

1 April 2021

Mr Alex Sutton
Compliance Adviser, Geology, Listings Compliance (Sydney)
ASX
By email:

Dear Mr Sutton

Sunstone Metals Ltd ('STM'): Accounts - Query

I refer to your letter dated 12 March 2021, received by email on 25 March 2021 relating to queries on the half year accounts for the half year ended 31 December 2020 for Sunstone Metals Limited ("STM") lodged with ASX Market Announcements Platform and released on 12 March 2021 ('Half Year Accounts').

In response to your queries STM notes the following:

1. Is STM able to confirm that in the Directors' Opinion the Half Year Accounts:
 - (a) comply with the relevant Accounting Standards; and
 - (b) give a true and fair view of STM's financial performance and position?

Response: Yes, the Company confirms that in the Director's Opinion the Half Year Accounts

- (a) comply with the relevant Accounting Standards; and
- (b) give a true and fair view of STM's financial performance and position.

2. Given the qualified opinion relates to the Auditor's inability to obtain sufficient information to verify the carrying values of STM's investments in Copperstone Resources AB (Copperstone) and STM's share of Copperstone's loss for the half-year ended 31 December 2020, please explain how the directors satisfied themselves that the carrying values are appropriate and adheres to the current Australian Accounting Standards. In answering this question, reference should be made to the underlying assumptions used by the directors in coming to this conclusion, as well as any independent valuations and the validity of the assumptions upon which these valuations are based. Please also clarify in the response why the auditors was unable to verify the carrying value of STM's investments in Copperstone given Copperstone appears to be listed on the Nasdaq Stockholm AB Exchange in Sweden.

1.

Response: STM recognises the carrying value of its holding in Copperstone Resources AB (Copperstone) at the lower of the equity accounted cost less STM's accumulated share of Copperstone losses and the actual market value of the shares by multiplying the number of shares held at the balance date by the closing share price as per the Nasdaq Stockholm AB Exchange in Sweden at that date and the relevant exchange rate to convert to Australian Dollars. The recognised value is easily verifiable by the directors, and auditors, through publicly available information.

Given that STM held greater than 20% of the issued shares in Copperstone as at 31 December 2020 STM is required to equity account for this investment under the relevant Australian Accounting Standards and STM is also required to recognise in its consolidated statement of comprehensive income a share of Copperstone's gains or losses in the relevant period (although the total impact on STM's consolidated statement of comprehensive income is not impacted as the impairment recognised, or reversal of impairment is adjusted by the Company's share of Copperstone's loss -eg share of loss of \$278,058 and reversal of impairment of \$2,066,415 gives a total gain for the investment in Copperstone shares of \$1,788,357 which is the difference between closing carried value of the investment of \$17,879,797 and the value recognized at 30 June 2020 of \$16,716,124 plus the value of shares held at 30 June 2020 that were disposed during the period \$624,684).

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Due to timing differences between STM's and Copperstone's reporting requirements, as well as a difference in financial years (STM 30 June and Copperstone 31 December) the financial information for Copperstone as at 31 December 2020 had not been completely audited (by Copperstone's auditors) nor publicly released and therefore STM was only able to utilize publicly released financial information for Copperstone for the 3 months to 30 September 2020, and the 31 December 2020 accounts for Copperstone were unable to be verified by our auditor. Also, as at 30 June 2020 the financial information from Copperstone (from publicly released reports on Nasdaq) was for their 6 months and Copperstone declined STM's auditors requests for information to Copperstone auditors as their half-yearly information is not audited and would require substantial additional management effort on their behalf, therefore STM's auditors could not appropriately verify the information as they are required to do under Australian Auditing Standards and were unable to determine whether any adjustments to the relevant amounts were necessary.

There is no question as such from the auditor regarding the STM calculation of carrying value as it is simply the market value calculated from publicly available information. Where an issue may arise, from the relevant accounting standard's perspective, is where STM's calculated share of Copperstone's losses exceeds the market value of the shares as calculated and the auditor has been unable to verify Copperstone's loss for the relevant periods.

In STM's opinion the accounting standard does not appropriately take into account that the Copperstone shares which are owned by Sunstone are in a publicly listed company and therefore the carrying value is accurate and verifiable, even if STM's share of losses exceeded that carrying value eg if Copperstone accounted for all exploration costs by expensing upfront rather than capitalizing, the value of the shares are still what the market reflects in the share price.

3. What steps has STM taken since the release of the Half Year Accounts to obtain an unqualified opinion with regards to its future financial statements?

Response: *It is important to note that subsequent to 31 December 2020 Copperstone undertook a Rights Issue and as a result STM's holding has reduced below 20% and therefore we are no longer required to adopt the equity method of accounting for the shares held in Copperstone.*

The auditors have however noted that the 30 June 2021 financials for STM may still need to have the qualification as the opening balance recorded was not able to be verified under the equity accounting method.

STM will continue to discuss this matter with its auditors to determine whether there are any options with regard to the opening balance in order to obtain an unqualified opinion for its future financial statements.

4. Does STM consider that the financial condition of STM is sufficient to warrant continued listing on ASX as required under Listing Rule 12.2? In answering this question, please also explain the basis for this conclusion.

Response: *Yes. As per above the carrying value recorded for the shares held in Copperstone is an accurate market valuation based on publicly available information and theoretically the shares can be sold for this value, while the audit qualification relates to them being unable to verify financial information of Copperstone, an entity that STM does not control or consolidate its financials into our results.*

5. If the answer to questions 4 is "No", please explain what steps STM has taken, or proposes to take, to warrant continued listing on ASX under the requirements of Listing Rules 12.2.

Response: N/A

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6. In relation to the Half Year Accounts, did the Board receive the CFO and CEO declaration, as described in section 4.2 of STM's Corporate Governance Disclosure, that in the opinion of the CFO and CEO, the financial records of STM have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of STM and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively?

Response: *Yes. It is noted that the auditor's qualification relates to being unable to verify financial information of Copperstone, an entity that STM does not control or consolidate its financials into our results.*

7. If the answer to Question 6 is 'no', why did the Board not receive the CEO and CFO declaration as described in section 4.2 of STM's Corporate Governance Disclosure?

Response: *N/A*

8. What enquiries did the Board make of management to satisfy itself that the financial records of STM have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of STM?

Response: *The Board, via the Audit and Financial Risk Committee of which all directors are members, received a detailed paper from the CFO regarding the half-yearly accounts. In addition to this the auditor provided their half year review completion report which included commentary on key areas of focus and the Company's internal controls, which determined that nothing was identified that would result in any material misstatements with the exception of the qualification around Copperstone results. The Board made further enquiries of the CFO and the auditor regarding their reports at the Audit and Financial Risk Committee meeting*

9. Commenting specifically on the qualified opinion, does the board consider that STM has a sound system of risk management and internal control which is operating effectively?

Response: *Yes*

10. Please confirm that STM is complying with the Listing Rules and, in particular, Listing Rule 3.1.

Response: *Yes*

11. Please confirm that STM's responses to the questions above have been authorised and approved under its published continuous disclosure policy or otherwise by its board or an officer of STM with delegated authority from the board to respond to ASX on disclosure matters.

Response: *Yes*

Gavin Leicht

Company Secretary



12 March 2021

Mr Gavin Leicht
Company Secretary
Sunstone Metals Ltd
9 Gardner Cl
Milton, QLD 4064

By email:

Dear Mr Leicht

Sunstone Metals Ltd ('STM'): Accounts - Query

ASX refers to the following:

- A. STM's half year accounts for the half year ended 31 December 2020 lodged with ASX Market Announcements Platform and released on 12 March 2021 ('Half Year Accounts').
- B. ASX notes that the Independent Auditor's Report attached to the Half Year Accounts ('Auditor's Report') contains a qualified opinion together with the Basis for qualified opinion:

"Basis for qualified opinion

The Company holds an investment in Copperstone Resources AB ('Copperstone'), a foreign associate acquired during the 2019 financial year and accounted for by the equity method. The investment is carried at \$17,879,797 on the consolidated statement of financial position as at 31 December 2020 and the Company's share of Copperstone's loss of \$278,058 and reversal of impairment of \$1,178,227 is included in the consolidated statement of comprehensive income for the half-year ended. We were unable to obtain sufficient appropriate audit evidence to support the carrying amount of the Company's investment in Copperstone as at 30 June 2020 and the Company's share of Copperstone's profit for the financial year then ended because we were denied access to the financial information, management and the auditors of Copperstone. This resulted in a qualification to our audit report for the year ended 30 June 2020. We remain unable to obtain sufficient evidence to support the carrying amount of the Company's investments in Copperstone as at 31 December 2020, and the Company's share of Copperstone's loss for the half-year ended. Consequently, we remain unable to determine whether any adjustments to these amounts were necessary."

- C. STM's Corporate Governance Statement for 2019 lodged on the ASX Market Announcements Platform on 4 September 2020 which provides confirmation that STM complies with recommendation 4.2 of the ASX Corporate Governance Principles and Recommendations which states:

"The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively."

- D. Listing Rule 12.2 which states:

12.2 An entity's financial condition (including operating results) must, in ASX's opinion, be adequate to warrant the continued quotation of its securities and its continued listing.

- E. Listing Rule 19.11A which states:

19.11A *If a listing rule requires an entity to give ASX +accounts, the following rules apply.*

- (a) *If the entity controls an entity within the meaning of section 50AA of the Corporations Act or is the holding company of an entity, required by any law, regulation, rule or accounting standard, or if ASX requires, the +accounts must be consolidated +accounts.*
- (b) *The +accounts must be prepared to Australian accounting standards. If the entity is a +foreign entity the +accounts may be prepared to other standards agreed by ASX.*
- (c) *If the listing rule requires audited +accounts, the audit must be conducted in accordance with Australian auditing standards by a registered company auditor. If the entity is a +foreign entity, the audit may be conducted in accordance with other standards agreed by ASX and may be conducted by an overseas equivalent of a registered company auditor.*
- (d) *If the listing rule requires +accounts to be reviewed, the review must be conducted in accordance with Australian auditing standards. If the entity is a +foreign entity, the review may be conducted in accordance with other standards agreed by ASX. Unless the listing rule says an independent accountant may conduct the review, it must be conducted by a registered company auditor (or, if the entity is a +foreign entity, an overseas equivalent of a registered company auditor).*
- (e) *If there is a +directors' declaration that relates to the +accounts, the +directors' declaration must be given to ASX with the +accounts.*
- (f) *If there is a +directors' report that relates to the period covered by the +accounts, the +directors' report must be given to ASX with the +accounts.*

Request for information

In light of the information contained in the Half Year Accounts and the Auditor's Report, and the application of the Listing Rules stated above, please respond to each of the following questions:

1. Is STM able to confirm that in the Directors' Opinion the Half Year Accounts:
 - (a) comply with the relevant Accounting Standards; and
 - (b) give a true and fair view of STM's financial performance and position?
2. Given the qualified opinion relates to the Auditor's inability to obtain sufficient information to verify the carrying values of STM's investments in Copperstone Resources AB (Copperstone) and STM's share of Copperstone's loss for the half-year ended 31 December 2020, please explain how the directors satisfied themselves that the carrying values are appropriate and adheres to the current Australian Accounting Standards. In answering this question, reference should be made to the underlying assumptions used by the directors in coming to this conclusion, as well as any independent valuations and the validity of the assumptions upon which these valuations are based. Please also clarify in the response why the auditors was unable to verify the carrying value of STM's investments in Copperstone given Copperstone appears to be listed on the Nasdaq Stockholm AB Exchange in Sweden.
3. What steps has STM taken since the release of the Half Year Accounts to obtain an unqualified opinion with regards to its future financial statements?
4. Does STM consider that the financial condition of STM is sufficient to warrant continued listing on ASX as required under Listing Rule 12.2? In answering this question, please also explain the basis for this conclusion.

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5. If the answer to questions 4 is “No”, please explain what steps STM has taken, or proposes to take, to warrant continued listing on ASX under the requirements of Listing Rules 12.2.
 6. In relation to the Half Year Accounts, did the Board receive the CFO and CEO declaration, as described in section 4.2 of STM’s Corporate Governance Disclosure, that in the opinion of the CFO and CEO, the financial records of STM have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of STM and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively?
 7. If the answer to Question 6 is ‘no’, why did the Board not receive the CEO and CFO declaration as described in section 4.2 of STM’s Corporate Governance Disclosure?
 8. What enquiries did the Board make of management to satisfy itself that the financial records of STM have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of STM?
 9. Commenting specifically on the qualified opinion, does the board consider that STM has a sound system of risk management and internal control which is operating effectively?
 10. Please confirm that STM is complying with the Listing Rules and, in particular, Listing Rule 3.1.
 11. Please confirm that STM’s responses to the questions above have been authorised and approved under its published continuous disclosure policy or otherwise by its board or an officer of STM with delegated authority from the board to respond to ASX on disclosure matters.

When and where to send your response

This request is made under Listing Rule 18.7. Your response is required as soon as reasonably possible and, in any event, by no later than **05:00 PM AEDT Tuesday, 6 April 2021**. You should note that if the information requested by this letter is information required to be given to ASX under Listing Rule 3.1 and it does not fall within the exceptions mentioned in Listing Rule 3.1A, STM’s obligation is to disclose the information ‘immediately’. This may require the information to be disclosed before the deadline set out in the previous paragraph and may require STM to request a trading halt immediately.

Your response should be sent to me by e-mail at ListingsComplianceSydney@asx.com.au. It should not be sent directly to the ASX Market Announcements Office. This is to allow me to review your response to confirm that it is in a form appropriate for release to the market, before it is published on the ASX Market Announcements Platform.

Trading halt

If you are unable to respond to this letter by the time specified above, you should discuss with us whether it is appropriate to request a trading halt in STM’s securities under Listing Rule 17.1. If you wish a trading halt, you must tell us:

- the reasons for the trading halt;
- how long you want the trading halt to last;
- the event you expect to happen that will end the trading halt;
- that you are not aware of any reason why the trading halt should not be granted; and
- any other information necessary to inform the market about the trading halt, or that we ask for.

We require the request for a trading halt to be in writing. The trading halt cannot extend past the commencement of normal trading on the second day after the day on which it is granted. You can find further information about trading halts in Guidance Note 16 *Trading Halts & Voluntary Suspensions*.

Suspension

If you are unable to respond to this letter by the time specified above, ASX will likely suspend trading in STM's securities under Listing Rule 17.3.

Listing Rules 3.1 and 3.1A

In responding to this letter, you should have regard to STM's obligations under Listing Rules 3.1 and 3.1A and also to Guidance Note 8 *Continuous Disclosure*: Listing Rules 3.1 – 3.1B. It should be noted that STM's obligation to disclose information under Listing Rule 3.1 is not confined to, nor is it necessarily satisfied by, answering the questions set out in this letter.

Release of correspondence between ASX and entity

We reserve the right to release a copy of this letter, your reply and any other related correspondence between us to the market under Listing Rule 18.7A.

Questions

If you have any questions in relation to the above, please do not hesitate to contact me.

Kind regards



Alex Sutton

Compliance Adviser, Geology, Listings Compliance (Sydney)