Sunmetals

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

Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2019

(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 consolidated financial statements of Sun Metals Corp. (the "Company") as at March 31, 2019, and for the three months ended March 31, 2019, 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 March 31, 2019	As at December 31, 2018
ASSETS		
Current Assets		
Cash	$ 6,596,309	$ 6,888,625
Amounts receivable *(Note 6)*	140,298	130,147
Prepaid expenses *(Note 7)*	186,836	97,239
	6,923,443	7,116,011
Non-current Assets		
Exploration and evaluation asset acquisition costs *(Note 8)*	530,804	530,313
Reclamation deposits *(Note 10)*	131,136	131,136
Property, plant and equipment *(Note 9)*	17,992	19,500
Deposit *(Note 13)*	19,500	17,242
Total Assets	$ 7,622,875	$ 7,814,202
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	$ 380,975	$ 274,917
Flow-through premium liability *(Notes 15b and 12b(v))*	2,412,500	2,412,500
	2,793,475	2,687,417
Non-current liabilities		
Provision for closure and reclamation *(Note 11)*	132,777	131,678
Total Liabilities	2,926,252	2,819,095
Equity		
Share capital *(Note 12)*	10,958,720	10,391,667
Equity Reserves *(Note 12c & 12d)*	3,523,289	3,449,466
Accumulated deficit	(9,785,386)	(8,846,026)
Total Equity	4,696,623	4,995,107
Total Liabilities and Equity	$ 7,622,875	$ 7,814,202

Commitments & Contingencies *(Notes 8a and 15)*
Subsequent Events *(Notes 1 and 19)*

Approved by the Audit Committee of the Board of Directors on May 28, 2019:

"Sean Tetzlaff", Audit Committee Chair   *"Glen Garratt"*, 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 March 31, 2019	For the three months ended March 31, 2018
Expenses		
Exploration and evaluation expenditures *(Note 8c)*	$ 268,204	$ 101,779
Professional fees	204,616	20,964
Salaries and director fees	167,420	68,403
Share-based compensation *(Note 12d)*	166,951	-
Investor relations	92,802	52,032
Office and rent	54,343	28,660
Listing and filing fees	9,282	-
Depreciation	1,028	708
Total Expenses	964,646	272,546
Other Income and Expenses		
Finance income	25,894	-
Accretion expense *(Note 11)*	(608)	-
Net Loss and Comprehensive Loss for the Period	$ (939,360)	$ (272,546)
Weighted Average Number of Common Shares Outstanding (Basic and Diluted)	91,690,733	34,330,001
Basic and Diluted Loss per Common Share	$ (0.01)	$ (0.01)

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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 12b)*	500,000		50,000		-		-		50,000
Net loss for the period	-		-		-		(272,546)		(272,546)
Balance – March 31, 2018	34,780,001	$	1,456,015	$	-	$	(1,226,129)	$	229,886
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 12b)*	25,788,400		6,447,100		-		-		6,447,100
Share issue costs – cash *(Note 12b)*	-		(401,109)		-		-		(401,109)
Share issue costs – warrants *(Note 12b)*	-		(31,592)		31,592		-		-
Fair value of warrants issued with common shares *(Note 12c)*	-		(2,700,727)		2,700,727		-		-
Share issue costs allocated to warrants *(Note 12c)*	-		168,027		(168,027)		-		-
Fair value of shares issued pursuant to Exploration Agreement *(Note 12b)*	500,000		92,499		-		-		92,499
Fair value of warrants issued pursuant to Exploration Agreement *(Note 12b)*	-		-		23,935		-		23,935
Shares issued for exploration and evaluation assets *(Note 8a)*	500,000		125,000		-		-		125,000
Flow-through common share issuance *(Note 12b)*	12,500,000		5,162,500		-		-		5,162,500
Flow-through premium liability *(Note 12b)*	-		(2,412,500)		-		-		(2,412,500)
Share issue costs – cash *(Note 12b)*	-		(63,546)		-		-		(63,546)
Share-based compensation *(Note 12d)*	-		-		861,239		-		861,239
Net loss for the period	-		-		-		(7,619,897)		(7,619,897)
Balance – December 31, 2018	91,068,401	$	10,391,667	$	3,449,466	$	(8,846,026)	$	4,995,107
Exercised warrants *(Note 12c)*	1,464,750		473,925		-		-		473,925
Fair value of exercised warrants			93,128		(93,128)				-
Share-based compensation *(Note 12d)*	-		-		166,951		-		166,951
Net loss for the period	-		-		-		(939,360)		(939,360)
Balance – March 31, 2019	92,533,151	$	10,958,720	$	3,523,289	$	(9,785,386)	$	4,696,623

- 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 three months ended March 31, 2019	For the three months ended March 31, 2018
Operating Activities		
Net loss for the period	$ (939,360)	$ (272,546)
Items not affecting cash:		
Share-based compensation	166,951	-
Depreciation	3,091	708
Accretion Expense (*Note 11)*	608	-
Finance income	(25,894)	-
Changes in:		
Accounts payable and accrued liabilities	106,059	40,370
Amounts receivable	(10,151)	8,840
Prepaid expenses	(89,598)	(5,618)
Net cash used in operating activities	(788,294)	(228,246)
Investing Activities		
Additions to property, plant and equipment (*Note 9)*	(3,841)	(3,709)
Interest received	25,894	-
Net cash provided by (used in) investing activities	22,053	(3,709)
Financing Activities		
Proceeds from share issuances *(Note 12b)*	473,925	50,000
Net cash provided by financing activities	473,925	50,000
Net Decrease in Cash	(292,316)	(181,955)
Cash - Beginning of the Period	6,888,625	479,764
Cash - End of the Period	$ 6,596,309	$ 297,809

- 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 ("Exchange") 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 Exchange and a reverse acquisition for accounting purposes, with Privco deemed to have been the acquiror (Note 5).

On February 4, 2019 the Company and Lorraine Copper Corp. ("Lorraine") announced they had entered into an arrangement agreement providing for the indirect merger of the companies (the "Arrangement Agreement"). Pursuant to the Arrangement Agreement, on April 12, 2019 the Company acquired, through its subsidiary Tsayta, all of the issued and outstanding common shares of Lorraine by way of a statutory plan of arrangement under the *Business Corporations Act* (British Columbia) (the "Arrangement") (Note 19).

At March 31, 2019 the Company held an option to acquire a 100% interest in the Stardust Project located in British Columbia, Canada, and was the operator of all related exploration activities.

Following completion of the Arrangement on April 12, 2019, the Company owns 100% of the Stardust Project royalty-free. Following completion of the Arrangement, the Company also owns the Lorraine copper-gold project (joint-ventured with Teck Resources Limited), and the OK copper-molybdenum project.

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 the Company's most recent annual consolidated financial statements as at and for the year ended December 31, 2018.

The condensed interim statements of loss and cash flows for the three months ended March 31, 2018 are comprised of Privco's results of operations and cash flows for the three months ended March 31, 2018.

3. NEW, AMENDED AND FUTURE IFRS PRONOUNCEMENTS

These condensed interim consolidated financial statements have been prepared using accounting policies consistent with those used in the annual consolidated financial statements, except as described below.

IFRS 16 – Leases

On January 1, 2019 the Company adopted IFRS 16 – Leases ("IFRS 16"). The Company has applied IFRS 16 using the modified retrospective approach under which comparative information is not restated and continues to be reported under IAS 17. Additionally, the Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months of less and leases of low-value assets. As a result of this election, the adoption of IFRS 16 did not have any impact on the recognition and measurement of the Company's existing operating leases.

The following are the significant accounting policies which have been amended as a result of IFRS 16, and applied at January 1, 2019:

Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset of a period of time in exchange for consideration. At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The right-of-use asset is subsequently depreciated on a straight-line basis from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. If the lease transfers ownership of the underlying asset to the Company by the end of the lease term or if the cost of the right-of-use asset reflects that the Company will exercise a purchase option, the right-of-use asset is depreciated from the commencement date to the end of the useful life of the underlying asset. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment assets. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability. The lease liability is initially measures at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The lease liability is measured at amortized cost using the effective interest rate method, and is re-measured when there is a change in future lease payments. When the lease liability is re-measured, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company presents right-of-use assets in 'property, plant & equipment', and lease liabilities in 'lease liabilities' in the statement of financial position. The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months of less and leases of low-value assets. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(Expressed in Canadian Dollars Unless Noted Otherwise)

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.

In preparing these condensed interim consolidated financial statements, the significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual consolidated financial statements.

5. REVERSE ACQUISITION

The following table provides details of the fair value of the consideration given and the 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**

6. AMOUNTS RECEIVABLE

Amounts receivable is comprised of the following:

	March 31, 2019	December 31, 2018
Refundable goods and services tax	$ 140,298	$ 130,147
Total	**$ 140,298**	**$ 130,147**

7. PREPAID EXPENSES

Prepaid expenses comprised of the following:

	March 31, 2019	December 31, 2018
Investor relations and communication	$ 82,248	$ 41,325
Advances for Stardust work programs	60,000	40,000
Insurance and benefits premiums	19,597	7,998
Software licenses	18,991	7,916
Other	6,000	-
Total	**$ 186,836**	**$ 97,239**

(Expressed in Canadian Dollars Unless Noted Otherwise)

8. 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 "Option Agreement") with Lorraine, as amended May 2, 2018, December 17, 2018, and March 26, 2019, 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.

Under the December 17, 2018 amendment to the Option Agreement, the Company's option to acquire a 100% interest in the Stardust Project is exercisable by issuing an additional 500,000 common shares and making payment of $75,000 to Lorraine by December 31, 2018, issuing 31,529,315 common shares to Lorraine within 5 business days of March 31, 2019, and assuming all obligations under Lorraine's $50,000 reclamation bond currently posted with the Province of British Columbia. Subsequent to the exercise of the option, the Company is required to incur aggregate exploration expenditures of $1,721,469 by September 30, 2019, and if the expenditures are not incurred by such date, the Company has agreed to make a cash payment to Lorraine of any remaining unspent amount on or before November 30, 2019.

On March 26, 2019 the Company and Lorraine entered into a third amendment to the Option Agreement extending the timeframe of the Option Agreement to June 1, 2019.

Under the Option 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.

Following completion of the Arrangement on April 12, 2019 (Note 1), the Company now owns 100% of the Stardust Project, and any obligations of the Company under the Option Agreement have terminated.

b. Acquisition Costs

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

		Stardust Project
Balance – December 31, 2017	$	200,000
Acquisition costs – cash payments		75,000
Acquisition costs – share payments *(Note 12b)*		125,000
Change in estimate of provision for closure and reclamation *(Note 11)*		130,313
Balance – December 31, 2018		530,313
Change in estimate of provision for closure and reclamation *(Note 11)*		491
Balance – March 31, 2019	**$**	**530,804**

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:

(Expressed in Canadian Dollars Unless Noted Otherwise)

8. EXPLORATION AND EVALUATION ASSETS AND EXPENDITURES (continued)

For the three months ended March 31, 2019	Stardust Project
Contractors / consultants	$ 134,304
Salaries	104,905
Field Expenses and travel	15,549
Administration and other	13,446
Expenditures for the year	**268,204**
Cumulative balance – December 31, 2018	3,945,506
Cumulative balance – March 31, 2019	**$ 4,213,710**

For the year ended December 31, 2018	Stardust Project
Drilling and Assaying	$ 926,771
Contractors / consultants	850,585
Field Expenses and travel	747,264
Salaries	381,343
Surveying	204,873
Community	185,302
Administration and other	27,417
Expenditures for the year	**3,323,555**
Cumulative balance – December 31, 2017	621,951
Cumulative balance – December 31, 2018	**$ 3,945,506**

9. PROPERTY, PLANT AND EQUIPMENT

Three months ended March 31, 2019:

	Computer Equipment	Computer Software	Office Furniture & Equipment	Exploration Equipment	Total
Cost					
December 31, 2018	$ 11,044	$ 6,383	$ 4,931	$ 2,105	$ 24,463
Additions	3,841	-	-	-	3,841
March 31, 2019	14,885	6,383	4,931	2,105	28,304
Accumulated Depreciation					
December 31, 2018	(3,420)	(3,119)	(419)	(263)	(7,221)
Depreciation	(1,240)	(1,596)	(123)	(132)	(3,091)
March 31, 2019	(4,660)	(4,715)	(542)	(395)	(10,312)
Carrying Value					
December 31, 2018	**$ 7,624**	**$ 3,264**	**$ 4,512**	**$ 1,842**	**$ 17,242**
March 31, 2019	**$ 10,225**	**$ 1,668**	**$ 4,389**	**$ 1,710**	**$ 17,992**

(Expressed in Canadian Dollars Unless Noted Otherwise)

9. PROPERTY, PLANT AND EQUIPMENT (continued)

Year ended December 31, 2018:

	Computer Equipment	Computer Software	Office Furniture & Equipment	Exploration Equipment	Total
Cost					
December 31, 2017	$ 4,196	$ -	$ 1,957	$ -	$ 6,153
Additions	6,848	6,383	2,974	2,105	18,310
December 31, 2018	11,044	6,383	4,931	2,105	24,463
Accumulated Depreciation					
December 31, 2017	$ -	$ -	$ -	$ -	$ -
Depreciation	(3,420)	(3,119)	(419)	(263)	(7,221)
December 31, 2018	(3,420)	(3,119)	(419)	(263)	(7,221)
Carrying Value					
December 31, 2017	**$ 4,196**	**$ -**	**$ 1,957**	**$ -**	**$ 6,153**
December 31, 2018	**$ 7,624**	**$ 3,264**	**$ 4,512**	**$ 1,842**	**$ 17,242**

10. RECLAMATION DEPOSITS

As of March 31, 2019, the Company has a deposit with a Canadian financial institution to provide financial assurance for a letter of credit in the amount of $131,136 (December 31, 2018 - $131,136). The letter of credit provides for a partial indemnification of the closure and reclamation costs with respect to the Stardust Project. The deposit yields interest at a rate of 1.35% per annum and has no maturity date. The deposit is considered long-term, regardless of its term, as the funds will remain on deposit until the letter of credit is extinguished.

11. PROVISION FOR CLOSURE AND RECLAMATION

During the year December 31, 2018, the Company recognized a liability relating to its Stardust Project. The Company has calculated the present value of the closure and reclamation provision at March 31, 2019 using a pre-tax discount rate of 1.54% and inflation rate of 2.00% (December 31, 2018 – 1.86% and 2.00%, respectively). The estimated total future undiscounted, but inflation-adjusted, cash flows to settle the provision for closure and reclamation at March 31, 2019 is $138,475 (December 31, 2018 – $139,163). The Company has estimated that payments will be made in 2021.

Balance, December 31, 2017	$ -
New estimated cash flows and changes in estimates	130,313
Accretion on discounted obligation	1,365
Balance, December 31, 2018	131,678
New estimated cash flows and changes in estimates	491
Accretion on discounted obligation	608
Balance, March 31, 2019	**$ 132,777**

12. 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 three months ended March 31, 2019, the Company issued common shares as follows:

(i) 774,750 common share purchase warrants with an exercise price of $0.30, and 690,000 common share purchase warrants with an exercise price of $0.35 were exercised for total proceeds of $473,925. In connection with these warrant exercises, the related fair value amount of $93,128 was transferred from equity reserves to share capital.

During the year ended December 31, 2018, the Company issued common shares as follows:

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

(iii) In connection with the Transaction, the Company closed a non-brokered private placement, for aggregate gross proceeds of $6,447,100 (the "Offering"). 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 (each, a "Unit") for no additional consideration. Each Unit consists of one common share and one common share purchase warrant, with each common share purchase warrant entitling the holder to acquire one additional common share at a price of $0.35 per common 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, $107,859 in other cash issuance costs, and issued 1,173,000 Finder's Warrants (with a fair value of $31,592). The Finder's Warrants entitle the holder to acquire one additional common share at a price of $0.30 per common share until May 2, 2019.

(iv) Pursuant to the Transaction, on May 2, 2018 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 were subject to SSRR over a period of 4 months.

(v) On July 24, 2018, the Company issued 500,000 Takla Units pursuant to an Exploration Agreement between the Company and Takla. The Takla Units are comprised of one common share in the capital of the Company and one common, non-transferable share purchase warrant (each, a "Takla Warrant"). Each Takla Warrant entitles Takla to acquire one additional common share at a price of $0.35 until January 24, 2020. The fair value of the common shares issued was determined to be $92,499 based on the market price of the Company's shares at the date of issuance and the fair value of the Takla Warrants was determined to be $23,935 based on a Black-Scholes option pricing model (Note 12c).

(vi) On December 20, 2018, the Company completed a private placement of 12,500,000 flow-through common shares ("FT Shares"), at a price of $0.413 per FT Share for aggregate gross proceeds of $5,162,500. A flow-through premium of $2,412,500, being the difference between the FT Shares subscription price and the market price of the Company's common shares, related to the sale of the associated tax benefits of the qualifying resource expenditures (Note

(Expressed in Canadian Dollars Unless Noted Otherwise)

12. EQUITY (continued)

15b) has been recorded as a flow-through premium liability in the consolidated statement of financial position. In connection with the private placement the Company paid legal fees and filing fees totaling $63,546.

(vii) On December 21, 2018 the Company issued 500,000 common shares to Lorraine pursuant to the terms of the Option Agreement (Note 8a).

c. Share Purchase Warrants

Details of share purchase warrants issued, exercised, expired and outstanding as at and during the three months ended March 31, 2019 and the year ended December 31, 2018 are as follows:

	Number of Warrants	Weighted Average Exercise Price
Outstanding Balance – December 31, 2017	-	-
Issued	27,461,400	$ 0.35
Outstanding Balance – December 31, 2018	27,461,400	$ 0.35
Exercised	(1,464,750)	$ 0.32
Outstanding Balance – March 31, 2019	**25,996,650**	**$ 0.35**

At March 31, 2019, the following share purchase warrants are outstanding:

Expiry Date	Exercise Price	Number of Warrants
May 2, 2023	$0.35	25,098,400
May 2, 2019	$0.30	398,250
January 24, 2020	$0.35	500,000
Weighted Average Exercise Price	**$0.35**	**25,996,650**

At the time of issuance, the 25,788,400 share purchase warrants issued as part of the Offering had a fair value of $2,532,700 ($2,700,727 net of allocated share issuance costs of $168,027), the 1,173,000 Finder's Warrants had a fair value of $31,592, and the 500,000 Takla Warrants had a fair value of $23,935. These fair values have been included in equity reserves in the Company's consolidated statement of financial position at December 31, 2018. In connection with the warrants exercised during the three months ended March 31, 2019, the related fair value amount of $93,128 was transferred from equity reserves to share capital.

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 year ended December 31, 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	$0.35	2.17%	111.12%	$0.10
May 2, 2018	1.0	$0.30	1.90%	96.04%	$0.03
July 24, 2018	1.5	$0.35	1.97%	91.45%	$0.05

[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)

12. EQUITY (continued)

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. 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 Exchange. 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 Exchange. Subject to the policies of the Exchange, 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 March 31, 2019, 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	4,550,000	4.09	1,500,000
December 24, 2023	$0.28	4,100,000	4.74	1,600,000
March 26, 2024	$0.46	75,000	4.99	-
	$0.27	**8,725,000**	**4.40**	**3,100,000**

Details of options granted, exercised, expired and forfeited during the three months ended March 31, 2019 and year ended December 31, 2018 are as follows:

	Number of Options	Weighted Average Exercise Price
Balance – December 31, 2017	-	-
Granted during the period	8,750,000	$0.26
Forfeited during the period	(100,000)	$0.25
Balance – December 31, 2018	8,650,000	$0.26
Granted during the period	75,000	$0.46
Balance – March 31, 2019	**8,725,000**	**$0.27**

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 during the three months ended March 31, 2019 and the year ended December 31, 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%	$0.20
December 24, 2018	5.0	$0.28	1.93%	108.61%	$0.19
March 26, 2019	5.0	$0.46	1.43%	108.73%	$0.36

[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)

12. 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.

(ii) 1,600,000 of the 4,100,000 options granted December 24, 2018 were granted to non-executive directors and vested immediately. The remaining 2,500,000 options were granted to employees and consultants and subject to typical vesting provisions.

(iii) The 75,000 options granted March 26, 2019 were granted to a consultant and subject to vesting provisions whereby one third will vest six months from the grant date, one third will vest twelve months from the grant date, and one third will vest eighteen months from the grant date.

Forfeiture of Options

No options were forfeited during the three months ended March 31, 2019.

During the year ended December 31, 2018, 100,000 options with an exercise price of $0.25, were forfeited. As a result of the forfeiture, previously recognized share-based compensation expense relating to the unvested options of $8,106 was reversed, resulting in a net expense for the year of $861,239.

13. 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 March 31, 2019, Oxygen holds a refundable security deposit of $19,500 on behalf of the Company (December 31, 2018 - $19,500), equal to an estimated amount of three months of services.

During the three months ended March 31, 2019, a total of $177,682 was paid or accrued to Oxygen as a reimbursement of costs incurred by Oxygen on behalf of the Company (March 31, 2018 - $93,320). As at March 31, 2019, the Company has a payable amount to Oxygen of $47,686 (December 31, 2018 – $59,916). This amount was paid subsequent to March 31, 2019.

Compensation of key management personnel

Key management includes the members of 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:

	Three months ended March 31, 2019	Three months ended March 31, 2018
Salaries and other short-term employee benefits	$ 125,801	$ 81,008
Directors fees	57,500	-
Share-based compensation	66,548	-
Total	**$ 249,849**	**$ 81,008**

14. 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.

15. COMMITMENTS & CONTINGENCIES

a) 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 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. During the three months ended March 31, 2019 the Company expensed $30,724 in regards to its head office premises commitment.

b) As at March 31 2019, the Company is committed to incur, on a best efforts basis, qualifying resource expenditures of $5,162,500 pursuant to the December 20, 2018 private placement (Note 12b) before January 1, 2020. If the Company does not spend these funds in compliance with the Government of Canada flow-through regulations, it may be subject to litigation from various counterparties. The Company intends to fulfill its flow-through commitments within the given time constraints.

16. 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 in the statement of financial position at fair value. At March 31, 2019, the carrying amounts of cash, amounts receivable, deposits, reclamation deposits, accounts payable and accrued liabilities are considered to be a reasonable approximation of their fair values, due to their short-term nature and/or the interest rate being earned.

17. 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 three months ended March 31, 2019.

18. 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:

Credit Risk

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.

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 March 31, 2019, the Company had cash of $6,596,309 (December 31, 2018 - $6,888,625) to settle accounts payable and accrued liabilities of $380,976 and meet its flow-through financing resource expenditure commitment of $5,162,000 (December 31, 2018 - accounts payable and accrued liabilities of $274,917 and flow-through financing resource expenditure commitment of $5,162,000).

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 three months ended March 31, 2019, a plus or minus 0.5% change in market interest rates would affect the Company's interest earned on cash by approximately $6,800.

19. SUBSEQUENT EVENTS

a) During the period April 3 to May 23, 2019, 398,250 common share purchase warrants with an exercise price of $0.30, 2,475,000 common share purchase warrants with an exercise price of $0.35, 240,000 common share purchase warrants with an exercise price of $0.09, 108,000 common share purchase warrants with an exercise price of $0.22, 473,629 common share purchase warrants with an exercise price of $0.28, and 255,690 common share purchase warrants with an exercise price of $0.19 were exercised for total proceeds of $1,282,282.

b) During the period May 9 to May 28, 2019, 83,333 stock options with an exercise price of $0.25, 162,000 stock options at $0.24, 40,500 stock options at $0.13, 40,500 stock options at $0.11, and 108,000 stock options at $0.09 were exercised by employees and consultants for total proceeds of $79,153.

19. SUBSEQUENT EVENTS (continued)

c) A total of 75,000 stock options with an exercise price of $0.55 per common share were granted to a consultant on May 27, 2019. The options will vest one third in six months from the grant date, one third in one year from the grant date and one third in eighteen months from the grant date.

d) Pursuant to the Arrangement Agreement (Note 1), on April 12, 2019 the Company acquired, through its subsidiary Tsayta, all of the issued and outstanding common shares of Lorraine by way of a statutory plan of arrangement under the *Business Corporations Act* (British Columbia) (the “Arrangement”).

Pursuant to the terms of the Arrangement, shareholders of Lorraine received 0.54 (the “Exchange Ratio”) of a common share of Sun Metals for every Lorraine common share held, all outstanding stock options of Lorraine were exchanged for options to purchase Sun Metals common shares on the basis of the Exchange Ratio and all unexercised Lorraine share purchase warrants were exchanged for warrants to purchase Sun Metals common shares on the basis of the Exchange Ratio. Upon closing of the Arrangement, the Company issued 27,515,380 common shares, 1,755,000 stock options with a weighted average exercise price of $0.16, and 10,224,408 share purchase warrants with a weighted average exercise price of $0.27.