Sunmetals

Sun Metals Corp.
(formerly North Bluff Capital Corp.)

Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2018

(Unaudited – Prepared by Management)

(Expressed in Canadian Dollars Unless Noted Otherwise)

Notice of no Auditor Review of
Interim Financial Statements

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim financial statements of Sun Metals Corp. (the “Company”) as at June 30, 2018, and for the three and six months ended June 30, 2018, have been prepared by and are the responsibility of the Company’s management.

The Company’s independent auditor has not performed a review of these financial statements in accordance with standards established by the Chartered Professional Accountants of Canada (“CPA Canada”) for a review of interim financial statements by an entity’s auditor.

Sun Metals Corp. (formerly North Bluff Capital Corp.)
Condensed Interim Consolidated Statements of Financial Position
(Unaudited- prepared by management)
(Expressed in Canadian Dollars Unless Noted Otherwise)

	As at June 30, 2018	As at December 31, 2017
ASSETS		
Current Assets		
Cash	$ 5,613,164	$ 479,764
Amounts receivable *(Note 6)*	99,372	56,070
Prepaid expenses	285,510	1,815
	5,998,046	537,649
Non-current Assets		
Exploration and evaluation asset acquisition costs *(Note 7)*	200,000	200,000
Property, plant and equipment *(Note 8)*	14,224	6,153
Deposit *(Note 10)*	19,500	19,500
Total Assets	$ 6,231,770	$ 763,302
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities *(Note 10)*	$ 554,509	$ 310,870
	554,509	310,870
Equity		
Share capital *(Note 9)*	7,487,714	1,406,015
Equity Reserves *(Note 9c & 9d)*	2,894,794	-
Accumulated deficit	(4,705,247)	(953,583)
Total Equity	5,677,261	452,432
Total Liabilities and Equity	$ 6,231,770	$ 763,302

Commitments & Contingencies *(Notes 7a and 12)*

Approved by the Audit Committee of the Board of Directors on August 13, 2018:

"Sean Tetzlaff", Audit Committee Chair *"Donald McInnes"*, Director

- The accompanying notes are an integral part of these condensed interim consolidated financial statements -

Sun Metals Corp. (formerly North Bluff Capital Corp.)
Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
(Unaudited- prepared by management)
(Expressed in Canadian Dollars Unless Noted Otherwise)

	For the three months ended June 30, 2018	For the six months ended June 30, 2018
Expenses		
Exploration and evaluation expenditures *(Note 7c)*	$ 547,926	$ 649,705
Share-based compensation *(Note 9d)*	330,502	330,502
Salaries and benefits	194,530	262,932
Investor relations	76,797	128,828
Professional fees	54,363	75,326
Office and rent	43,468	72,133
Listing and filing fees	13,688	13,688
Travel	4,488	4,488
Depreciation	709	1,415
Total Expenses	1,266,471	1,539,017
Other Income and Expenses		
Finance income	9,704	9,704
Listing Expense *(Note 5)*	(2,222,351)	(2,222,351)
Net Loss and Comprehensive Loss for the Period	$ (3,479,118)	$ (3,751,664)
Weighted Average Number of Common Shares Outstanding (Basic and Diluted)	62,021,931	48,227,601
Basic and Diluted Loss per Common Share	$ (0.06)	$ (0.08)

- The accompanying notes are an integral part of these condensed interim consolidated financial statements -

Sun Metals Corp. (formerly North Bluff Capital Corp.)
Condensed Interim Consolidated Statement of Changes in Equity
(Unaudited- prepared by management)
(Expressed in Canadian Dollars Unless Noted Otherwise)

	Number of Common Shares		Share Capital		Equity Reserves		Accumulated Deficit		Total
Balance – December 31, 2017	34,280,001	$	1,406,015	$	-	$	(953,583)	$	452,432
Common share issuance – purchase option *(Note 9b)*	500,000		50,000		-		-		50,000
Shares issued to shareholders of North Bluff Capital Corp. *(Note 5)*	17,000,000		2,550,000		-		-		2,550,000
Common share issuance - Offering *(Note 9b)*	25,788,400		6,447,100		-		-		6,447,100
Share issue costs – cash	-		(401,109)		-		-		(401,109)
Share issue costs – warrants	-		(31,592)		31,592		-		-
Fair value of warrants issued with common shares *(Note 9c)*	-		(2,700,727)		2,700,727		-		-
Share issue costs allocated to warrants	-		168,027		(168,027)		-		-
Share-based compensation *(Note 9d)*	-		-		330,502		-		330,502
Net loss for the period	-		-		-		(3,751,664)		(3,751,664)
Balance – June 30, 2018	77,568,401	$	7,487,714	$	2,894,794	$	(4,705,247)	$	5,677,261

- The accompanying notes are an integral part to these condensed interim consolidated financial statements -

Sun Metals Corp. (formerly North Bluff Capital Corp.)
Condensed Interim Consolidate Statement of Cash Flows
(Unaudited- prepared by management)
(Expressed in Canadian Dollars Unless Noted Otherwise)

	For the six months ended June 30, 2018
Operating Activities	
Net loss for the period	$ (3,751,664)
Items not affecting cash:	
Listing Expense	2,222,351
Share-based compensation	330,502
Depreciation	1,751
Finance income	(9,704)
Changes in:	
Accounts payable and accrued liabilities	233,086
Amounts receivable	(31,225)
Prepaid expenses	(283,695)
Net cash used in operating activities	(1,288,598)
Investing Activities	
Additions to property, plant and equipment (*Note 8)*	(9,822)
Interest received	9,704
Net cash used in investing activities	(118)
Financing Activities	
Proceeds from share issuance – Offering *(Note 9b)*	6,447,100
Share issuance costs	(401,109)
Cash acquired from North Bluff Capital Corp. *(Note 5)*	326,125
Proceeds from purchase option exercise *(Note 9b)*	50,000
Net cash provided by financing activities	6,422,116
Net Increase in Cash	5,133,400
Cash - Beginning of the Period	479,764
Cash - End of the Period	$ 5,613,164

- The accompanying notes are an integral part of these condensed interim consolidated financial statements -

1. GENERAL INFORMATION

North Bluff Capital Corp. ("North Bluff") was incorporated under the Business Corporations Act (British Columbia) on October 15, 2008 and changed its name to Sun Metals Corp. ("Sun Metals" or the "Company") on May 2, 2018. The Company is listed on the TSX Venture Exchange ("TSX-V") in Canada under the symbol "SUNM". Sun Metals is an exploration stage enterprise with its principal focus on the exploration of the Stardust Project located in British Columbia, Canada.

The Company's head office and principal address is located at Suite 1900 – 1055 West Hastings Street, Vancouver, British Columbia, Canada, V6E 2E9. The Company's records office and registered office address is Suite 2600, 1066 West Hastings St., Vancouver, British Columbia, Canada, V6E 3X1.

On May 2, 2018, North Bluff, a newly incorporated wholly-owned subsidiary of North Bluff ("Subco"), and Sun Metals Corp., a private company incorporated under the Business Corporations Act (British Columbia) on June 23, 2017 ("Privco"), completed a transaction (the "Transaction") whereby Subco and Privco amalgamated and the resulting company became a wholly-owned subsidiary of the Company and named Tsayta Resources Corporation ("Tsayta"). As a result of the Transaction, the Company issued to the shareholders of Privco one common share of the Company for each share they held in Privco. The Transaction constituted a reverse takeover under the policies of the TSX-V and a reverse acquisition for accounting purposes, with Privco deemed to have been the acquiror (Note 5).

At the time of the Transaction, North Bluff did not constitute a business as defined under IFRS 3 – Business Combinations, and therefore the transaction is accounted for as an asset acquisition. As Privco is deemed to be the acquiror for accounting purposes, its assets and liabilities are included in the financial statements at their historical carrying values, and the statement of financial position has been adjusted for the elimination of North Bluff's share capital, contributed surplus and accumulated deficit within shareholder's equity.

In connection with the Transaction, the Company closed a non-brokered private placement, for aggregate gross proceeds of $6,447,100 (the "Offering"). The Offering involved the issuance of 25,788,400 subscription receipts (the "Subscription Receipts") at a price of $0.25 per subscription receipt (Note 9b).

Through Tsayta, the Company holds an option to acquire a 100% interest in the Stardust Project located in British Columbia, Canada, and is the operator of all related exploration activities.

2. BASIS OF PREPARATION

Statement of Compliance

The Company prepares their annual financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These condensed interim financial statements have been prepared in accordance with International Accounting Standards 34, Interim Financial Reporting ("IAS 34").

These condensed interim consolidated financial statements do not include all of the information required for full IFRS financial statements and therefore should be read in conjunction with Privco's audited financial statements for the period June 23, 2017 (date of incorporation) to December 31, 2017. As Privco was incorporated on June 23, 2017, there were no material transactions during the six months ended June 30, 2017, and therefore no comparative information is provided.

The condensed interim consolidated statements of loss and cash flows for the six month ended June 30, 2018 are comprised of Privco's results of operations and cash flows for the period January 1, 2018 to May 1, 2018, Tsayta's results of operations and cash flows for the period May 2, 2018 (the date of amalgamation) to June 30 2018, and the Company's consolidated results of operation and cash flows for the period May

2. BASIS OF PREPARATION (continued)

2, 2018 (the closing date of the Transaction) to June 30, 2018. The statement of financial position as at December 31, 2017 is that of the acquiror for accounting purposes, Privco.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these financial statements are as follows:

a. Basis of Measurement

The financial statements have been prepared under the historical cost convention and have been prepared using the accrual basis of accounting, except for cash flow information. All dollar amounts stated in these financial statements are expressed in Canadian dollars, which is the Company's functional currency, unless noted otherwise.

b. Basis of Consolidation

The financial statements of the Company consolidate the accounts of Sun Metals and its 100% wholly owned subsidiary Tsayta Resources Corporation, a private company incorporated under the Business Corporations Act of British Columbia in Canada. All intercompany transactions, balances and unrealized gains and losses are eliminated on consolidation.

c. Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances held in banks and call deposits with original maturities of three months or less and guaranteed investment certificates with no penalty for early redemption. At June 30, 2018 the Company has no cash equivalents as all cash is held in a bank account.

d. Property, Plant and Equipment

Property, plant and equipment is recorded at cost less accumulated depreciation. The cost of an item of property, plant and equipment comprises of its purchase price and any costs directly attributable to brining the asset to the location and condition necessary for it to be capable of operating in a manner intended by management.

The cost of property, plant and equipment, less residual value (if any), is depreciated over the estimated useful life of the asset on a straight-line basis as follows:

Computer equipment	3 years
Office furniture and equipment	10 years

e. Exploration and Evaluation Assets and Expenditures

The fair value of all cash and non-cash consideration paid in relation to the acquisition of mineral property interests are capitalized until the viability of the mineral interest is determined, the mineral property interest is sold, or an impairment is determined. The Company's policy is to expense, as incurred, exploration and evaluation expenditures until the mineral property reaches the development stage. When it has been established that a mineral deposit is commercially viable and technically feasible, the costs subsequently incurred to develop a mine on the mineral property prior to the start of mining operations are capitalized and will be amortized against production when ready for use as intended by management, or derecognized if the property is sold, allowed to lapse or abandoned.

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyance

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

of historical characteristics of many resource properties. To the best of the Company's knowledge, title to the Stardust Project claims are in good standing.

Upon disposal or abandonment, any consideration received is credited against the carrying amount of the exploration and evaluation assets, with any difference from the carrying amount included as a gain or loss in the statement of loss and comprehensive loss.

f. Impairment of Non-Current Assets

At each reporting date, property, plant and equipment and exploration and evaluation assets are evaluated for impairment by management whenever events or changes in circumstances indicate that the carrying value is impaired and may not be recoverable.

For property plant and equipment, if any such impairment indicators exist, the recoverable amount of the asset is estimated to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs of disposal and value in use. Fair value less costs of disposal is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction. In assessing value in use, the estimated future cash flows are discounted to their present value. If the recoverable amount of the asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the profit or loss for that period. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

For exploration and evaluation assets, the Company follows the guidance in *IFRS 6 – Exploration for and Evaluation of Mineral Resources* to determine whether exploration and evaluation assets are impaired. This determination requires significant judgment. Impairment indicators relevant for exploration and evaluation properties include whether the rights to explore the area of interest have expired during the period or will expire in the near future, and the rights are not expected to be renewed; substantive expenditure on further exploration and evaluation is not planned or budgeted; the exploration activities have not led to a discovery of commercial reserves and the Company has decided not to continue such activities in the area of interest being explored; or sufficient data exists to indicate that, although exploration in the area is likely to continue, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

If an impairment indicator is identified, management will perform an impairment test. If the recoverable amount of the exploration and evaluation assets is less than the carrying amount, an impairment loss will be recorded in the financial statements. Recoverable amount is the higher of fair value less costs to sell, and value in use. 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.

g. Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources will be required to settle the obligation and when the amount has been reasonably estimated. Provisions are not recognized for future operating losses.

The amount recorded as a provision is the best estimate of the consideration required to settle the obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

h. Share Capital

The Company records in share capital proceeds from share issuances, net of issue costs and any tax effects. The fair value of common shares issued as consideration for exploration and evaluation assets is based on the trading price of those shares on the TSX-V on the date the shares are issued. Proceeds from unit placements are allocated between shares and warrants issued according to their relative fair value.

i. Flow-Through Shares

The Company will from time to time, issue flow-through common shares to finance a portion of its Canadian exploration program. Pursuant to the terms of the flow-through share agreements, these shares transfer the tax deductibility of qualifying resource expenditures to investors. On issuance, the Company bifurcates the flow-through share into: i) a flow-through share premium, equal to the estimated premium, if any, investors pay for the flow-through feature, which is recognized as a liability, and ii) share capital. Upon filing of the required forms with the Government of Canada to renounce the tax deductibility of qualifying resource expenditures to investors, the Company derecognizes the premium liability to the extent the qualifying resource expenditures have been made as of that date and recognizes the amount of the tax reduction renounced to the shareholders in determining its deferred income taxes.

Proceeds received from the issuance of flow-through shares are restricted to be used only for Canadian resource property exploration expenditures within a two-year period. The portion of the proceeds received but not yet expended at the end of the Company's period is disclosed separately as flow-through expenditure commitments. The Company is also subject to Part XII.6 tax on flow-through proceeds renounced under the Look-back Rule, in accordance with Government of Canada flow-through regulations. When applicable, this tax is accrued as an expense until paid.

j. Share-Based Payments

The Company grants stock options to buy common shares of the Company to directors, officers, employees and consultants. Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The offset to the recorded cost is to equity reserve. Stock options and other equity instruments issued as purchase consideration in non-monetary transactions are recorded at fair value determined by management using the Black-Scholes option pricing model. Consideration received on the exercise of stock options is recorded as share capital and the related equity reserve amount is transferred to share capital. Where awards are forfeited because non-market based vesting conditions are not satisfied, the expense previously recognized is proportionately reversed in the period the forfeiture occurs.

k. Loss per Share

Loss per share is computed by dividing the loss available to common shareholders by the weighted average number of common shares outstanding during the period. Under this method, the weighted average number of common shares used to calculate the dilutive effect in the statement of income (loss) assumes that the proceeds that could be obtained upon exercise of options, warrants and similar instruments would be used to purchase common shares at the average market price during the period. In periods where a net loss is incurred, basic and diluted loss per share is the same as the effect of outstanding options and warrants would be anti-dilutive.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

l. Income Taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that the tax relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred income tax assets also result from unused loss carry forwards, resource related pools and other deductions. Deferred tax is not recognized for the temporary differences arising from the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is not probable that the related tax benefit will be realized.

m. Resource Tax Credits

The Company recognizes resource tax credit amounts as a receivable and a reduction to exploration and evaluation expenditures when the Company's application for such credits is approved by the relevant jurisdiction or when the amount to be received can be reasonably estimated and collection is reasonably assured.

n. Impairment of Financial Assets

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Company recognizes an impairment loss, as follows:

(i) Financial assets carried at amortized cost: The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

(ii) Available for sale financial assets: The impairment loss is the difference between the original cost of the asset and its fair value at the measurement date, less any impairment losses previously recognized in the statement of income (loss). This amount represents the cumulative loss in accumulated other comprehensive income that is reclassified to net income. Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized. Impairment losses on available for sale equity instruments are not reversed.

o. New, Amended and Future IFRS Pronouncements

<u>IFRS 9 – Financial Instruments</u>

On January 1, 2018 the Company adopted IFRS 9 – Financial Instruments ("IFRS 9") which replaced IAS 39 - Financial Instruments: Recognition and Measurement. IFRS 9 provides a revised model for recognition and measurement of financial instruments and a single, forward-looking 'expected loss'

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

impairment model. IFRS 9 also includes a substantially reformed approach to hedge accounting. The standard is effective for annual periods beginning on or after January 1, 2018. IFRS 9 did not impact the Company's classification and measurement of financial assets and liabilities:

Account	IAS 39 Classification	IFRS 9 Classification
Cash	Amortized Cost	Amortized Cost
Sales taxes receivable	Amortized Cost	Amortized Cost
Other receivables	Amortized Cost	Amortized Cost
Deposits	Amortized Cost	Amortized Cost
Trade payables	Amortized Cost	Amortized Cost
Accrued liabilities	Amortized Cost	Amortized Cost

The standard also had no impact on the carrying value of the Company's financial instruments at the transition date. The following are the significant accounting policies which have been amended as a result of IFRS 9, and applied at January 1, 2018:

Financial Instruments

(i) Financial Assets

The Company classifies its financial assets in the following categories: at fair value through profit or loss ("FVTPL"), at fair value through other comprehensive income ("FVOCI") or at amortized cost. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

<u>Cash and Cash Equivalents</u>

Cash and cash equivalents comprise cash balances held in banks and call deposits with original maturities of three months or less and guaranteed investment certificates with no penalty for early redemption. Cash and cash equivalents are classified as subsequently measured at amortized cost. At June 30, 2018 the Company has no cash equivalents as all cash is held in a bank account.

<u>Loans and Receivables</u>

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are classified as current assets or non-current assets based on their maturity date. Amounts receivable and deposits have been classified under this category. Loans and receivables are initially recognized at the amount expected to be received less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost. Trade receivables are recorded net of lifetime expected credit losses.

(ii) Financial Liabilities

The Company classifies its financial liabilities as at amortized cost.

<u>Accounts Payable and Accrued and Other Liabilities</u>

Accounts payable, accrued and other liabilities are initially recognized at the amount required to be paid less, when material, a discount to reduce the payables to fair value. Subsequently, accounts payables are measured at amortized cost. Financial liabilities are classified as current or non-current based on their maturity date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Expected Credit Losses

The Company applies the simplified approach to determining expected credit losses, which requires expected credit losses to be recognized on initial recognition of trade receivables.

IFRS 16 – Leases

IFRS 16 - Leases specifies how an entity will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. The standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. The Company is currently evaluating the impact of the adoption of this standard on its financial statements and does not presently expect it to have a significant impact based on its current leases.

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and expenses. Estimates and judgments are regularly evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

(i) Review of Asset Carrying Values and Impairment Assessment

In accordance with the Company's accounting policy, each asset is evaluated every reporting period to determine whether there are any indications of impairment. If any such indication exists, a formal estimate of the recoverable amount is performed and an impairment loss is recognized to the extent that the carrying amount exceeds the recoverable amount. The recoverable amount of an asset is measured at the higher of value in use and fair value less costs to sell. The most significant assets the Company assesses for impairment are exploration and evaluation assets and property, plant and equipment. Judgements involved in assessing impairment of exploration and evaluation assets are discussed below.

(ii) Exploration and Evaluation Asset and Expenditures

The application of the Company's accounting policy for exploration and evaluation assets and expenditures requires judgment to determine whether future economic benefits are likely, from either future exploitation or sale, or whether activities have not reached a stage that permits a reasonable assessment of the existence of reserves.

Resource exploration is a speculative business and involves a high degree of risk. There is no certainty that the expenditures made by the Company in the exploration of its property interests will result in discoveries of commercial quantities of minerals. Exploration for mineral deposits involves risks which even a combination of professional evaluation and management experience may not eliminate. Significant expenditures are required to locate and estimate ore reserves, and further the development of a property. Capital expenditures to bring a property to a commercial production stage are also significant. There is no assurance the Company has, or will have, commercially viable ore bodies and there is no assurance that the Company will be able to arrange sufficient financing to bring ore bodies into production.

(Expressed in Canadian Dollars Unless Noted Otherwise)

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

For the six months ended June 30, 2018, there were no indicators of impairment on the Company's exploration and evaluation assets, or the Company's other assets.

(iii) Determination of the Fair Value of Share-based Payments

The fair value of stock options granted and warrants issued is computed to determine the relevant charge to equity reserves and the statement of income (loss) and related obligation as applicable. In order to compute this fair value, the Company uses the Black-Scholes option pricing model; this inherently requires management to make various estimates and assumptions in relation to the expected life of the award, expected volatility, risk-free rate and forfeiture rates. Changes in any of these inputs could cause a significant change in the share-based compensation expense charged in the statement of income (loss) and to equity reserves in a given period. Management believes that the estimates involving its share-based payments are reasonable.

5. REVERSE ACQUISITION

The following table provides details of the preliminary fair value of the consideration given and the preliminary fair value of the assets and liabilities acquired as a result of the Transaction (Note 1):

Purchase Consideration		
17,000,000 common shares issued	$	2,550,000
Total Purchase Consideration	**$**	**2,550,000**
Allocation of Purchase Consideration		
Cash	$	326,125
Accounts Receivable		12,077
Accounts Payable & Accrued Liabilities		(10,553)
Net Assets Acquired	**$**	**327,649**
Listing Expense		2,222,351
Total	**$**	**2,550,000**

The fair value of the 17,000,000 common shares was determined to be $0.15 per share using the price per Unit from the Offering (Note 9b).

6. AMOUNTS RECEIVABLE

Amounts receivable is comprised of the following:

		June 30, 2018		December 31, 2017
Refundable goods and services tax	$	61,813	$	18,511
Government assistance receivable		37,559		37,559
Total	**$**	**99,372**	**$**	**56,070**

(Expressed in Canadian Dollars Unless Noted Otherwise)

7. EXPLORATION AND EVALUATION ASSETS AND EXPENDITURES

a. Stardust Project, British Columbia, Canada

On September 7, 2017, the Company, through its wholly-owned subsidiary Tsayta, entered into an Option Agreement (the "Agreement") with Lorraine Copper Corp. ("Lorraine"), as amended May 2, 2018, pursuant to which the Company has the sole and exclusive option to acquire a 100% interest in the Stardust Project, subject to a 2% net smelter return royalty ("NSR") on all precious metals, and a 1% NSR on all other minerals.

The option to acquire a 100% interest in the Stardust Project is exercisable by issuing 2,500,000 common shares in the public capital of the Company, paying a total of $375,000, and incurring aggregate exploration expenditures of $6,000,000 associated with the Stardust Project. Further, upon completion of its minimum commitments in the Agreement and upon exercise of the option, the Company is required to issue a number of common shares in the public capital of the company to Lorraine such that Lorraine holds 30% of the then issued and outstanding common shares of the Company, calculated on a non-diluted basis, as a percentage of the number of the Company's common shares issued and outstanding.

The cash payment and common share issuance schedule is as follows:

	Cash Payment	Shares Issuance
Within 10 days following the Agreement date (paid)	$ 50,000	500,000
On or before January 1, 2018 (paid)	50,000	500,000
On or before January 1, 2019	75,000	500,000
On or before January 1, 2020	100,000	500,000
On or before January 1, 2021	100,000	500,000
Total	**$ 375,000**	**2,500,000**

The common shares issued to Lorraine were issued by Privco prior to the Transaction close date, and were determined to have a fair value of $100,000 at the time of issuance based on Privco's estimated share price.

The Company is required to incur the aggregate exploration expenditures of $6,000,000 by December 31, 2021, with a minimum of $500,000 in exploration expenditures incurred by December 31, 2017 (completed), and a minimum of $1,000,000 in exploration expenditures annually in subsequent years. The Company also has the option to make a cash payment to Lorraine in lieu of incurring the annual expenditures on or before December 31 of the applicable year.

Under the Agreement, the Company may purchase from Lorraine at any time 50% of the precious metals NSR, equal to a 1% NSR, for a total amount of $1,500,000. The Company may also purchase 50% of the other minerals NSR, equal to a 0.5% NSR, for a total amount of $1,500,000.

b. Acquisition Costs

Details of the Company's acquisition costs are as follows:

	Stardust Project
Balance – December 31, 2017	$ 200,000
Balance – June 30, 2018	**$ 200,000**

(Expressed in Canadian Dollars Unless Noted Otherwise)

7. EXPLORATION AND EVALUATION ASSETS AND EXPENDITURES (continued)

c. Exploration and Evaluation Expenditures

Details of the Company's exploration and evaluation expenditures, which have been cumulatively expensed in the statement of loss and comprehensive loss, are as follows:

For the six months ended June 30, 2018	Stardust Project
Contractors / consultants	$ 282,269
Salaries	101,369
Field Expenses and travel	193,932
Community	67,468
Administration and other	4,667
Expenditures for the period	**649,705**
Cumulative balance – December 31, 2017	$ 621,951
Cumulative balance – June 30, 2018	**$ 1,271,656**

8. PROPERTY, PLANT AND EQUIPMENT

	Computer Equipment	Office Furniture & Equipment	Total
Cost			
December 31, 2017	$ 4,196	$ 1,957	$ 6,153
Additions	6,848	2,974	9,822
June 30, 2018	11,044	4,931	15,975
Accumulated Depreciation			
December 31, 2017	$ -	$ -	$ -
Depreciation	(1,579)	(172)	(1,751)
June 30, 2018	(1,579)	(172)	(1,751)
Carrying Value			
December 31, 2017	**4,196**	**1,957**	**6,153**
June 30, 2018	**$ 9,465**	**$ 4,759**	**$ 14,224**

9. EQUITY

a. Authorized Share Capital

The Company's authorized share capital consists of an unlimited number of common shares without par value.

b. Issued Share Capital

During the six months ended June 30, 2018, the Company issued common shares as follows:

(i) On February 1, 2018, the Company issued a purchase option to acquire 500,000 shares at a price of $0.10 to an employee. The purchase option was exercised on March 22, 2018 for total proceeds of $50,000.

(Expressed in Canadian Dollars Unless Noted Otherwise)

9. EQUITY (continued)

(ii) Upon completion of the Transaction on May 2, 2018, the proceeds of the Offering were released from escrow. Upon satisfaction of the escrow conditions, each Subscription Receipt was automatically converted into one Unit for no additional consideration. Each Unit consists of one common share and one share purchase warrant, with each share purchase warrant entitling the holder to acquire one additional common share at a price of $0.35 per share until May 2, 2023, subject to acceleration in certain circumstances. Following conversion of the Subscription Receipts, the Company paid $293,250 in finder's fees and issued 1,173,000 Finder's Warrants. The Finder's Warrants entitle the holder to acquire one additional common share at a price of $0.30 per share until May 2, 2019. The Company incurred additional cash share issuance costs of $107,859.

(iii) Pursuant to the Transaction, the Company acquired, on a one for one basis, all of the issued and outstanding shares of Privco, in exchange for a total of 34,780,001 common shares of which 21,745,001 common shares are subject to escrow restrictions over a period of three years, 11,140,000 common shares are subject to Seed Share Resale Restrictions ("SSRR") over a period of one year, and 1,895,000 common shares are subject to SSRR over a period of 4 months. As discussed in Note 5, since the former shareholders of Privco effectively assumed control of the Company, the transaction has been treated for accounting purposes as a reverse acquisition.

c. Share Purchase Warrants

Details of share purchase warrants issued, exercised, expired and outstanding as at and during the six months ended June 30, 2018 are as follows:

	Number of Warrants	Weighted Average Exercise Price
Outstanding Balance – December 31, 2017	-	-
Issued	26,961,400	$0.35
Outstanding Balance – June 30, 2018	**26,961,400**	**$0.35**

At June 30, 2018, the following share purchase warrants are outstanding:

Expiry Date	Exercise Price	Number of Warrants
May 2, 2023	$0.35	25,788,400
May 2, 2019	$0.30	1,173,000
Weighted Average	**$0.35**	**26,961,400**

At the time of issuance, the 25,788,400 share purchase warrants had a fair value of $2,532,700 ($2,700,727 net of allocated share issuance costs of $168,027), and the 1,173,000 share purchase warrants had a fair value of $31,592. These fair values have been included in equity reserves in the Company's consolidated statement of financial position at June 30, 2018.

The fair value of newly granted warrants are calculated using the Black-Scholes option pricing model. For all grants, the assumed dividend yield and forfeiture rate were nil and nil, respectively. Other conditions and assumptions for warrants granted in the six months ended June 30, 2018 were as follows:

(Expressed in Canadian Dollars Unless Noted Otherwise)

9. EQUITY (continued)

Issue Date	Expected Life of Options in Years	Exercise Price	Risk-free Interest Rate	Volatility[1]	Weighted Average Black-Scholes Fair Value
May 2, 2018	5.0	$0.35	2.17%	111.12%	$0.10
May 2, 2018	1.0	$0.30	1.90%	96.04%	$0.03

[1]Volatility was determined using the average historic volatility of a number of comparable companies, calculated over the same period as the expected life of the option.

d. Stock Options

The Company has established a share purchase option plan (the "Stock Option Plan") whereby the board of directors may, from time to time, grant options to directors, officers, employees, consultants or technical and administrative company employees (Note 10). Options granted must be exercised no later than five years from the date of grant or such lesser or greater period as may be determined by the Company's board of directors and in accordance with the policies of the TSX-V. The exercise price of an option must be determined by the board of directors and in accordance with the Plan and the policies of the TSX-V. Subject to the policies of the TSX-V, the board of directors may determine the time during which options shall vest and the method of vesting, or that no vesting restriction shall exist. The Company applies the fair value based method of accounting for options.

At June 30, 2018, the following options are outstanding and exercisable:

Expiry Date	Weighted Average Exercise Price	Number of Options Outstanding	Weighted Average Remaining Life in Years	Number of Options Exercisable
May 2, 2023	$0.25	4,650,000	4.84	1,500,000
	$0.25	**4,650,000**	**4.84**	**1,500,000**

Details of options granted, exercised, expired and forfeited during the six months ended June 30, 2018 are as follows:

	Number of Options	Weighted Average Exercise Price
Balance – December 31, 2017	-	-
Granted during the period	4,650,000	$0.25
Balance – June 30, 2018	**4,650,000**	**$0.25**

Granting of Options

The fair value of newly granted options are calculated using the Black-Scholes option pricing model. For all grants, the assumed dividend yield and forfeiture rate were nil and nil, respectively. Other conditions and assumptions for options granted in the six months ended June 30, 2018 were as follows:

Issue Date	Expected Life of Options in Years	Exercise Price	Risk-free Interest Rate	Volatility[1]	Weighted Average Black-Scholes Fair Value
May 2, 2018	5.0	$0.25	2.17%	111.12%	$0.19

[1]Volatility was determined using the average historic volatility of a number of comparable companies, calculated over the same period as the expected life of the option.

(Expressed in Canadian Dollars Unless Noted Otherwise)

9. EQUITY (continued)

Options granted are typically subject to vesting provisions whereby one third vest one year from the grant date, one third vest two years from the grant date, and one third vest three years from the grant date. The following option grants are subject to alternate vesting provisions:

(i) 1,500,000 of the 4,650,000 options granted May 2, 2018 were granted to non-executive directors and vested immediately. The remaining 3,150,000 options were granted to employees and consultants and subject to typical vesting provisions.

10. RELATED PARTY TRANSACTIONS

Oxygen Capital Corp ("Oxygen").

Oxygen is a private company owned by three directors of the Company and provides technical and administrative services to the Company (the "Oxygen Agreement") at cost, including providing some staffing who are seconded to the Company, office facilities and other administrative functions. As at June 30, 2018, Oxygen holds a refundable security deposit of $19,500 on behalf of the Company (December 31, 2017 - $19,500), equal to an estimated amount of three months of services.

During the six months ended June 30, 2018, a total of $226,296 was paid or accrued to Oxygen as a reimbursement of costs incurred by Oxygen on behalf of the Company. As at June 30, 2018, the Company has a payable amount to Oxygen of $56,487 (December 31, 2017 – $14,096). This amount was paid subsequent to June 30, 2018.

Compensation of key management personnel

Key management includes the member of the Board of Directors, the Special Advisor to the Board of Directors, the President and Chief Executive Officer, the Chief Financial Officer, and the Vice President, Exploration. The aggregate total compensation paid or payable to key management for employee services directly or via Oxygen is as follows:

	Six months ended June 30, 2018
Salaries and other short-term employee benefits	$ 201,280
Directors fees	78,333
Special advisor fees	5,833
Share-based compensation	324,977
Total	**$ 610,423**

11. SEGMENTED INFORMATION

The Company conducts its business in a single operating segment which is the mineral exploration business in Canada. The Company's exploration and evaluation asset is located in Canada.

12. COMMITMENTS & CONTINGENCIES

The Company's general and administrative costs, including rent, with respect to its head office premises are paid by Oxygen pursuant to the Oxygen Agreement, and may be terminated by either party giving at least 180 days' prior written notice of such termination. Upon termination, by the Company, of the Oxygen Agreement, the Company shall pay to Oxygen an amount equal to the average general and administrative monthly costs incurred under the Agreement for the previous six month period, any employee termination

12. COMMITMENTS & CONTINGENCIES (continued)

fees due under the Agreement as a result of the termination as such term is defined under the Oxygen Agreement, and the Company's share of any contractual obligations entered into on its behalf by Oxygen.

13. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENT

There are three levels of the fair value hierarchy that prioritize the inputs to valuation techniques used to measure fair value, with Level 1 inputs having the highest priority. The three levels of the fair value hierarchy are described below:

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 – Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability; and

Level 3 – Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

The Company does not have any financial assets and liabilities measured and recognized the statement of financial position at fair value. At June 30, 2018, the carrying amounts of cash, amounts receivable, deposits, accounts payable and accrued liabilities are considered to be a reasonable approximation of their fair values, due to their short-term nature.

14. MANAGEMENT OF CAPITAL

Sun Metals considers the items included in the statement of shareholders' equity as capital. Management of the Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares or return capital to shareholders. The Company is not subject to externally imposed capital requirements. Sun Metals' objectives when managing capital are to safeguard the Company's ability to continue as a going concern, so that it can continue to explore its mineral property interests and continue its operations for the benefit of its shareholders. There has been no change to the Company's approach during the six months ended June 30, 2018.

15. FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial instrument related risks. The Board provides oversight for the Company's risk management processes. The type of risk exposure and the way in which such exposure is managed is explained as follows:

<u>Credit Risk</u>

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Financial instruments that potentially subject the Company to credit risk consist of cash, amounts receivable and deposits. The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the maximum exposure to credit risk.

The Company deposits its cash with high credit quality major Canadian financial institutions as determined by ratings agencies. The Company does not invest in asset-backed deposits or investments and does not expect any credit losses.

15. FINANCIAL RISK MANAGEMENT (continued)

To reduce credit risk, the Company regularly reviews the collectability of its amounts receivable and establishes an allowance based on its best estimate of potentially uncollectible amounts. The Company historically has not had difficulty collecting its amounts receivable.

The Company's deposit is held by a related party and is not considered to be subject to credit risk.

Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Company attempts to manage liquidity risk by maintaining sufficient cash balances. Liquidity requirements are managed based on expected cash flows to ensure that there is sufficient capital in order to meet short-term obligations. At June 30, 2018, the Company had cash of $5,613,164 to settle current liabilities of $554,509.

Interest Rate Risk

Interest rate risk is the risk that the future cash flows or fair value of a financial instrument will fluctuate due to changes in market interest rates. The Company's cash balance is deposited in an account which earns a variable interest rate. For the six month period ended June 30, 2018, a plus or minus 0.5% change in market interest rates would affect the Company's interest earned on cash by approximately $4,000.

16. SUBSEQUENT EVENTS

On July 24, 2018, the Company issued a total of 500,000 Units pursuant to an Exploration Agreement between the Company and Takla First Nation ("Takla"). The Units are comprised of one common share in the capital of the Company (each, a "Share") and one common, non-transferable share purchase warrant (each, a "Warrant"). The Warrants are exercisable at $0.35 for a period of 18 months from issuance.