



ABN 68 123 184 412

Half-Year Financial Report 31 December 2021

Contents

Page

Corporate Directory	2
Directors' Report	3
Auditor's Independence Declaration	16
Financial Report	
Consolidated Statement of Profit or Loss and Other Comprehensive Income	17
Consolidated Statement of Financial Position	18
Consolidated Statement of Changes in Equity	19
Consolidated Statement of Cash Flows	20
Notes to the Financial Statements	21
Directors' Declaration	29
Independent Auditor's Review Report	30

CORPORATE DIRECTORY

Directors

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

Company Secretary

Gavin Leicht

Securities Exchange Listing

Sunstone Metals Limited shares are listed on the Australian Securities Exchange
Ordinary fully paid shares (ASX Code: STM)

Share Registry

Computershare Investor Services Pty Ltd
200 Mary Street
Brisbane Qld 4000
Investor Enquiries: 1300 850 505
Website: www.computershare.com.au

Auditor

BDO Audit Pty Ltd
Level 10/12 Creek Street
Brisbane Qld 4000

Bank

National Australia Bank
Level 23, 100 Creek Street
Brisbane QLD 4000

Registered Office and principal place of business

Australia

9 Gardner Close
Milton Qld 4064
Telephone: 07 3368 9888

Web site: www.sunstonemetals.com.au

Email: info@sunstonemetals.com.au

Directors' Report

Your Directors present their report on Sunstone Metals Limited ("Sunstone" or "Company") and the entities it controlled ("Consolidated Entity" or "Group") for the half-year ended 31 December 2021.

Directors

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

Mr Graham Ascough	Non-Executive Chairman
Mr Malcolm Norris	CEO/Managing Director
Mr Stephen Stroud	Non-Executive Director

Principal activities

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

Dividends

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

Review of operations

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

	Half-year ended	
	2021	2020
	\$	\$
Revenue and other income	6,210	259,288
Profit/(loss) before income tax	(579,283)	(617,163)
Income tax expense	-	-
Profit/(loss) attributable to members of Sunstone Metals Limited	(572,349)	(614,800)
Profit/(loss) attributable to non-controlling interests	(6,934)	(2,363)
Earnings per share	2021	2020
	cents	cents
Basic earnings per share	(0.0)	(0.0)

Financial Performance

During the half-year ended 31 December 2021 the Group incurred a loss of \$579,283 (2020: loss of \$617,163). The loss for this period is largely due to corporate costs incurred to fund the progression of activities in Ecuador offset by a net fair value gain on financial assets recognised related to the shareholding in Copperstone Resources AB ("Copperstone") of \$732,063, incorporating \$1,066,238 gain on sale of 24,042,774 shares in Copperstone during the half year at an average price of 1.475 SEK less \$334,175 for a decrease in value of the shares held during the half year (share price 1.21 SEK at 30 June 2021 compared to 1.18 SEK at 31 December 2021).

Directors' Report

Financial Position

The Company's non-current assets increased from \$31,923,061 at 30 June 2021 to \$35,445,040 at 31 December 2021, primarily due to capitalised exploration expenses on the Bramaderos and El Palmar Projects in Ecuador.

During the half-year, the Company had a net increase in contributed equity of \$297,944 related to the vesting of Employee Performance Rights.

At the end of the financial period, the Group had cash balances of \$9,492,804 (June 2021 \$12,171,240) and net assets of \$43,603,707 (June 2021: \$43,336,675). Total liabilities amounted to \$1,413,196 (June 2021: \$796,484) and included trade, other payables and provisions.

Operations Summary

El Palmar Porphyry Copper-Gold Project

Sunstone has made a significant discovery at the highly prospective El Palmar copper-gold porphyry project, located in northern Ecuador, 60km north-west of Ecuador's capital Quito and well serviced by local roads. Travel time to site from Quito is approximately 3 hours. The property sits on the regionally significant Toachi Fault Zone, in the vicinity of the 1Bt Llurimagua copper-molybdenum porphyry deposit, and in the same regional structural belt that hosts the 2.6Bt Alpala copper-gold porphyry deposit within the Cascabel project (see ASX announcement dated 12th August 2020, and Figures 1 and 2). Sunstone is acquiring 100% of the El Palmar project and currently holds 51% under the Staged Acquisition Agreement signed on 12 August 2020.

The El Palmar results released during the half year ended 31 December 2021 (see ASX announcements dated 7th October 2021, 25th November 2021 and 13th December 2021) comprise all assays from the first three holes (EPDD001-003) along with results from soil sampling which have defined two priority targets for drilling immediately adjacent to the El Palmar discovery.

A total of 5,008m over eight completed holes has been drilled to 31 December 2021 targeting the upper portion of a significant circular magnetic anomaly interpreted to be a mineralised porphyry body. A second drill rig was mobilised to site in December and a further 507m had been drilled to 31 December 2021 on hole EPDD009 which was to test the deep magnetic targets.

Assays show significant grades and widths of gold and copper porphyry mineralisation in five holes (EPDD001-EPDD003, and historic holes CED01 and 02) across a 300m long zone, which remains open, on the south side of the El Palmar magnetic complex. Geological logging of holes EPDD001 to 006 has identified an extensive porphyry system with multiple phases of intrusive rocks, and local areas of epithermal overprint. This is a substantial area of consistent mineralisation in the southern portion of the broader magnetic anomaly (Figures 3 & 4).

Detailed geological mapping and rock chip sampling is being undertaken in parallel with a concession wide soil sampling program. This work is continuing to identify multiple areas of interest within the El Palmar concession. The south-east satellite target area (Figure 3) comprises a bullseye magnetic anomaly with coincident surface soil copper, gold, and silver. This area also has had some historical surface rock chip sampling (25 samples) which delivered 60m of 0.33g/t gold and 0.12% copper. The target area has been expanded with recent mapping and sampling which identified additional areas of oxidised stockwork veined diorite visually similar to the host rocks of mineralisation at the main El Palmar drilling area.

The north-east satellite target (Figure 3) has been modelled as a deeper magnetic body, possibly linked to the main El Palmar magnetic body. The surface geochemistry is anomalous in silver, lead and zinc and other typically 'high level' porphyry pathfinder elements interpreted to represent the upper alteration zone of a porphyry system.

The soil sampling has also identified a new Eastern Anomalous Zone, with coincident gold and copper and molybdenum (porphyry signature) results, which expands the size of the overall El Palmar target. This area will be further investigated.

Directors' Report

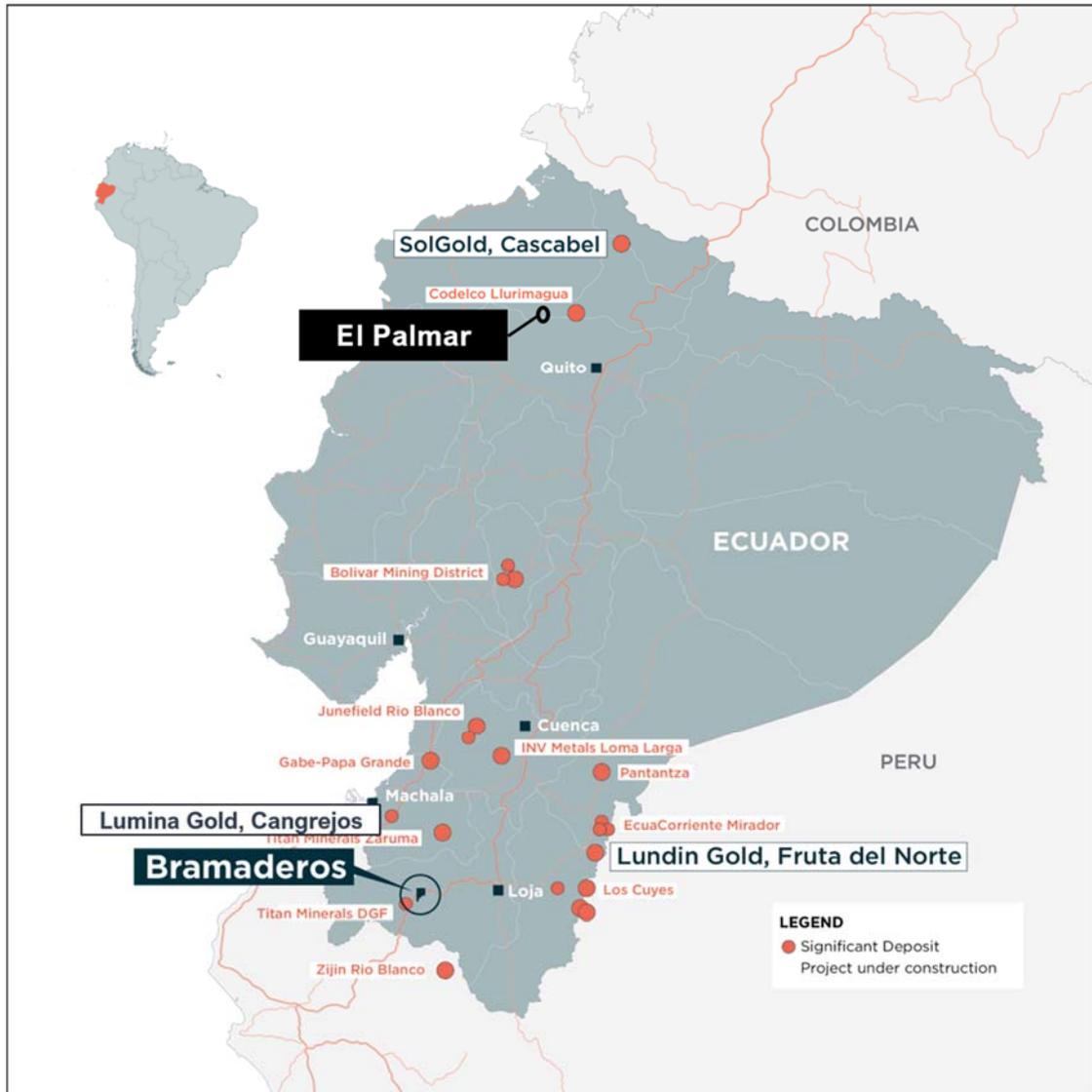


Figure 1: Location of Sunstone’s Bramaderos and El Palmar projects, Ecuador

Directors' Report

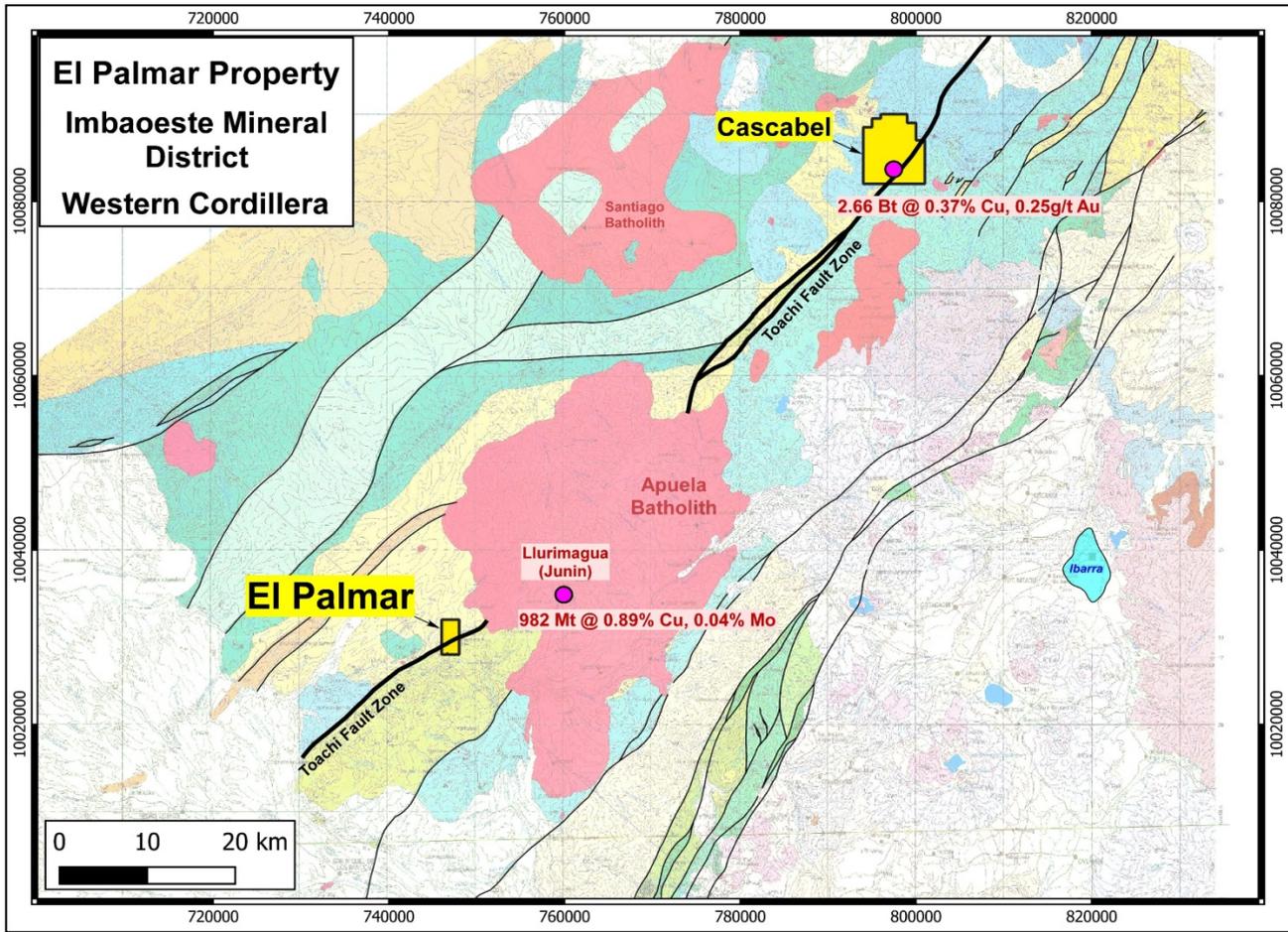


Figure 2: Location of the El Palmar project relative to the Lurimagua and Alpala (Cascabel) deposits, and the Toachi fault system.

Directors' Report

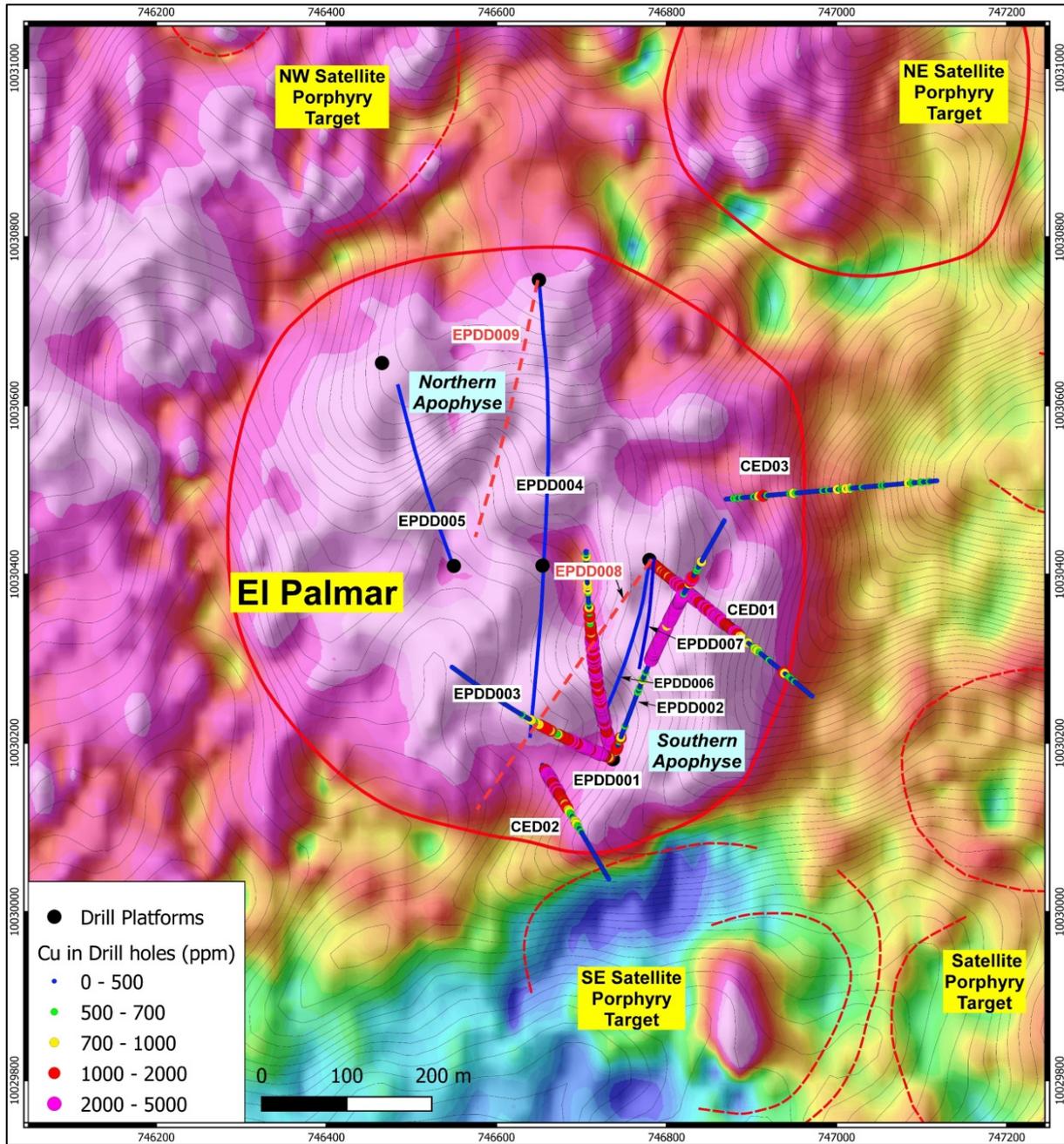


Figure 3: Magnetics image showing the main El Palmar anomaly, measuring ~700m diameter, and the SE and NE porphyry targets. Note the bullseye magnetic anomaly at the SE target which now corresponds to the area of anomalous gold and copper from the soil sampling program. Also shown are the locations of the current drill holes, EPDD008 – targeting the SW extent of drilled mineralisation in holes 1 and 3, and EPDD009 - targeting the deep magnetic anomaly.

Directors' Report

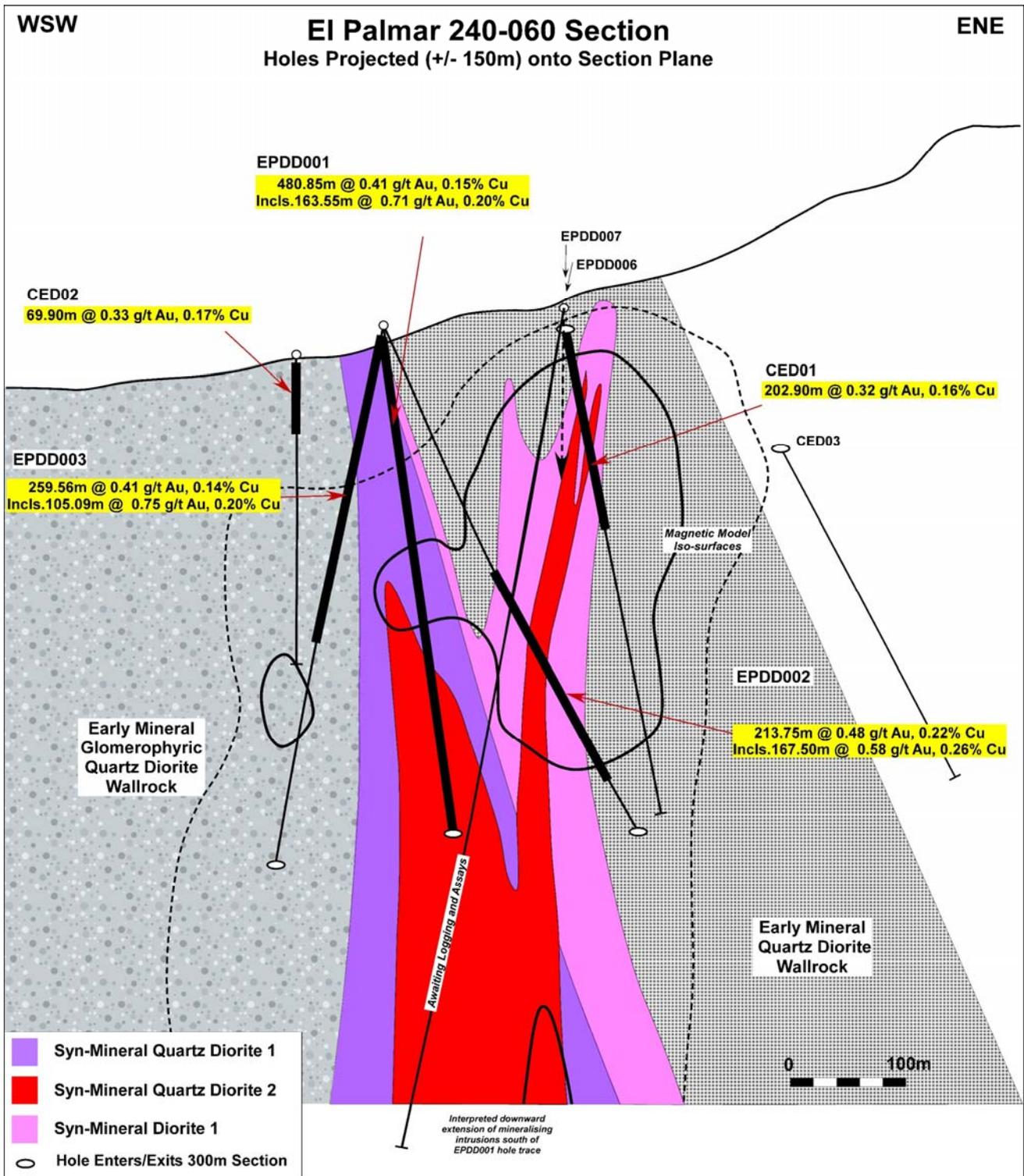


Figure 4: A composite cross section through EPDD001, 002, 003 and 006 at El Palmar, and showing the location of historical holes CED01, 02, 03. This section depicts the southeast side only of the larger El Palmar target area.

Directors' Report

Bramaderos gold-copper and silver-gold project (Sunstone 87.5%)

The Bramaderos Project is located in Loja province, southern Ecuador, some 90km (1.5-hour drive) from the city of Loja and is highly prospective for the discovery of large gold-copper deposits. Easy access is provided by the sealed Pan American Highway that crosses the western part of the concession (Figure 1). The area has nearby available hydro-power, and gentle topography with an average elevation of around 1,100m above sea level. Gold and copper mineralisation outcrops at surface.

Multiple targets have been defined and strengthened based on the integration of all exploration data from the Bramaderos Gold-Copper Project. The defined areas of interest comprise 6 targets for porphyry gold-copper, and several targets for epithermal silver-gold-base metal mineralisation.

Alba target

High grade gold assays were received from the first hole (BMDD012) drilled at the new Alba target (see ASX announcement dated 18th November 2021). Alba is located north-west of, and adjacent to, the Brama target and represents a potential new discovery (Figure 5).

Hole BMDD012 was drilled towards the north-west and targeted a magnetic anomaly on the south-eastern flank of the prominent topographic feature of Bramaderos Hill (Figures 6 & 7). It is highly encouraging that the mineralisation was intersected at a relatively shallow depth of ~65m from surface and remains open up and down dip and along strike.

Follow-up drilling has included a further 3 holes at Alba totalling 1089m to 31 December 2021, testing the depth and lateral extent of the intersection in BMDD012. At this stage, it is thought that the gold system trends NE-SW with the high gold zone currently interpreted as a 'later' gold-rich event over a broad and deeper gold-copper porphyry mineralised system. The high-grade core to this zone contains visible gold.

There has been no significant historical drilling at Alba. Hole CURI-11 was drilled (in 2002 by Ecuator S.A.) from the south and intersected a point 250m below the BMDD012 gold intersection but has not tested the interpreted Alba target. Hole BMDD013, designed to test the northern extent of the Brama target drilled away to the north-east from the same pad as BMDD012, and also intersected minor visible gold at 166m.

Assay results from holes BMDD020 and BMDD013 were released on 20th January 2022. BMDD020 intersected a significant gold-copper porphyry system below the upper high-grade gold zone. The grades in the porphyry system in BMDD020 are some of the best seen at Bramaderos since Sunstone commenced drilling. This is a very promising result which opens the potential for the Alba target to deliver widespread porphyry gold-copper and higher-grade gold mineralisation.

Directors' Report

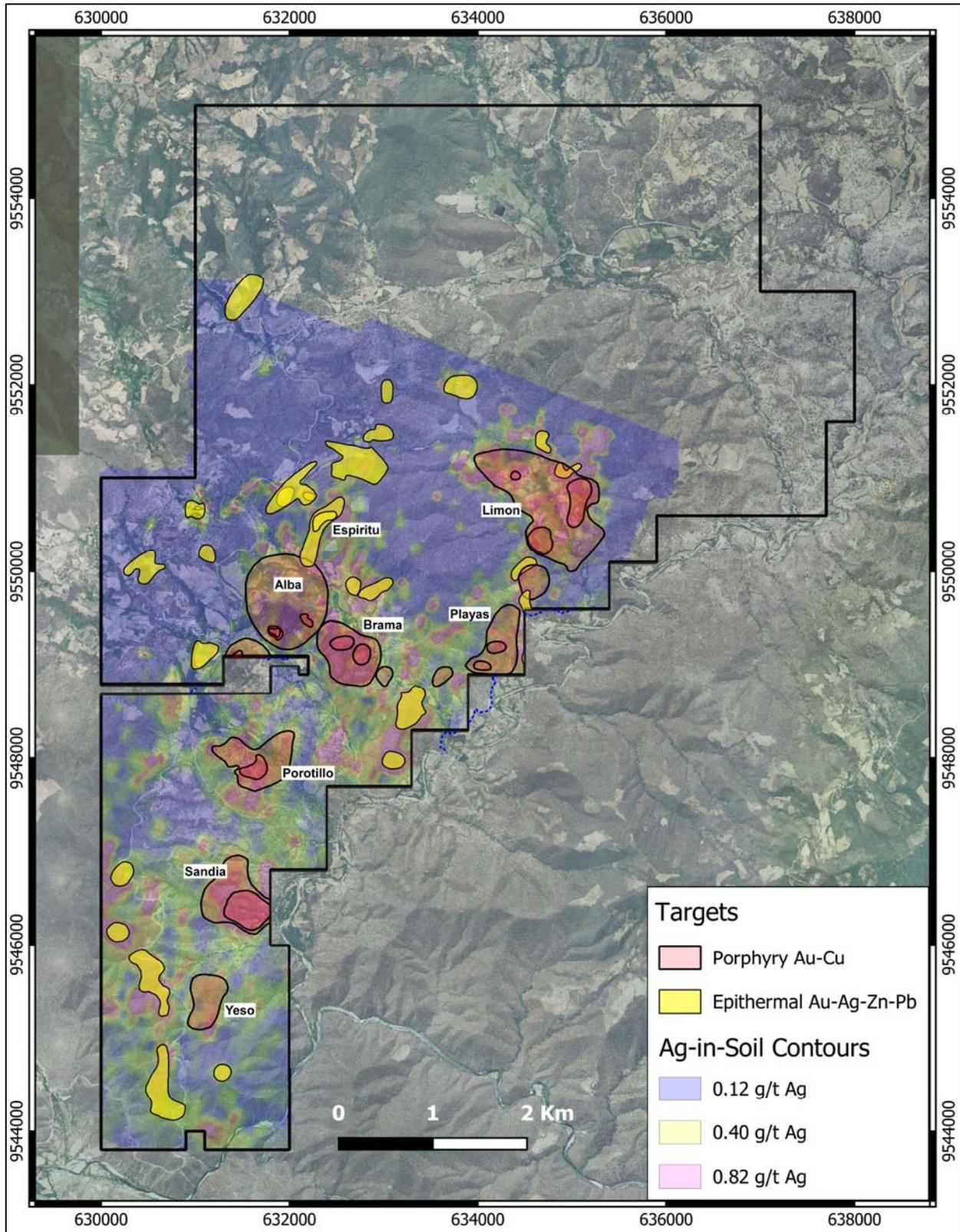


Figure 5: Bramaderos project and Alba target location. Other porphyry gold-copper targets are also labelled.

Directors' Report

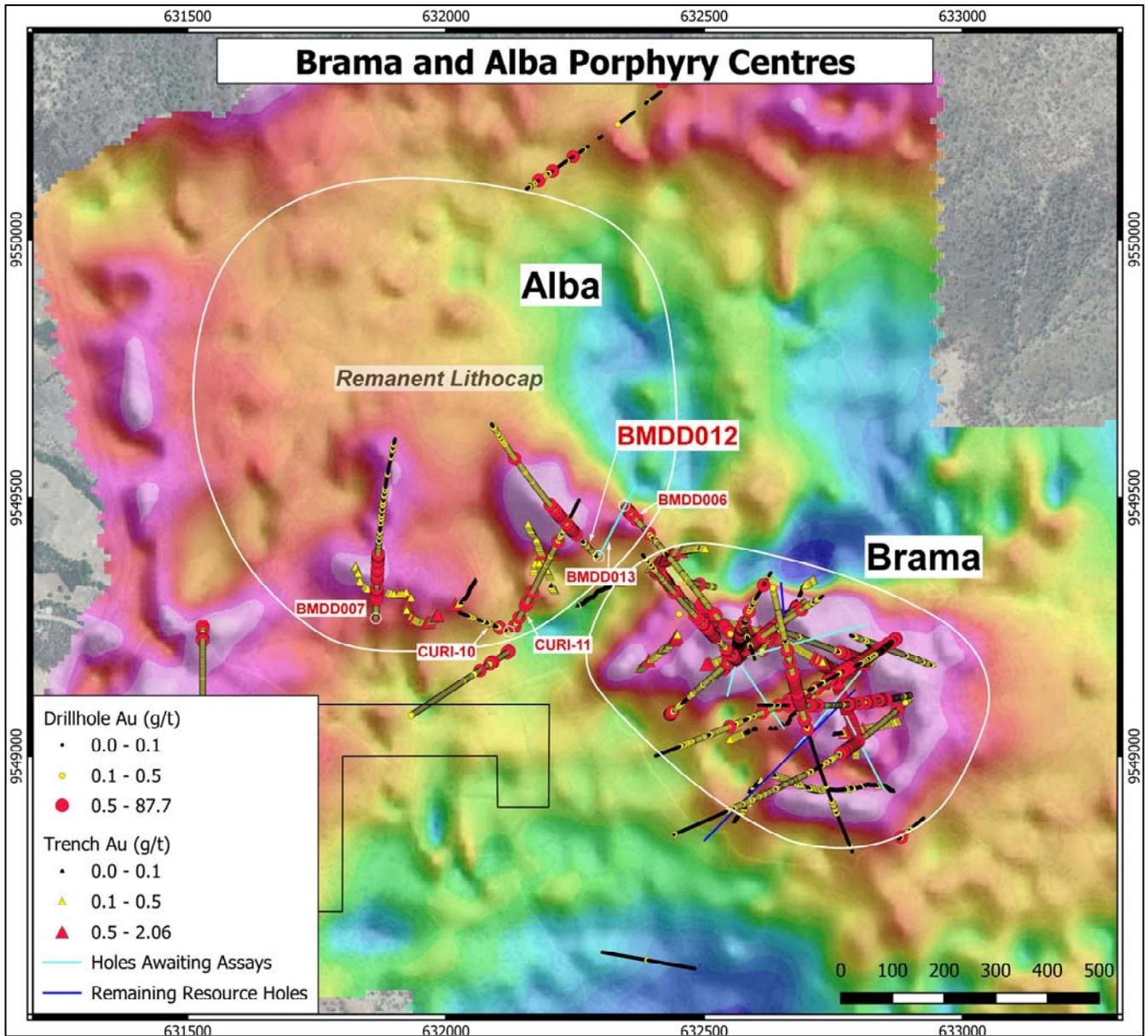


Figure 6: Alba and Brama targets showing location of existing drill holes.

Directors' Report

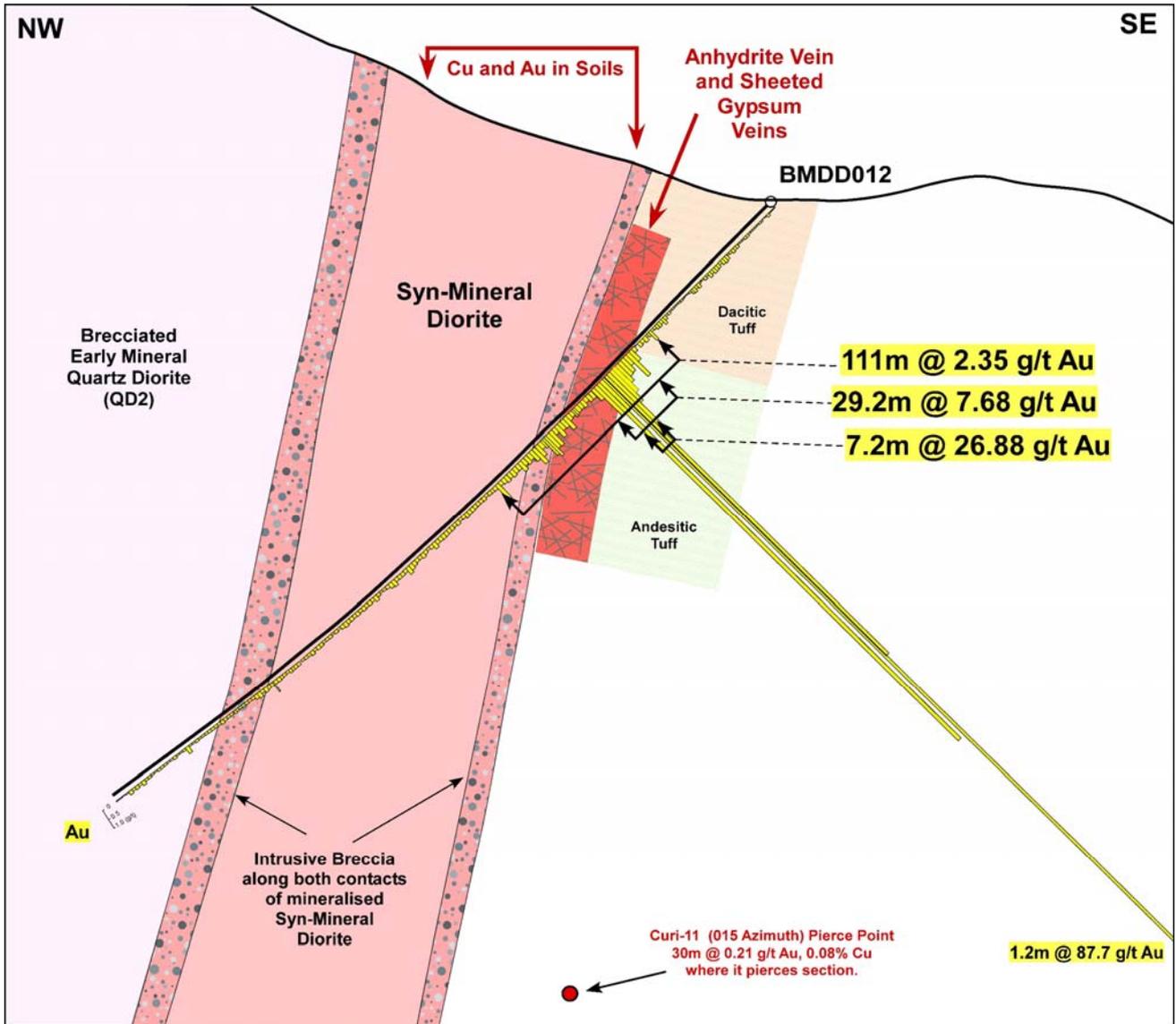


Figure 7: Alba cross section showing drill hole BMDD012.

Directors' Report

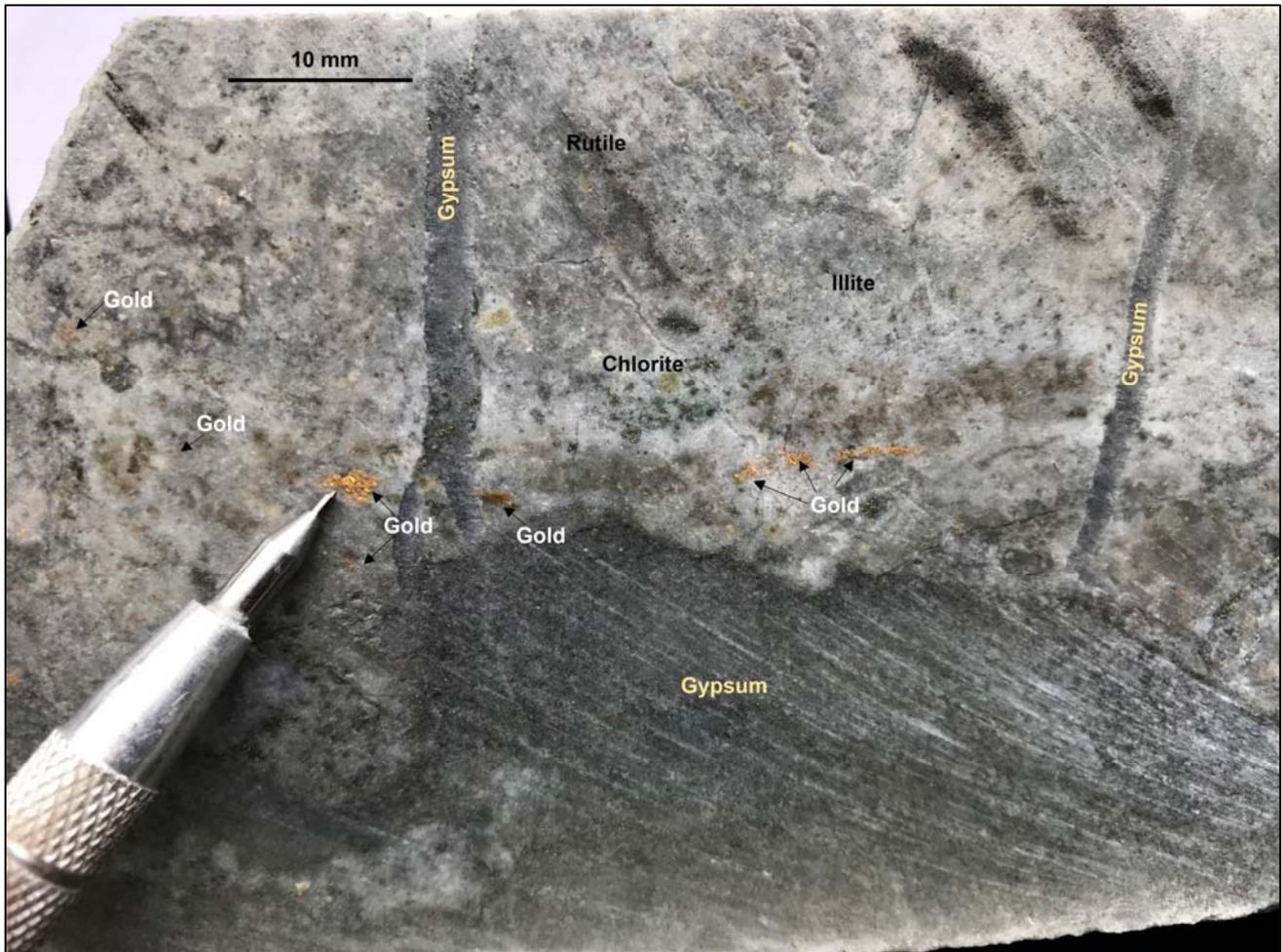


Figure 8: Visible gold in BMDD012 at 127.77-127.85m with visible gold stringer vein overprinting illite-chlorite altered andesitic volcanic tuffs. The interval 126.8m – 128m returned a grade of 87.7g/t gold.

Directors' Report

Brama target

At the Brama target, a large complex magnetic body has been modelled with a vertical depth extent of 1km and a surface expression that coincides with the areas of best historical drilling and significant gold anomalism defined in soil and rock sampling and an extensive trenching program.

Assay results from holes BMDD009, 010 and 011 were received during the half year and further highlight the potential for Brama to host a substantial gold-copper porphyry system (Refer to ASX Announcement dated 16 September 2021).

Drill hole BMDD009 was drilled in the east and central parts of the main Brama porphyry system and intersected a veined porphyry system hosted by diorite. The drill hole further strengthened the interpretation of geology and mineralisation between holes BMDD001 and 002.

Drill hole BMDD010 intersected the main Brama porphyry stockwork style mineralisation and the deeper northern part of the intrusive breccia intersected in BMDD008. The hole drilled orthogonal to previously drilled holes BMDD001, 002 and 005 and has better defined the higher-grade mineralisation reported from BMDD001 and historical hole CURI-03, and from the intrusive breccia in hole BMDD005. Hole BMDD010 was drilled at a shallow dip of -300 and therefore the intersections are between 200m and 300m below surface.

Drill hole BMDD011 was drilled towards the northwest from the collar of hole BMDD008 and was sited to test the northwest up-dip continuation of the mineralised intrusive breccia body that was intersected at depth in BMDD008, and to test below well mineralised trench intervals of 70m at 0.68g/t gold and 0.16% copper, and 63m at 0.77g/t gold and minor copper.

Holes BMDD014 to BMDD019 are testing areas of limited drilling within the higher-grade intrusive breccia, and in conjunction with a detailed 3-D geological model that has been completed for Brama, will underpin a Mineral Resource Estimate (MRE) to be undertaken in 2022.

Directors' Report

Investment in Copperstone Resources AB

In March 2019, the Company sold its interest in the Viscaria Copper Project in Sweden to Copperstone Resources AB (Nasdaq First North (Stockholm) COPP B) for a combination of cash and shares.

During the half year ended 31 December 2021 Sunstone sold a total of 24,042,774 shares held in Copperstone realising ~\$5.6 million in cash.

As at 31 December 2021 Sunstone held 37,595,878 shares in Copperstone (~3.4 per cent of the shares on issue) valued at ~\$6.75 million (at 1.18 SEK).

Since the closing of the transaction to sell Viscaria to Copperstone, Sunstone has to date received cash of approximately \$28.7 million (comprising 35 million Swedish Kronor (MSEK) equal to approximately \$5.4 million, 12.5 million shares in lieu of 5 MSEK cash owed plus interest, sold on market for ~\$0.9m, 26 MSEK in cash for early payout of the at-risk contingent tranche 2 consideration due upon receipt of an environmental permit equal to approximately \$4.1 million and sale of 122,404,122 of the 160 million shares in Copperstone for 117.2 MSEK equal to approximately \$18.3 million).

Further details on Copperstone can be found on their website <https://copperstone.se/>

Lithium Portfolio

Sunstone's 100% owned subsidiary Scandian Metals Pty Ltd (Scandian) holds an 83.6% interest in the Finland Lithium project that include the Kietyönmäki lithium occurrence which was discovered by the Finnish Geological Survey (GTK) in the mid-1980's.

On 16 December 2021 Sunstone announced that it has signed a definitive agreement to divest its Finland Lithium project to Canadian Securities Exchange-listed United Lithium Corp ('CSE:ULTH'). As a result, the exploration and evaluation assets held relating to the Finland Lithium project have been re-classified as Non-current assets held for sale.

The transaction closed on 11 February 2022. Total consideration received by Sunstone on closing was approximately A\$950,000, with C\$420,000 (~A\$460,000) cash and 871,803 shares in United Lithium valued at approximately A\$490,000 at closing.

Events occurring after reporting period

No other matter or circumstance has arisen since 31 December 2021 that has significantly affected, or may significantly affect the Group's position, the results of those operations, or the Group's state of affairs in future financial periods, except as already disclosed in the half-year financial statements.

Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under section 307C of the Corporations Act 2001 is set out on page 16.

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



Graham Ascough

**Chairman
Sunstone Metals Ltd**

9 March 2022

Auditor's Independence Declaration



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

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

DECLARATION OF INDEPENDENCE BY R M SWABY TO THE DIRECTORS OF SUNSTONE METALS LIMITED

As lead auditor for the review of Sunstone Metals Limited for the half-year ended 31 December 2021, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

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



R M Swaby
Director

BDO Audit Pty Ltd

Brisbane, 9 March 2022

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the half-year ended 31 December 2021

	Note	Half-year ended	
		2021	2020
		\$	\$
Revenue	4	6,210	11,820
Other income	4	-	247,468
Employee Benefits Expense	5	(897,063)	(506,193)
Corporate and administration expenses		(381,257)	(327,155)
Share of associate losses using the equity method		-	(278,058)
Net fair value gain/(loss) on financial assets at fair value through profit or loss	7	732,063	(904,981)
Depreciation expense	8	(33,211)	(33,943)
Reversal of impairment / (impairment expense)	5	-	1,178,227
Interest paid		(6,025)	(4,348)
Profit/(Loss) before income tax		(579,283)	(617,163)
Income tax expense		-	-
Net profit/(loss) for the period		(579,283)	(617,163)
Other comprehensive income / (loss)			
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation differences		504,952	(2,002,712)
Total comprehensive profit/(loss) for the period		(74,331)	(2,619,875)
Net profit/(loss) for the period is attributable to:			
Members of Sunstone Metals Ltd		(572,349)	(614,800)
Non-controlling interests		(6,934)	(2,363)
		(579,283)	(617,163)
Total comprehensive profit/(loss) for the period attributable to:			
Members of Sunstone Metals Ltd		(68,371)	(2,617,431)
Non-controlling interests		(5,960)	(2,443)
		(74,331)	(2,619,875)
Earnings per share for profit/(loss) attributable to the ordinary equity holders of the Company:			
		Cents	Cents
Basic earnings per share		(0.0)	(0.0)
Diluted earnings per share		(0.0)	(0.0)

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

Consolidated Statement of Financial Position

As at 31 December 2021

	Note	31-Dec-21 \$	30-Jun-21 \$
Current assets			
Cash and cash equivalents		9,492,804	12,171,240
Trade and other receivables	6	79,059	38,858
Total current assets		9,571,863	12,210,098
Non-current assets			
Financial assets at fair value through profit or loss	7	6,916,488	11,783,019
Plant and equipment	8	169,644	189,852
Exploration and evaluation	9	27,560,686	19,950,190
Non-current assets held for sale	9	798,222	-
Total non-current assets		35,445,040	31,923,061
Total assets		45,016,903	44,133,159
Current liabilities			
Trade and other payables	10	818,200	195,020
Lease liabilities	11	37,863	35,900
Provisions	12	269,211	284,288
Total current liabilities		1,125,274	515,208
Non-current liabilities			
Lease liabilities	11	53,051	72,483
Provisions	12	234,871	208,793
Total non-current liabilities		287,922	281,276
Total liabilities		1,413,196	796,484
Net assets		43,603,707	43,336,675
Equity			
Contributed equity	13	88,491,561	88,193,617
Reserves	14	2,873,044	2,321,815
Accumulated losses		(48,625,644)	(48,053,295)
Equity attributable to owners of Sunstone Metals Limited		42,738,961	42,462,137
Non-controlling interests		864,746	874,538
Total equity		43,603,707	43,336,675

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

Consolidated Statement of Changes in Equity

For the half-year ended 31 December 2021

2021	Contributed Equity	Share Based Payments Reserve	Foreign Currency Translation Reserve	Accumulated Losses	Total	Non-controlling interests	Total equity
	\$	\$	\$	\$	\$	\$	\$
At the beginning of the financial year	88,193,617	3,946,319	(1,624,504)	(48,053,295)	42,462,137	874,538	43,336,675
Profit/(loss) for the year				(572,349)	(572,349)	(6,934)	(579,283)
Other comprehensive Income			503,978		503,978	974	504,952
Total comprehensive income/(loss) for the half-year	-	-	503,978	(572,349)	(68,371)	(5,960)	(74,331)
Shares issued	309,480				309,480	(3,832)	305,648
Share issue costs	(11,536)				(11,536)		(11,536)
Share based payment transactions		47,251			47,251		47,251
Total Equity at 31 December 2021	88,491,561	3,993,570	(1,120,526)	(48,625,644)	42,738,961	864,746	43,603,707
2020							
	\$	\$	\$	\$	\$	\$	\$
At the beginning of the financial year	88,193,617	3,783,520	423,864	- 51,282,224	41,118,777	882,963	42,001,740
Profit/(loss) for the year				(614,800)	(614,800)	(2,363)	(617,163)
Other comprehensive Income			(2,002,632)		(2,002,632)	(80)	(2,002,712)
Total comprehensive income/(loss) for the half-year	-	-	(2,002,632)	(614,800)	(2,617,432)	(2,443)	(2,619,875)
Shares issued					-	(231)	(231)
Share issue costs					-		-
Share based payment transactions		45,406			45,406		45,406
Total Equity at 31 December 2020	88,193,617	3,828,926	(1,578,768)	(51,897,024)	38,546,751	880,289	39,427,040

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

Consolidated Statement of Cash Flows

For the half-year ended 31 December 2021

	Note	Half-year ended	
		2021	2020
		\$	\$
Cash flows from to/from operating activities			
Payments to suppliers and employees		(865,839)	(875,759)
Sundry income	4	0	113,600
Interest paid		(2,890)	(4,348)
Interest received	4	6,210	11,820
Net cash outflow from operating activities		(862,519)	(754,687)
Cash flows to/from investing activities			
Payments for plant and equipment		(11,931)	-
Exploration and evaluation expenditure		(7,384,841)	(2,805,054)
Proceeds from sale of subsidiary		-	762,687
Proceeds from sale of shares		5,598,594	758,552
Net cash used in investing activities		(1,798,178)	(1,283,815)
Cash flows to/from financing activities			
Principal paid on lease liabilities		(17,469)	(19,926)
Interest paid on lease liabilities		(3,135)	(678)
Net cash used in financing activities		(20,604)	(20,604)
Net increase/(decrease) in cash		(2,681,301)	(2,059,106)
Effect of exchange rate fluctuations on cash held		2,865	1,153
Cash and cash equivalents at the beginning of the financial year		12,171,240	3,686,349
Cash at the end of the financial year		9,492,804	1,628,396

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

Notes to the Financial Statements

For the half-year ended 31 December 2021

Note 1 Basis of preparation and changes in accounting policies

a) Basis of preparation

This general purpose condensed financial report for the half-year reporting period ended 31 December 2021 has been prepared in accordance with AASB 134 Interim Financial Reporting and the Corporations Act 2001.

The half-year financial report does not include all of the notes of the type normally included in an annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2021 and any public announcements made by Sunstone Metals Limited during the half-year reporting period in accordance with the continuous disclosure requirements of the ASX Listing Rules. The annual report and any public announcements issued can be located on the company's website www.sunstonemetals.com.au.

The same accounting policies and methods of computation have generally been followed in these half-year financial statements as compared with the most recent annual financial statements.

b) Going Concern

The consolidated entity made a net loss of \$579,283 and had \$862,519 of cash outflows from operating activities for the half year ended 31 December 2021. As at 31 December 2021 the consolidated entity has net cash reserves of \$9,492,804 and a net current asset surplus of \$8,446,589.

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

- The cash balance of the Group as at 31 December 2021 is \$9,492,804;
- During the half year ended 31 December 2021 the Group successfully monetised \$5,598,594 by selling Copperstone shares on market. The value of the remaining shares held in Copperstone as at 31 December 2021 equates to \$6,753,107;
- To date the Group has funded its activities through issuance of equity securities and it is expected that the Group will be able to fund its future activities through further issuances of equity securities;
- The directors believe there is sufficient cash available for the Group to continue operating until it can raise sufficient further capital to fund its ongoing activities.

c) Fair Values

Financial assets where the contractual cash flows are not solely payments of principal and interest are classified as financial assets at fair value through profit or loss.

Notes to the Financial Statements

For the half-year ended 31 December 2021

Note 2 Accounting estimates and judgements

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Group and are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results. Below are key estimates and assumptions that have a significant risk of causing a material adjustment to carrying amounts of certain assets and liabilities within the next annual reporting period.

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

The financial assets at fair value through profit or loss fall under level 1 of the fair value hierarchy referred to in AASB 13 Fair Value measurement i.e. their fair value has been determined using quoted prices in an active market. Refer to note 7 for further detail regarding the key estimates applied to determine the fair value of these financial assets.

Note 3 Segment reporting

The Group has determined its operating segments based upon reports reviewed by the Board (Chief Operating Decision Makers) for making strategic decisions. The primary focus of the Company is the exploration for and evaluation of copper, gold and lithium projects. The Board has identified three segments being exploration in Ecuador and Finland, as well as investments held through the Australian Parent Company.

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

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

	Half-year ended	
	2021	2020
	\$	\$
Revenue/Income		
Australia	436	247,935
Ecuador	5,773	11,353
Finland	-	-
	6,209	259,288
Non-current assets		
Australia	13,086,008	22,443,455
Ecuador	21,551,262	10,632,620
Finland	807,770	2,048,372
	35,445,040	35,124,447

Notes to the Financial Statements

For the half-year ended 31 December 2021

Note 4 Revenue and Other Income

	Half-year ended	
	31-Dec-21 \$	31-Dec-20 \$
Interest Revenue	6,210	11,820
Other income - Gain on sale of investment in shares	-	183,868
Other income - Government grants	-	63,600
	-	247,468

Note 5 Expenses

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

	Half-year ended	
	31-Dec-21 \$	31-Dec-20 \$
Employee benefits expense*		
Salaries & wages	416,574	350,536
Directors' fees	72,500	75,668
Defined contribution superannuation expense	20,807	22,946
Share based payments	356,731	45,406
Movement in leave provisions	26,076	3,541
Other	4,375	8,096
	897,063	506,193
Impairment Expense		
Exploration concessions	-	888,188
Shares in Copperstone Resources AB	-	(2,066,415)
	-	(1,178,227)

* Excludes employee costs capitalised to exploration and evaluation expenditure

Note 6 Other receivables

	31-Dec-21 \$	30-Jun-21 \$
Other debtors	29,791	17,184
Deposits	15,225	15,225
Prepayments	34,043	6,449
	79,059	38,858

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

All other receivables excluding deposits are non-interest bearing and balances are current.

Notes to the Financial Statements

For the half-year ended 31 December 2021

Note 7 Financial assets at fair value through profit or loss

	31-Dec-21 \$	30-Jun-21 \$
Non-current		
Shares in Copperstone Resources AB	6,753,107	11,619,638
Shares in NewPeak Metals Ltd	163,381	163,381
	6,916,488	11,783,019
Reconciliation of the written down values at the beginning and end of the financial year:		
	31-Dec-21 \$	30-Jun-21 \$
<i>Opening fair value</i>	11,783,019	5,036,204
	-	250,000
Reclassification - Investments accounted for using the equity method	-	17,326,528
Shares sold during the financial year	(5,598,594)	(11,949,130)
Cash received	-	(4,131,223)
Fair value increments / (decrements)	732,063	978,746
Closing fair value	6,916,488	11,783,019

During the half year ended 31 December 2021 Sunstone sold a total of 24,042,774 shares held in Copperstone Resources AB ("Copperstone") at an average price of 1.475 SEK realising \$5,598,594 in cash.

As at 31 December 2021 Sunstone held 37,595,878 shares in Copperstone (~3.4 per cent of the shares on issue) valued at \$6,753,107 (at 1.18 SEK).

The Group recognises the retained investment at its fair value, being the market value at reporting date under level 1 of the fair value hierarchy referred to in AASB 13 Fair Value measurement. It is noted that this value may fluctuate from period to period due to share price movements of Copperstone and changes in the exchange rate between the Australian Dollar and Swedish Krona.

During the financial year ended 30 June 2021 Sunstone sold its interest in the Southern Finland Gold Project to NewPeak Metals Ltd (ASX:NPM), receiving \$75,000 in cash and \$250,000 in NPM shares upon settlement, recognised at the market value at reporting date under level 1 of the fair value hierarchy referred to in AASB 13 Fair Value measurement. The share price for NewPeak Metals remains the same at 31 December 2021 as it was at 30 June 2021.

Further consideration of \$1.5 million is receivable from NewPeak Metals Ltd contingent on delivery of at least 450,000 ounces of gold in Measured and Indicated Resources from the acquired permits. As the project is at an early stage of exploration it is not considered highly probable that this milestone will be met, as required under AASB 137, and therefore Sunstone has not recognised a receivable for this further consideration.

Notes to the Financial Statements

For the half-year ended 31 December 2021

Note 8 Property, plant and equipment

	Office equipment \$	Computer equipment \$	Exploration equipment \$	Right of use assets \$	Total \$
Half-year Ended 31 December 2021					
Carrying amount at beginning of financial year	849	1,803	89,373	97,827	189,852
Additions	-	13,940	-	-	13,940
Disposals	(849)	-	-	-	849
Depreciation expensed	-	(2,364)	(13,060)	(17,787)	(33,211)
Depreciation capitalised as exploration	-	-	-	-	-
Effect of movement in foreign exchange	-	(88)	-	-	(88)
Carrying amount at end of financial year	-	13,291	76,313	80,040	169,644
As at 31 December 2021					
At Cost	23,944	71,184	130,597	173,735	399,460
Accumulated Depreciation	(23,944)	(57,893)	(54,284)	(93,695)	(229,816)
	-	13,291	76,313	80,040	169,644
Year Ended 30 June 2021					
Carrying amount at beginning of financial year	1,024	4,978	115,493	28,721	150,216
Additions	-	-	-	106,720	106,720
Disposals	-	-	-	-	-
Depreciation expensed	(93)	(3,096)	(26,120)	(37,614)	(66,923)
Depreciation capitalised as exploration	-	-	-	-	-
Effect of movement in foreign exchange	(82)	(79)	-	-	(161)
Carrying amount at end of financial year	849	1,803	89,373	97,827	189,852
As at 30 June 2021					
At Cost	25,071	60,295	130,597	173,735	389,698
Accumulated Depreciation	(24,222)	(58,492)	(41,224)	(75,908)	(199,846)
	849	1,803	89,373	97,827	189,852

Right of use assets relates to office lease.

Notes to the Financial Statements

For the half-year ended 31 December 2021

Note 9 Exploration and evaluation assets

	31-Dec-21 \$	30-Jun-21 \$
At Cost - less amounts written off	28,358,908	19,950,190
Balance at 1 July	19,950,190	16,972,821
Exploration and evaluation expenditure	8,420,579	6,447,590
Impairment recognised	-	(410,928)
Non-current assets held for sale	(798,222)	-
Effect of movement in foreign exchange	(11,861)	(902,879)
Disposal of subsidiary	-	(2,156,415)
Balance at 30 June	27,560,686	19,950,190

On 16 December 2021 Sunstone announced that it has signed a definitive agreement to divest its Finland Lithium project to Canadian Securities Exchange-listed United Lithium Corp ('CSE:ULTH'). As a result, the exploration and evaluation assets held relating to the Finland Lithium project have been re-classified as Non-current assets held for sale.

The transaction closed on 11 February 2022. Total consideration received by Sunstone on closing was approximately A\$950,000, with C\$420,000 (~A\$460,000) cash and 871,803 shares in United Lithium valued at approximately A\$490,000 at closing.

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

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

Note 10 Trade and other payables

	31-Dec-21 \$	30-Jun-21 \$
Trade payables	758,877	133,742
Sundry payables and accrued expenses	59,323	61,278
	818,200	195,020

Note 11 Lease liabilities

	31-Dec-21 \$	30-Jun-21 \$
Current		
Office lease	37,863	35,900
Non-current		
Office lease	53,051	72,483

Notes to the Financial Statements

For the half-year ended 31 December 2021

Note 12 Provisions

	31-Dec-21 \$	30-Jun-21 \$
Current		
Employee leave liabilities	269,211	284,288
Non-current		
Employee leave liabilities	234,871	208,793

Note 13 Equity securities issued

	Number of shares	2021 \$
Ordinary shares - fully paid	2,239,520,979	88,491,561

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

	Number of shares	Issue price \$	\$
Balance as at 1 July 2021	2,209,987,646		88,193,617
Nov-21 Vesting of Employee Performance Rights	3,466,667	0.026	90,133
Nov-21 Vesting of Employee Performance Rights	10,000,000	0.007	74,600
Nov-21 Vesting of Employee Performance Rights	10,000,000	0.004	41,700
Nov-21 Vesting of Employee Performance Rights	3,466,666	0.023	80,427
Dec-21 Vesting of Employee Performance Rights	2,600,000	0.009	22,620
Share issue costs			(11,536)
Balance as at 31 December 2021	2,239,520,979		88,491,561

Options and Performance Rights

During the half-year, a total of 36,000,000 performance rights have been issued to employees (3 and 17 November 2021), with 8,400,000 of these being issued to the Managing Director. The performance rights expire upon the earlier of cessation of employment or three years from issue and are split into three separate tranches, Tranche 1 - 12,000,000 rights vesting upon the closing price of the Company's share price being \$0.071 or more for 10 trading days out of any 20 consecutive trading days and minimum 12 months from issue date until vesting; Tranche 2 - 12,000,000 rights vesting dependent on the Company's Total Shareholder Return performance against the ASX Small Resources Index; Tranche 3 - 12,000,000 rights vesting upon the closing price of the Company's share price being \$0.094 or more for 10 trading days out of any 20 consecutive trading days and minimum 12 months from issue date until vesting.

On 1 November 2021, 12,000,000 Unlisted Options exercisable at \$0.10 were issued to non-executive directors following shareholder approval at the Company's AGM in October 2021. These options have a 12 month vesting period and a 3 year term from the date of issue.

Notes to the Financial Statements

For the half-year ended 31 December 2021

Note 14 Reserves

	31-Dec-21 \$	30-Jun-21 \$
Share based payments reserve	3,993,570	3,946,319
Foreign currency translation reserve	(1,120,526)	(1,624,504)
Total reserves	2,873,044	2,321,815
Movements in reserves were as follows:		
Share based payments reserve		
Opening balance	3,946,319	3,783,520
Share based payments - employees	356,731	162,799
Shares Issued on vesting	(309,480)	-
Closing balance	3,993,570	3,946,319
Foreign currency translation reserve		
Opening balance	(1,624,504)	423,864
Foreign exchange gains/(losses) on translation	503,978	(2,048,368)
Closing balance	(1,120,526)	(1,624,504)

Note 15 Dividends

There were no dividends declared or paid during the half-year (2020: Nil).

Note 16 Events occurring after reporting period

On 16 December 2021 Sunstone announced that it has signed a definitive agreement to divest its Finland Lithium project to Canadian Securities Exchange-listed United Lithium Corp ('CSE:ULTH'). As a result, the exploration and evaluation assets held relating to the Finland Lithium project have been re-classified as Non-current assets held for sale.

The transaction closed on 11 February 2022. Total consideration received by Sunstone on closing was approximately A\$950,000, with C\$420,000 (~A\$460,000) cash and 871,803 shares in United Lithium valued at approximately A\$490,000 at closing.

No other matter or circumstance has arisen since 31 December 2021 that has significantly affected, or may significantly affect the Group's position, the results of those operations, or the Group's state of affairs in future financial periods, except as already disclosed in the half-year financial statements.

Directors' Declaration

In the opinion of the Directors:

- (a) the financial statements and notes of the Consolidated Entity as set out on pages 17 to 28 are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2021 and of its performance for the half year ended on that date; and
 - (ii) complying with Accounting Standard 134 Interim Financial Reporting and the Corporations Regulations 2001;
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

On behalf of the Board



Graham Ascough
Chairman

Brisbane, Queensland

9 March 2022

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Sunstone Metals Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of Sunstone Metals Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2021, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, a summary of significant accounting policies and other explanatory information, and the directors' declaration.

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

- (i) Giving a true and fair view of the Group's financial position as at 31 December 2021 and of its financial performance for the half-year ended on that date; and
- (ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to the audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Responsibility of the directors for the financial report

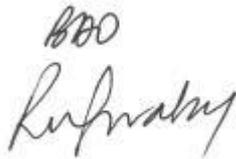
The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation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

Auditor's responsibility for the review of the financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2021 and its financial performance for the half-year ended on that date and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

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

BDO Audit Pty Ltd



R M Swaby
Director

Brisbane, 9 March 2022