



ABN 68 123 184 412

Half-Year Financial Report 31 December 2017

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CORPORATE DIRECTORY

Directors

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

Company Secretary

Gavin Leicht

Securities Exchange Listing

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

Share Registry

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Facsimile: +61 7 9473 2555
Website: www.computershare.com.au
Investor Enquiries: 1300 850 505

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Bank

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Directors' Report

Your Directors present their report on Sunstone Metals Limited ("Sunstone" or "Company") and the entities it controlled ("Consolidated Entity" or "Group") for the half-year ended 31 December 2017.

Directors

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

Mr Graham Ascough	Non-Executive Chairman
Mr Malcolm Norris	CEO/Managing Director
Mr Don Hyma	Non-Executive Director
Mr Stephen Stroud	Non-Executive Director – appointed 6 September 2017
Mr Crispin Henderson	Non-Executive Director – retired 22 November 2017

Principal activities

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

Dividends

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

Review of operations

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

	Half-year ended	
	2017	2016
	\$	\$
Revenue and other income	9,425	95,645
Profit/(loss) before income tax	(850,994)	(1,100,153)
Income tax expense	-	-
Profit/(loss) attributable to members of Sunstone Metals Limited	(849,309)	(1,100,153)
Profit/(loss) attributable to non-controlling interests	(1,685)	-
Earnings per share	2017	2016
	cents	cents
Basic earnings per share	(0.1)	(0.2)

Directors' Report

Financial Performance

During the half-year ended 31 December 2017 the Group incurred a loss of \$850,994 (2016: loss of \$1,100,153). The loss for this period is largely due to corporate costs incurred to fund the progression of activities in Ecuador, Sweden and Finland.

Financial Position

The Company's non-current assets increased from \$41,720,143 at 30 June 2017 to \$43,421,667 at 31 December 2017, due to capitalised exploration and study expenses.

During the half-year, the Company had a net increase in contributed equity of \$7,080,266 as a result of:

- A placement of 162,711,777 fully paid shares for a consideration of \$2,277,965 excluding fees (1.4 cents per share) in July 2017.
- A Share Purchase Plan (SPP) issuing 70,178,615 fully paid shares for a consideration of \$982,500 excluding fees (1.4 cents per share) in July 2017.
- Vesting of 2,143,456 performance rights with a value of \$33,009.
- A placement of 221,400,000 fully paid shares for a consideration of \$4,206,600 excluding fees (1.9 cents per share) in November 2017.

At the end of the financial period, the Group had cash balances of \$5,476,839 (June 2017 \$475,682) and net assets of \$48,670,046 (June 2017: \$41,684,496). Total liabilities amounted to \$348,878 (June 2017: \$683,109) and included trade, other payables and provisions.

Projects

Bramaderos

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 has the right to earn a majority interest in the 4,949 hectare "Bramaderos" concession subject to satisfaction of certain conditions. The Bramaderos concession is located in Loja province in southern Ecuador, some 90 km (1.5-hour drive) from the city of Catamayo and is considered to be highly prospective for the discovery of large gold-copper systems. Easy access is provided by the sealed Pan American Highway that crosses the western part of the concession.

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.

A detailed heli-magnetic (and radiometric) survey commenced at Bramaderos at the end of December. The heli-magnetic survey data is an extremely important component of the exploration program. The results are being used to map structure, alteration, and intrusive events and have been applied successfully by the Sunstone team to previous porphyry copper-gold and epithermal gold discoveries.

Strong results from soil sampling undertaken during the half-year define very clearly the main large porphyry gold-copper targets of Bramaderos Main, Playas and Limon and provide early indications of additional anomalies which may evolve into significant targets. Refer to ASX announcements dated 4 December and 18 October 2017.

At Bramaderos Main, a trenching program was undertaken during the half-year, which is designed to map the porphyry gold-copper mineralisation at surface and delivers high quality continuous and non-biased samples which can be considered equivalent to a drill hole sample. Consequently, the trenching data will be incorporated into future estimates of mineral resources.

Initial results from three trenches BM01, 02 and 03 were released in ASX announcement dated 19 December 2017. Trench BM02 has delivered 74.3m at 0.69g/t gold and 0.15% copper, including 51.1m at 0.81g/t gold and 0.18%

Directors' Report

copper. Trench BM02 was positioned over the top of the historical diamond drill hole CURI-03 so that a cross section could be constructed to start to develop a better understanding of the three-dimensional geometry of mineralisation at Bramaderos Main.

CURI-03 was drilled in 2001 by Ecuator S.A. and intersected 248.1m at 0.56g/t gold and 0.14% copper from 9.14m to the end of hole. Mineralisation at the end of the hole returned 0.93g/t gold and 0.22% copper over 2.2m. This drill hole indicates potential for significant vertical extent to the mineralised zones intersected by trenching at surface.

A detailed assessment of the geology of the Bramaderos Main and Limon targets with a focus on the alteration of the host rocks has been undertaken. This work allows for vectoring towards areas of a porphyry system that are considered more likely to host mineralisation. This approach has been applied previously by the Sunstone team during other discoveries. The results from Bramaderos will now be integrated with other datasets and influence the selection of drill targets.

The main Limon anomaly measures 1300m x 800m, is open to north, and is defined by overlapping gold and copper anomalism, with zinc and lead anomalism as a halo. This pattern is typical of zonation within porphyry gold-copper systems.

A second anomaly, Playas, measuring 600m x 500m has been defined in the southern part of the soil grid. It is open to the south and is defined by a tight coherent zone of coincident gold, copper and molybdenum anomalism, and again a zinc and lead halo.

The soil anomalies extend over areas of up to 2km x 1km and are classic porphyry signatures with overlapping gold-copper-molybdenum in the central area, and a halo of zinc and lead anomalism. For example, this is comparable to the signature from the giant Tujuh Bukit deposit in Indonesia that is an outcropping porphyry and epithermal copper-gold system. The Sunstone team led the discovery of the Tujuh Bukit deposit and have developed significant expertise in exploration for these deposit types.

Rock chip samples collected by Sunstone, from outcrops in the area, have returned elevated copper and gold of up to 1.2g/t Au and 0.4% Cu. Historical rock chip 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.

The Limon area has never been drilled and will be a priority target for drilling. Additional geological mapping, trenching, and detailed heli-magnetics are being undertaken to further refine understanding of these multiple porphyry gold-copper opportunities on the Bramaderos Project.

At the West Zone epithermal gold prospect, outstanding high-grade gold results from trenching were received during the half-year, providing evidence of potential for a substantial gold discovery at West Zone. Results include 28m at 3.9g/t gold, including 15.6m at 6.1g/t gold. Historical trenching results at the West Zone breccia include a zone of 42m at 3.7g/t Au.

These results add to the emerging picture of a hydrothermal breccia-hosted epithermal gold system, with a surface footprint of at least 150m x 150m and depth extent to be tested by drilling. Local pit sampling and prospect scale geological mapping have defined other areas of mineralisation that suggest a larger mineralised system over an area of 400m x 300m. Furthermore, the system is open to the north, south-east and south-west.

These trenches present a continuous sample of bedrock across and within the mineralised zones, following a partially outcropping epithermal system which then continues under cover (colluvium on the slopes of hills). Much of the area is covered by scree on hill slopes limiting the lateral extent of some trenches. As a result, the lateral extent of mineralisation is yet to be defined but is expected to be larger than the limited area of trench sampling to date.

This area has never been drilled and represents a prime target for drilling once the drilling permit is received. The trench data, soil data, surface mapping, and a detailed heli-magnetic geophysical survey, which commenced at the end of December, will provide all required datasets for drill targeting.

Directors' Report

The presence of epithermal gold mineralisation adjacent to larger porphyry gold-copper systems is consistent with what we would expect to see in this geological environment and these encouraging results strongly support our 'bigger picture' plans and expectations for discovery at Bramaderos.

Sunstone's joint venture partner Cornerstone Capital Resources is managing the drill permitting process and has previously implemented the same procedure at its other exploration properties in Ecuador over the past 10 years. Strong progress is being made towards meeting the pre-requisites for the drilling permit at the Bramaderos gold-copper project in Ecuador. In light of the conditions being met in respect to both the water use permit and the Environmental Impact Assessment (EIA), Sunstone believes it is on track to secure the drilling permit in early 2018.

Importantly, this permit will allow Sunstone to drill across its entire concession, not just in specific areas, giving the Company a complete licence to test the numerous porphyry and epithermal gold targets it has identified, as well as providing flexibility to test additional targets on the concession in the future.

Viscaria Copper Project

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

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

Historically, the A Zone deposit at the Viscaria Copper Project produced 12.5Mt of ore at 2.3% copper. Sunstone's development plans envisage open pit development of the A and B Zone deposits, and open pit and underground development of the D Zone deposit. Sunstone has estimated a global resource of 52.4 million tonnes of copper mineralisation at 1.2% Cu, containing 608,900 tonnes of copper (refer to the Resources Statement in Sunstone's 2017 Annual Report).

The results of drilling in 2017 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 (refer to ASX Announcement dated 26 June 2017). The widespread and consistent copper mineralisation within the poorly tested D Zone South environment is very encouraging and brings this highly prospective 4km-long anomaly to the top of the exploration priority list for future testing with potential to significantly expand the Viscaria copper project.

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

With these encouraging results at D Zone outside of the current mineral resource, and the copper price going from a low of less than US\$2/lb in 2016 to a recent high of US\$3.30/lb, combined with analysts' long-term copper price forecasts in excess of US\$3.25/lb, the scoping study metrics released to the ASX on 5 April 2016 are increasingly positive.

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 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.

Directors' Report

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

Gold Portfolio

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. Historical drilling was undertaken by the Finnish Geological Survey (GTK) and only tested to ~70m below surface, delivering results including 22m @ 3.6 g/t Au from 50 metres (hole 391) at Satulinmäki.

Sunstone completed a large Induced Polarisation (IP) geophysical survey at Satulinmäki during 2017. Geophysical mapping of interpreted sericite alteration and distribution of sulphides, both known to be associated with gold mineralisation from drilling, has shown two main trends –

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

Conductivity results have identified discrete anomalies that coincide with the high-grade intersections delivered by holes such as SMDD007, 23.5m at 3.3g/t Au including 9.2m at 7.3g/t Au (refer ASX announcement dated 14 November 2016).

Historical data have also now shown additional areas of gold mineralised rock to the southeast where rock chip samples have returned up to 6.5g/t, and to the northwest with rock chip assays up to 4.7g/t gold. Current surface mapping and rock chip sampling is focussed on assessing this larger 3.5km long structural zone.

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

Lithium Portfolio

Sunstone's 80% subsidiary Scandian Metals Pty Ltd (Scandian) is earning 80% in the lithium rights within the Nortec earn-in agreement area, which includes the Kietyönmäki lithium occurrence which was discovered by the Finnish Geological Survey (GTK) in the mid-1980's. There was no significant activity during the half-year.

A total of six diamond drill holes for 1,171.9m have been drilled by Sunstone at Kietyönmäki and have confirmed a high grade spodumene-bearing pegmatite dyke swarm. 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% Li₂O.

The results suggest continuation of a thickened pegmatite dyke to the south-east and this trend is expected to be tested with future drilling. Further work is required to better understand the geology, however initial results are encouraging. There are several dykes with known lithium anomalism that have not been explored to date and these will be targeted in future drilling programs.

The Ladum Project in Sweden covers areas within a regional pegmatite district that has seen minor historical exploration primarily for tin. Most of this exploration was undertaken by Swedish company LKAB in the 1980's. The exploration work included geophysics, till-sampling, and general geological mapping and investigations. This work resulted in a number of tin, niobium, tantalum and lithium bearing pegmatites being defined.

Directors' Report

Matters Subsequent to the end of the Financial Period

A tranche 2 placement of 34,421,057 shares at \$0.019 per share, related to a placement in November 2017, was completed on 12 January 2018, following shareholder approval being obtained at a general meeting held on 8 January 2018.

No other matter or circumstance has arisen since 31 December 2017 that has significantly affected, or may significantly affect the Group's position, the results of those operations, or the Group's state of affairs in future financial periods, except as already disclosed in the half-year financial statements.

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 9.

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



Graham Ascough

Chairman

Sunstone Metals Ltd

13 March 2018

Auditor's Independence Declaration



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

As lead auditor for the review of Sunstone Metals Ltd for the half-year ended 31 December 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 review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

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



Anthony J WHYTE
Director

Brisbane, 13 March 2018

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the half-year ended 31 December 2017

	Note	Half-year ended	
		2017 \$	2016 \$
Revenue	3	9,425	5,645
Other income	3	-	90,000
Employee Benefits Expense	4	(379,443)	(474,592)
Corporate and administration expenses		(473,671)	(713,568)
Depreciation expense		(5,327)	(5,807)
Interest paid		(1,978)	(1,831)
Profit/(Loss) before income tax		(850,994)	(1,100,153)
Income tax expense		-	-
Net profit/(loss) for the period		(850,994)	(1,100,153)
Other comprehensive income / (loss)			
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation differences – foreign operations		721,461	(1,775,254)
Total comprehensive profit/(loss) for the period		(129,533)	(2,875,407)
Net profit/(loss) for the period is attributable to:			
Members of Sunstone Metals Ltd		(849,309)	(1,100,153)
Non-controlling interests		(1,685)	-
		(850,994)	(1,100,153)
Total comprehensive profit/(loss) for the period attributable to:			
Members of Sunstone Metals Ltd		(132,676)	(2,875,407)
Non-controlling interests		3,143	-
		(129,533)	(2,875,407)
Earnings per share for profit/(loss) attributable to the ordinary equity holders of the Company:		Cents	Cents
Basic earnings per share		(0.1)	(0.2)
Diluted earnings per share		(0.1)	(0.2)

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

Consolidated Statement of Financial Position

As at 31 December 2017

	Note	31-Dec-17 \$	30-Jun-17 \$
Current assets			
Cash and cash equivalents		5,476,839	475,682
Trade and other receivables	5	120,418	171,780
Total current assets		5,597,257	647,462
Non-current assets			
Plant and equipment		74,076	91,472
Exploration and evaluation	6	43,347,591	41,628,671
Total non-current assets		43,421,667	41,720,143
Total assets		49,018,924	42,367,605
Current liabilities			
Trade and other payables	7	232,597	559,864
Provisions		116,281	123,245
Total current liabilities		348,878	683,109
Total liabilities		348,878	683,109
Net assets		48,670,046	41,684,496
Equity			
Contributed equity	8	76,879,659	69,799,393
Reserves	9	3,631,023	2,879,818
Accumulated losses		(31,836,749)	(30,987,440)
Equity attributable to owners of Sunstone Metals Limited		48,673,933	41,691,771
Non-controlling interests		(3,887)	(7,275)
Total equity		48,670,046	41,684,496

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

Consolidated Statement of Changes in Equity

For the half-year ended 31 December 2017

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

2016	Contributed Equity	Share Based Payments Reserve	Foreign Currency Translation Reserve	Accumulated Losses	Total	Non-controlling interests	Total equity
	\$	\$	\$	\$	\$	\$	\$
At the beginning of the financial year	65,158,634	3,360,043	477,454	(28,765,572)	40,230,559	-	40,230,559
Profit/(loss) for the year	-	-	-	(1,100,153)	(1,100,153)	-	(1,100,153)
Other comprehensive Income	-	-	(1,775,254)	-	(1,775,254)	-	(1,775,254)
Total comprehensive income/(loss) for the half-year	-	-	(1,775,254)	(1,100,153)	(2,875,407)	-	(2,875,407)
Shares issued	4,929,900	-	-	-	4,929,900	-	4,929,900
Share issue costs	(327,939)	-	-	-	(327,939)	-	(327,939)
Share based payment transactions	-	190,478	-	-	190,478	-	190,478
Total Equity at 31 December 2016	69,760,595	3,550,521	(1,297,800)	(29,865,725)	42,147,591	-	42,147,591

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

Consolidated Statement of Cash Flows

For the half-year ended 31 December 2017

	Note	Half-year ended	
		2017	2016
		\$	\$
Cash flows from to/from operating activities			
Payments to suppliers and employees		(827,916)	(754,878)
Sundry income	3	-	90,000
Interest paid		(1,978)	(1,831)
Interest received	3	9,425	5,645
Net cash outflow from operating activities		(820,469)	(661,064)
Cash flows to/from investing activities			
Payments for plant and equipment		-	-
Exploration and evaluation expenditure	6	(1,082,518)	(1,758,639)
Research and development rebate		(141,952)	125,631
Net cash used in investing activities		(1,224,470)	(1,633,008)
Cash flows to/from financing activities			
Proceeds from issue of securities		7,467,065	4,627,409
Costs of share issues		(419,808)	(327,939)
Net cash provided by financing activities	8	7,047,257	4,299,470
Net increase/(decrease) in cash		5,002,318	2,005,398
Effect of exchange rate fluctuations on cash held		(1,161)	35,470
Cash and cash equivalents at the beginning of the financial year		475,682	631,059
Cash at the end of the financial year		5,476,839	2,671,927

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

Notes to the Financial Statements

For the half-year ended 31 December 2017

Note 1 Basis of preparation and changes in accounting policies

a) Basis of preparation

This general purpose condensed financial report for the half-year reporting period ended 31 December 2017 has been prepared in accordance with AASB 134 Interim Financial Reporting and the Corporations Act 2001.

The half-year financial report does not include all of the notes of the type normally included in an annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2017 and any public announcements made by Sunstone Metals Limited during the half-year reporting period in accordance with the continuous disclosure requirements of the ASX Listing Rules. The annual report and any public announcements issued can be located on the company's website www.sunstonemetals.com.au. The accounting policies and methods of computation are the same as those adopted in the most recent annual financial report.

b) Going Concern

The consolidated entity made a net loss of \$850,994 for the half year ended 31 December 2017. As at 31 December 2017 the consolidated entity has net cash reserves of \$5,476,839 and a net current asset surplus of \$5,248,379.

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

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

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

- To date the Group has funded its activities through issuance of equity securities and it is expected that the Group will be able to fund its future activities through further issuances of equity securities; and
- The directors believe there is sufficient cash available for the Group to continue operating until it can raise sufficient further capital to fund its ongoing activities.

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

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

c) New and amended Accounting Standards and Interpretations

New and revised standards have been issued by the AASB and are effective for the half-year; however there are no material changes to the policies that affect the recognition and measurement of the results or financial position of the consolidated entity.

d) Fair Values

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

Notes to the Financial Statements

For the half-year ended 31 December 2017

Note 3. Accounting estimates and judgements

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

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

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

The K7 Exploitation Concession application at Viscaria is currently being considered by the Swedish Mines Inspectorate. The Exploration Concession tenement, Viscaria 101, on which the K7 area stands maintains a good standing while the application is being considered. Upon a final decision being made on K7 the Company will apply for a new Exploration Concession over the Viscaria 101 tenement.

Approved Exploitation Concessions K3 and K4, which cover the main areas of Viscaria copper mineralisation, remain in force and are not affected.

Note 2 Segment reporting

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

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

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

	Half-year ended	
	31-Dec-17	31-Dec-16
	\$	\$
Revenue/Income		
Australia	9,424	95,520
Sweden	1	125
	9,425	95,645
Non-current assets	31-Dec-17	30-Jun-17
Australia	419,326	424,653
Sweden	40,151,264	39,189,761
Finland	2,352,184	1,963,738
Ecuador	498,893	141,991
	43,421,667	41,720,143

Notes to the Financial Statements

For the half-year ended 31 December 2017

Note 3 Revenue and Other Income

	Half-year ended	
	31-Dec-17	31-Dec-16
	\$	\$
Interest Revenue	9,425	5,645
Sundry Income	-	90,000

Note 4 Expenses

Profit/(Loss) before income tax includes the following:

	Half-year ended	
	31-Dec-17	31-Dec-16
	\$	\$
Employee benefits expense*		
Salaries & wages	193,705	267,911
Directors' fees	93,125	82,500
Defined contribution superannuation expense	22,325	30,756
Share based payments	67,581	35,478
Movement in leave provisions	(7,034)	33,517
Other	9,741	24,430
	379,443	474,592
Rental expense related to operating lease	39,240	36,153

* Excludes employee costs capitalised to exploration and evaluation expenditure

Note 5 Receivables

	Half-year ended	
	31-Dec-17	30-Jun-17
	\$	\$
Other debtors	74,668	114,775
Provision for Doubtful Debts	-	-
Deposits	15,225	15,225
Prepayments	30,525	41,780
	120,418	171,780

Notes to the Financial Statements

For the half-year ended 31 December 2017

Note 6 Exploration and evaluation assets

	31-Dec-17 \$	30-Jun-17 \$
At Cost - less amounts written off	43,347,591	41,628,671
Balance at 1 July	41,628,671	39,685,644
Exploration and evaluation expenditure	1,244,872	3,753,524
Relinquished tenement expenditure written off	-	(322,274)
Research and development rebate	(96,192)	(229,530)
Effect of movement in foreign exchange	570,240	(1,258,693)
Balance	43,347,591	41,628,671

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

Note 7 Trade and other payables

	31-Dec-17 \$	30-Jun-17 \$
Trade payables	187,026	532,831
Sundry payables and accrued expenses	45,571	27,033
	232,597	559,864

Notes to the Financial Statements

For the half-year ended 31 December 2017

Note 8 Equity securities issued

	Number of shares	31-Dec-17	
		\$	
Ordinary shares - fully paid	1,107,280,982	76,879,659	

	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
Shares issued to Haustella & Wilron third parties			
Aug-16 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

	Number of shares	Issue price	\$
		\$	\$
Balance as at 1 July 2017	650,847,134		69,799,393
Jul-17 Share placement	162,711,777	0.014	2,277,965
Jul-17 Share Purchase Plan	70,178,615	0.014	982,500
Jul-17 Vesting of Employee Performance Rights	2,143,456	0.015	33,009
Nov-17 Share placement	221,400,000	0.019	4,206,600
Share issue costs			(419,808)
Balance as at 31 December 2017	1,107,280,982		76,879,659

Notes to the Financial Statements

For the half-year ended 31 December 2017

Note 8 Equity securities issued (continued)

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

Options and Performance Rights

During the period, options for certain holders lapsed following the expiry date.

During the half-year, a total of 15,000,000 performance rights have been issued to employees, with 2,250,000 of these being issued to the Managing Director. The performance rights expire upon the earlier of cessation of employment or three years from issue and are split into four separate tranches, Tranche 1 - 3,000,000 rights vesting upon the closing price of the Company's share price being \$0.036 or more for 10 consecutive ASX trading days and dependent on the Company's Total Shareholder Return performance against the ASX Small Resources Index; Tranche 2 - 3,000,000 rights vesting dependent on the Company's Total Shareholder Return performance against the ASX Small Resources Index; Tranche 3 - 3,000,000 rights vesting upon the closing price of the Company's share price being \$0.06 or more for 10 consecutive ASX trading days and dependent on the Company's Total Shareholder Return performance against the ASX Small Resources Index; and Tranche 4 - 6,000,000 rights vesting upon the closing price of the Company's share price being \$0.042 or more for 10 consecutive ASX trading days and minimum 12 months from issue date until vesting.

Shareholders approved the issue of 4,500,000 options to non-executive directors during the half-year, exercisable at \$0.032. As part of the placement of 132,337,500 shares in July and August 2016, one attaching option was issued for each ordinary share placed. The options have an exercise price of 3 cents and an expiry date of 31 August 2019.

Note 9 Reserves

	31-Dec-17 \$	30-Jun-17 \$
Share based payments reserve	3,663,925	3,629,353
Foreign currency translation reserve	(32,902)	(749,536)
Total reserves	3,631,023	2,879,817
Movements in reserves were as follows:		
Share based payments reserve		
Opening balance	3,629,353	3,360,043
Share based payments - employees	67,581	83,083
Shares Issued on vesting	(33,009)	(21,273)
Share based payments - service providers	-	207,500
Closing balance	3,663,925	3,629,353
Foreign currency translation reserve		
Opening balance	(749,535)	477,455
Foreign exchange gains/(losses) on translation	716,633	(1,226,990)
Closing balance	(32,902)	(749,535)

Notes to the Financial Statements

For the half-year ended 31 December 2017

Note 10 Commitments

Commitments on Tenements	31-Dec-17 \$	30-Jun-17 \$
Existing Tenements		
- not later than 12 months	4,139,396	4,747,140
- between 12 months and 5 years	-	173,970
	4,139,396	4,921,110
Operating lease payable		
- not later than 12 months	120,061	151,735
- between 12 months and 5 years	3,674	45,524
	123,735	197,259

Existing Tenements

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

The earn-in agreements in Finland & Ecuador require Sunstone to spend EUR1.5 million to earn 80% of the Nortec Finland projects and USD 3.4 million to earn 51% of the Cornerstone Bramaderos project.

It is anticipated that the remainder of these expenditure requirements to meet the earn-in stages will be spent within the next 12 months.

Note 11 Dividends

There were no dividends declared or paid during the half-year (2016: Nil).

Note 12 Events occurring after reporting period

A tranche 2 placement of 34,421,057 shares at \$0.019 per share, related to a placement in November 2017, was completed on 12 January 2018, following shareholder approval being obtained at a general meeting held on 8 January 2018.

No other matter or circumstance has arisen since 31 December 2017 that has significantly affected, or may significantly affect the Group's position, the results of those operations, or the Group's state of affairs in future financial periods, except as already disclosed in the half-year financial statements.

Directors' Declaration

In the opinion of the Directors:

- (a) the financial statements and notes of the Consolidated Entity as set out on pages 10 to 20 are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2017 and of its performance for the half year ended on that date; and
 - (ii) complying with Accounting Standard 134 Interim Financial Reporting and the Corporations Regulations 2001;
- (b) subject to the achievement of matters described in note 1(b), there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

On behalf of the Board



Graham Ascough
Chairman

Brisbane, Queensland
13 March 2018

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Sunstone Metals Ltd

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of Sunstone Metals Ltd (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 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 half-year then ended, and notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration.

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

- (i) Giving a true and fair view of the Group's financial position as at 31 December 2017 and of its financial performance for the half-year ended on that date; and
- (ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Directors' responsibility for the Half-Year Financial Report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2017 and its financial performance for the half-year ended on that date and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

BDO Audit Pty Ltd



Anthony J Whyte

Director

Brisbane, 13 March 2018