A sunstone is a fabled mineral that the Vikings used to navigate as they explored the world beyond Scandinavia, therefore we consider that Sunstone Metals is the ideal name to carry the Company on its journey to explore the world beyond Scandinavia.

The Company has built a team in the junior resource sector that we believe is second to none, having 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.

This move into Ecuador will see Sunstone managing several high-quality assets being Bramaderos, Viscaria and the Southern Finland Gold Project. There will be a shift in the focus of Sunstone management towards Ecuador, while investigating options to realise the value of the opportunities in Scandinavia for the benefit of shareholders.

Exploration success was achieved during the year at the Viscaria Copper Project, with high-grade copper results outside of the current D Zone mineral resource and the opening up of other highly prospective horizons for similar styles of mineralisation. The Southern Finland Gold Project delivered high-grade gold intersections and an Induced Polarisation survey extended the strike length and depth of the Satulinmäki gold prospect.

The Company continues to receive strong support from its shareholders, and in July 2017, completed an over-subscribed $2.3M placement at $0.014 per share to new, professional investors and existing large shareholders, as well as a Share Purchase Plan to existing shareholders at the same price to raise approximately $1M. The proceeds raised are to be utilised to progress exploration activities at the Bramaderos gold-copper project that are currently underway, a diamond drilling program at the Satulinmäki gold prospect in southern Finland, progressing the ESIA at Viscaria and for ongoing operating costs and working capital.

I would like to take this opportunity to express my thanks to Sunstone's staff, management and my fellow directors for their dedication and work during the past 12 months. We are committed to delivering strong shareholder returns and progressing the Company through its advancement into Ecuador, and realising the value of the Viscaria Copper Project in Sweden, and the Southern Finland Gold Project.

Yours sincerely

**Graham Ascough**

Chairman, Sunstone Metals Limited
6 September 2017

*A sunstone is the fabled mineral the Vikings used to navigate as they explored the world beyond Scandinavia.*

# OPERATING REVIEW

Sunstone Metals Limited ("Sunstone" or "Company"), formerly Avalon Minerals Limited, is an exploration and mineral development company, focussed on creating value for shareholders from the Bramaderos Gold-Copper Project in Ecuador, the Viscaria Copper Project in Sweden and the Southern Finland Gold Project.

## VALUE FOR SHAREHOLDERS WILL BE CREATED BY

**1** Exploring and drill testing the Bramaderos Gold-Copper Project in Ecuador, working towards repeating the Sunstone team's previous success in significant discoveries of porphyry copper-gold systems and delivering shareholder value growth.

**2** Progressing the environmental permitting phase at the Viscaria Copper Project so that Sunstone is in a leading position to take advantage of an increasing copper price environment

**3** Investigating potential opportunities to monetise or involve third parties in progressing the development of assets.

**4** Exploration success at Sunstone's other projects in Finland and Sweden.

Sunstone has a strong technical and operational team, which has significantly enhanced the quality and financial viability of its Projects. The quality of Sunstone's technical and operational team is one of the key strengths of the company.

Sunstone's vision is to become a significant copper and gold focussed exploration and development company. The Bramaderos Gold-Copper Project is considered to be highly prospective for the discovery of large gold-copper systems; the Viscaria Copper Project is currently moving through studies and permitting towards a development decision; while the Southern Finland Gold Project is at an earlier stage of exploration with highly encouraging drilling results.

Sunstone Metals is in the business of maximising shareholder return through the discovery and development of safe, efficient and environmentally responsible mining projects that offer a clear path forward to development. We aim to outperform our peers through ready access to existing infrastructure, low utility costs and recognised commodity exposure.

# COMPANY HIGHLIGHTS

- Signing the earn-in agreement on the Bramaderos Gold-Copper Project
- Exploration success outside of the Mineral Resource Estimate area to increase the scale of the Viscaria Copper Project
- Successful placements to raise $4.65M (132.3M shares at $0.016 per share; and 126.5M shares at $0.02 per share)
- Progression of Environmental and Social Impact Assessment (ESIA) at Viscaria and stakeholder engagement
- Project Exploration success at the Southern Finland Gold Project

*Sunstone's vision is to become a significant copper and gold focussed exploration and development company*

# BRAMADEROS GOLD-COPPER PROJECT

On 10 April 2017, Sunstone announced the signing of a binding agreement with Cornerstone Capital Resources Inc ("Cornerstone") (TSXV-CGP) through its subsidiary La Plata Minerales S.A. ("PLAMIN"), whereby Sunstone will have the right to earn a majority interest in the 4,949Ha "Bramaderos" concession in southern Ecuador subject to the satisfaction of certain conditions.

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 90km (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.

Bramaderos was sporadically explored during the periods 1970 to 1984, 2001 to 2002 and 2004 to 2007. Porphyry-style gold-copper mineralisation has been found mainly associated with quartz vein stockworks and breccias hosted by a north-northeast aligned cluster of potassic-altered quartz-diorite porphyry intrusions. An extensive, 5km by 1-2km, gold and copper (+/- molybdenum) multi-element soil geochemical anomaly located in the central part of the property has been partially tested by trenching and diamond drilling with very encouraging results. Several zones are yet to be followed up.

Historical drilling results at Bramaderos include wide intervals such as 260m at 0.6g/t Au and 0.14% Cu. Trenching results at the West Zone breccia include a zone of 42m at 3.7g/t Au. Previous surface sampling in the Limon area has returned up to 1.8% Cu and 1.45g/t Au in rock chip samples, and paired samples of 1.24g/t Au and 0.23% Cu, and 1.45g/t Au and 0.45% Cu. Historic soil sampling has defined areas of coincident Cu, Au and Mo anomalies over an area of approximately 1.4km x 0.5km.

These results, together with the distribution of alteration, and large coincident gold-copper-molybdenum surface anomalies indicate that the Bramaderos Project contains a fertile mineralised system with significant discovery potential.

The initial field program undertaken in May/June 2017 was aimed at further defining and prioritising the exploration program. Thirteen surface rock chip samples were collected across multiple prospects within the property. Assay results from these samples were released to the ASX on 18 July 2017 and included:

- 4.4g/t gold (and 6.85g/t silver) from the West Zone prospect
- 1.2g/t gold and 0.40% copper from Limon prospect

Early results further highlight the potential for the discovery of large gold-copper porphyry and epithermal gold deposits within the Bramaderos Project.

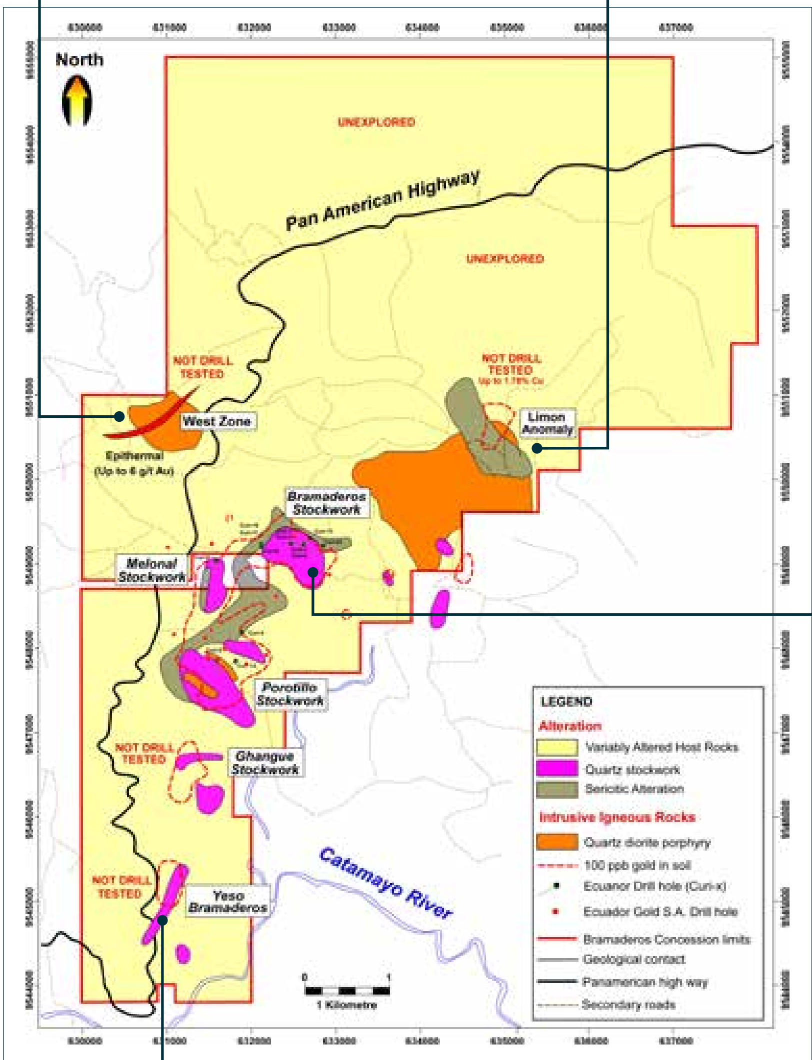
The exploration program on the Bramaderos concession is underway. Field crews have been deployed to undertake geological mapping, surface rock sampling, grid soil sampling and trenching. Detailed work programs are being simultaneously undertaken at the Limon, Bramaderos Main and West Zone prospects, whilst reconnaissance activities will be undertaken over other areas of the property. The program is expected to take 4 months and will include additional geophysical surveys.

The process for drill permitting has commenced. Permitting to use local water in the drilling program has been initiated with the relevant government office. Site baseline environmental assessments have commenced.

Regular meetings with stakeholders are being held to keep them informed of progress on current exploration activities and on the drill permitting process.

West Zone breccia trench
41m @3.70g/t Au

Malachite at Limon: rock chips
up to 1.8% Cu & 1.45g/t Au

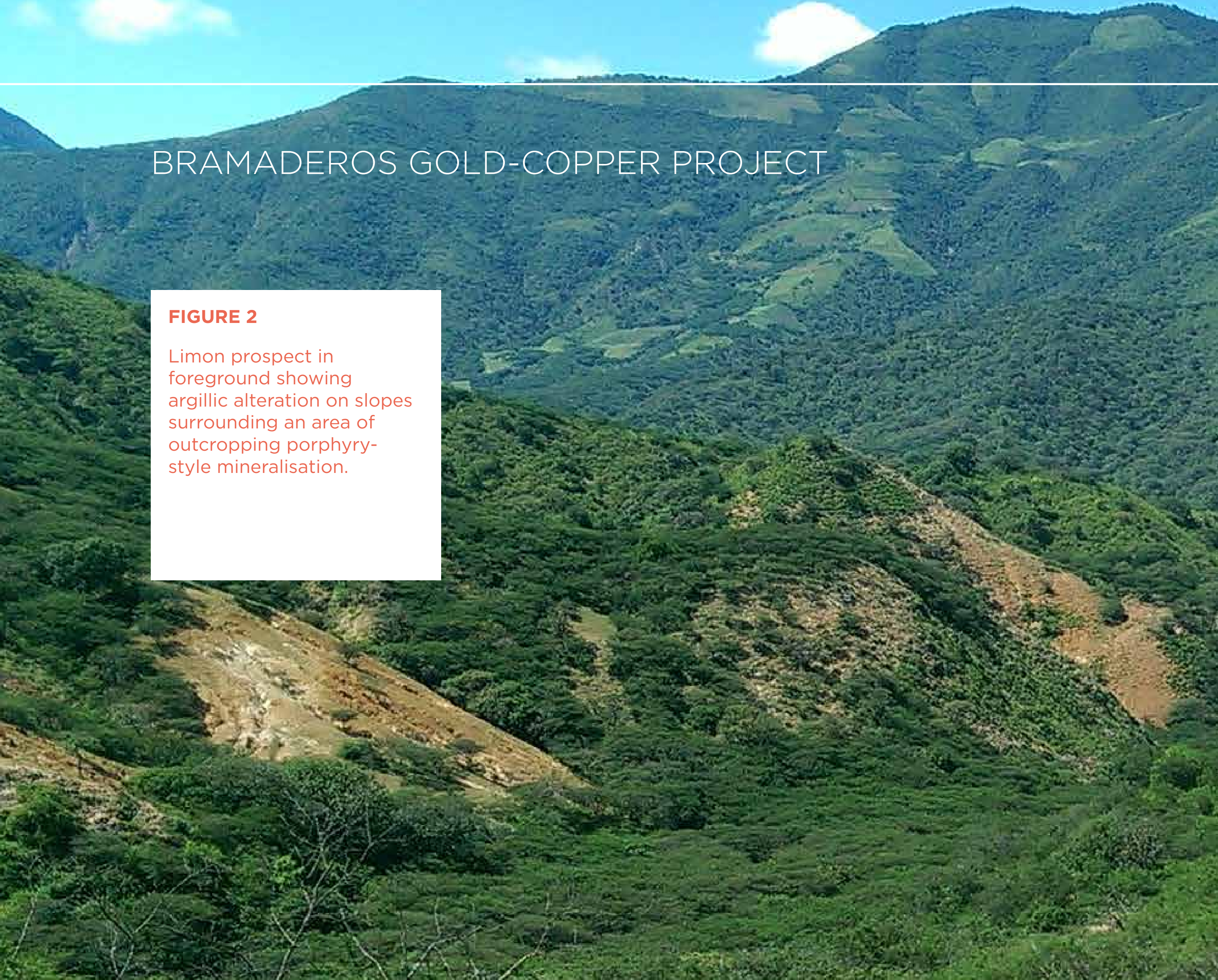



Quartz-magnetite
stockwork at Bramaderos

Epithermal veins at Yeso

**FIGURE 1**

Bramaderos prospect locations



# BRAMADEROS GOLD-COPPER PROJECT

**FIGURE 2**

Limon prospect in foreground showing argillic alteration on slopes surrounding an area of outcropping porphyry-style mineralisation.

Sheeted veins

Intense stockwork veining

Malachite staining in area of anomalous historical gold and copper rock chip samples

Thick stockwork veins in altered host rocks

**FIGURE 3**

Limon gold-copper prospect on the Bramaderos property, exhibiting surface mineralisation and intense stockwork and sheeted quartz veining indicative of a porphyry-style mineralised system.

The area of veining at surface is surrounded at a more regional scale by extensive areas of intense argillic alteration which is interpreted to represent an epithermal alteration overprint.

# BRAMADEROS GOLD-COPPER PROJECT

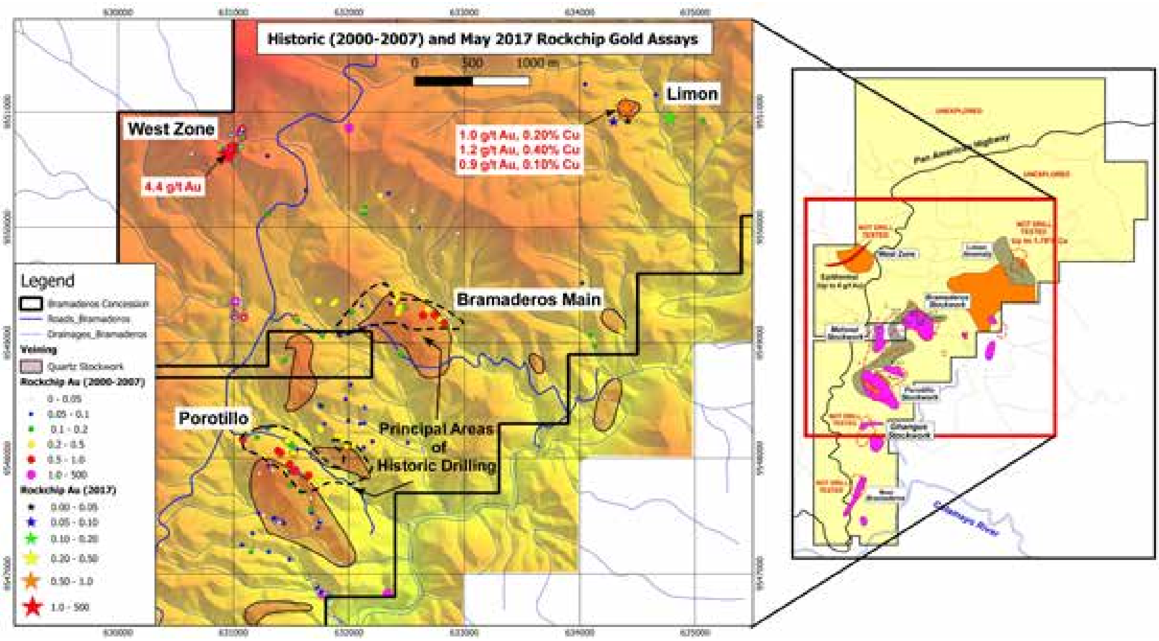



**FIGURE 4**

The location of prospects and recent and historical rock chip sampling.

# VISCARIA COPPER PROJECT

Sunstone's Viscaria Copper Project is a high quality, Pre-Feasibility Study (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, where the Company has estimated a global resource of 52.4Mt of copper mineralisation at 1.2% Cu, containing 608,900 tonnes of copper (refer to the Resources Statement on page 28).

The Viscaria Copper Project area is located approximately 5km 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.

## STUDIES AND PERMITTING

The findings of the Viscaria Copper Project Scoping Study were presented in an ASX announcement dated 16 December 2015, and updated 5 April 2016, demonstrating that a 2.0Mtpa project delivering greater than 20,000t copper in concentrate per annum is a viable development scenario. (refer to Table 1 – The Company confirms that it is not aware of any new information that materially affects the information provided in the previous announcements and all material assumptions underpinning the estimates continue to apply and have not materially changed).

# VISCARIA COPPER PROJECT

The Studies have determined that the Viscaria Copper Project demonstrates robust project fundamentals with low technical risk.

It is envisaged that project execution time will be minimal due to the project's proximity to well-established infrastructure. For example, no power station, camp, airstrip or significant site access road will be required. The Project contemplates the concurrent development of three open pit mining operations at A Zone, B Zone and D Zone and an underground operation at D Zone all located within one kilometre of a central ore processing facility.

The environmental permitting is the primary focus of activities at this stage to further de-risk the project and support ongoing 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 granting of an Exploitation Concession is a precursor to consideration by the regulator of the Environmental Impact Assessment and development permits required prior to the commencement of mining.

During the year, the approved, but under appeal, K7 Exploitation Concession at Viscaria was returned to the Swedish Mines Inspectorate for further review as part of an industry wide examination of appealed exploitation concessions in Sweden. 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. The K7 Exploitation Concession has reverted to being under application, with further information being provided by Sunstone to support this application.

# VISCARIA COPPER PROJECT

## TABLE 1

Viscaria Scoping Study metrics

| | 2015 SCOPING STUDY | TARGET CASE A AND EXPANDED CASE | |
|---|---|---|---|
| **Process plant size** | **1.2Mtpa scenario** | **2.0Mtpa scenario** | **3.0Mtpa scenario** |
| **Strip ratio (LOM)** | 5.8 | 6.0 | 8.4 |
| **Process** | Crush, grind & copper flotation plant | | |
| **Recovery rates** | 90.2% | 90.2% | 90.2% |
| **Copper Production** | | | |
| LOM | 107kt | 200kt | 260kt |
| Average per annum | 12kt | 21kt | 30kt |
| **Mine life** | Minimum eight years | **Minimum nine years** | |
| **Development capital** | | | |
| Site Infrastructure | US$87m (A$119m) | US$115m | US$145m |
| Underground | US$15m (A$20m) | US$15m | US$15m |
| **Sustaining capital (LOM)** | | | |
| Site Infrastructure | US$10.6m (A$14m) | US$14m | US$18m |
| Underground | US$20.0m (A$27m) | US$35m | US$35m |
| **Cash operating cost** | | **Targeting <US$2.00/lb** | |
| LOM C1 | US$1.86/lb (A$2.54/lb) | | |
| LOM AISC | US$2.10/lb (A$2.87/lb) | | |
| **Copper price** | US$3.25/lb (A$4.45/lb) | **US$3.00** | US$3.00 |
| **Exchange rate** | | | |
| AUD : USD | 0.73 | **0.73** | 0.73 |
| **NPV pre-tax (7%)** | US$74m (A$102m) | **Targeting >US$150 mill** | |
| **IRR pre-tax (%)** | 22% | **Targeting >28%** | |
| **Payback period** | 3.7 years | **<4 years** | <4 years |
| **Capital intensity** | US$7,335/t cu p.a. | ~US$5,750 | ~US$5,100 |

See ASX announcement dated 16 December 2015, and updated 5 April 2016. The Company confirms that it is not aware of any new information that materially affects the information provided in the previous announcements and all material assumptions underpinning the estimates continue to apply and have not materially changed.

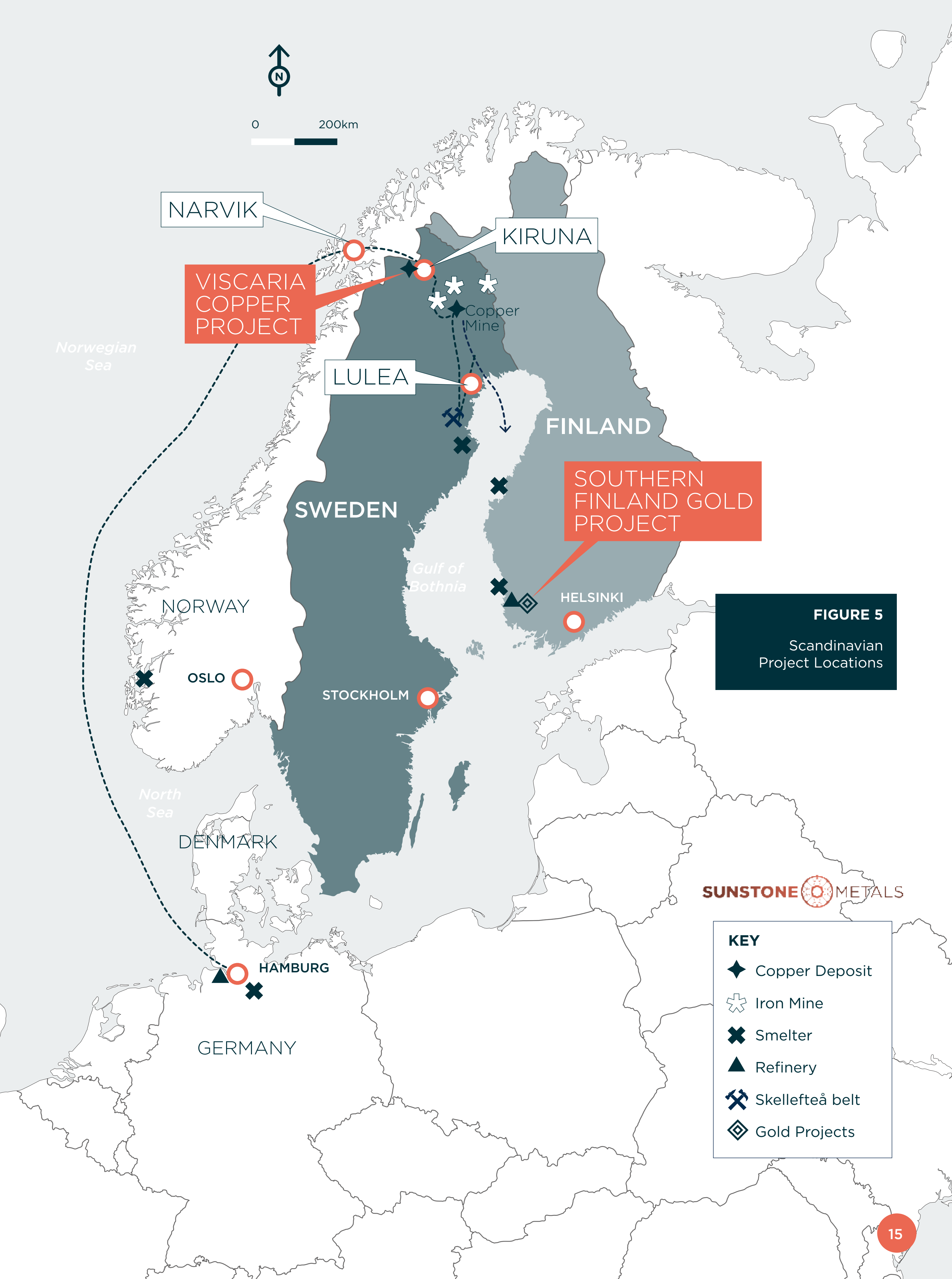



**FIGURE 5**

Scandinavian Project Locations

SUNSTONE METALS

# VISCARIA COPPER PROJECT

## EXPLORATION TARGETS AND OPPORTUNITIES

During the year, Sunstone released a technical report outlining the exploration target areas and opportunities at the Viscaria Copper Project in Sweden (refer ASX announcement dated 25 January 2017). The purpose of this report is to list and describe the multiple opportunities that exist in and around the former Viscaria copper mine in the Kiruna district of northern Sweden, and to aid in planning and prioritising future drilling programmes.

Ongoing technical work by Sunstone identified a series of 26 target environments, of which 24 are for new and extensional copper mineral resources at Viscaria, plus additional target environments with potential for gold and cobalt. Twelve of these targets represent relatively low-risk extension targets to existing resources. In addition, there are a further 12 targets located between 0.5 and 7km from the Viscaria deposits with the potential to produce new discoveries in the region, within trucking distance of the central Viscaria deposits.

Sunstone drilled 4 diamond drill holes during the year. The objectives of the drilling program were aimed at defining new ore positions and further reinforcing the significant upside to the Viscaria deposits. Drill targets were prioritised on the basis of the technical report and new modelling of geophysical anomalies, strongly supported by minor historical drilling over and near some of the targets. The host to the D Zone orebody is magnetite and similar magnetic bodies have been robustly defined.

Significant intersections from assay results on the four diamond drill holes during the 2016-2017 year are included below (refer to ASX announcements dated 8 and 26 June 2017 - The Company confirms that it is not aware of any new information that materially affects the information provided in the previous announcements):

- VDD197 – 1m at 1.31% Cu and 0.2g/t Au
- VDD198 – 1m at 2.21% Cu and 15.9g/t Ag
- VDD199 – 37.5m @ 0.11% Cu
- VDD200 – 5.1m @ 2.23% Cu

## D ZONE EXTENSION TARGET AND D ZONE SOUTH

Drill hole VDD 200 intersected several mineralised intervals including 5.1m @ 2.23% Cu from 266.1m within a broader zone of 13.4m @ 1.06% Cu from 265m and the results demonstrate significant potential strike extent of mineralisation immediately southwest of D Zone, and extends beyond this to the even larger D Zone South target, which has a strike extent of 4km (Figure 6).

This result is very significant as each hole Sunstone has drilled at D Zone, but 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 >2% copper.

The result from VDD 200, together with newly acquired ground magnetic data, opens-up the highly prospective 4 km-long D Zone South horizon. The area was only very shallowly tested by Sunstone in

2010 and 2011. Four historical drill holes intersected weak, but encouragingly pervasive copper mineralisation in an area near the southwest end of a 600m-long magnetic anomaly.

Modelling of ground magnetic data in 2017 indicated that three of the holes had only tested the very uppermost corners of an 80m-wide magnetic anomaly that broadens substantially at depth where it remains completely untested. The modelling also indicated that the fourth hole drilled parallel to and only tested the south-east edge of a 40m-thick and relatively strong magnetic anomaly.

The widespread and consistent copper mineralisation within the poorly tested D Zone South environment is very encouraging and brings this 4km-long anomaly to the top of the priority list for future testing with potential to significantly expand the Viscaria copper project.

## VISCARIA EXPLORATION

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,

Sunstone also holds a 100% interest in over 116km$^2$ of regional exploration tenements in the Kiruna district. These tenements are prospective for a range of deposit styles containing copper, gold, silver, zinc and iron ore. A prospectivity analysis of these tenements was completed and priority prospects were identified for further assessment.

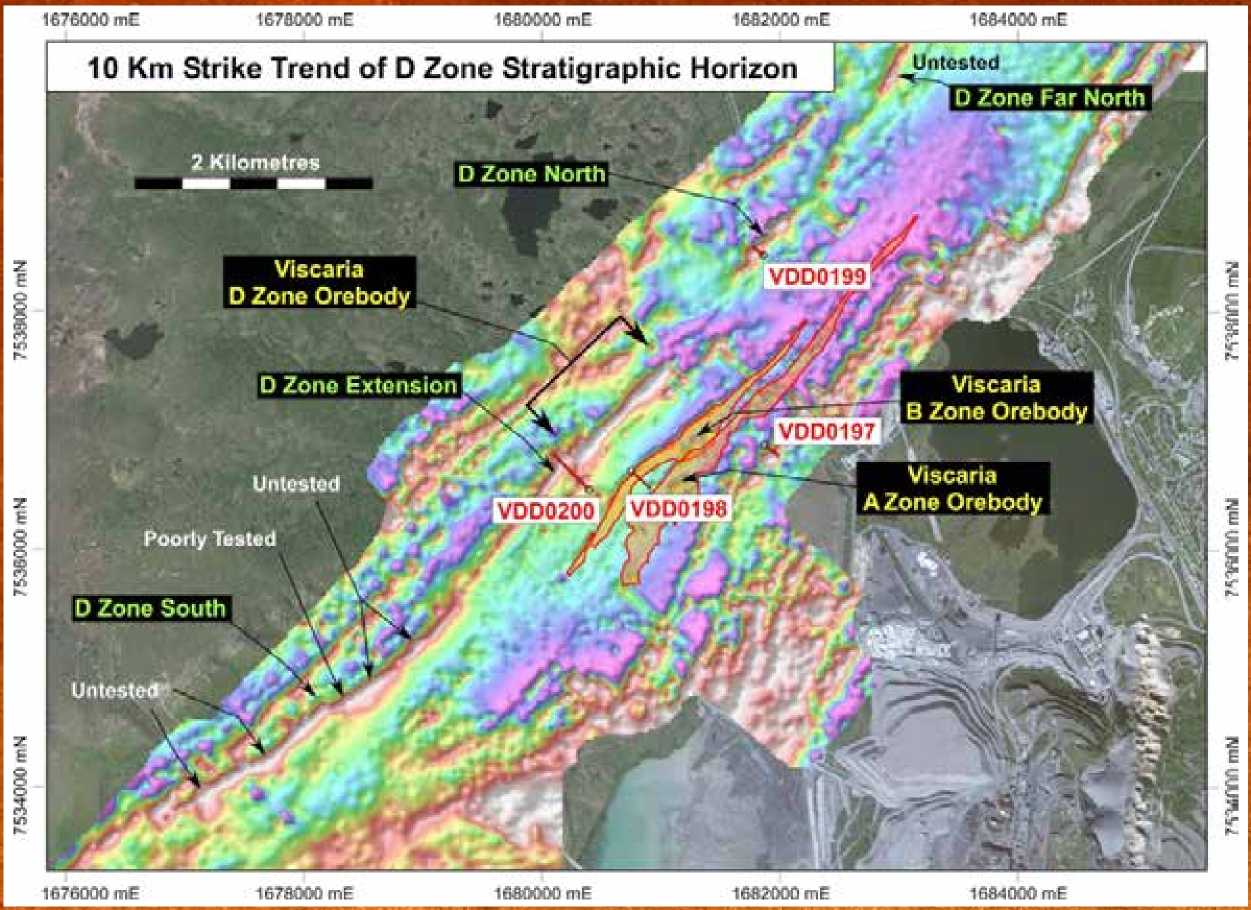



**FIGURE 6**

Plan view showing location of drill holes VDD 197 to VDD 200, and the highly prospective D Zone extension and D Zone South targets.

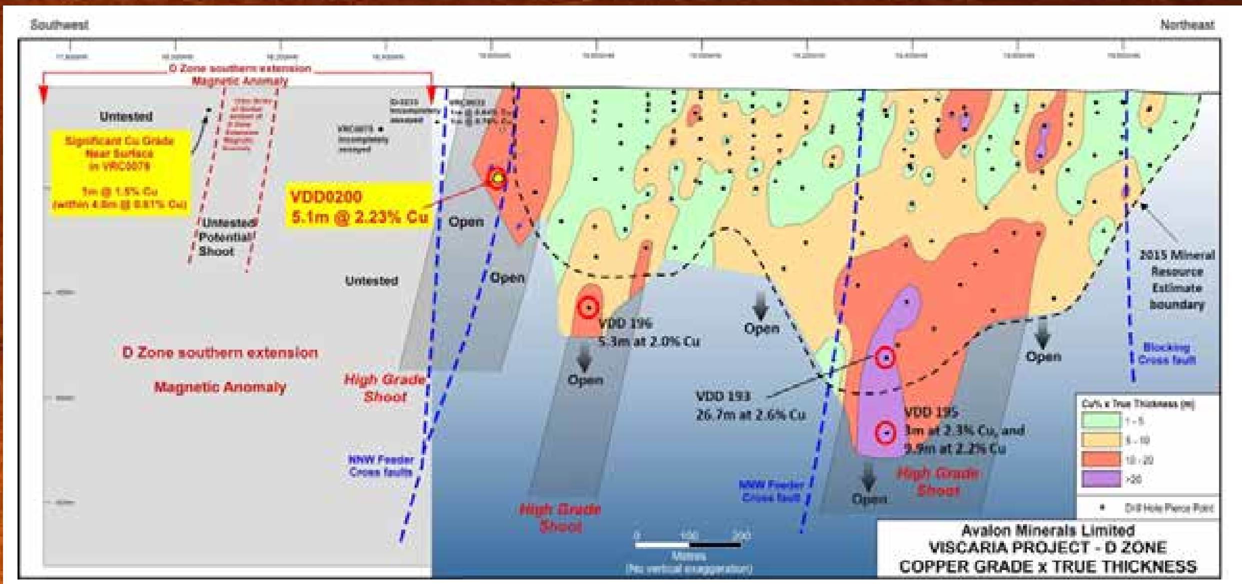



**FIGURE 7**

Long section along D Zone showing the D Zone Extension target area

# GOLD PORTFOLIO

## SOUTHERN FINLAND GOLD PROJECT

**Sunstone earning 80% from Nortec Minerals**

The Nortec earn-in agreement, for which Sunstone has completed the requirements to earn 51%, includes two known gold opportunities, Satulinmäki and Riukka, held within the claim areas. All historical drilling is shallow and only tested to ~70m below surface. Historical assays from diamond drilling by the Finnish Geological Survey (GTK) included 22m @ 3.6g/t Au from 50m (hole R391) at Satulinmäki.

At Satulinmäki Sunstone completed seven diamond drill holes during the year (refer ASX Announcement dated 14 November 2016), returning significant gold intersections as follows:

- 7.0m at 1.2g/t gold from 9m in SMDD001
- 10.0m at 1.1g/t gold from 33m in SMDD001
- 1.0m at 15.2g/t gold from 57m in SMDD001
- 42.0m at 0.9g/t gold from 112m in SMDD002
- 2.0m at 2.1g/t gold from 237m in SMDD003
- 13.4m at 2.0g/t gold from 15.6m in SMDD004
- 0.8m at 3.5g/t from 170.5m in SMDD004
- 2.0m at 10.5g/t gold from 7m in SMDD005
- 147.0m at 0.8g/t gold from 73m in SMDD007,
    - Including 23.5m at 3.3g/t from 143m
    - including 9.0m at 7.3g/t from 147m

# GOLD PORTFOLIO

The deepest hole drilled by Sunstone, SMDD003, tested to only 200m below surface and was still in anomalous gold levels at that depth.

Historical diamond drilling by the Geological Survey of Finland (GTK) was undertaken from 2001 to 2005. GTK drilled 60 holes for 4727m but did not explore below 70m. A detailed review of results has highlighted multiple intervals above 1g/t gold, and other highly anomalous intervals in areas of very limited drilling. Additionally, not all intervals were sampled by GTK and Sunstone completed two sampling programs to test these other structures, which were found to be gold bearing, and continue to support the definition of a significant gold system at Satulinmäki.

The intersection in R390 (12m @ 1.62g/t Au) further confirms and strengthens the main lode, and in hole R396 (5m @ 2.33g/t) maps the northeast continuation of the main lode. This mineralisation remains open to the northeast. Intersections in holes R393 and R394 are potentially mapping lodes that could develop along strike since this area is poorly drilled (refer to ASX Announcement dated 22 February 2017).

Within the main system, gold mineralisation has been identified as narrow high-grade zones within quartz veins and breccias, and as wide low-grade intervals within veined and altered rock. The combination of thick lower grades and narrow higher grades at Satulinmäki represents significant opportunities for follow-up drilling and consideration of development options.

Historical data have also now shown an extension of gold mineralised rock approximately 1.5km to the southeast where rock chip samples have returned up to 6.5g/t (refer ASX announcement dated 7 April 2017). The alteration system, as mapped by the distribution of arsenopyrite, also extends to the northwest. This is a very significant development and expands the target area of gold mineralisation to nearly 3.5km long and 1km wide.

A large Induced Polarisation (IP) geophysical survey was completed at Satulinmäki during the year. The key objective of the survey was to define areas of altered host rock within which gold mineralisation is expected to occur.

The survey has delivered outstanding results which will enable Sunstone to undertake focussed targeting of other potential gold-bearing zones in the project area.

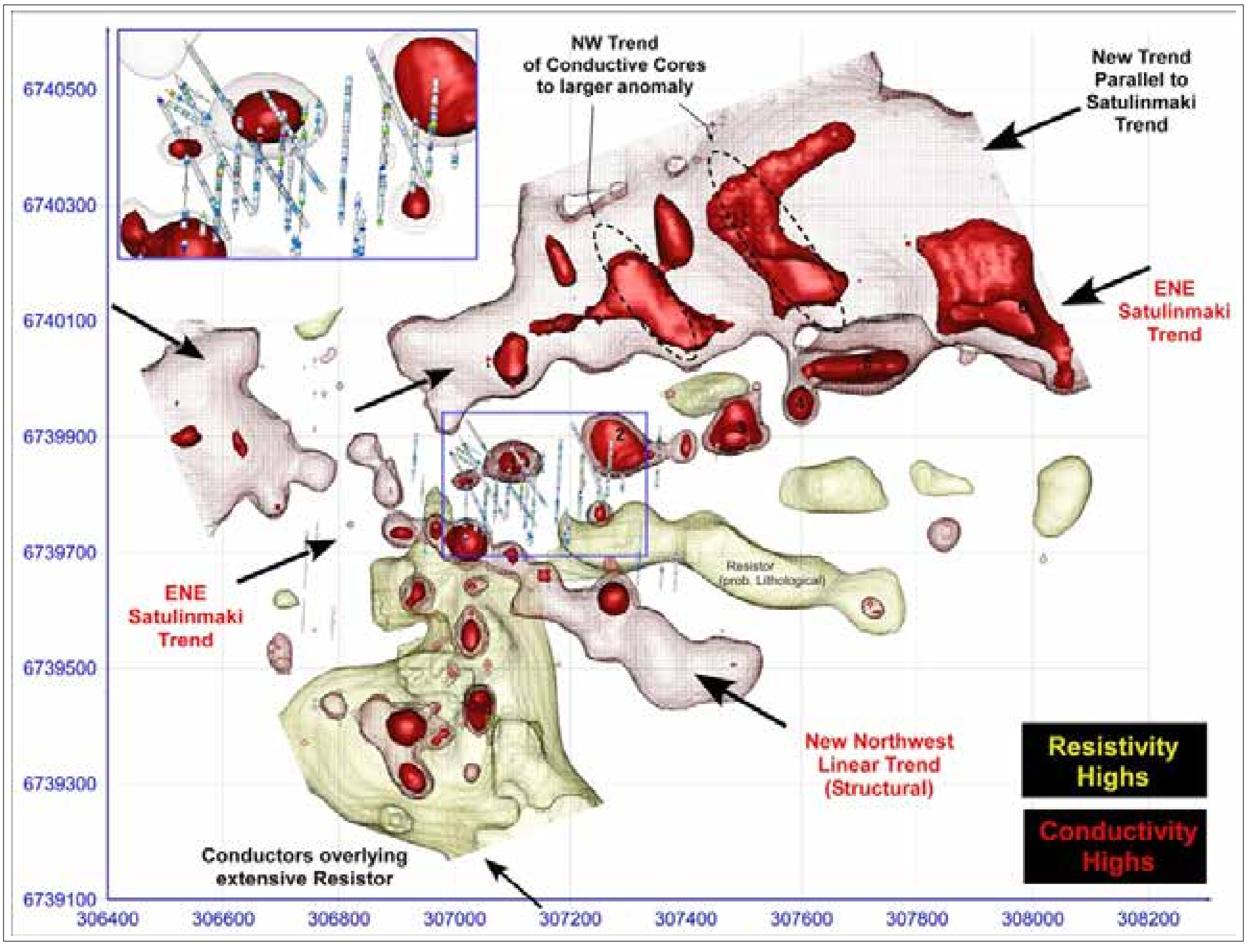
At Riukka, located 4km to the south-east, Sunstone has completed 3 diamond drill holes.

The holes intersected quartz veins at depth below quartz vein hosted gold mineralised intervals drilled by the Finnish Geological Survey and containing up to 2m at 16.6g/t gold. GTK drilled 41 diamond drill holes for 3,404m during the period 2001-2005 in the broader Riukka area.

Assay results from Riukka have shown that the mineralisation was weak. The holes were targeted based on a narrow sub-vertical plunge. This interpretation has now been modified based on these results and work at Satulinmäki, with further drilling at Riukka required to explore the historical high-grade results to depth once the structural geology is clarified.

**FIGURE 8**

Compilation of IP survey results showing trends identified as being prospective for gold mineralisation relative to the existing drilling. The ENE Satulinmäki trend (anomalies 1-6) is now 1.2km long and significantly expands the gold target.




## OTHER GOLD OPPORTUNITIES

**Sunstone 100%**

Based on Sunstone's regional assessment of gold prospectivity in southern Finland, areas of interest are held under approved Exploration Reservations, and recently 4 applications have been lodged for Exploration Permits covering known gold occurrences. These areas are held 100% by Sunstone and will be explored systematically.

Ongoing regional targeting and assessments of all available data has identified several highly rated targets (Figure 9), including some with very significant historical rock chip assays (up to 77g/t Au), and some that correlate with identified regional structures. These areas will be the subject of follow-up programs to define prospect-scale targets.

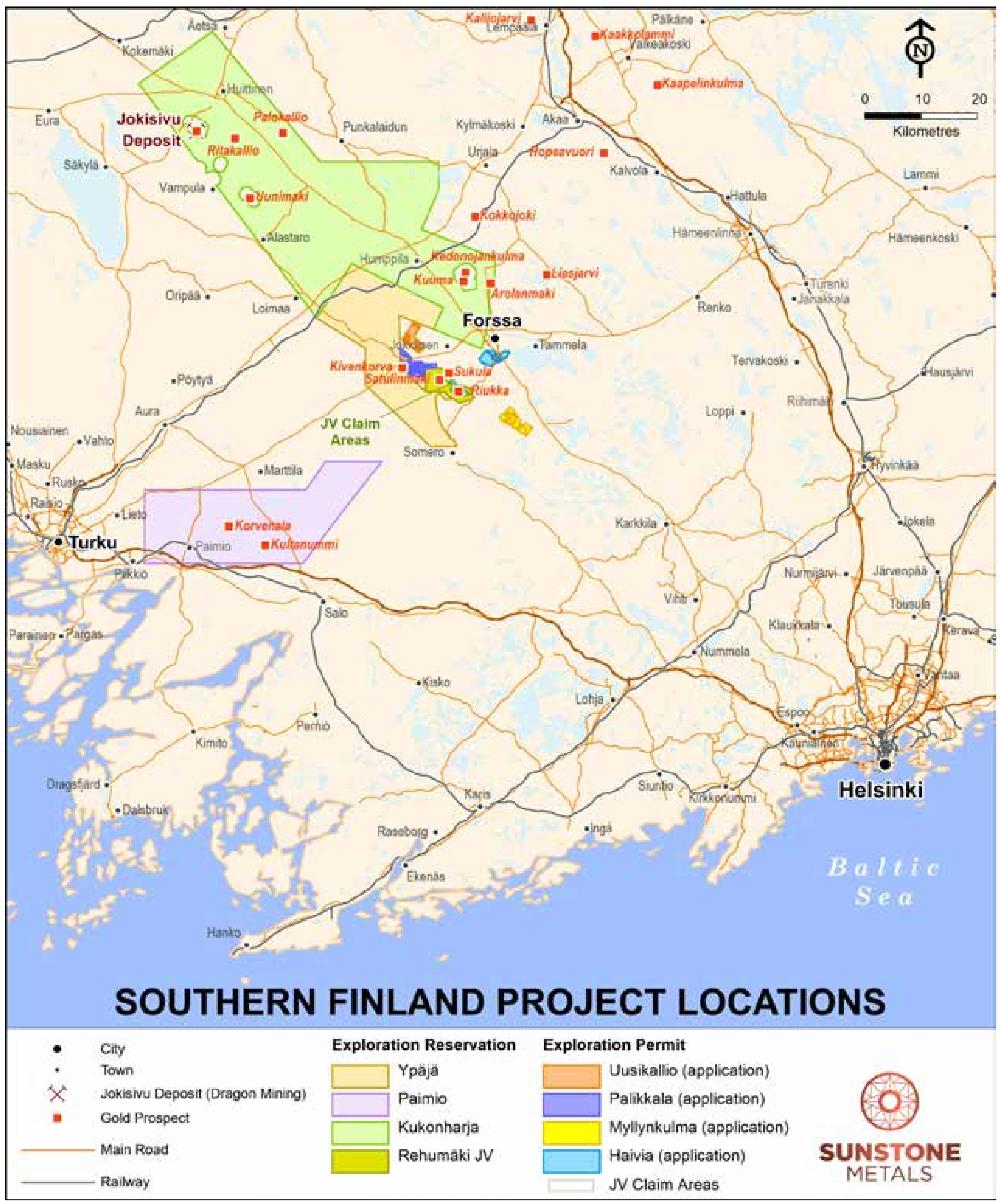



**FIGURE 9**

Location of the Satulinmäki gold prospect in southern Finland. The area is supported by high quality infrastructure and exploration can be undertaken year round.

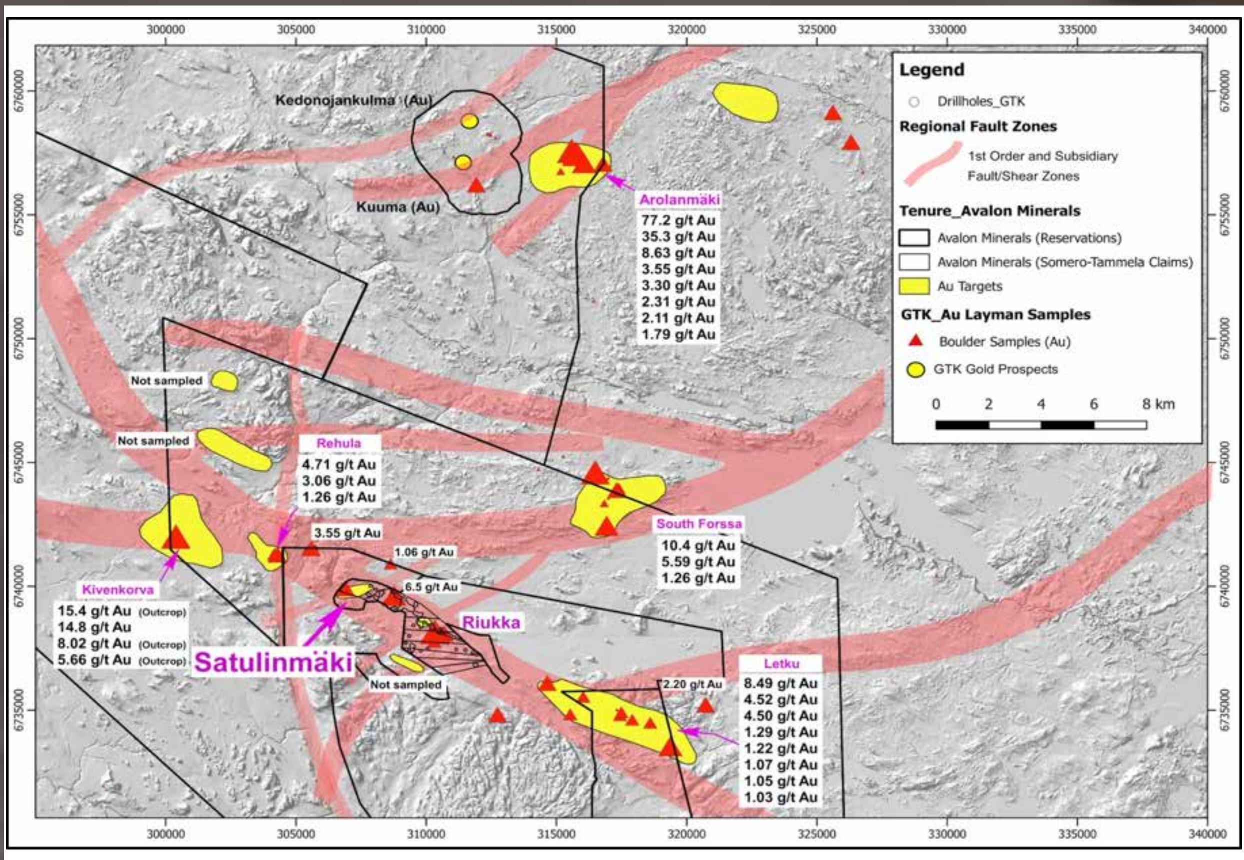



**FIGURE 10**

Regional geological interpretation showing significant boulder rock chip assays from GTK boulder analysis, and the interpreted controlling structures in this area, including Satulinmäki.

# GOLD PORTFOLIO

# LITHIUM PORTFOLIO

## KIETYÖNMÄKI LITHIUM PROJECT

**Sunstone's 80% subsidiary Scandian Metals Pty Ltd (Scandian) earning 80%**

The Nortec gold and lithium earn-in agreement area, for which Scandian has earned a 51% interest, includes the Kietyönmäki lithium occurrence which was discovered by the Finnish Geological Survey (GTK) in the mid-1980's. Lithium mineralisation at Kietyönmäki is hosted in a spodumene-bearing pegmatite dyke swarm.

The Kietyönmäki lithium pegmatite deposit was drilled by GTK during the period 1987 and 1988. Seventeen shallow diamond drill holes were completed to test down to 70m below surface across three traverses, including one traverse of very shallow holes to identify bedrock.

Assays from drill holes drilled by the Geological Survey of Finland (GTK), and confirmed by Nortec, include 9m at 2.2% $Li_2O$ within a broader zone of 24m at 1.3% $Li_2O$ within drill hole R310.

A total of six diamond drill holes for 1,171.9m have been drilled by Sunstone at Kietyönmäki during the year and have confirmed a high grade spodumene-bearing pegmatite dyke swarm. Significant intersections from the assay results for the holes drilled included:

- 42.1m at 1.1% $Li_2O$ from 18m in KMDD001
    - Including 24.2m at 1.4% $Li_2O$ from 18m
    - including 9.0m at 2.0% $Li_2O$ from 29m
- 3.1m at 1.0% $Li_2O$ from 15.5m in KMDD002
- 2.0m at 1.9% $Li_2O$ from 161m in KMDD006

Channel sampling has also been completed on 7 traverses – 3 over the main dyke, and 4 over smaller dykes and has returned up to 16.25m at 1.72% $Li_2O$ (refer to ASX announcement dated 20 January 2017).

The results suggest continuation of a thickened pegmatite dyke to the south-east. Further work is required to better understand the geology, however initial results are encouraging. Further work is being conducted to characterise the geochemical components of the dyke swarm to assist with future targeting of drill holes. $Nb_2O_5$ and $Ta_2O_5$ are both anomalous (in places highly anomalous) within logged pegmatite dykes and may help characterise other dykes for further exploration. There are several dykes with known lithium anomalism that have not been explored to date and these will be targeted in future drilling programs.

## KAUSTINEN LITHIUM PROJECT

Sunstone, through Scandian, holds 2 approved Exploration Permits in the Kaustinen area within the Central Ostrobothnia district, home to several known lithium pegmatites some of which are at an advanced stage of Pre-Feasibility Study and held by private Finnish company Keliber Oy.

## LADUM LITHIUM PROJECT

In Sweden Sunstone, through Scandian, has entered into a Heads of Agreement to explore four approved Exploration Concessions in Vasternorrlands, collectively referred to as the Ladum Project.

The Ladum Project covers areas within a regional pegmatite district that has seen minor historical exploration primarily for tin.

The main prospect consists of a NE-trending lithium-bearing pegmatite dyke swarm, and is located within forested terrain with easy access through logging roads. Main roads, power lines and local towns such as Sollefteå are all nearby. Ports are located approximately 75km to the south-east. The climate in the area is relatively mild due to proximity to the Baltic Sea.

# VISCARIA MINERAL RESOURCE

The Viscaria Copper Project is divided into three deposits: A Zone, B Zone and D Zone. A Zone is a copper deposit that was mined by Outokumpu OYJ between 1983 and 1997. Development consisted of underground mining utilising sub-level stoping methods. A total of 12.5Mt of ore with an average diluted grade of 2.3% copper was produced during this time. The A Zone mineralisation is interpreted as being a Besshi-style Volcanogenic Massive Sulphide (VMS) deposit.

B Zone is interpreted to be a second VMS lens adjacent to the A Zone mineralisation. Some material was mined from one level of B Zone during the Outokumpu period with access via a development drive from the A Zone underground development.

D Zone is a copper and iron deposit and although directly adjacent to A Zone and B Zone, has a different mineralisation style. It has previously been interpreted as an IOCG style deposit, or a VMS replacement deposit. D Zone has not been mined.

The established JORC 2012 compliant Mineral Resource Estimates for the Viscaria Project are shown in Table 2. There has been no change to the Mineral Resource Estimates from the 2016 Annual Report.

**Table 2: Currently Defined Mineral Resource Estimate for Copper reported on the Viscaria Project**

| Resource Name | Classification | Tonnes (t) | Cu Grade (%) | Cu Metal (t) |
|---|---|---|---|---|
| **A Zone** | Measured | 14,439,000 | 1.7 | 240,000 |
| | Indicated | 4,690,000 | 1.2 | 57,200 |
| | Inferred | 2,480,000 | 1.0 | 25,500 |
| | **Subtotal** | **21,609,000** | **1.5** | **322,700** |
| **B Zone** | Measured | 123,000 | 1.3 | 1,600 |
| | Indicated | 4,118,000 | 0.7 | 29,700 |
| | Inferred | 15,410,000 | 0.8 | 118,700 |
| | **Subtotal** | **19,651,000** | **0.8** | **149,000** |
| **D Zone** | Indicated | 10,360,000 | 1.2 | 125,000 |
| | Inferred | 780,000 | 1.6 | 12,200 |
| | **Subtotal** | **11,140,000** | **1.2** | **137,200** |
| **Overall Cu** | **Total** | **52,400,000** | **1.2** | **608,900** |

# VISCARIA MINERAL RESOURCE

**Mineral Resource Estimation Governance Statement**

All Mineral Resource estimates reported by Sunstone Metals Limited are prepared by independent, qualified mining industry professionals and in accordance with the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves' (the JORC Code) 2012 Edition. Competent Persons named by the Company are Members or Fellows of the Australian Institute of Mining and Metallurgy and/or the Australian Institute of Geoscientists and qualify as Competent Persons as defined in the JORC Code.

The Competent Persons have reviewed Sunstone's sampling and Quality Control and Quality Assurance (QA/QC) practices to ensure samples are representative and unbiased; and that assay results are obtained with the appropriate level of confidence. Sunstone Metals Limited also produces internal Mineral Resource estimates synchronously with, but independent of, the Mineral Resource estimates calculated by the qualified mining industry professionals as an audit of the external result.

The table above sets out Mineral Resources for 2017, with no changes from 2016.

**Competent Persons Statement**

The information in this report that relates to exploration results is based upon information reviewed by Mr Malcolm Norris who is a Fellow of the Australasian Institute of Mining and Metallurgy. Mr Norris is a full time employee of Sunstone Metals Limited and has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which they are undertaking to qualify as a Competent Person as defined in the 2012 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Mr Norris consents to the inclusion in the report of the matters based on their information in the form and context in which it appears.

The information in this report that relates to the D Zone Mineral Resources are based on the information compiled by Chris Grove who is a Member of the Australasian Institute of Mining and Metallurgy and is a full time employee of Measured Group Pty Ltd ("Measured Group"). Measured Group are an independent mining consultancy who have been engaged by Sunstone Metals Limited to perform geological consulting on a fee for service basis. Mr Grove has sufficient experience that is relevant to the style of mineralisation being considered and to the activity being undertaken to qualify as a competent person as defined in the 2012 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. Mr Grove consents to the inclusion in this report of the matters based on his information in the form and context in which it appears.

The information in this report that relates to the A Zone and B Zone Mineral Resources are based on the information compiled by Dr Bielin Shi who is a Fellow of the Australasian Institute of Mining and Metallurgy and a Member of The Australian Institute of Geoscientists. Dr Bielin Shi was, at the time of compiling the Mineral Resources Estimate, a full time employee of CSA Global Pty Ltd (CSA). CSA are an independent mining consultancy who had been engaged by Sunstone Metals Limited to perform geological consulting on a fee for service basis. Dr Bielin Shi has sufficient experience that is relevant to the style of mineralisation being considered and to the activity being undertaken to qualify as a competent person as defined in the 2012 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. Dr Shi consents to the inclusion in this report of the matters based on his information in the form and context in which it appears.

# TENEMENT SCHEDULE

## COPPER TENEMENTS

| Tenement Holder | Tenement Name | Location | Status | Sunstone Ownership |
|---|---|---|---|---|
| Avalon Minerals Viscaria AB | Viscaria No 1 | Norrbotten, Sweden | Granted | 100% |
| Avalon Minerals Viscaria AB | Viscaria No 2 | Norrbotten, Sweden | Granted | 100% |
| Avalon Minerals Viscaria AB | Viscaria No 101 | Norrbotten, Sweden | Granted | 100% |
| Avalon Minerals Viscaria AB | Viscaria No 107 | Norrbotten, Sweden | Granted | 100% |
| Avalon Minerals Viscaria AB | Viscaria No 112 | Norrbotten, Sweden | Granted | 100% |
| Avalon Minerals Viscaria AB | Huornas No 1 | Norrbotten, Sweden | Granted | 100% |
| Avalon Minerals Viscaria AB | Huornas No 2 | Norrbotten, Sweden | Granted | 100% |
| Avalon Minerals Viscaria AB | Viscaria K No 3 | Norrbotten, Sweden | Granted | 100% |
| Avalon Minerals Viscaria AB | Viscaria K No 4 | Norrbotten, Sweden | Granted | 100% |
| Avalon Minerals Viscaria AB | Viscaria K No 7# | Norrbotten, Sweden | Application | 100% |
| Avalon Minerals Viscaria AB | Nihka East | Norrbotten, Sweden | Granted | 100% |
| Avalon Minerals Viscaria AB | Goddevarri | Norrbotten, Sweden | Granted | 100% |
| Avalon Minerals Viscaria AB | Viscaria East | Norrbotten, Sweden | Granted | 100% |
| La Plata Minerales S.A. | Bramaderos^ | Loja, Ecuador | Granted | 0% |

## GOLD TENEMENTS

| Tenement Holder | Tenement Name | Location | Status | Sunstone Ownership |
|---|---|---|---|---|
| Kultatie Oy | Somero 1-12* | Somero, Finland | Granted | 51% |
| Tammela Minerals Oy | Rehumäki* | Somero, Finland | Granted | 51% |
| Scandian Metals AB | Ypäjä† | Somero, Finland | Granted | 100% |
| Scandian Metals AB | Kukonharja† | Somero, Finland | Granted | 100% |
| Scandian Metals AB | Paimio† | Somero, Finland | Granted | 100% |
| Scandian Metals AB | Myllykulma† | Somero, Finland | Application | 100% |
| Scandian Metals AB | Häiviä† | Somero, Finland | Application | 100% |
| Scandian Metals AB | Palikkala† | Somero, Finland | Application | 100% |
| Scandian Metals AB | Uusikallio† | Somero, Finland | Application | 100% |

## LITHIUM TENEMENTS

| Tenement Holder | Tenement Name | Location | Status | Sunstone Ownership |
|---|---|---|---|---|
| Scandian Metals AB | Ladumyrberget nr 1 | Vasternorrlands, Sweden | Granted | 80% |
| Scandian Metals AB | Ojaklacken nr 1 | Vasternorrlands, Sweden | Granted | 80% |
| Scandian Metals AB | Fannbyasen nr 1 | Vasternorrlands, Sweden | Granted | 80% |
| Scandian Metals AB | Fannbyasen nr 2 | Vasternorrlands, Sweden | Granted | 80% |
| Litiumloydos Oy | Tammela 1-3* | Somero, Finland | Granted | 41% |
| Tammela Minerals Oy | Rehumäki* | Somero, Finl | Granted | 41% |
| Scandian Metals AB | Hietahauta | Kaustinen, Finland | Granted | 80% |
| Scandian Metals AB | Viitala | Kaustinen, Finland | Granted | 80% |

*Subject to earn-in joint venture with Nortec Minerals Corp. (Tammela Minerals Oy). 51% earned by Sunstone for gold and Scandian for lithium, and tenements have been transferred to JV entity. Exploration Reservations cannot be transferred under Finnish law, therefore Rehumäki remains in Tammela Minerals Oy name, until such time as an Exploration Permit is granted over the area.

#The approved, but under appeal, K7 Exploitation Concession at Viscaria has been returned to the Swedish Mines Inspectorate for further review as part of an industry wide review of appealed exploitation concessions in Sweden. The K7 Exploitation Concession has reverted to being under application, with further information being provided by Sunstone to support this application.

†To be transferred to a 100% owned Sunstone subsidiary upon approval of Exploration Permits (Exploration Reservations cannot be transferred). Scandian Metals AB retains rights to any lithium interests within these areas.

^Sunstone has a right to earn up to 80% under the terms of the earn-in agreement announced to ASX on 10 April 2017

# DIRECTORS' REPORT

Your Directors present their report on Sunstone Metals Ltd ("Sunstone" or "Company"), and the entities it controlled ("Consolidated Entity" or "Group") for the financial year ended 30 June 2017. The Company was formerly known as Avalon Minerals Ltd before shareholders approved the change of name on 4 September 2017.

## DIRECTORS

The following persons were Directors of Sunstone Metals Ltd at any time during the financial year and up to the date of this report, unless otherwise stated:

**Mr Graham Ascough**
(Non-Executive Chairman appointed 29 November 2013)

**Mr Malcolm Norris**
(CEO & Managing Director appointed 1 April 2014)

**Mr Crispin Henderson**
(Non-Executive Chairman appointed 25 March 2013 to 29 November 2013, Non-Executive Director thereafter)

**Mr Don Hyma**
(Non-Executive Director appointed 19 March 2014)

## 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

Refer to the Operating Review contained in the Annual Report for further discussion regarding the Company's operations.

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

## FINANCIAL PERFORMANCE

During the year ended 30 June 2017 the Group incurred a loss of $2,234,936 (2016: loss of $3,226,121). The loss for this financial year is largely due to corporate costs incurred to fund the exploration programs in Scandinavia and progression of the Scoping Study on the Viscaria Copper Project.

## FINANCIAL POSITION

The Company's non-current assets increased from $39,830,230 at 30 June 2016 to $41,720,143 at 30 June 2017 due to expenditure incurred on the Lithium and Gold projects in Finland and the Viscaria Copper Project in Sweden.

During the year, the Company had a net increase in contributed equity of $4,640,759 as a result of:

- A placement of 132,337,500 fully paid shares for a consideration of $2,117,400 (1.6 cents per share) in July/August 2016.
- A placement of 126,500,000 fully paid shares for a consideration of $2,530,000 (2.0 cents per share) in December 2016, and February 2017 following approval of director participation.

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Revenue and other income | 100,319 | 15,822 |
| Profit/(loss) before income tax | (2,234,936) | (3,226,121) |
| Income tax expense | - | - |
| Profit/(loss) attributable to members of Sunstone Metal Limited | (2,221,868 | (3,226,121) |
| Profit/(loss) attributable to non-controlling interests | (13,068) | - |
| | 2017 | 2016 |
| **Earnings per share** | cents | cents |
| Basic earnings per share | (0.4) | (1.0) |

- 5,000,000 shares issued for vending of lithium tenements in August 2016.
- Shares issued in lieu of $82,500 in cash directors fees in November 2016 (2,578,125 shares)
- Vesting of 1,329,573 employee performance rights into shares in January 2017.

At the end of the financial period, the Group had cash balances of $475,682 (2016 $631,059) and net assets of $41,684,496 (2016: $40,230,559). Total liabilities amounted to $683,109 (2016: $293,319) and included trade, other payables and provisions.

## EVENTS OCCURRING AFTER REPORTING DATE

On 5 July 2017 the Company announced a placement to raise approximately A$2.3 million before costs, along with a Share Purchase Plan (SPP) to raise up to $1M. Proceeds from the equity raising will be used to fund:

- Exploration at the Bramaderos gold-copper project in southern Ecuador;
- A 1,500m diamond drilling programme at the Satulinmäki gold prospect in southern Finland as follow-up to previous drilling, and geophysical survey that pointed to the existence of a much larger gold system;
- Progressing the Environmental and Social Impact Assessment ('ESIA') in relation to its Viscaria Copper Project, Sweden; and
- Working capital, including corporate costs to manage the exploration programme and costs of the offer.

The placement and SPP consists of shares at 1.4 cents per share,

The placement occurred on 12 July 2017, with the issue of 162,711,777 shares to sophisticated investors under the Company's available capacity, to raise approximately A$2.3M. The SPP closed to applications on 21 July 2017 and raised approximately $1M with the issue of 70,178,615 shares on 28 July 2017.

A General Meeting was held on 4 September 2017, whereby shareholder approval was received for a special resolution to change the name of the company to Sunstone Metals Limited. Also at this meeting, approval was received for the ratification of the placement shares, and the issue of performance rights to the Managing Director.

No other matter or circumstance has occurred subsequent to year end that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group or economic entity in subsequent financial periods.

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

During the financial year the Company signed an agreement to earn in to a highly prospective gold-copper project in Ecuador.

Other than those matters discussed in this report, no significant changes in the state of affairs of the Group occurred during the financial period.

## LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Group will continue exploration and development activities. The Group assesses commercial opportunities for corporate growth, including the acquisition of interests in projects, as they arise. Due to the unpredictable nature of these opportunities, developments could occur at short notice.

## ENVIRONMENTAL REGULATION

The Group is subject to the environmental laws and regulations imposed under the Environmental Codes in the jurisdictions in which it operates. The Group is currently engaged in exploration activities which are governed by conditions or recommendations imposed through the granting of a licence or permit to explore. Compliance with these laws and regulations is regarded as a minimum standard for the Group to achieve. There were no known breaches of any environmental laws or regulations during the year.

## DIRECTORS

The Directors of the Company at any time during or since the end of the financial year were:

### MR GRAHAM ASCOUGH

BSc, PGeo, MAusIMM

Appointed as Non-Executive Chairman 29 November 2013

Member of the Audit and Financial Risk Committee & Remuneration Committee

**Experience and expertise**

Mr Ascough is a senior resources executive with more than 25 years of industry experience evaluating mineral projects and resources in Australia and overseas. He is currently non-executive Chairman of ASX listed companies: PNX Metals Limited, Mithril Resources Limited and Musgrave Minerals Limited.

Mr Ascough, a geophysicist by training, has had broad industry involvement playing a leading role in setting strategic direction, completing financing and in implementing successful exploration programmes. He is a member of the Australasian Institute of Mining and Metallurgy and is a Professional Geoscientist of Ontario, Canada.

Mr Ascough was the Managing Director of Mithril Resources Ltd from October 2006 until June 2012. Prior to joining Mithril in 2006, he was the Australian Manager of Nickel and PGM Exploration at the major Canadian resources house, Falconbridge Limited, which was acquired by Xstrata Plc in 2006.

**Other directorships of listed companies in the past three years**

PNX Metals Limited (formerly Phoenix Copper Limited) (appointed 7 December 2012)

Mithril Resources Limited (appointed 9 October 2006)

Musgrave Minerals Limited (appointed 26 May 2010)

### MR MALCOLM NORRIS

MSc, MAppFin, MAICD, FAusIMM

Appointed as CEO & Managing Director 1 April 2014

Member of the Audit and Financial Risk Committee & Remuneration Committee

**Experience and expertise**

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

Mr Norris holds an MSc in Geology and a Masters in Applied Finance. He has more than 30 years of industry experience and in the last 15 years has focused primarily on corporate roles. He led the team which discovered the giant 2Bt Tujuh Bukit copper-gold deposit in Indonesia. Previous experience has included 23 years with WMC Resources, followed by roles with Intrepid Mines and SolGold.

**Other directorships of listed companies in the past three years**

Magmatic Resources Limited (appointed 20 December 2016)

## MR CRISPIN HENDERSON

FCA, FCCA, FCIM

Appointed as Non-Executive Chairman 25 March 2013, resigned as Non-Executive Chairman 29 November 2013, non-executive director thereafter Chairman of the Audit and Financial Risk Committee & Member of the Remuneration Committee

**Experience and expertise**

Mr Henderson has more than 45 years' experience in the financial services and fund management sectors, principally with PricewaterhouseCoopers (34 years) and Columbia Threadneedle Investments (from 2002-2013).

Mr Henderson is based in London and now works as a consultant to the financial services sector. Until May 2013, he held the position of Vice Chairman of Ameriprise Financial's Global Asset Management business. From 2007 to 2013, Mr Henderson was Chief Executive of Columbia Threadneedle which is owned by Ameriprise Financial, a leading US diversified, financial services company and one of the 40 largest asset management firms globally, with a market capitalisation of over US$13B and US$708B in assets under management and administration (as at 31 March 2013). Columbia Threadneedle is a leading international asset manager, actively managing around US$127bn in equities, fixed income, property and commodities (as at 31 March 2013).

**Other directorships of listed companies in the past three years:** Nil

## MR DON HYMA

BSc, MSc, PEng, IED

Appointed as a Non-Executive Director 19 March 2014

Chairman of the Remuneration Committee & member of the Audit and Financial Risk Committee

**Experience and expertise**

Mr Hyma is a mining industry executive with more than 25 years of progressive capital project experience in the resource sector in Canada, Chile, New Caledonia and Australia. His experience includes direct involvement in delivering numerous major projects, taking them from studies through to implementation, for several multi-national resource companies in the nickel, copper and iron ore industries.

Mr Hyma holds a BSc in Mining Engineering and an MSc in Mineral Processing, along with an International Executive Management Diploma (INSEAD). Based in Perth, Mr Hyma is currently employed as the Chief Technical Officer for Mitsui & Co and has previously provided independent advisory services to several multi-national trading and resource companies. Previously, Mr Hyma was Vice-President – Expansion Projects for the Iron Ore Company of Canada and General Manager, Mine and Infrastructure Projects for Rio Tinto Iron Ore. Mr Hyma has also held senior management and engineering roles at Falconbridge Limited working on the Koniambo nickel, Raglan nickel and Collahuasi copper projects.

**Other directorships of listed companies in the past three years:** Nil

## COMPANY SECRETARY

Mr Gavin Leicht
BCom, CPA

Appointed 28 April 2015

Mr Leicht has over 20 years experience in various financial roles, including 15 years in senior financial positions in the resources sector in Australia and overseas with Rio Tinto Limited and PanAust Limited.

Mr Leicht holds a Bachelor of Commerce degree from the University of Newcastle. He is also a Member of the Australian Society of Certified Practising Accountants.

## MEETINGS OF DIRECTORS

There were 10 meetings of the Company's board of Directors held during the year ended 30 June 2017. The number of meetings attended by each Director were:

| | Meeting of Directors | | Remuneration Committee | | Audit and Financial Risk Committee | |
|---|---|---|---|---|---|---|
| | Entitled to attend | Attended | Entitled to attend | Attended | Entitled to attend | Attended |
| Mr Graham Ascough | 10 | 10 | 2 | 2 | 2 | 2 |
| Mr Malcolm Norris | 10 | 10 | 2 | 2 | 2 | 2 |
| Mr Crispin Henderson | 10 | 10 | 2 | 2 | 2 | 2 |
| Mr Don Hyma | 10 | 9 | 2 | 2 | 2 | 2 |

Further details of the operation of all Committees are contained in the Corporate Governance Statement.

# REMUNERATION REPORT

# REMUNERATION REPORT

**Remuneration report (Audited)**

**Key management personnel**

The remuneration report outlines the Director and executive remuneration arrangements of the Group in accordance with the requirements of the *Corporations Act 2001* and its Regulations. For the purposes of this report, key management personnel (KMP) of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, including any Director (whether executive or otherwise) of the Company.

For the purposes of this report, the term "executive" encompasses the chief executive, senior executives, general managers and the Chief Financial Officer & Company Secretary of the Group.

***Key management personnel at the date of this report are:***

***Directors of the Company***

*Chairman*

| | |
|---|---|
| Mr Graham Ascough | Non-Executive Chairman (appointed 29 November 2013) |

*CEO & Managing Director*

| | |
|---|---|
| Mr Malcolm Norris | CEO & Managing Director (appointed 1 April 2014) |

*Non-Executive Directors*

| | |
|---|---|
| Mr Crispin Henderson | Non-Executive Director (appointed as Chairman 25 March 2013, resigned as Chairman 29 November 2013, Non-Executive Director thereafter) |
| Mr Don Hyma | Non-Executive Director (appointed 19 March 2014) |

***Other key management personnel***

| | |
|---|---|
| Mr Ray Robinson | General Manager Studies & Technical Services (appointed 12 January 2015) |
| Dr Bruce Rohrlach | General Manager Geology (appointed 7 April 2015) |
| Mr Gavin Leicht | Chief Financial Officer & Company Secretary (appointed 20 April 2015) |

The remuneration report is set out under the following main headings:

A Principles used to determine the nature and amount of remuneration

B Details of remuneration

C Executive contractual arrangements

D Share-based compensation

E Additional information

***A Principles used to determine the nature and amount of remuneration***

The Group's executive reward framework is designed to reward performance for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders, and seeks to conform to market best practice for delivery of rewards. The Board considers the following key criteria for good reward governance practices in determining executive rewards:

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage/alignment of executive compensation
- transparency
- capital management.

**Remuneration report (Audited) (continued)**

The Group has structured an executive remuneration framework that aims to be market competitive and complimentary to the reward strategy of the organisation.

Alignment to shareholders' interests:

- focuses on exploration success and project development as the creation of shareholder value and returns
- attracts and retains high calibre executives.

Alignment to program participants' interests:

- rewards capability and experience
- reflects competitive reward for contribution to growth in shareholder wealth
- provides a clear structure for earning rewards
- provides recognition for contribution.

***Executive pay***

The executive pay and reward framework has two components:

- Fixed remuneration (base salary, superannuation & other non-monetary benefits)
- Variable remuneration (long-term incentives through participation in the performance rights plan and short-term incentives through cash bonuses)

The combination of these components comprises the executive's total remuneration.

*Fixed Remuneration*

- *Base salary*

  Base salary is structured as a total employment cost package which may be delivered as a combination of cash and prescribed non-financial benefits at the executives' discretion.

  Executives are offered a competitive base pay that comprises the fixed component of pay and rewards. Base pay for senior executives is reviewed annually to assess if the executive's pay is competitive with the market.

  There are no guaranteed base pay increases included in any senior executives' contracts.

- *Non-monetary benefits*

  Executives may receive benefits including car allowances, car parking and reasonable entertainment.

- *Post-employment benefits*

  Executives are permitted to nominate a superannuation fund of their choice to receive contributions.

- *Long-term benefits*

  Long-term benefits include long service leave entitlements.

**Remuneration report (Audited) (continued)**

*Variable Remuneration*

- *Performance Rights Plan*

  At the discretion of the Board, employees can be invited to participate in the Company's performance rights plan. The issue of performance rights is designed to reward key employees for performance and align their performance with the Company growth and strategic objectives. Options may also be granted, at the discretion of the Board, to employees upon commencement of employment with the Company. Options and performance rights issued to Directors are subject to shareholder approval. The Board feels that the expiry date, exercise price and, where applicable, vesting performance conditions of option and performance rights issues to executives is appropriate to align the goals of the executives with those of the shareholders to maximise shareholder wealth.

- *Cash bonuses*

  The Board may exercise its discretion to award cash bonuses to executives based upon individual performance. No cash bonus was issued to any executives during the year ended 30 June 2017 (2016: nil).

As part of the terms and conditions of employment, the Company prohibits executives from entering into arrangements to protect the value of unvested long term incentive awards. This includes entering into contracts to hedge their exposure to options or shares granted as part of their remuneration package. Entering into such arrangements has been prohibited by law since 1 July 2011.

***Non-executive Directors***

Fees and payments to non-executive Directors are structured to reflect the demands which are made on, and the responsibilities of, the Directors. Non-executive Directors' fees and payments are reviewed annually by the Board. The Chairman's fees are determined independently to the fees of non-executive Directors based on comparative roles in the external market. The Chairman is not present at any discussions relating to the determination of his own remuneration.

*Directors' fees*

The current base remuneration was reviewed by the Board on 9 May 2017, and was deemed appropriate for the size and activities of the Company. Directors' remuneration is inclusive of committee fees. During the previous year, Non-Executive Directors elected to voluntarily defer their fees from 1 January 2016 until 30 June 2016, when the Company was able to raise sufficient funds to progress exploration and evaluation activities. These deferred fees were paid in shares, following shareholder approval, during the 2017 financial year.

Non-executive Directors' fees are determined within an aggregate Directors' fee pool limit, which is periodically recommended for approval by shareholders. The total maximum currently stands at $300,000.

*Retirement allowances for Directors*

Directors are permitted to nominate a superannuation fund of their choice to receive superannuation contributions.

***Loans to key management personnel***

There were no loans made to Directors or other key management personnel of Sunstone Metals Ltd.

**Remuneration report (Audited) (continued)**

The overall level of executive reward takes into account the performance of the Group. The Group is involved in mineral exploration and did not derive a profit and therefore growth in earnings is not considered relevant. Shareholder wealth is dependent upon exploration success and has fluctuated accordingly.

| | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|---|
| *Impact on shareholder wealth* | | | | | | |
| Gain/(Loss) per share (cents)* | **(0.4)** | (1.0) | (1.2) | (4.1) | (14) | (18) |
| Share price* | **1.5** | 1.6 | 3 | 9 | 17 | 70 |

* Post consolidation

The Company's performance rights plan links employees' remuneration to the share price of the Company as the performance conditions include ASX trading price hurdles. A portion of the performance rights granted in 2015 that were subject to Total Shareholder Return (TSR) hurdles when compared with the ASX Small Resources Index vested during the year.

## B *Details of remuneration*

Details of the remuneration of the Directors and the key management personnel of Sunstone Metals Ltd are set out in the following tables.

| 2017 | Short-term benefits | | Post-employment benefits | | Share-based payments | | |
|---|---|---|---|---|---|---|---|
| Name | Cash salary and fees $ | Cash bonus $ | Super-annuation $ | Termination Payments $ | Shares and Rights $ | Total $ | Performance related % |
| ***Directors of Sunstone Metals Ltd:*** | | | | | | | |
| Mr G Ascough | 75,000 | - | - | - | 37,500 | 112,500 | - |
| Mr M Norris | 322,083 | - | 30,598 | - | 22,300 | 374,981 | 5.9% |
| Mr C Henderson | 45,000 | - | - | - | 22,500 | 67,500 | - |
| Mr D Hyma | 45,000 | - | - | - | 22,500 | 67,500 | - |
| ***Other key management personnel:---*** | | | | | | | |
| Mr R Robinson | 262,583 | - | 24,945 | - | 20,703 | 308,232 | 6.7% |
| Mr G Leicht | 236,667 | - | 22,483 | - | 19,220 | 278,370 | 6.9% |
| Dr B Rohrlach | 236,667 | - | 22,483 | - | 19,220 | 278,370 | 6.9% |
| **Total** | **1,223,000** | **-** | **100,510** | **-** | **163,943** | **1,487,453** | |

Performance Rights issued during the year are dependent on the satisfaction of performance conditions. As at the date of this report none of these performance conditions have been met.

Performance Rights issued are dependent on the satisfaction of performance conditions. During the 2017 financial year 59% of the 2016 performance rights subject to TSR hurdles when compared with the ASX Small Resources Index vested.

During the 2016 year, the CEO & Managing Director and other key management personnel took a voluntary 50% reduction in salary for a period of four months. During the financial year ended 30 June 2017, following successful capital raisings, the salary for the CEO & Managing Director and other key management personnel that was voluntarily reduced in 2016 as referred to above was paid.

In addition, Non-Executive Directors elected to voluntarily defer their fees from 1 January 2016 until 30 June 2016, when the Company was able to raise sufficient funds to progress exploration and evaluation activities. In relation to the deferred fees of Non-Executive Directors, shares were issued in lieu of these deferred cash fees following approval by shareholders at the Annual General Meeting held 16 November 2016.

**Remuneration report (Audited) (continued)**

***B Details of remuneration (continued)***

| 2016 | Short-term benefits | | Post-employment benefits | | Share-based payments | | |
|---|---|---|---|---|---|---|---|
| Name | Cash salary and fees $ | Cash bonus $ | Super-annuation $ | Termination Payments $ | Options and Rights $ | Total $ | Performance related % |
| ***Directors of Sunstone Metals Ltd:*** | | | | | | | |
| Mr G Ascough | 37,500 | - | - | - | - | 37,500 | - |
| Mr M Norris | 209,917 | - | 28,702 | - | 5,645 | 244,264 | 2.3% |
| Mr C Henderson | 22,500 | - | - | - | - | 22,500 | - |
| Mr D Hyma | 22,500 | - | - | - | - | 22,500 | - |
| ***Other key management personnel:---*** | | | | | | | |
| Mr R Robinson | 187,833 | - | 17,844 | - | 4,810 | 210,488 | 2.3% |
| Mr G Leicht | 163,333 | - | 15,517 | - | 4,181 | 183,031 | 2.3% |
| Dr B Rohrlach | 160,000 | - | 15,200 | - | 4,181 | 179,381 | 2.3% |
| **Total** | **803,583** | **-** | **77,263** | **-** | **18,817** | **899,663** | |

***C Executive Contractual Arrangements***

Remuneration for the CEO & Managing Director and Key Management Personnel are formalised in service agreements.

*Mr Malcolm Norris, CEO & Managing Director*

Base salary, exclusive of superannuation and other benefits, is $270,000, to be reviewed annually on 1 July of each year. Four weeks annual leave is provided.

The Executive Services Agreement stipulates Mr Norris or the Company may provide six (6) months written notice of termination. The agreement includes a provision for a termination payment equal to the maximum amount calculated in accordance with section 200F of the Corporations Act 2001 (Cth), subject to any restrictions or approvals under the Listing Rules and the Corporations Act.

*Other Key Management*

Contracts for other Key Management Personnel have no fixed duration and can be terminated by the employee by providing three (3) months written notice. The Company may terminate employment by providing three (3) months written notice or by payment of six (6) months salary in lieu of notice.

Base salary for other Key Management Personnel are reviewed annually on 1 July of each year.

**Remuneration report (Audited) (continued)**

***D Share-based compensation***

***Options and performance rights provided as remuneration and shares issued on exercise***

No options or performance rights have been granted as compensation to non-executive directors during the 2017 financial year (2016: Nil).

Shareholder approval was obtained at a General Meeting held on 23 August 2016, for the issue of 2,089,000 Performance Rights with an exercise period of 3 years to Mr M Norris on the following terms (also granted to other Key Management Personnel during the financial year on the same terms and same allocation between tranches):

- Tranche 1 – 33.33% or 696,265 performance rights to vest upon the Closing Price of Sunstone Shares being $0.045 or more for 10 consecutive trading days;
- Tranche 2 – 33.33% or 696,265 performance rights to vest upon Total Shareholder Return (TSR) performance as measured against the ASX Small Resources Index, as follows:
  - Performance below the index no shares will vest.
  - 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.
  - Testing will be annually on the anniversary of grant date; and
- Tranche 3 – 33.34% or 696,470 performance rights to vest upon the Closing Price of Sunstone Shares being $0.07 or more for 10 consecutive trading days.

*Performance Rights movements during the financial year:*

| 2017 | Beginning Balance | Granted as remuneration | Vested during year | Lapsed | Balance at end of year |
|---|---|---|---|---|---|
| ***Directors of Sunstone Metals Ltd:*** | | | | | |
| Mr M Norris | 1,994,000 | 2,089,000 | 389,644 | - | 3,693,356 |
| ***Other key management personnel:---*** | | | | | |
| Mr R Robinson | 1,699,000 | 2,089,000 | 332,012 | - | 3,455,988 |
| Mr G Leicht | 1,477,000 | 2,089,000 | 288,627 | - | 3,277,373 |
| Dr B Rohrlach | 1,477,000 | 2,089,000 | 288,627 | - | 3,277,373 |
| **Total** | **6,647,000** | **8,356,000** | **1,298,910** | **-** | **13,704,090** |

The Performance Rights lapse upon termination of employment, have a vesting period of 3 years and are divided into three tranches on the following terms:

During the 2017 financial year a total of 1,298,910 performance rights vested for key management personnel in relation to the Dec 2015 Tranche 2 grant. This represented 59% of the Tranche 2 performance rights vesting following a 4.31% outperformance of the Sunstone VWAP for the 12-month testing period over the average for the ASX Small Resources Index over the same period when compared with the corresponding results from the prior 12 months.

# REMUNERATION REPORT

**Remuneration report (Audited) (continued)**

*Fair value of Performance Rights granted during the financial year:*

The fair values of Performance Rights granted to the CEO & Managing Director and other key management personnel have been calculated by an independent third party. This table summarises the details of the grants and assumptions that were used in determining the fair value of the Performance Rights at grant date. The fair value is recognised as an expense over the period between grant date and vesting date.

| Grant Date | Rights Issued | Expiry Date | Value per Right | Total Value | Vesting Condition | Share price at Grant Date | Share Volatility | Risk Free rate of return |
|---|---|---|---|---|---|---|---|---|
| 14 Dec 2015: Tranche 1 | 2,215,500 | 14/12/2018 | $ 0.0164 | $ 36,334 | $ 0.08 | $ 0.021 | 148% | 2.13% |
| 14 Dec 2015: Tranche 2 | 2,215,500 | 14/12/2018 | $ 0.0160 | $ 35,448 | TSR | $ 0.021 | 148% | 2.13% |
| 14 Dec 2015: Tranche 3 | 2,216,000 | 14/12/2018 | $ 0.0141 | $ 31,246 | $ 0.12 | $ 0.021 | 148% | 2.13% |
| 15 Jul 2016: Tranche 1 | 2,088,795 | 15/07/2019 | $ 0.0154 | $ 32,167 | $ 0.045 | $ 0.027 | 146% | 1.50% |
| 15 Jul 2016: Tranche 2 | 2,088,795 | 15/07/2019 | $ 0.0135 | $ 28,199 | TSR | $ 0.027 | 146% | 1.50% |
| 15 Jul 2016: Tranche 3 | 2,089,410 | 15/07/2019 | $ 0.0129 | $ 26,953 | $ 0.07 | $ 0.027 | 146% | 1.50% |
| 23 Aug 2016: Tranche 1 | 696,265 | 23/08/2019 | $ 0.0154 | $ 10,722 | $ 0.045 | $ 0.044 | 146% | 1.50% |
| 23 Aug 2016: Tranche 2 | 696,265 | 23/08/2019 | $ 0.0135 | $ 9,400 | TSR | $ 0.044 | 146% | 1.50% |
| 23 Aug 2016: Tranche 3 | 696,470 | 23/08/2019 | $ 0.0129 | $ 8,984 | $ 0.07 | $ 0.044 | 146% | 1.50% |
| | **15,003,000** | | | **219,454** | | | | |

*Option movements during the financial year:*

| 2017 | Beginning Balance | Granted as remuneration | Other movements | Exercised during year | Balance at end of year | Vested and exercisable at end of year |
|---|---|---|---|---|---|---|
| ***Directors of Sunstone Metals Ltd:*** | | | | | | |
| Mr G Ascough | - | - | 937,500 | - | 937,500 | 937,500 |
| Mr M Norris | 4,000,000 | - | 625,000 | - | 4,625,000 | 4,625,000 |
| ***Other key management personnel:*** | | | | | | |
| Mr R Robinson | 2,000,000 | - | 312,500 | - | 2,312,500 | 2,312,500 |
| Mr G Leicht | 2,000,000 | - | 362,500 | - | 2,362,500 | 2,362,500 |
| Dr B Rohrlach | 1,600,000 | - | - | - | 1,600,000 | 1,600,000 |
| **Total** | **9,600,000** | **-** | **2,237,500** | **-** | **11,837,500** | **11,837,500** |

Options issued during the financial year relate to the placement undertaken during July and August 2016 with each share purchased in the placement receiving one attaching quoted option, exercisable at $0.03 per option with an expiry date of 31 August 2019.

## Remuneration report (Audited) (continued)

### *Shareholdings of key management personnel*

The numbers of shares in the Company held during the financial year by each Director and the other key management personnel of the Group, including their personally related entities, are set out below.

| 2017 | Beginning Balance | Exercise of Options/rights | Purchases | Disposals | Net other change | Balance at end of year |
|---|---|---|---|---|---|---|
| ***Directors of Sunstone Metals Ltd:*** | | | | | | |
| Mr G Ascough (2)(3) | 5,193,813 | - | 1,437,500 | - | 1,171,875 | 7,803,188 |
| Mr M Norris (1)(2)(4) | 6,875,872 | 389,644 | 1,725,000 | - | - | 8,990,516 |
| Mr C Henderson (3) | 2,199,969 | - | - | - | 703,125 | 2,903,094 |
| Mr D Hyma (3) | - | - | - | - | 703,125 | 703,125 |
| ***Other key management personnel:---*** | | | | | | |
| Mr R Robinson (1)(2)(4) | 830,000 | 332,012 | 394,375 | - | - | 1,556,387 |
| Mr G Leicht (1)(2)(4) | 500,321 | 288,627 | 942,500 | - | - | 1,731,448 |
| Dr B Rohrlach (4) | - | 288,627 | - | - | - | 288,627 |
| **Total** | **15,599,975** | **1,298,910** | **4,499,375** | **-** | **2,578,125** | **23,976,385** |

(1) On-market purchases or sales

(2) Shares purchased as part of placement at \$0.016 and \$0.02 per share – Issue to G Ascough and M Norris post shareholder approval at General Meetings 23 August 2016 and 14 February 2017.

(3) Shares issued to Non-Executive Directors in lieu of cash fees deferred from 2016 at \$0.032 per share post shareholder approval at AGM 16 November 2016 (Net other change).

(4) Vesting of Employee Performance Rights 19 January 2016.

Shares held by M Norris are via direct interest in 5,407,141 shares, 2,983,375 shares held by superannuation funds where Mr Norris is a direct beneficiary, and 600,000 shares held by an associate of Mr Norris.

There were no other shares issued as a result of the exercise of options during the 2017 year.

**End of Remuneration Report (Audited)**

# DIRECTORS' REPORT

**Insurance of officers**

During the period the Company paid a premium to insure the Directors and officers of the Company. Under the terms of the policy the Company cannot publish amounts paid for premiums or the extent of the liabilities insured.

No indemnities have been given, during or since the end of the financial year, for any person who is or has been an officer or auditor of the consolidated group.

**Proceedings on behalf of the Company**

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the Corporations Act 2001.

**Auditors' Independence Declaration**

A copy of the auditors' independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 41.

**Audit and Non-Audit Services**

During the year BDO Audit Pty Ltd, or its related entities, has performed certain other services in addition to the statutory audit.

The Board has considered the non-audit services provided during the year and is satisfied that the provision of those non-audit services during the year is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reason:

The non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, as they did not result in the auditor reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Group, acting as an advocate for the Group or jointly sharing risks and rewards.

Details of the amounts paid to the auditor of the Group, currently BDO Audit Pty Ltd, and their related practices for audit and non-audit services provided during the year are set out below:

| | **2017**<br>**$** | 2016<br>$ |
|---|---|---|
| **BDO** | | |
| Audit services: | | |
| Auditors of the Group: | | |
| Audit and review of financial reports | **58,810** | 64,920 |
| | | |
| Other assurance services | | |
| Technical accounting advice | **2,254** | 1,387 |
| | | |
| Other services | | |
| Taxation compliance services | **40,010** | 34,003 |
| | **101,074** | 100,310 |

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

Mr Graham Ascough
**Chairman**

Brisbane, Queensland
6 September 2017

# AUDITORS INDEPENDENCE DECLARATION

Tel: +61 7 3237 5999
Fax: +61 7 3221 9227
www.bdo.com.au

Level 10, 12 Creek St
Brisbane QLD 4000
GPO Box 457 Brisbane QLD 4001
Australia

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

As lead auditor of Sunstone Metals Ltd for the year ended 30 June 2017, 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 audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

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

**A J Whyte**
Director

**BDO Audit Pty Ltd**

Brisbane, 6 September 2017

BDO Audit Pty Ltd ABN 33 134 022 870 is a member of a national association of independent entities which are all members of BDO Australia Ltd ABN 77 050 110 275, an Australian company limited by guarantee. BDO Audit Pty Ltd and BDO Australia Ltd are members of BDO International Ltd, a UK company limited by guarantee, and form part of the international BDO network of independent member firms. Liability limited by a scheme approved under Professional Standards Legislation, other than for the acts or omissions of financial services licensees.

# CORPORATE GOVERNANCE STATEMENT

## Statement

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of Sunstone Metals Limited ("Company") have adhered to the principles of corporate governance and this statement outlines the main corporate governance practices in place throughout the financial year. The ASX Corporate Governance Council released revised Corporate Governance Principles and Recommendations on 2 August 2007. Having regard to the size of the Company and the nature of its enterprise, it is considered that the Company complies as far as possible with the spirit and intentions of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations.

The current Directors of the Company at the date of this report are:

| | | |
|---|---|---|
| Mr Graham Ascough | Non-Executive Chairman | Independent |
| Mr Malcolm Norris | CEO & Managing Director | |
| Mr Crispin Henderson | Non-Executive Director | Independent |
| Mr Don Hyma | Non-Executive Director | Independent |

For information on each Director, refer to the Directors' Report.

The following policies or obligations have been established by the Board:

- Continuous disclosure
- Code of conduct
- Share trading
- Audit & Financial Risk
- Board Charter
- Risk Management

## Independent Directors

When determining whether or not a Non-Executive Director is independent, the Director must not fail any of the following materiality thresholds:

- more than 5% of Company shares are held by the Director and any entity or individual directly or indirectly associated with the Director;
- no sales are made to, or purchases made from, any entity or individual directly or indirectly associated with the Director; and
- none of the Directors' income or the income of an individual or entity directly or indirectly associated with the Director, is derived from a contract with any member of the Group other than income as derived as a Director of the entity.

At the date of this report, the board consists of one independent Non-Executive Chairman, one Executive Director and two independent, Non-Executive Directors. Independent Directors have shareholdings less than 5% of the total shares on issue. The board is considered to be appropriate for the size of the Company and the nature of its activities. It is a cost effective structure for managing the Company and there is no justification for appointing additional independent directors.

## Board Composition

When the need for a new director is identified, selection is based on the skills and experience of prospective directors, having regard to the present and future needs of the Company. Any director so appointed must then stand for election at the next meeting of shareholders of the Company.

### Director and Executive Education

All new Directors are educated about the nature of the business, current issues, the corporate strategy, the culture and values of the Group, and the expectations of the Group concerning performance of Directors. In addition, Directors are also educated regarding meeting arrangements and Director interaction with each other, senior executives and stakeholders. Directors have the opportunity to visit Group facilities and meet with management to gain a better understanding of operations. Directors are given access to continuing education opportunities to update and enhance their skills and knowledge upon joining the Group. Directors will be educated on the Group's structure, strategy, operations, financial position and risk management policies. It also familiarises the individual with respective rights, duties, responsibilities and roles of the individual and the Board.

### Term of Appointment as a Director

The constitution of the Company provides that a director, other than the Managing Director, may not retain office for more than three calendar years or beyond the third annual general meeting following his or her election, whichever is longer, without submitting for re-election. One third of the directors must retire each year and are eligible for re-election. The directors who retire by rotation at each Annual General Meeting are those with the longest length of time in office since their appointment or last election.

### Risk Management and internal compliance and controls

### Audit and Financial Risk Committee

The board has established an Audit and Financial Risk Committee.

All directors are members of the Committee, with the Chairman of the Board being the Chairman of the Committee. Given the size of the Company and the nature of its activities, it is considered important that all directors participate in matters relating to audit and financial risk. It is a cost effective structure and there is no justification for appointing additional independent directors.

The Committee members are:

Mr Crispin Henderson (Chairman), Mr Graham Ascough, Mr Malcolm Norris and Mr Don Hyma

The Committee's responsibilities include:

- providing the Board with advice and recommendations regarding the ongoing development of financial risk oversight and management policies (covering oversight, risk profile, risk management, compliance and control) that set out the roles and respective accountabilities of the Board, the Audit Committee and management;
- receiving and reviewing management's recommendations and providing the Board with advice and recommendations regarding the establishment of a financial risk management system and financial risk profile;
- regularly reviewing the Company's financial risk profile (provided by management) having regard to key financial risk, legal and regulatory risk and disclosure reporting;
- reviewing internal control and audit functions and their effectiveness;
- reviewing financial statements provided by management for accuracy, adequacy and clarity to ensure they give a true and fair view of the Company's financial position and adhere to accounting standards and policies and legislative requirements;
- with respect to the external auditor, approving and recommending policies and procedures for appointing or removing an external auditor and terms of engagement;
- regularly reviewing and assessing the compliance of the external auditor with policies and procedures, the effectiveness, and independence of the external auditor; and
- monitoring the relationship between management and the auditor.

The Audit and Financial Risk Committee has met twice during the financial year. The CEO & Managing Director and the Chief Financial Officer & Company Secretary are invited to attend the Committee meetings.

Where appropriate, the Board and the Audit and Financial Risk Committee engage independent experts or professional advisors to assist with the identification and/or management of any key risk areas identified.

To ensure that risks, and also opportunities, are identified on a timely basis and that activities are aligned with the risks and opportunities identified, the Board has also adopted a Risk Management Policy to:

- ensure the Company's risk management policies and procedures are adequate;
- monitor compliance with the Company's risk management policies and procedures;
- keep itself appraised of the latest developments, policies, trends in relation to financial matters, rules, regulations, to the extent that they may affect the Company or the markets in which the Company operates;
- review the Company's internal financial control mechanisms and risk management policies;
- compile a risk profile of the material risks facing the Company;
- review major non-financial regulatory matters covering areas of exposure including the environment, safety and health, asset protection (including insurance), discrimination and harassment, conflict of interest and ethical standards.

This financial year the CEO & Managing Director and the Chief Financial Officer & Company Secretary provided a statement to the Board in writing in respect to the integrity of the financial statements, that they are founded on a sound system of risk management and internal compliance and control systems are operating efficiently and effectively in all material respects.

**Remuneration/Nomination and Performance**

The Board has established a Remuneration Committee with all directors being members of the Committee. Given the size of the Company and the nature of its activities, it is considered that all directors participate in matters relating to remuneration and director nomination. It is a cost effective structure and there is no justification for appointing additional independent directors.

The Committee members are:

Mr Don Hyma, (Chairman), Mr Graham Ascough, Mr Malcolm Norris and Mr Crispin Henderson

The Committee deals with matters of remuneration and nomination. The nomination of new Directors and the setting, or review, of remuneration levels of Directors and senior executives, is performed by the Committee and recommendations made to the Board as a whole for approval by resolution (with abstentions from relevant directors where there is a conflict of interest). Where the Committee or the Board considers that particular expertise or information is required, which is not available from within the Board, appropriate external advice may be taken prior to a final decision.

The Committee also deals with the remuneration of Directors and key executives of the Company. The Company's policy is to remunerate non-executive Directors at market rates for time, commitment and responsibilities. The Board determines payments to the non-executive Directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought where required. The maximum aggregate amount of fees that can be paid to non-executive Directors is subject to approval by shareholders.

The Company does not currently have a documented formal process for periodically evaluating the performance of the board, its committees and individual directors, however does undertake informal evaluations.

# CORPORATE GOVERNANCE STATEMENT

### Code of Conduct

The board has adopted a Code of Conduct to guide Directors, officers, employees and contractors in carrying out their duties and responsibilities. This Code of Conduct set out the principles and standards which the Board, management, employees and contractors of the Company are encouraged to strive towards when dealing with each other, shareholders and the community as a whole.

### Conflict of interest

The Directors must keep the Company informed on an ongoing basis, of any interest that could potentially conflict with those of the Company. Where the Board believes a significant conflict exists, the director concerned does not receive the relevant Board papers and is not present at the meeting whilst the item is considered.

### Independent Professional Advice

Each Director has the right of access to all relevant Company information and to the Company's executives. Directors have the right, in connection to their duties and responsibilities as Directors, to seek independent professional advice at the Company's expense. For independent legal advice in excess of a cost of $15,000, prior approval of the Chairman is required, which will not be unreasonably withheld, before any expense is incurred on behalf of the Company.

### Share Trading Policy

Directors and employees are not permitted to trade shares whist in the possession of price sensitive information. Directors and employees are prohibited from trading in securities whilst in possession of any inside information in accordance with the Corporations Act 2001.

### Communication to market and shareholders

The Board Charter, Code of Conduct and Share Trading Policy all recognise legal and other obligations and support the legitimate interests of all stakeholders. Directors aim to ensure that the shareholders, on behalf of whom they act are informed of all information necessary to assess the performance of the Directors and the Company. Information is communicated to shareholders and the market through:

- the Annual Report, which is available to all shareholders:
- other periodic reports, such as Quarterly Reports, which are lodged with ASX and available for shareholder scrutiny;
- other announcements made in accordance with ASX Listing Rules;
- special purpose information memoranda issued to shareholders as appropriate;
- the Annual General Meeting and other meetings called to obtain approval for Board action as appropriate; and
- the Company's website.

The continuous disclosure policy adopted by the Board ensures procedures are in place so that the market is properly informed of matters which may have a material impact on the price at which securities are traded.

**Diversity Policy**

The Company does not at present have a Diversity Policy in place due to the size and stage of development of the Company. Staff changes implemented have resulted in reduced staffing levels and the Company currently has a female communications officer based in Sweden, who is on maternity leave.

**External Auditors**

The external auditor is BDO Audit Pty Ltd. The external auditor attends the Annual General Meeting and part of the agenda is the tabling of the financial statements and inviting shareholders to ask the Directors or the auditor any questions with regard to the financial statements and the audit report.

**Other Information**

The Corporate Governance Policies of the Company will be continually reviewed in accordance with the standards required of the Company by the Directors, the ASX, ASIC and other stakeholders to ensure that appropriate governance standards are maintained.

Further information relating to the Company's corporate governance practices and policies has been made publically available on the Company's web site at www.sunstonemetals.com.au.

# FINANCIAL REPORT


122.3354
108.365
100.665

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

## FOR THE YEAR ENDED 30 JUNE 2017

| | Note | **2017 $** | 2016 $ |
|---|---|---|---|
| Revenue from continuing operations | 5 | **10,319** | 15,822 |
| Other income | 5 | **90,000** | - |
| Employee Benefits Expense | 6 | **(824,439)** | (535,346) |
| Corporate and administration expenses | | **(1,172,118)** | (940,882) |
| Depreciation expense | | **(11,340)** | (12,173) |
| Loss on sale of fixed assets | | **-** | (165) |
| Impairment expense | | **(322,274)** | (1,659,947) |
| Exploration expenditure not capitalised | | **-** | (89,897) |
| Interest paid | | **(5,083)** | (3,534) |
| **Profit/(Loss) from continuing operations before income tax** | | **(2,234,936)** | (3,226,121) |
| Income tax expense | 7 | **-** | - |
| **Net profit/(loss) for the period** | | **(2,234,936)** | (3,226,121) |
| **Other comprehensive income / (loss)** | | | |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Foreign currency translation differences – foreign operations | | **(1,228,407)** | 398,500 |
| **Total comprehensive profit/(loss) for the period** | | **(3,463,344)** | (2,827,621) |
| **Net profit/(loss) for the period is attributable to:** | | | |
| Members of Sunstone Metals Ltd | | **(2,221,868)** | (3,226,121) |
| Non-controlling interests | | **(13,068)** | - |
| | | **(2,234,936)** | (3,226,121) |
| **Total comprehensive profit/(loss) for the period attributable to:** | | | |
| Members of Sunstone Metals Ltd | | **(3,448,858)** | (2,827,621) |
| Non-controlling interests | | **(14,486)** | - |
| | | **(3,463,344)** | (2,827,621) |
| **Earnings per share for profit/(loss) from continuing operations attributable to the ordinary equity holders of the Company:** | | | |
| | | **Cents** | Cents |
| Basic earnings per share | 24 | **(0.4)** | (1.0) |
| Diluted earnings per share | 24 | **(0.4)** | (1.0) |

*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 30 JUNE 2017

| | Note | 30-Jun-17<br>$ | 30-Jun-16<br>$ |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | 8 | **475,682** | 631,059 |
| Trade and other receivables | 9 | **171,780** | 62,589 |
| Total current assets | | **647,462** | 693,648 |
| | | | |
| **Non-current assets** | | | |
| Plant and equipment | 10 | **91,472** | 144,586 |
| Exploration and evaluation | 11 | **41,628,671** | 39,685,644 |
| Total non-current assets | | **41,720,143** | 39,830,230 |
| **Total assets** | | **42,367,605** | 40,523,878 |
| | | | |
| **Current liabilities** | | | |
| Trade and other payables | 12 | **559,864** | 212,475 |
| Provisions | 13 | **123,245** | 80,844 |
| Total current liabilities | | **683,109** | 293,319 |
| **Total liabilities** | | **683,109** | 293,319 |
| **Net assets** | | **41,684,496** | 40,230,559 |
| | | | |
| **Equity** | | | |
| Contributed equity | 14 | **69,799,393** | 65,158,634 |
| Reserves | 15 | **2,879,818** | 3,837,497 |
| Accumulated losses | | **(30,987,440)** | (28,765,572) |
| Equity attributable to owners of Sunstone Metals Limited | | **41,691,771** | 40,230,559 |
| | | | |
| Non-controlling interests | 16 | **(7,274)** | - |
| **Total equity** | | **41,684,496** | 40,230,559 |

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

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

## FOR THE YEAR ENDED 30 JUNE 2017

| 2017 | Contributed Equity<br>$ | Share Based Payments Reserve<br>$ | Foreign Currency Translation Reserve<br>$ | Accumulated Losses<br>$ | Total<br>$ | Non-controlling interests<br>$ | Total equity<br>$ |
|---|---|---|---|---|---|---|---|
| **At the beginning of the financial year** | **65,158,634** | **3,360,043** | **477,455** | **(28,765,572)** | **40,230,559** | **-** | **40,230,559** |
| Profit/(loss) for the year | | | | **(2,221,868)** | **(2,221,868)** | **(13,068)** | **(2,234,936)** |
| Other comprehensive Income | | | **(1,226,990)** | | **(1,226,990)** | **(1,417)** | **(1,228,407)** |
| **Total comprehensive income/(loss) for the year** | **-** | **-** | **(1,226,990)** | **(2,221,868)** | **(3,448,858)** | **(14,485)** | **(3,463,343)** |
| Shares issued | **4,971,173** | | | | **4,971,173** | **7,211** | **4,978,384** |
| Share issue costs | **(330,414)** | | | | **(330,414)** | | **(330,414)** |
| Share based payment transactions | | **269,310** | | | **269,310** | | **269,310** |
| **Total Equity at the end of the financial year** | **69,799,393** | **3,629,353** | **(749,535)** | **(30,987,440)** | **41,691,771** | **(7,274)** | **41,684,496** |

| 2016 | Contributed Equity<br>$ | Share Based Payments Reserve<br>$ | Foreign Currency Translation Reserve<br>$ | Accumulated Losses<br>$ | Total<br>$ | Non-controlling interests<br>$ | Total equity<br>$ |
|---|---|---|---|---|---|---|---|
| **At the beginning of the financial year** | **61,894,266** | **3,404,360** | **78,954** | **(25,539,451)** | **39,838,129** | **-** | **39,838,129** |
| Profit/(loss) for the year | | | | (3,226,121) | (3,226,121) | - | (3,226,121) |
| Other comprehensive Income | | | 398,500 | | 398,500 | - | 398,500 |
| **Total comprehensive income/(loss) for the year** | **-** | **-** | **398,500** | **(3,226,121)** | **(2,827,621)** | **-** | **(2,827,621)** |
| Shares issued | 3,301,596 | | | | 3,301,596 | | 3,301,596 |
| Share issue costs | (37,228) | | | | (37,228) | | (37,228) |
| Share based payment transactions | | (44,317) | | | (44,317) | | (44,317) |
| **Total Equity at the end of the financial year** | **65,158,634** | **3,360,043** | **477,455** | **(28,765,572)** | **40,230,559** | **-** | **40,230,559** |

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

# CONSOLIDATED STATEMENT OF CASH FLOWS

## AS AT 30 JUNE 2017

| | Note | 2017<br>$ | 2016<br>$ |
|---|---|---|---|
| **Cash flows from to/from operating activities** | | | |
| Payments to suppliers and employees | | **(1,753,183)** | (1,675,905) |
| Sundry income | 5 | **90,000** | - |
| Interest paid | | **(5,083)** | (3,534) |
| Interest received | 5 | **10,319** | 19,356 |
| Net cash outflow from operating activities | 17 | **(1,657,947)** | (1,660,083) |
| **Cash flows to/from investing activities** | | | |
| Payments for plant and equipment | | **-** | (25,900) |
| Exploration and evaluation expenditure | | **(3,278,840)** | (4,111,665) |
| Research and development rebate | | **467,675** | - |
| Net cash used in investing activities | | **(2,811,165)** | (4,137,565) |
| **Cash flows to/from financing activities** | | | |
| Proceeds from issue of securities | | **4,647,399** | 3,284,596 |
| Costs of share issues | | **(330,414)** | (37,228) |
| Net cash provided by financing activities | | **4,316,985** | 3,247,368 |
| Net increase/(decrease) in cash | | **(152,127)** | (2,550,280) |
| Effect of exchange rate fluctuations on cash held | | **(3,250)** | (27,315) |
| Cash and cash equivalents at the beginning of the financial year | | **631,059** | 3,208,654 |
| **Cash at the end of the financial year** | | **475,682** | 631,059 |

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

# NOTES TO THE FINANCIAL STATEMENTS

## Note 1. Summary of Significant Accounting Policies

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied for the financial year to 30 June 2017, unless otherwise stated.

**Corporate information**

The consolidated financial report of Sunstone Metals Limited for the year ended 30 June 2017 was authorised for issue in accordance with a resolution of the Directors on 6 September 2017.

Sunstone Metals Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange. Its registered office and principal place of business is 9 Gardner Close, Milton QLD 4064.

The Group is a for-profit entity. A description of the nature of the Consolidated Entity's operations and its principal activities is included in the Directors' report.

Through the use of the internet, the Company seeks to ensure that our corporate reporting is timely, complete and available globally at minimum cost to the Group. All financial reports, Company announcements and other information are available on the Company's website: www.sunstonemetals.com.au

### (a) Basis of preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board.

The presentation currency is Australian dollars.

The report has been prepared on the basis of the going concern and historical cost conventions.

*Going concern*

The Group incurred a net loss of $2,234,936 for the year ended 30 June 2017 (2016: $3,226,121 loss). As at 30 June 2017 the Group has net cash reserves of $475,682 (2016: $631,059) and a net current asset deficit of $35,647 (2016: $400,329 surplus).

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

These conditions give rise to material uncertainty over the Group's ability to continue as a going concern.

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

- In July 2017 a heavily oversubscribed placement of shares to sophisticated investors was undertaken to raise approximately $2.3 million before costs, in addition to the Company undertaking a Share Purchase Plan (SPP) to raise approximately $1 million;
- 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 Group 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.

**Note 1. Summary of Significant Accounting Policies (continued)**

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 Group be unable to continue as a going concern.

### (b) Statement of compliance

The financial report complies with Australian Accounting Standards and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

### (c) Basis of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Sunstone Metals Limited ("Company", "Sunstone" or "Parent Entity") as at 30 June 2017 and the results of all the subsidiaries for the financial period then ended. The Company and its subsidiaries together are referred to in this financial report as the Group or Consolidated Entity.

Subsidiaries are all those entities (including structured entities) over which the Group has control. The group has control over an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to use its controlling power to affect those returns.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

### (d) Operating segments

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. This includes start-up operations which are yet to earn revenues. Management will also consider other factors in determining operating segments such as the existence of a line manager and the level of segment information presented to the Board of Directors.

Operating segments have been identified based on the information provided to the chief operating decision makers, being the Board of Directors.

The Group aggregates two or more operating segments when they have similar economic characteristics, and the segments are similar in each of the following respects:

- Nature of the products and production process;
- Type or class of customer for the products; and
- Methods used to distribute the products

Operating segments that meet the quantitative criteria as prescribed by AASB 8 are reported separately. However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements.

Information about other business activities and operating segments that are below the quantitative criteria are combined and disclosed in a separate category for 'all other segments'.

**Note 1. Summary of Significant Accounting Policies (continued)**

### (e) Revenue recognition

*Interest income*

Revenue recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

*Government grants*

Revenue received from government grants, such as Research and Development rebates, are recognised in profit or loss on a systematic basis over the period(s) in which the entity recognises, as expenses, the costs for which the grant was intended to compensate. If the offset relates to items that have been capitalised (e.g. exploration assets, development assets, etc.), the offset income must be deferred by deducting the offset from the carrying amount of the asset for which the offset/grant was intended to compensate.

### (f) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

### (g) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the Statement of Profit or Loss and Other Comprehensive Income on a straight-line basis over the period of the lease (refer to Note 19).

**Note 1. Summary of Significant Accounting Policies (continued)**

**(h) Business combinations**

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity issued by the acquirer, and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured at fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with AASB 139 either in profit or loss or in other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured.

**(i) Impairment of assets**

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs of disposal and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs.

When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses relating to continuing operations are recognised in profit or loss.

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

**(j) Cash and cash equivalents**

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the Statement of Financial Position.

**Note 1. Summary of Significant Accounting Policies (continued)**

**(k) Trade receivables**

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts. Trade receivables are due for settlement no more than 120 days from the date of recognition.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in profit or loss.

**(l) Investments and other financial assets**

Financial assets are classified in the following categories: financial assets at fair value through profit or loss, loans and receivables, held to maturity investments or available for sale investments, as appropriate. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at each reporting date.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets. Loans and receivables are included in receivables in the Statement of Financial Position.

**(m) Plant and equipment**

Plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation is calculated using the straight line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, as follows:

| | |
|---|---|
| - Exploration equipment | 3-5 years |
| - Mine infrastructure | 50 years |
| - Motor vehicles | 3-5 years |
| - Office furniture, fittings and equipment | 3-5 years |
| - Computer and electronic equipment | 3-5 years |
| - Leasehold improvements | 3-5 years |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the profit or loss.

**Note 1. Summary of Significant Accounting Policies (continued)**

### (n) Trade and other payables

Trade payables are carried at amortised cost. These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

### (o) Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

### (p) Employee benefits

*(i)* Wages, salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled in full within 12 months after the end of the reporting date are recognised for employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

*(ii) Retirement benefit obligations*

The Group contributes to various defined contribution superannuation funds for its employees.

Contributions to the funds are recognised as an expense as they become payable.

*(iii) Share-based payments*

Share-based compensation benefits are provided to employees via the Director/employee share option plan and the performance rights plan.

The fair value of options and performance rights granted under these plans is recognised as an employee benefit expense with a corresponding increase in equity. Where applicable the fair value is measured at grant date and recognised over the period during which the Directors or employees become unconditionally entitled to the options or performance rights. Where applicable the fair value at grant date is independently valued using a Binomial pricing model.

The cumulative expense recognised between grant date and vesting date is adjusted to reflect the Directors' best estimate of the number of options or performance rights that will ultimately vest because of internal conditions of the options or performance rights, such as the employee having to remain with the Company until vesting date, or such that employees are required to meet internal targets. No expense is recognised for options/performance rights that do not ultimately vest because internal conditions are not met. An expense is still recognised for options/performance rights that do not ultimately vest because a market condition was not met.

### (q) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

**Note 1. Summary of Significant Accounting Policies (continued)**

**(r) Earnings per share**

*(i) Basic earnings per share*

Basic earnings per share is calculated by dividing the profit or loss attributable to equity holders of the Consolidated Entity, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the year, adjusted for bonus elements in ordinary shares issued during the year.

*(ii) Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

**(s) Exploration and evaluation expenditure**

Exploration and evaluation expenditure incurred by or on behalf of the Group is accumulated separately for each area of interest. Such expenditure comprises net direct costs and an appropriate portion of related overhead expenditure, but does not include general overheads or administrative expenditure not having a specific focus with a particular area of interest.

Each area of interest is limited to a size related to a known or probable mineral resource capable of supporting a mining operation. Exploration and evaluation expenditure for each area of interest is carried forward as an asset provided that the rights to tenure of the area of interest are current and one of the following conditions is met:

- such costs are expected to be recouped through successful development and exploitation of the area of interest or, alternatively, by its sale; or
- exploration and evaluation activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in relation to the area are continuing.

Expenditure which fails to meet the conditions outlined above is written off, furthermore, the Directors regularly review the carrying value of exploration and evaluation expenditure and make write downs if the values are not expected to be recoverable.

When an area of interest is abandoned, any expenditure carried forward in respect of that area is written off. All capitalised exploration assets are not being depreciated.

**(t) Goods and services tax (GST) / Value added Tax (VAT)**

GST is applicable to Australia and reported through the Australian Taxation Office whilst VAT is applicable in Sweden and reported through the Swedish Skatteverket Office. GST and VAT are the same tax instrument.

Revenues, expenses and assets are recognised net of the amount of associated GST/VAT, unless the GST/VAT incurred is not recoverable from the respective taxation offices. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST/VAT receivable or payable. The net amount of GST/VAT recoverable from, or payable to, the respective taxation offices is included with other receivables or payables in the Statement of Financial Position.

Cash flows are presented on a gross basis. The GST/VAT components of cash flows arising from investing or financing activities which are recoverable from, or payable to the respective taxation offices, are presented as operating cash flows.

**Note 1. Summary of Significant Accounting Policies (continued)**

**(u) Foreign currency transactions and balances**

*(i) Functional and presentation currency*

The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the Company's functional and presentation currency. The functional currency of the Consolidated Entity's foreign subsidiaries is the Swedish Krona.

*(ii) Transactions and balances*

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period end exchange rate. Exchange differences arising on the translation of foreign currency transactions are recognised in profit or loss.

*(iii) Group companies*

The results and the financial position of all the Group entities (none of which has a currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities are translated at period-end exchange rates prevailing at the reporting date;
- Income and expenses are translated at average exchange rates for the period; and
- Retained profits are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on the translation of foreign operations are transferred directly to the Group's foreign currency translation reserve in the Statement of Financial Position. These differences are recognised in the profit or loss in the period in which the operation is disposed.

**(v) Application of new and revised Accounting Standards**

New and revised AASBs affecting amounts reported and/or disclosures in the financial statements

In the current year, the Group has applied a number of new and revised AASBs issued by the Australian Accounting Standards Board (AASB) that are mandatorily effective for an accounting period that begins on or after 1 July 2016.

The amendments did not have a significant impact on the Group's financial statements.

**(w) New Accounting Standards issued but not yet effective**

There are no accounting standards that are not yet effective and that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

## Note 2. Financial instruments and financial risk management

The Group's activities expose it to a variety of financial risks including credit risk, liquidity risk, interest rate risk and foreign currency risk.

The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

Risk management is carried out by the Board of Directors under policies approved by the Board.

The Board identifies and evaluates financial risks and provides written principles for overall risk management.

*(i) Credit risk*

The Group's maximum exposures to credit risk at the reporting date in relation to each class of recognised financial asset is the carrying amount of those assets as indicated in the Statement of Financial Position.

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents and trade and other receivables.

The Group trades only with recognised, credit worthy third parties. As the Group holds the majority of the Group's cash balances with one institution, the credit risk is concentrated in one area. Risk is considered minimal as the institution is Australian and AA rated.

The Group's primary banker is National Australia Bank Limited. At balance sheet date all operating accounts are with this bank, except for funds transferred to Sweden to meet the working capital needs of the subsidiary companies. The cash needs of the subsidiary operations are monitored by the Company and funds are advanced to the Swedish operations on an as needs basis. The Directors believe this is the most efficient method of balancing the monitoring and mitigation of potential credit risks arising out of holding cash assets in overseas jurisdictions, and the funding mechanisms required by the Group.

No impairment of the Group's financial assets was recognised during the year ended 30 June 2017 (2016: $1,086,757).

*(ii) Liquidity risk*

Prudent liquidity risk management implies maintaining sufficient cash to meet commitments as and when they fall due.

It is the Group's policy to review the Group's liquidity position including cash flow forecasts to determine the forecast liquidity position and maintain appropriate liquidity levels.

The remaining contractual maturities of the Group's liquid financial assets and financial liabilities are:

| | **2017<br>$** | 2016<br>$ |
|---|---|---|
| **Liquid financial assets** | | |
| Three months or less | **590,907** | 678,423 |
| Greater than three months | **56,554** | 15,225 |
| | **647,462** | 693,648 |
| **Liquid financial liabilities** | | |
| Three months or less | **559,864** | 212,475 |
| | **559,864** | 212,475 |

**Note 2. Financial instruments and financial risk management (continued)**

*Fair values*

All financial assets and liabilities recognised on the Consolidated Statement of Financial Position, whether they are carried at cost or at fair value, are recognised at amounts that represent a reasonable approximation of fair value unless otherwise stated in the applicable notes.

*(iii) Interest rate risk*

The Group's exposure to interest rates primarily relates to its cash and cash equivalents.

At balance date, the Group had the following exposure to variable interest rate risk.

| | **2017** **$** | 2016 $ |
|---|---|---|
| **Financial assets** | | |
| Cash and cash equivalents | **475,682** | 631,059 |
| | **475,682** | 631,059 |

The following sensitivity analysis is based on the interest rate risk exposure in existence at the reporting date. The 1% sensitivity (2016: 1%) is based on reasonably possible changes over a financial year, using the observed range of actual historical rates for the preceding five year period.

At 30 June 2017, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post-tax loss would have been affected as follows:

| | **2017** **$** | 2016 $ |
|---|---|---|
| Post tax gain/(loss) | | |
| +1.0% (100 basis points) | **4,757** | 6,311 |
| -1.0% (100 basis points) | **(4,757)** | (6,311) |

The average interest rate for the year ended 30 June 2017 was 0.67% (2016: 1.30%).

The Group deals with financial institutions that have an AA rating or better.

*(iv) Foreign currency risk*

As a result of significant investment in Sweden, the Group's balance sheet can be affected significantly by movements in the Swedish Krona/Australian Dollar exchange rates. The Group does not consider there to be a significant exposure to the Swedish Krona as it represents the functional currency of a controlled entity.

The Group does not hold any financial assets or liabilities at 30 June 2017 which create a material exposure to changes in foreign exchange rates.

## Note 3. Accounting estimates and judgements

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Group and that 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. 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 annual reporting period are:

*Exploration and evaluation expenditure*

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 carrying value of exploration and evaluation assets at 30 June 2017 is $41,628,671 (2016: $39,685,644)

## Note 4. 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 annual report.

### Geographical areas

Revenue from external sources, mainly derived from interest, and non-current assets by geographical location is detailed below.

| | **2017 $** | 2016 $ |
|---|---|---|
| **Revenue/Income** | | |
| Australia | **100,130** | 15,714 |
| Sweden | **137** | 108 |
| Finland | **52** | - |
| | **100,319** | 15,822 |
| **Non-current assets** | | |
| Australia | **424,653** | 73,316 |
| Sweden | **39,189,761** | 39,756,914 |
| Finland | **1,963,738** | - |
| Ecuador | **141,991** | - |
| | **41,720,143** | 39,830,230 |

## Note 5. Revenue and other income

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Interest Revenue | **10,319** | 15,822 |
| Sundry Income | **90,000** | - |

## Note 6. Expenses

**Profit/(loss) before income tax includes the following:**

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| **Employee benefits expense*** | | |
| Salaries & wages | **455,390** | 346,940 |
| Directors' fees | **165,000** | 165,000 |
| Defined contribution superannuation expense | **53,081** | 36,392 |
| Share based payments | **83,083** | (44,317) |
| Movement in leave provisions | **42,362** | (39,930) |
| Termination payments | **-** | 53,219 |
| Other | **25,522** | 18,043 |
| | **824,439** | **535,346** |

* Excludes employee costs capitalised to exploration and evaluation expenditure

| | | |
|---|---|---|
| Rental expense related to operating lease | **63,176** | 99,226 |
| Impairment Expense | **322,274** | 1,659,947 |

## Note 7. Income tax

| | 2017 $ | 2016 $ |
|---|---|---|
| **(a) Numerical reconciliation between aggregate tax expense recognised in the statement of comprehensive income and tax expense calculated per the statutory income tax rate** | | |
| Accounting loss before income tax | **(2,234,936)** | (3,226,121) |
| At the Group's statutory income tax rate of 30% | **(670,481)** | (967,836) |
| Expenditure not allowable for income tax purposes | **111,940** | 37,941 |
| Prior year adjustment to Deferred Tax Assets | **310,347** | 166,096 |
| Deferred tax asset not brought to account as realisation is not considered probable | **248,194** | 763,799 |
| **Income tax expense** | **-** | - |

| | Statement of Financial Position 2017 $ | 2016 $ |
|---|---|---|
| *Deferred tax assets* | | |
| Employee provisions | **36,974** | 24,253 |
| Other accruals and provisions | **15,000** | 45,818 |
| Share issue costs charged to equity | **22,743** | 10,820 |
| Unused income tax losses | **3,136,720** | 2,870,715 |
| Deferred tax assets offset by deferred tax liabilities | **-** | - |
| Total deferred tax assets | **3,211,437** | 2,951,606 |
| Total unrecognised deferred tax assets | **(3,211,437)** | (2,951,606) |
| Net deferred tax assets | **-** | - |

The Group has not recognised the deferred tax assets in the financial statements as it is not considered probable that sufficient taxable amounts will be available in future periods with which to be offset.

## Note 8. Cash and cash equivalents

| | 2017 $ | 2016 $ |
|---|---|---|
| Cash on hand and at bank | **475,682** | 631,059 |

Cash at bank earns interest at floating rates based on daily bank deposit rates. The cash at bank is bearing floating interest rates between 0.01% and 0.60% (2016: 0.01% and 1.50%). The carrying amounts of cash and cash equivalents represent fair value.

Restricted cash balances totalling $15,225 (2016: $15,225) representing term deposits securing various performance guarantees have been disclosed under trade and other receivables (refer Note 9).

## Note 9. Trade and other receivables

| | 2017 $ | 2016 $ |
|---|---|---|
| Other debtors | **114,775** | 1,133,419 |
| Provision for Doubtful Debts | **-** | (1,086,757) |
| Deposits | **15,225** | 15,225 |
| Prepayments | **41,780** | 702 |
| | **171,780** | 62,589 |

Other debtors consist of invoices for recovery of costs as per contract terms, GST and VAT receivables from the taxation authorities and other minor amounts. All receivables are carried at amortised cost which approximates their fair value.

Under the Heads of Agreement ('HoA') for the acquisition of the Discovery Zone copper-iron deposit, as the exploitation concession application had not been granted by 8 October 2015, the initial A$1 million payment made by the Company was refundable by Hannans Ltd ('Hannans'). A Refund Notice was issued under the HoA, and Hannans failed to make payment.

The Company filed proceedings in the WA Supreme Court seeking to recover all sums due under the HoA. Hannans filed a defence and counterclaim for $9 million. Hannans also applied for summary judgment. The summary judgement hearing was held on 6 September 2016 and was dismissed by the WA Supreme Court with costs awarded to Sunstone.

The Board and management of Sunstone recognised that the legal proceedings would likely be a long and drawn out process, taking up management time and incurring substantial legal fees with no guarantee of success. If litigation was proceeded with, and the Company's claim was successful, the HoA included a clause that could have allowed Hannans to repay the $1m initial payment in assets of equivalent value, likely limited to the assets of Hannans then subsidiary Kiruna Iron AB. The Company did not consider that the assets of Kiruna Iron AB held any value in Sunstone's hands as they were not aligned with our strategy or existing portfolio of assets.

As a result, the Company resolved its dispute (and the HoA) on 28 September 2016, where a Deed of Termination, Settlement and Release with Hannans was executed, settling all outstanding disputes and litigation between Sunstone and Hannans without any admission of liability by either party.

No allowance has been made for impairment of any other receivables as it is highly probable that they will be recovered. All other receivables excluding deposits are non-interest bearing and balances are current.

## Note 10. Property, plant and equipment

| | Office equipment $ | Computer equipment $ | Exploration equipment $ | Mine infrastructure $ | Motor Vehicles $ | Total $ |
|---|---|---|---|---|---|---|
| **Year Ended 30 June 2017** | | | | | | |
| Carrying amount at beginning of financial year | **910** | **24,577** | **49,480** | **69,620** | **-** | **144,586** |
| Additions | **-** | **-** | **-** | **-** | **-** | **-** |
| Disposals | **-** | **-** | **-** | **-** | **-** | **-** |
| Depreciation expensed | **(556)** | **(10,784)** | **-** | **-** | **-** | **(11,340)** |
| Depreciation capitalised as exploration | **-** | **(306)** | **(35,303)** | **(1,884)** | **-** | **(37,493)** |
| Effect of movement in foreign exchange | **-** | **(19)** | **(2,178)** | **(2,085)** | **-** | **(4,281)** |
| Carrying amount at end of financial year | **354** | **13,468** | **11,999** | **65,651** | **-** | **91,472** |
| ***As at 30 June 2017*** | | | | | | |
| At Cost | **23,944** | **216,003** | **335,982** | **76,909** | **23,416** | **676,254** |
| Accumulated Depreciation | **(23,590)** | **(202,534)** | **(323,983)** | **(11,258)** | **(23,416)** | **(584,781)** |
| | **354** | **13,468** | **11,999** | **65,651** | **-** | **91,472** |
| *Year Ended 30 June 2016* | | | | | | |
| Carrying amount at beginning of financial year | 5,622 | 8,504 | 88,125 | 70,810 | 4,549 | 177,610 |
| Additions | - | 25,900 | - | - | - | 25,900 |
| Disposals | (1,637) | - | - | - | - | (1,637) |
| Depreciation expensed | (573) | (9,116) | (2,484) | - | - | (12,173) |
| Depreciation capitalised as exploration | (2,502) | (744) | (38,128) | (2,035) | (4,725) | (48,134) |
| Effect of movement in foreign exchange | - | 32 | 1,967 | 845 | 176 | 3,020 |
| Carrying amount at end of financial year | 910 | 24,577 | 49,480 | 69,620 | - | 144,586 |
| *As at 30 June 2016* | | | | | | |
| At Cost | 23,944 | 216,631 | 341,668 | 79,238 | 24,125 | 685,606 |
| Accumulated Depreciation | (23,034) | (192,055) | (292,188) | (9,618) | (24,125) | (541,020) |
| | 910 | 24,577 | 49,480 | 69,620 | - | 144,586 |

### Note 11. Exploration and evaluation assets

| | 2017 $ | 2016 $ |
|---|---|---|
| At Cost - less amounts written off | **41,628,671** | 39,685,644 |
| Balance at 1 July | **39,685,644** | 36,773,345 |
| Exploration and evaluation expenditure | **3,753,524** | 4,040,981 |
| Relinquished tenement | **(322,274)** | (1,585,848) |
| Research and development rebate | **(229,530)** | - |
| Effect of movement in foreign exchange | **(1,258,693)** | 457,166 |
| Balance at 30 June | **41,628,671** | 39,685,644 |

The recovery of the Group's interest in exploration assets is dependent upon:

- the continuance of the Company's rights to tenure of the areas of interest;
- the results of future exploration; and
- the recoupment of costs through successful development and exploitation of the areas of interest, or alternatively, by their sale.

### Note 12. Trade and other payables

| | 2017 $ | 2016 $ |
|---|---|---|
| Trade payables | **532,831** | 115,443 |
| Sundry payables and accrued expenses | **27,033** | 97,032 |
| | **559,864** | 212,475 |

### Note 13. Provisions

| | 2017 $ | 2016 $ |
|---|---|---|
| Employee leave liabilities | **123,245** | 80,844 |

### Note 14. Contributed equity

**(a) Share capital**

| | Number of shares | 2017 $ |
|---|---|---|
| Ordinary shares - fully paid | **650,847,134** | **69,799,393** |

## Note 14. Contributed equity (continued)

### (b) Movements in ordinary share capital

| | | Number of shares | Issue price $ | $ |
|---|---|---|---|---|
| | **Balance as at 1 July 2015** | **240,319,478** | | **61,894,266** |
| Oct-15 | Share placement | 14,851,852 | 0.027 | 401,000 |
| Nov-15 | 1 for 2 Rights Issue | 66,334,654 | 0.027 | 1,791,036 |
| Dec-15 | Share placement | 11,184,138 | 0.027 | 301,972 |
| Mar-16 | Share placement | 45,663,438 | 0.016 | 730,615 |
| May-16 | Share placement | 3,748,375 | 0.016 | 59,974 |
| May-16 | Shares issued to Nortec Minerals Corp under terms of agreement | 1,000,000 | 0.017 | 17,000 |
| | Share issue costs | | | (37,228) |
| | **Balance as at 30 June 2016** | **383,101,935** | | **65,158,634** |

| | | Number of shares | Issue price $ | $ |
|---|---|---|---|---|
| | **Balance as at 1 July 2016** | **383,101,935** | | **65,158,634** |
| Jul-16 | Share placement | 94,525,000 | 0.016 | 1,512,400 |
| Aug-16 | Share placement | 37,812,500 | 0.016 | 605,000 |
| Aug-16 | Shares issued to Haustella & Wilron third parties under terms of agreement | 5,000,000 | 0.044 | 220,000 |
| Nov-16 | Share issued in lieu of cash directors fees | 2,578,126 | 0.032 | 82,500 |
| Dec-16 | Share placement | 125,500,000 | 0.020 | 2,510,000 |
| Jan-17 | Vesting of Employee Performance Rights | 1,329,573 | 0.016 | 21,273 |
| Feb-17 | Share placement | 1,000,000 | 0.020 | 20,000 |
| | Share issue costs | | | (330,414) |
| | **Balance as at 30 June 2017** | **650,847,134** | | **69,799,393** |

### (c) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

### (d) Employee and Director's Option Plan / Performance Right's Plan

Information relating to the Employee share option plan and performance right's plan, including details of instruments issued, exercised and lapsed during the financial year are set out in Note 20.

### (e) Options/Performance Rights

During the financial year there were 154,837,500 listed options issued with an expiry of 31 August 2019 and an exercise price of $0.03 per option. Of these options, 132,337,500 were attached to the placement shares issued in July/August 2016 on a one for one basis, with a further 22,500,000 options issued to Hartleys Limited as the broker for the placement, in lieu of cash advisory fees.

At the end of the 2017 financial year there were also 10,800,000 other unlisted options, and 13,994,427

**Note 14. Contributed equity (continued)**

**(f) Capital management**

The objective is to ensure the entity continues as a going concern as well as to maintain an optimal structure to reduce the cost of capital. Sunstone is a junior exploration company and it is dependent from time to time on its ability to raise capital from the issue of new shares and its ability to realise value from its exploration and evaluation assets. The Board is responsible for capital management. This involves the use of cash flow forecasts to determine future capital requirements. Capital management is undertaken to ensure a secure, cost-effective and flexible supply of funds is available to meet the Group's operating and capital expenditure requirements. The Company does not have any debt facilities and is not subject to any external capital requirements. Surplus funds are invested in a cash management account and are available as required. Financial liabilities of the Group at balance date are trade and other payables. Trade and other payables are unsecured and usually paid within 30 days of recognition.

The ability to raise equity in the future to fund the Group's operations, investigations and exploration activities is a risk that could influence the activities of the Company. The Group has historically raised sufficient capital to fund its operations, however, it recognises that it is at risk of financial markets which dictate its ability to fund operations beyond exhaustion of the current cash funds.

| | **2017 $** | 2016 $ |
|---|---|---|
| Current assets | **647,462** | 693,648 |
| Current liabilities | **683,109** | 293,319 |
| Liquidity ratio | **0.9 : 1** | 2.4 : 1 |

The Company intends to raise funds in the medium term to fund its exploration, investigating and evaluation activities.

**Note 15. Reserves**

| | **2017 $** | 2016 $ |
|---|---|---|
| Share based payments reserve | **3,629,353** | 3,360,043 |
| Foreign currency translation reserve | **(749,536)** | 477,454 |
| Total reserves | **2,879,817** | 3,837,497 |
| | | |
| Movements in reserves were as follows: | | |
| **Share based payments reserve** | | |
| Opening balance | **3,360,043** | 3,404,360 |
| Share based payments - employees | **83,083** | (44,317) |
| Shares Issued on vesting | **(21,273)** | - |
| Share based payments - service providers | **207,500** | - |
| Closing balance | **3,629,353** | 3,360,043 |
| | | |
| **Foreign currency translation reserve** | | |
| Opening balance | **477,454** | 78,954 |
| Foreign exchange gains/(losses) on translation | **(1,226,990)** | 398,500 |
| Closing balance | **(749,536)** | 477,454 |

## Note 15. Reserves (continued)

***Nature and purpose of reserves***

*Share-based payments reserve*

The share based payments reserve is used to record the fair value of share based payments provided to Directors, employees, including key management personnel, and contractors as payment for services.

*Foreign currency translation reserve*

The foreign currency translation reserve is used to recognise foreign exchange gains or losses arising on the translation of the financial report of foreign subsidiary companies. The functional currency of Sunstone is the Australian Dollar and that of its foreign subsidiaries is the Swedish Krona and Euro.

## Note 16. Non-controlling interests

| | **2017** | 2016 |
|---|---|---|
| | **$** | $ |
| Interest In: | | |
| Share capital | **7,211** | |
| Foreign currency translation reserve | **(1,417)** | |
| Retained earnings | **(13,068)** | |
| | **(7,274)** | |

## Note 17. Cash Flow Information

**Reconciliation of net loss after tax to net cash outflow from operating activities:**

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Operating profit/(loss) after income tax | **(2,234,936)** | (3,226,121) |
| Non-cash flows in loss | | |
| Depreciation | **11,340** | 12,173 |
| Impairment expense | **322,274** | 1,659,947 |
| Share based payments - performance rights/options | **290,583** | (44,317) |
| Changes in operating assets and liabilities | | |
| Decrease/(increase) in trade & other receivables | **(129,248)** | 71,272 |
| (Increase)/decrease in trade & other payables | **39,637** | (134,009) |
| (Decrease)/increase in provisions | **42,402** | 973 |
| | **(1,657,947)** | (1,660,083) |

## Note 18. Contingent liabilities

The Company is not aware of any other material contingent liabilities at 30 June 2017 not otherwise disclosed in the Financial Statements.

## Note 19. Capital and other commitments

### (a) Capital Commitments

| Commitments on Tenements | 2017<br>$ | 2016<br>$ |
|---|---|---|
| **Existing Tenements** | | |
| - not later than 12 months | **386,627** | 25,000 |
| - between 12 months and 5 years | **1,150** | 95,000 |
| **New Tenements** | | |
| - not later than 12 months | **4,360,513** | 385,000 |
| - between 12 months and 5 years | **172,820** | 2,230,000 |
| | **4,921,110** | 2,735,000 |

*Existing Tenements*

Exploration tenement fees are required to keep licenses in good standing. The Group is committed to this expenditure on the current tenements. In order to maintain current rights to tenure of its mineral tenement leases, the Group will be required to pay exploration tenement fees to Bergsstaten (Swedish Mines Inspectorate) in addition to prove reasonable exploration activities have been undertaken. These obligations may be varied from time to time, or subject to approval, and are expected to be fulfilled in the normal course of operations of the Group.

**Note 19. Capital and other commitments (continued)**

Under the terms of the Heads of Agreement with Nortec Minerals Corp and their subsidiary Tammela Minerals Oy, Sunstone (100% for gold tenements and via its 80% owned subsidiary Scandian Metals Pty Ltd for lithium tenements) may earn an 80% interest in the Tammela tenements.

Sunstone has earned the initial 51% (Stage One) and is well advanced towards earning 80% by spending a further EUR1,000,000 within two years.

*New Tenements*

During the financial year the Company announced the signing of a binding agreement with Cornerstone Capital Resources Inc. ("Cornerstone") (TSXV-CGP) through its subsidiary La Plata Minerales S.A. ("PLAMIN"), whereby Sunstone will have the right to earn a majority interest in the 4,949 hectare "Bramaderos" concession in southern Ecuador subject to satisfaction of certain conditions.

The Company will have the right to earn an initial 51% interest (the "First Option") in the mineral rights to the Bramaderos concession (the "Property") by making a payment of US$50,000 to PLAMIN upon execution of the Binding Letter Agreement (the "Agreement") and incurring exploration and related expenditures on the Property at the following times and in the following amounts:

*(i)* on or before the first anniversary of receipt of drilling permits, incurring committed expenditures on the Property in the amount of US$1,500,000; and
*(ii)* on or before the third (3rd) anniversary of the date of the Agreement, incurring further optional expenditures on the Property in the amount of US$1,900,000.

**(b) Lease commitments**

| Operting lease payable | **2017 $** | 2016 $ |
|---|---|---|
| - not later than 12 months | **151,735** | 164,652 |
| - between 12 months and 5 years | **45,524** | 189,752 |
| - greater than 5 years | **-** | - |
| | **197,259** | 354,404 |

The Company is currently occupying its registered office and pays rent to the owner on normal commercial terms and conditions. There are also properties in Sweden and Finland under operating leases.

## Note 20. Share-based payments

### (a) Issue of Options and Performance Rights

The tables below outline the key details for all options and performance rights outstanding as at 30 June 2017:

| Grant Date | Options Issued | Expiry Date | Value per Option | Total Value | Exercise Price | Share price at Grant Date | Share Volatility | Risk Free rate of return |
|---|---|---|---|---|---|---|---|---|
| ***Options:*** | | | | | | | | |
| 29 May 2015 | 300,000 | 29/05/2018 | $ 0.0157 | $ 4,710 | $ 0.06 | $ 0.030 | 274% | 2.08% |
| 29 May 2015 | 300,000 | 29/05/2020 | $ 0.0186 | $ 5,580 | $ 0.08 | $ 0.030 | 210% | 2.26% |
| 8 May 2015 | 1,800,000 | 5/05/2018 | $ 0.0157 | $ 28,260 | $ 0.06 | $ 0.035 | 274% | 2.08% |
| 8 May 2015 | 1,800,000 | 5/05/2020 | $ 0.0186 | $ 33,480 | $ 0.08 | $ 0.035 | 210% | 2.26% |
| 12 Jan 2015 | 1,000,000 | 12/01/2018 | $ 0.0131 | $ 13,100 | $ 0.06 | $ 0.025 | 271% | 2.14% |
| 12 Jan 2015 | 1,000,000 | 12/01/2020 | $ 0.0158 | $ 15,800 | $ 0.08 | $ 0.025 | 208% | 2.25% |
| 3 November 2014 | 2,100,000 | 3/11/2017 | $ 0.0370 | $ 77,738 | $ 0.06 | $ 0.040 | 150% | 2.73% |
| 3 November 2014 | 2,500,000 | 3/11/2019 | $ 0.0433 | $ 108,236 | $ 0.08 | $ 0.040 | 150% | 2.97% |
| 23 August 2016^ | 10,000,000 | 31/08/2019 | $ 0.0120 | $ 120,000 | $ 0.03 | $ 0.044 | | |
| 14 December 2016^ | 5,000,000 | 31/08/2019 | $ 0.0070 | $ 35,000 | $ 0.03 | $ 0.022 | | |
| 21 February 2017^ | 7,500,000 | 31/08/2019 | $ 0.0070 | $ 52,500 | $ 0.03 | $ 0.021 | | |
| | **33,300,000** | | | **494,404** | | | | |
| Weighted Average $ | | | $ 0.0148 | | $ 0.03 | $ 0.033 | | |
| Weighted Average remaining life | | 1.2 years | | | | | | |

^ Quoted Options on ASX (STMO – formerly AVIO) issued to Hartleys Limited in lieu of cash advisory fees. Valuation of Quoted Options relates to market price on date of issue. In addition to the options above, on 23 August 2016, 132,337,500 Quoted Options on ASX were issued, attaching to shares issued as part of Placement announced 6 July 2016 on a one for one basis. The options have an exercise price of $0.03 per option and an expiry date of 31 August 2019.

| Grant Date | Rights Issued | Expiry Date | Value per Right | Total Value | Vesting Condition | Share price at Grant Date | Share Volatility | Risk Free rate of return |
|---|---|---|---|---|---|---|---|---|
| ***Performance Rights:*** | | | | | | | | |
| 14 Dec 2015: Tranche 1 | 2,267,800 | 14/12/2018 | $ 0.0164 | $ 37,192 | $ 0.08 | $ 0.021 | 148% | 2.13% |
| 14 Dec 2015: Tranche 2 | 2,267,800 | 14/12/2018 | $ 0.0160 | $ 36,285 | TSR | $ 0.021 | 148% | 2.13% |
| 14 Dec 2015: Tranche 3 | 2,268,400 | 14/12/2018 | $ 0.0141 | $ 31,984 | $ 0.12 | $ 0.021 | 148% | 2.13% |
| 15 Jul 2016: Tranche 1 | 2,143,456 | 15/07/2019 | $ 0.0154 | $ 33,009 | $ 0.045 | $ 0.027 | 146% | 1.50% |
| 15 Jul 2016: Tranche 2 | 2,143,456 | 15/07/2019 | $ 0.0135 | $ 28,937 | TSR | $ 0.027 | 146% | 1.50% |
| 15 Jul 2016: Tranche 3 | 2,144,088 | 15/07/2019 | $ 0.0129 | $ 27,659 | $ 0.07 | $ 0.027 | 146% | 1.50% |
| 23 Aug 2016: Tranche 1 | 696,265 | 23/08/2019 | $ 0.0154 | $ 10,722 | $ 0.045 | $ 0.044 | 146% | 1.50% |
| 23 Aug 2016: Tranche 2 | 696,265 | 23/08/2019 | $ 0.0135 | $ 9,400 | TSR | $ 0.044 | 146% | 1.50% |
| 23 Aug 2016: Tranche 3 | 696,470 | 23/08/2019 | $ 0.0129 | $ 8,984 | $ 0.07 | $ 0.044 | 146% | 1.50% |
| | **15,324,000** | | | **224,172** | | | | |
| Weighted Average $ | | | $ 0.0146 | | | $ 0.027 | | |
| Weighted Average remaining life | | 1.8 years | | | | | | |

The fair values of the options and performance rights have been determined by an external party using a Trinomial Lattice model for options which defines the conditions under which employees are expected to exercise their options after vesting in terms of the share price reaching a specified multiple of the exercise price, and a Monte Carlo simulation for performance rights.

**Note 20. Share-based payments (continued)**

Share price volatility has a powerful influence on the estimation of the fair value of an option and performance right, much of the value of which is derived from its potential appreciation. The more volatile the share price, the more valuable the option. Volatility for the fair value of the options has been determined by the external party performing the valuation.

The table below outlines the movements for all options during 2017:

| Grant Date | Beginning Balance | Granted during year | Exercised during year | Lapsed | Balance at end of year |
|---|---|---|---|---|---|
| 29 May 2015 | 300,000 | - | - | - | 300,000 |
| 29 May 2015 | 300,000 | - | - | - | 300,000 |
| 8 May 2015 | 1,800,000 | - | - | - | 1,800,000 |
| 8 May 2015 | 1,800,000 | - | - | - | 1,800,000 |
| 12 Jan 2015 | 1,000,000 | - | - | - | 1,000,000 |
| 12 Jan 2015 | 1,000,000 | - | - | - | 1,000,000 |
| 3 November 2014 | 2,100,000 | - | - | - | 2,100,000 |
| 3 November 2014 | 2,500,000 | - | - | - | 2,500,000 |
| 23 August 2016 | - | 142,337,500 | - | - | 142,337,500 |
| 14 December 2016 | - | 5,000,000 | - | - | 5,000,000 |
| 21 February 2017 | - | 7,500,000 | - | - | 7,500,000 |
| **Total** | **10,800,000** | **154,837,500** | **-** | **-** | **165,637,500** |

*Performance Rights:*

The table below outlines the movements for all performance rights during 2017:

| Grant Date | Beginning Balance | Granted as remuneration | Exercised during year | Lapsed | Balance at end of year |
|---|---|---|---|---|---|
| 14 Dec 2015: Tranche 1 | 2,267,800 | - | - | - | 2,267,800 |
| 14 Dec 2015: Tranche 2 | 2,267,800 | - | (1,329,573) | - | 938,227 |
| 14 Dec 2015: Tranche 3 | 2,268,400 | | - | - | 2,268,400 |
| 15 Jul 2016: Tranche 1* | - | 2,839,721 | - | - | 2,839,721 |
| 15 Jul 2016: Tranche 2* | - | 2,839,721 | - | - | 2,839,721 |
| 15 Jul 2016: Tranche 3* | - | 2,840,558 | - | - | 2,840,558 |
| **Total** | **6,804,000** | **8,520,000** | **(1,329,573)** | **-** | **13,994,427** |

* Grant date for the Managing Director was following shareholder approval received at the General Meeting 23 August 2016.

During the 2017 financial year a total of 1,329,573 performance rights vested in relation to the Dec 2015 Tranche 2 grant. This represented 59% of the Tranche 2 performance rights vesting following a 4.31% outperformance of the Sunstone VWAP for the 12-month testing period over the average for the ASX Small Resources Index over the same period when compared with the corresponding results from the prior 12 months.

## Note 20. Share-based payments (continued)

Performance Conditions attached to the performance rights granted in 2017 were:

1. Tranche 1 – to vest upon the Closing Price of Sunstone Shares being $0.045 or more for 10 consecutive trading days;
2. Tranche 2 – to vest upon Total Shareholder Return (TSR) performance as measured against the ASX Small Resources Index, as follows:
   - Performance below the index no shares will vest.
   - 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.
   - Testing will be annually on the anniversary of grant date; and
3. Tranche 3 – to vest upon the Closing Price of Sunstone Shares being $0.07 or more for 10 consecutive trading days.

Each tranche of Shares will not be able to be released from the Share Plan until the performance based Vesting Conditions for that tranche have been achieved.

### (b) Amortisation expense of Options and Performance Rights

The amortised expense for performance rights in the statement of profit or loss and other comprehensive income for the year ended 30 June 2017 was $83,226 (2016: $44,317 income). Expense for options was $207,500 (2016: $Nil).

## Note 21. Related party transactions and Key Management Personnel

**Controlling entities**

The ultimate parent entity in the wholly-owned Group is Sunstone Metals Limited.

Interests in subsidiaries are disclosed in note 23.

**Key Management Personnel compensation**

| | **2017 $** | 2016 $ |
|---|---|---|
| Short-term employee benefits | **1,223,000** | 803,583 |
| Post employment benefits | **100,510** | 77,263 |
| Share based payments | **163,943** | 18,817 |
| | **1,487,453** | 899,663 |

### Note 22. Events occurring after reporting date

On 5 July 2017 the Company announced a placement to raise approximately A$2.3 million before costs, along with a Share Purchase Plan (SPP) to raise up to $1 million. Proceeds from the equity raising will be used to fund:

- Exploration at the Bramaderos gold-copper project in southern Ecuador;
- A 1,500m diamond drilling programme at the Satulinmäki gold prospect in southern Finland as follow-up to previous drilling, and geophysical survey that pointed to the existence of a much larger gold system;
- Progressing the Environmental and Social Impact Assessment ('ESIA') in relation to its Viscaria Copper Project, Sweden; and
- Working capital, including corporate costs to manage the exploration programme and costs of the offer.

The placement and SPP consists of shares at 1.4 cents per share,

The placement occurred on 12 July 2017, with the issue of 162,711,777 shares to sophisticated investors under the Company's available capacity, to raise approximately A$2.3 million. The SPP closed to applications on 21 July 2017 and raised approximately $1 million with the issue of 70,178,615 shares on 28 July 2017.

A General Meeting was held on 4 September 2017, whereby shareholder approval was received for a special resolution to change the name of the company to Sunstone Metals Limited. Also at this meeting, approval was received for the ratification of the placement shares, and the issue of performance rights to the Managing Director.

No other matter or circumstance has occurred subsequent to year end that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group or economic entity in subsequent financial periods.

### Note 23. Subsidiaries

| Name of entity | Country of incorporation | Class of shares | Ownership interest held by group * | |
|---|---|---|---|---|
| | | | **2017** | 2016 |
| Avalon Minerals Adak AB | Sweden | Ordinary | 100% | 100% |
| Avalon Minerals Viscaria AB | Sweden | Ordinary | 100% | 100% |
| Scandian Metals Pty Ltd | Australia | Ordinary | 80% | 100%[1] |
| Scandian Metals AB | Sweden | Ordinary | 80%[2] | 80% |
| Kultatie Holding Oy | Finland | Ordinary | 100% | 0% |
| Kultatie Oy | Finland | Ordinary | 51%[3] | 0% |
| Litiumloydos Oy | Finland | Ordinary | 41%[4] | 0% |

[1] As at 30 June 2016 Sunstone Metals Ltd held 100% of the shares in Scandian Metals Pty Ltd. Under the terms of the Heads of Agreement regarding the Swedish lithium tenements, 20% of the shares in Scandian Metals Pty Ltd is to be issued to the private Australian parties involved in the Agreement, which occurred on 31August 2016.

[2] Scandian Metals AB is a 100% owned subsidiary of Scandian Metals Pty Ltd

[3] Kultatie Oy is a 51% owned subsidiary of Kultatie Holding Oy

[4] Litiumloydos Oy is a 51% owned subsidiary of Scandian Metals AB

* The proportion of ownership interest is equal to the proportion of voting power held

## Note 24. Earnings per share

| | 2017 cents | 2016 cents |
|---|---|---|
| Basic earnings per share | **(0.4)** | (1.0) |
| Diluted earnings per share | **(0.4)** | (1.0) |
| **Weighted average number of shares used as the denominator** | **Number** | Number |
| Weighted average number of shares used as the denominator in calculating basic earnings per share (post consolidation) | **581,614,428** | 313,446,543 |
| **Gains/(losses) used in calculating basic and diluted losses per share** | **$** | $ |
| | **(2,234,936)** | (3,226,121) |

As the potential ordinary shares (from options/performance rights on issue) have an anti-dilutive effect, they have not been included in the calculation of diluted earnings per share.

## Note 25. Remuneration of auditors

| | 2017 $ | 2016 $ |
|---|---|---|
| During the period the following fees were paid or payable for services provided by the auditor of the Company and its related practices: | | |
| **Audit and Review Services** | | |
| Audit and review of consolidated financial statements | **53,423** | 58,372 |
| Audit of Swedish sibsidiaries financial statements | **5,387** | 6,548 |
| **Other services** | | |
| Accounting advice - Australia | **-** | - |
| Taxation matters - Australia | **38,507** | 33,261 |
| Accounting advice - Sweden | **2,254** | 1,387 |
| Taxation matters - Sweden | **1,503** | 742 |

## Note 26. Dividends

No dividend was paid or declared by the Company in the period since the end of the previous financial year, and up to the date of this report. The Directors do not recommend that any amount be paid by way of dividend for the financial period ended 30 June 2017 (2016: nil).

The balance of the Company's franking account is nil (2016: nil).

# NOTES TO THE FINANCIAL STATEMENTS

**Note 27. Parent Entity Information**

Information relating to Sunstone Metals Limited:

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Current assets | 411,318 | 1,596,922 |
| Non-current assets | 1,249,971 | 28,953 |
| Total assets | 1,661,289 | 1,625,875 |
| Current liabilities | 538,691 | 225,564 |
| Total liabilities | 538,691 | 225,564 |
| **Net assets** | 1,122,597 | 1,400,311 |
| Issued Capital | 69,799,393 | 65,158,635 |
| Accumulated losses | (72,306,149) | (67,118,367) |
| Share based payment reserve | 3,629,353 | 3,360,043 |
| **Total shareholders' equity** | 1,122,597 | 1,400,311 |
| Net income/(loss) for the year | (5,187,782) | (5,964,873) |
| Total Comprehensive income/(loss) | (5,187,782) | (5,964,873) |

There have been no guarantees entered into by the Parent Entity in relation to any debts of its subsidiaries.

The Parent Entity has restricted cash balances totalling $15,225 (2016: $15,225) representing term deposits securing performance guarantees over rental of the Company's office premises.

The net loss for the year for the Parent Entity includes the recognition of an impairment against intercompany loans receivable of $3.4 million.

The Parent Entity has contractual commitments for the acquisition of property, plant or equipment under the binding agreement to earn a majority interest in the highly prospective Bramaderos gold-copper concession, southern Ecuador. Its subsidiary, Scandian Metals Pty Ltd, has expenditure commitments under Heads of Agreements relating to lithium and gold tenements in Scandinavia (refer Note 19).

# DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of Sunstone Metals Limited I state that:

In the opinion of the Directors:

(a) the financial statements and notes of the Consolidated Entity 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 30 June 2017 and of its performance for the year ended on that date; and

   (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;

(b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 1(b)

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

(d) this declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the Corporations Act 2001 for the financial year ended 30 June 2017.

On behalf of the Board

Mr Graham Ascough
**Chairman**

Brisbane, Queensland
6 September 2017

# INDEPENDENT AUDIT REPORT TO THE MEMBERS

BDO

Tel: +61 7 3237 5999
Fax: +61 7 3221 9227
www.bdo.com.au

Level 10, 12 Creek St
Brisbane QLD 4000
GPO Box 457 Brisbane QLD 4001
Australia

## INDEPENDENT AUDITOR'S REPORT

To the members of Sunstone Metals Ltd

### Report on the Audit of the Financial Report

**Opinion**

We have audited the financial report of Sunstone Metals Ltd (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2017, 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 year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

In our opinion the accompanying financial report of the Group, is in accordance with the *Corporations Act 2001*, including:

(i) Giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year ended on that date; and

(ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

**Basis for opinion**

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Material uncertainty related to going concern**

We draw attention to Note 1 (a) in the financial report which describes the events and/or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the group's ability to continue as a going concern and therefore the group may be unable to realise its assets and discharge its liabilities in the normal course of business. Our opinion is not modified in respect of this matter.

BDO Audit Pty Ltd ABN 33 134 022 870 is a member of a national association of independent entities which are all members of BDO Australia Ltd ABN 77 050 110 275, an Australian company limited by guarantee. BDO Audit Pty Ltd and BDO Australia Ltd are members of BDO International Ltd, a UK company limited by guarantee, and form part of the international BDO network of independent member firms. Liability limited by a scheme approved under Professional Standards Legislation, other than for the acts or omissions of financial services licensees.

**Key audit matters**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material uncertainty related to going concern* section, we have determined the matter described below to be a key audit matter to be communicated in our report.

**Recoverability of exploration and evaluation assets**

| *Key audit matter* | *How the matter was addressed in our audit* |
|---|---|
| Refer to note 11 in the financial report<br>The Group has exploration and evaluation assets totalling $41,628,671 as at 30 June 2017. Accounting for these assets is set out in the Group's accounting policy for exploration and evaluation assets in note 1(s).<br>The recoverability of exploration and evaluation asset is a key audit matter due to:<br>• The significance of the total balance (98% of total assets); and<br>• The level of procedures undertaken to evaluate management's application of the requirements of AASB 6 *Exploration for and Evaluation of Mineral Resources* ('AASB 6') in light of any indicators of impairment that may be present. | Our procedures included, but were not limited to the following:<br>• Assessing and evaluating management's assessment that no indicators of impairment existed in accordance with the requirements of AASB 6 *Exploration for and Evaluation of Mineral Resources*.<br>• Confirming whether the rights to tenure of the areas of interest remained current at balance date as well as confirming that rights to tenure are expected to be renewed for tenements that will expire in the near future.<br>• Held enquiries with management and directors with respect to the status of ongoing exploration programs in the respective areas of interest and their future intentions and strategies.<br>• The engagement team also reviewed supporting corroborative information such as ASX announcements and Board minutes of meetings to determine if any activities have been discontinued in any applicable areas of interest and identify any other facts or circumstances that would indicate impairment testing was required.<br>• Assessing the reasonableness of the assumptions used on the Group's budgeted cash flows for the level of spending on its exploration projects through challenging management of the basis of the assumptions used and review of corroborative supporting information. |

**Other information**

The directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 30 June 2017, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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**Responsibilities of the directors for the Financial Report**

The directors of the Company are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

**Auditor's responsibilities for the audit of the Financial Report**

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:

http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf

This description forms part of our auditor's report.

## Report on the Remuneration Report

**Opinion on the Remuneration Report**

We have audited the Remuneration Report included in pages 38 to 45 of the directors' report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of Sunstone Metals Ltd, for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001*.

**Responsibilities**

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

**BDO Audit Pty Ltd**

BDO

**A J Whyte**
Director
Brisbane, 6 September 2017

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# ADDITIONAL ASX INFORMATION

Additional information required by the Australian Securities Exchange Limited ("ASX") Listing Rules and not disclosed elsewhere in this report.

## SHAREHOLDINGS

### SUBSTANTIAL SHAREHOLDERS

The following are substantial shareholders within the Company as per announcements to ASX as at 31 August 2017.

| Holders (above 5%) | Ordinary shares held | Interest held |
|---|---|---|
| Darren Carter | 90,323,741 | 10.20% |
| Valbonne II | 72,953,887 | 8.24% |
| Marilei International | 9,710,000 | 5.61% |
| Acorn Capital | 44,285,714 | 5.00% |

### CLASS OF SHARES AND VOTING RIGHTS

At 31 August 2017, there were 859 holders of the ordinary shares of the Company. The voting rights attached to the ordinary shares, set out in clause 12.7 of the Company's Constitution, are:

Subject to any special rights or restrictions for the time being attached to any class or classes of Shares, at meetings of Shareholders or classes of Shareholders:

- each Shareholder entitled to vote may vote in person or by proxy, attorney or Representative;
- on a show of hands, every person present who is a Shareholder or a proxy, attorney or Representative of a Shareholder has one vote; and
- on a poll every person present who is a Shareholder or a proxy, attorney, or Representative of a Shareholder shall, in respect of each fully paid Share held by him, or in respect of which he is appointed a proxy, attorney or Representative, have one vote for the Share, but in respect of partly paid Shares, shall have such number of votes being equivalent to the proportion which the amount paid (not credited) is of the total amounts paid and payable in respect of those shares, (excluding amounts credited).

At 31 August 2017, there were options and performance rights over unissued ordinary shares. There are no voting rights attached to the unissued ordinary shares. Voting rights will be attached to the unissued ordinary shares when the options have been exercised or the performance rights have vested.

### ON-MARKET BUY-BACK

There is no current on-market buy-back.

### DISTRIBUTION OF SHARE HOLDERS (AS AT 31 AUGUST 2017)

| | Number of holders | |
|---|---|---|
| Category | Ordinary shares | Unlisted Options |
| 1 – 1,000 | 63 | 1 |
| 1,001 – 5,000 | 36 | 2 |
| 5,001 – 10,000 | 21 | - |
| 10,001 – 100,000 | 354 | 7 |
| 100,001 and over | 385 | 78 |
| | 859 | 88 |

There were 204 holders holding less than a marketable parcel as at 31 August 2017.

### UNQUOTED SECURITIES

Options and performance rights on issue were allotted as part of an employee share option plan and performance rights plan and are unquoted.

### RESTRICTED SECURITIES

There were no restricted securities as at 31 August 2017.

# 20 LARGEST SECURITY HOLDERS

**AS AT 31 AUGUST 2017**

| Holder name | Ordinary Shares | |
|---|---|---|
| | **Number** | **%** |
| MR DARREN CARTER | 90,323,741 | 10.20 |
| HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 88,505,557 | 9.99 |
| BNP PARIBAS NOMS PTY LTD <DRP> | 46,536,001 | 5.25 |
| POTEZNA GROMADKA LTD | 44,040,000 | 4.97 |
| MARILEI INTERNATIONAL LIMITED | 38,550,000 | 4.35 |
| MR MOHD FAIQ ABU SAHID | 33,552,414 | 3.79 |
| BT PORTFOLIO SERVICES LIMITED <WARRELL HOLDINGS S/F A/C> | 33,486,200 | 3.78 |
| CITICORP NOMINEES PTY LIMITED | 33,049,251 | 3.73 |
| WYNTORC SA | 20,777,778 | 2.35 |
| PERSHING AUSTRALIA NOMINEES PTY LTD <INDIAN OCEAN A/C> | 12,892,013 | 1.46 |
| PERTH SELECT SEAFOODS PTY LTD | 11,000,000 | 1.24 |
| SCINTILLA STRATEGIC INVESTMENTS LIMITED | 10,000,000 | 1.13 |
| MR LIM HENG SUAN | 9,893,633 | 1.12 |
| CEN PTY LTD | 9,571,429 | 1.08 |
| EQUITY TRUSTEES LIMITED <LOWELL RESOURCES FUND A/C> | 8,928,575 | 1.01 |
| MR GRAHAM LESLIE ASCOUGH + MRS PATRICIA LYNN ASCOUGH <ASCOUGH S/F A/C> | 8,874,617 | 1.00 |
| VIATICUS CAPITAL LLC | 7,995,375 | 0.90 |
| MR HOSSEIN SABET | 7,250,000 | 0.82 |
| BGL INVESTMENTS PTY LTD <BGL INVESTMENTS A/C> | 7,151,015 | 0.81 |
| SPINITE PTY LTD | 6,662,052 | 0.75 |
| **Total** | **529,039,651** | **59.72** |

## OTHER INFORMATION

Sunstone Metals Limited, incorporated and domiciled in Australia, is a publicly listed company limited by shares.


sunstonemetals.com.au