



ABN 68 123 184 412

Half-Year Financial Report 31 December 2020

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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

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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

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Milton Qld 4064
Telephone: 07 3368 9888

Web site: www.sunstonemetals.com.au

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Directors' Report

Your Directors present their report on Sunstone Metals Limited ("Sunstone" or "Company") and the entities it controlled ("Consolidated Entity" or "Group") for the half-year ended 31 December 2020.

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	
	2020	2019
	\$	\$
Revenue and other income	259,288	96,274
Profit/(loss) before income tax	(617,163)	(2,519,345)
Income tax expense	-	-
Profit/(loss) attributable to members of Sunstone Metals Limited	(614,800)	(2,505,527)
Profit/(loss) attributable to non-controlling interests	(2,363)	(13,819)
Earnings per share	2020	2019
	cents	cents
Basic and diluted earnings per share	(0.0)	(0.2)

Directors' Report

Financial Performance

During the half-year ended 31 December 2020 the Group incurred a loss of \$617,163 (2019: loss of \$2,519,345). The loss for this period is largely due to impairment expense recognised on the early settlement of the contingent future consideration receivable from Copperstone of \$904,981 as well as impairment recognised on the carrying value of the Southern Finland Gold Project of \$888,188, offset by net fair value gains recognised related to the shareholding in Copperstone of \$1,788,357, with an increase in value of the shares held in Copperstone Resources AB ("Copperstone") during the half year (share price 0.67SEK at 30 June 2020 compared to 0.735SEK at 31 December 2020). In addition to this, there are corporate costs incurred to fund the progression of activities in Ecuador, Sweden and Finland.

Financial Position

The Company's non-current assets decreased from \$38,875,365 at 30 June 2020 to \$35,124,447 at 31 December 2020, primarily due to the agreement for the early payout of the future consideration due from Copperstone (\$5,036,204 at 30 June 2020), offset by capitalised exploration expenses on the Bramaderos Project in Ecuador.

During the half-year, the Company had no movement in contributed equity.

At the end of the financial period, the Group had cash balances of \$1,628,396 (June 2020 \$3,686,349) and net assets of \$39,427,040 (June 2020: \$42,001,740). Total liabilities amounted to \$751,490 (June 2020: \$745,871) and included trade, other payables and provisions.

Operations Summary

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

The Bramaderos Project is located in Loja province, southern Ecuador, some 90 km (1.5-hour drive) from the city of Loja and is considered to be 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. 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.

Espiritu silver-gold target:

Drilling commenced at the Espiritu silver-gold target in September 2020, designed to test the depth extent of high-grade trench and rock chip samples that returned 21m at 82.4g/t silver, 0.3g/t gold, 1.4% zinc and 1.2% lead, including 4m at 415g/t silver, 0.9g/t gold, 6.9% zinc and 6% lead in trench samples and 4.2g/t gold and 101g/t silver, 11.9g/t gold and 175g/t silver, and 11.6g/t gold and 2,962g/t silver in surface rock chip samples (see ASX announcements 13 July 2020 and 10 September 2020).

Seven holes totalling 1,749.46m have been completed at Espiritu up to the end of December 2020 and drilling to date has only tested to a depth of ~250m below surface in 2 locations at Espiritu. Evidence of multiple lodes means there are several opportunities to follow-up high silver grades across the area drilled to date. Narrow high-grade zones and intervening lower grade zones can be bulked and outline larger mineralised bodies. Both concepts are being explored – high grade narrow veins and larger lower grade systems.

Assay results from the first six diamond drill holes at Espiritu contain high grades within multiple silver-gold-zinc-lead vein and breccia intervals (see ASX announcements 1 December 2020 and 21 January 2021), and indicate that Sunstone has discovered a significant polymetallic silver-gold-zinc-lead 'intermediate sulphidation' epithermal system.

Significant high grade assay results from drill holes completed to date include:

- 0.3m at 605g/t silver, 0.35g/t gold from 134.2m in ESDD003
- 1.1m at 1069g/t silver, 0.2g/t gold, 5.5% zinc, 1.3% lead from 225.5m in ESDD005
- 11.6m at 167.4g/t silver, 0.16g/t gold from 259.1m in ESDD005
- 0.5m at 550g/t silver, 0.26g/t gold from 278m in ESDD006

Directors' Report

On a gold or silver-equivalent basis, the intersections reported are very significant. Globally, silver-polymetallic systems similar to Espiritu can be very significant development opportunities. Many examples occur in Central and South America where mines typically produce concentrates of lead-zinc-silver and gold.

Other priority targets have been identified within the Bramaderos concession and these are being advanced during the current program. New areas of outcropping carbonate and barite alteration, typical of epithermal systems, with evidence of copper-lead-zinc mineralisation have been identified at surface and will be scheduled for further exploration and drilling.

Brama target

At the Brama target, a large complex magnetic body has been modelled with a vertical 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.

Six effective diamond drill holes have been completed by Sunstone into the Brama gold-copper porphyry target (refer to ASX announcements dated 9 May 2018, 18 July 2019, 20 August 2019, 26 August 2019, 29 October 2019, 3 December 2019, 21 January 2020 and 25 February 2020).

An in-depth review of all exploration data from the Bramaderos Gold-Copper Project found that the higher-grade gold-copper porphyries exhibit pipe-like geometries, not broad, disseminated geometries as previously interpreted.

Drilling of the Brama porphyry gold-copper system commenced in February 2021.

The target at Brama is a 'pencil porphyry' as interpreted from 3-D modelling of magnetics data. The drill hole will test beneath a well mineralised, potassic altered, high level intrusive breccia zone of the Brama porphyry intersected in earlier drilling that returned 98m at 0.61g/t gold and 0.11% copper in BMDD005 and 103.6m at 0.56g/t gold and 0.13% copper in CURI 13.

Mineralised intervals from trenches at Brama of 615m at 0.52g/t gold and 0.11% copper with higher grade sub-sections, and drill holes of 248m at 0.56g/t gold and 0.14% copper (CURI-03) and 172m at 0.52g/t gold and 0.16% copper (BMDD001) within 200m of surface, clearly demonstrate that the system is capable of delivering pipe-like orebodies of significant grade.

Other targets

It has been established at the Brama target that magnetic bodies correlate strongly with areas of porphyry gold-copper mineralisation, and that within those bodies higher grade domains exist that represent potential porphyry gold-copper deposits.

Melonal, Porotillo, Sandia and Playas are highly rated on this basis and will be drill tested. The Limon target has received limited drilling but compelling targets remain and these will be drill tested in 2021.

Directors' Report

El Palmar Porphyry Copper-Gold Project

Sunstone announced on 12 August 2020 that it had agreed to acquire the highly prospective El Palmar copper-gold porphyry project in Ecuador as part of its strategy to expand its land holdings in Ecuador on projects which offer the potential for significant resource discoveries.

The property is located 60km north-west of Ecuador's capital Quito and is 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, which is considered important for localising other porphyry copper deposits such as the 2.7Bt Alpala (Cascabel) and 1Bt Llurimagua deposits.

El Palmar is a highly promising copper-gold porphyry target. Broad-spaced historical exploration results define a 600m diameter area of anomalous copper and gold that has not been adequately tested with drilling. Three diamond drill holes were completed by a previous explorer at El Palmar in 2012 and delivered significant intersections of copper and gold in a porphyry environment (see table below).

Exploration has commenced at El Palmar focussed on stakeholder engagement, review and sampling of historical drill core, and a ground magnetic survey which commenced in February 2021. It is expected that drilling can commence during late March 2021.

The upper 33-51m of each of the 3 historic drill holes from 2012 had not been previously sampled and assayed. Sunstone has now done this, and the results returned encouraging intervals of gold-copper mineralisation, up to 0.9g/t gold and 0.26% copper over individual samples of ~1.0m (see ASX announcement dated 21 January 2020), adding to the previously defined mineralised areas. Importantly, thin younger cover intersected in drill core from surface that is not mineralised masks the porphyry mineralisation hence limiting significantly the surface expression of the El Palmar system.

New intersections from the recent sampling of historic drillholes include:

EPD-02: 35.4m @ 0.34 g/t Au, 0.18% Cu from 8.12m, adding to the 34.5m historical intersection of 0.31g/t gold and 0.16% copper.

EPD-01: 16.9m @ 0.20 g/t Au, 0.13% Cu from 12.89m, adding to the 186m historical intersection of 0.33g/t gold and 0.16% copper.

Widespread trace bornite was also logged. The assay results together with the logging confirm a well mineralised porphyry with the current interpretation suggesting the historical drill holes passed over the top of, and to the side of the main target zone.

Directors' Report

Investment in Copperstone Resources AB

During the year ended 30 June 2019, the Company sold its interest in the Viscaria Copper Project in Sweden to Swedish listed Copperstone Resources AB ("Copperstone") (Nasdaq First North (Stockholm) COPP B) for a combination of cash and shares.

Sunstone received cash of 35 million Swedish Kronor (MSEK) equal to approximately \$5.4 million and 172.5 million shares in Copperstone. In the year ended 30 June 2020 12.5 million of these shares were sold, raising 5.5 MSEK cash equal to approximately \$865,000.

The second phase of the transaction, which is subject to receipt of the Environmental Permit for Viscaria, comprises a cash payment to Sunstone of 20 MSEK and the issue of 46 million Copperstone B-shares, with the 20 MSEK cash component to be forfeited if Copperstone has not received the final and binding permit to allow mining activities to commence in respect of the Viscaria Project, as approved by the Land and Environment Court within eight years following the Completion Date of the transaction (9 March 2019).

In November 2020 Sunstone and Copperstone agreed to bring this second phase payment forward with Copperstone to pay Sunstone 26 MSEK in cash in full and final settlement of this contingent future consideration. Sunstone received 4.8 MSEK (~A\$750k) during December and the balance of 21.2 MSEK (~A\$3.3 million) was received in February 2021 following the completion of a Rights Issue undertaken by Copperstone. Sunstone believes that bringing this payment forward is an appropriate risk mitigation strategy and provides additional funding now to focus on our activities in Ecuador.

During the half year ended 31 December 2020 Sunstone sold 5,979,219 shares (~3.7% of its shareholding) in Copperstone at an average price of 0.808 SEK for approximately A\$758,000, leaving a shareholding in Copperstone of 154,020,781 shares, valued at ~A\$17.9 million at 31 December 2020.

Further details on Copperstone can be found on their website www.copperstone.se

Southern Finland Gold Portfolio

During the half year Sunstone executed an Asset Sale Agreement ("Agreement") with Dragon Mining Limited ("Dragon") for Dragon to acquire the Exploration Permit application ML2018:0082, which fully surrounds Dragon's Jokisivu gold mine. In accordance with the terms of the Agreement, Dragon paid Sunstone \$75,000 upon execution of the Agreement. A further payment of \$75,000 is payable by Dragon upon the earlier of 5 Business Days after the grant of the Exploration Permit; or 6 months from the date of the Agreement.

Subsequent to the end of December (see ASX announcement dated 29 January 2021) Sunstone signed a Share Sale Agreement whereby Sunstone will sell its Finnish subsidiary, Kultatie Holding Oy, the holder of the Southern Finland Gold Project (part of which is a JV with TSX.V listed Nortec Minerals), to ASX listed NewPeak Metals Limited (ASX:NPM).

The terms of the Share Sale Agreement are (1) NPM to pay Sunstone A\$75,000 cash, and (2) NPM to issue \$250,000 worth of NPM shares on closing (expected during February), and (3) a milestone payment of \$1.5 million (cash or shares or combination at NPMs election) payable upon delivery of at least 500,000 ounces of gold equivalent in Measured and Indicated Resources from the acquired permits.

An impairment has been recognised for the Southern Finland Gold Project to adjust the carrying value to reflect the present value of the anticipated consideration to be received.

Lithium Portfolio

Sunstone's 100% owned subsidiary Scandian Metals Pty Ltd (Scandian) holds an 80% interest in the lithium rights within claim areas that include the Kietyönmäki lithium occurrence which was discovered by the Finnish Geological Survey (GTK) in the mid-1980's. There was no significant field activity during the half-year.

Directors' Report

Events occurring after reporting period

On 29 January 2021, Sunstone announced that it will sell its Finnish subsidiary, Kultatie Holding Oy, the holder of the Southern Finland Gold Project (part of which is a JV with TSX.V listed Nortec Minerals), to ASX listed NewPeak Metals (ASX:NPM).

The terms of the Share Sale Agreement are (1) NPM to pay Sunstone \$75,000 cash, and (2) NPM to issue \$250,000 worth of NPM shares on closing (which occurred on 23 February 2021), and (3) a milestone payment of \$1.5 million (cash or shares or combination at NPMs election) payable upon delivery of at least 500,000 ounces of gold equivalent in Measured and Indicated Resources from the acquired permits.

Also on 29 January 2021, Copperstone announced that it had finalised a Rights Issue raising 170 million SEK by issuing 341,237,851 new shares. This issue of shares resulted in total shares on issue increasing to 982,513,554 and reduced Sunstone's interest from 24% at 31 December 2020 to 15.7%. Funds of 21.2 million SEK were received from Copperstone as per the agreement for the early payout of the future contingent consideration in February 2021.

No other matter or circumstance has arisen since 31 December 2020 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 9.

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



Graham Ascough

**Chairman
Sunstone Metals Ltd**

11 March 2021

AUDITORS INDEPENDENCE DECLARATION



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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 2020, 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, 11 March 2021

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Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the half-year ended 31 December 2020

	Note	Half-year ended	
		2020 \$	2019 \$
Revenue	4	11,820	89,447
Other income	4	247,468	6,827
Employee Benefits Expense	5	(506,193)	(489,430)
Corporate and administration expenses		(327,155)	(476,291)
Share of associate losses using the equity method		(278,058)	(371,381)
Net fair value loss on financial assets at fair value through profit or loss	7	(904,981)	(251,370)
Depreciation expense		(33,943)	(30,108)
Reversal of impairment / (impairment expense)	5	1,178,227	(989,275)
Interest paid		(4,348)	(7,764)
Profit/(Loss) before income tax		(617,163)	(2,519,345)
Income tax expense		-	-
Net profit/(loss) for the period		(617,163)	(2,519,345)
Other comprehensive income / (loss)			
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation differences		(2,002,712)	(43,759)
Total comprehensive profit/(loss) for the period		(2,619,875)	(2,563,104)
Net profit/(loss) for the period is attributable to:			
Members of Sunstone Metals Ltd		(614,800)	(2,505,526)
Non-controlling interests		(2,363)	(13,819)
		(617,163)	(2,519,345)
Total comprehensive profit/(loss) for the period attributable to:			
Members of Sunstone Metals Ltd		(2,617,432)	(2,549,311)
Non-controlling interests		(2,443)	(13,793)
		(2,619,875)	(2,563,104)
Earnings per share for profit/(loss) attributable to the ordinary equity holders of the Company:			
		Cents	Cents
Basic earnings per share		(0.0)	(0.2)
Diluted earnings per share		(0.0)	(0.2)

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

Consolidated Statement of Financial Position

As at 31 December 2020

	Note	31-Dec-20 \$	30-Jun-20 \$
Current assets			
Cash and cash equivalents		1,628,396	3,686,349
Trade and other receivables	6	3,425,687	185,897
Total current assets		5,054,083	3,872,246
Non-current assets			
Financial assets at fair value through profit or loss	7	-	5,036,204
Plant and equipment	8	222,781	150,216
Exploration and evaluation	9	17,021,869	16,972,821
Investments accounted for using the equity method	10	17,879,797	16,716,124
Total non-current assets		35,124,447	38,875,365
Total assets		40,178,530	42,747,611
Current liabilities			
Trade and other payables	11	249,667	308,491
Lease liabilities	12	26,003	30,123
Provisions	13	228,014	260,679
Total current liabilities		503,684	599,293
Non-current liabilities			
Lease liabilities	12	90,914	-
Provisions	13	156,892	146,578
Total non-current liabilities		247,806	146,578
Total liabilities		751,490	745,871
Net assets		39,427,040	42,001,740
Equity			
Contributed equity	14	88,193,617	88,193,617
Reserves	15	2,250,158	4,207,384
Accumulated losses		(51,897,024)	(51,282,224)
Equity attributable to owners of Sunstone Metals Limited		38,546,751	41,118,777
Non-controlling interests		880,289	882,963
Total equity		39,427,040	42,001,740

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 2020

2020	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	3,783,520	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
2019	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	79,607,540	3,800,946	405,594	(55,667,713)	28,146,367	(19,237)	28,127,130
Profit/(loss) for the year	-	-	-	(2,505,526)	(2,505,526)	(13,819)	(2,519,345)
Other comprehensive Income	-	-	(43,785)	-	(43,785)	26	(43,759)
Total comprehensive income/(loss) for the half-year	-	-	(43,785)	(2,505,526)	(2,549,311)	(13,793)	(2,563,104)
Shares issued	4,892,771	-	-	-	4,892,771	437	4,893,208
Share issue costs	(204,999)	-	-	-	(204,999)	-	(204,999)
Share based payment transactions	-	(59,401)	-	-	(59,401)	-	(59,401)
Total Equity at 31 December 2019	84,295,312	3,741,545	361,809	(58,173,239)	30,225,427	(32,593)	30,192,834

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 2020

	Note	Half-year ended	
		2020	2019
		\$	\$
Cash flows from to/from operating activities			
Payments to suppliers and employees		(875,759)	(767,258)
Sundry income		113,600	6,827
Interest paid		(4,348)	(5,556)
Interest received		11,820	40,606
Net cash outflow from operating activities		(754,687)	(725,381)
Cash flows to/from investing activities			
Payments for plant and equipment		-	(73,683)
Exploration and evaluation expenditure		(2,805,054)	(5,764,931)
Proceeds from sale of subsidiary	6	762,687	2,281,461
Proceeds from sale of shares	10	758,552	241,510
Net cash used in investing activities		(1,283,815)	(3,315,643)
Cash flows to/from financing activities			
Proceeds from issue of securities		-	4,789,125
Costs of share issues		-	(204,999)
Principal paid on lease liabilities		(19,926)	(20,906)
Interest paid on lease liabilities		(678)	(2,208)
Net cash provided by financing activities		(20,604)	4,561,012
Net increase/(decrease) in cash		(2,059,106)	519,988
Effect of exchange rate fluctuations on cash held		1,153	416
Cash and cash equivalents at the beginning of the financial year		3,686,349	1,874,864
Cash at the end of the financial year		1,628,396	2,395,268

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 2020

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 2020 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 2020 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 \$617,163 and had \$754,687 of cash outflows from operating activities for the half year ended 31 December 2020. As at 31 December 2020 the consolidated entity has net cash reserves of \$1,628,396 and a net current asset surplus of \$4,550,399.

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

- To date the Group has funded its activities through issuance of equity securities and it is expected that the Group will be able to fund its future activities through further issuances of equity securities;
- The directors believe that there is sufficient cash available for the Group to continue operating based on forecasts which include the following key assumptions:
 - In February 2021 the Group received funds of \$3.3 million in final settlement of the early payout of future contingent consideration from Copperstone Resources AB ("Copperstone");
 - The Group held shares in Swedish listed Copperstone (Nasdaq First North (Stockholm) COPP B) valued at \$17.9 million as at 31 December 2020 and has the ability to sell shares if necessary.

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 2020

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 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.

At 31 December 2020 the Group has a 24% interest in Copperstone Resources AB, which has subsequently reduced to 15.7% following a Rights Issue undertaken by Copperstone in January 2021. A key judgement made by management is that the Group does not control Copperstone Resources AB, but rather significant influence over Copperstone Resources AB.

The financial assets at fair value through profit or loss fall under level 3 of the fair value hierarchy referred to in AASB 13 Fair Value measurement i.e. their fair value has been determined using unobservable inputs.

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	
	2020 \$	2019 \$
Revenue/Income		
Australia	247,935	96,251
Ecuador	11,353	23
Finland	-	-
	259,288	96,274
Non-current assets		
Australia	22,443,455	15,157,915
Ecuador	10,632,620	10,396,057
Finland	2,048,372	2,808,145
	35,124,447	28,362,117

Notes to the Financial Statements

For the half-year ended 31 December 2020

Note 4 Revenue and Other Income

	Half-year ended	
	31-Dec-20 \$	31-Dec-19 \$
Interest Income	11,820	89,447
Sundry Income	247,468	6,827

Sundry income includes gains on sale of shares in Copperstone Resources AB of \$133,868 as well as JobKeeper subsidies of \$63,600 and Australian government cashflow boost of \$50,000.

Note 5 Expenses

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

	Half-year ended	
	31-Dec-20 \$	31-Dec-19 \$
Employee benefits expense*		
Salaries & wages	350,536	238,280
Directors' fees	75,668	92,498
Defined contribution superannuation expense	22,946	20,623
Share based payments	45,406	44,245
Movement in leave provisions	3,541	63,990
Other	8,096	29,794
	506,193	489,430
Impairment Expense		
Exploration concessions	888,188	-
Shares in Copperstone Resources AB	(2,066,415)	989,275
	(1,178,227)	989,275

* Excludes employee costs capitalised to exploration and evaluation expenditure

Notes to the Financial Statements

For the half-year ended 31 December 2020

Note 6 Other receivables

	31-Dec-20 \$	30-Jun-20 \$
Copperstone receivable	3,368,536	-
Other debtors	39,981	169,017
Deposits	15,225	15,225
Prepayments	1,945	1,655
	3,425,687	185,897

During the half-year ended 31 December 2020, Sunstone and Copperstone reached an agreement regarding an addendum to the Share Sale and Purchase Agreement (SPA) for the sale of the Viscaria Copper Project in northern Sweden. The SPA included a tranche 2 payment of 20 million SEK (MSEK) cash and 46 million Copperstone B-shares, subject to receipt of the Environmental Permit for Viscaria, with the 20 MSEK cash component to be forfeited if Copperstone has not received the final and binding permit to allow mining activities to commence in respect of the Viscaria Project, as approved by the Land and Environment Court within eight years following the Completion Date of the transaction (9 March 2019).

Sunstone and Copperstone have agreed to bring this payment forward with Copperstone to pay Sunstone 26 MSEK in cash in full and final settlement of this contingent future consideration. Sunstone received 4.8 MSEK (~A\$750k) during December and the balance of 21.2 MSEK (~A\$3.3 million) was received in February 2021 following the completion of a Rights Issue being undertaken by Copperstone.

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.

Note 7 Financial assets at fair value through profit or loss

	31-Dec-20 \$	30-Jun-20 \$
Non-current		
Copperstone receivable - cash	-	1,981,977
Copperstone receivable - shares	-	3,054,227
	-	5,036,204

Reconciliation of the written down values at the beginning and end of the financial year:

	31-Dec-20 \$	30-Jun-20 \$
Opening fair value	5,036,204	4,057,459
Disposal	(4,131,223)	-
Fair value decrements	(904,981)	978,746
Closing fair value	-	5,036,204

Refer to Note 6 for details on the early payout of the Copperstone receivable.

Notes to the Financial Statements

For the half-year ended 31 December 2020

Note 8 Property, plant and equipment

	Office equipment	Computer equipment	Exploration equipment	Leasehold improvements	Total
	\$	\$	\$	\$	\$
Half-year Ended 31 December 2020					
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	(45)	(1,692)	(13,060)	(19,147)	(33,944)
Depreciation capitalised as exploration	-	-	-	-	-
Effect of movement in foreign exchange	(108)	(103)	-	-	(211)
Carrying amount at end of financial year	871	3,183	102,433	116,294	222,781
As at 31 December 2020					
At Cost	25,041	60,245	130,597	173,735	389,618
Accumulated Depreciation	(24,170)	(57,062)	(28,164)	(57,441)	(166,837)
	871	3,183	102,433	116,294	222,781
Year Ended 30 June 2020					
Carrying amount at beginning of financial year	-	4,626	-	-	4,626
Additions	1,125	3,573	130,597	67,015	202,310
Disposals	-	-	-	-	-
Depreciation expensed	(101)	(3,221)	(15,104)	(38,294)	(56,720)
Depreciation capitalised as exploration	-	-	-	-	-
Effect of movement in foreign exchange	-	-	-	-	-
Carrying amount at end of financial year	1,024	4,978	115,493	28,721	150,216
As at 30 June 2020					
At Cost	25,170	60,459	130,597	67,015	283,241
Accumulated Depreciation	(24,146)	(55,481)	(15,104)	(38,294)	(133,025)
	1,024	4,978	115,493	28,721	150,216

Notes to the Financial Statements

For the half-year ended 31 December 2020

Note 9 Exploration and evaluation assets

	31-Dec-20 \$	30-Jun-20 \$
At Cost - less amounts written off	17,021,869	16,972,821
Balance at 1 July	16,972,821	8,151,339
Exploration and evaluation expenditure	2,074,401	8,804,446
Impairment recognised	(888,188)	-
Effect of movement in foreign exchange	(1,137,165)	17,036
Disposal of subsidiary	-	-
Balance at 31 December	17,021,869	16,972,821

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 Investments accounted for using the equity method

	31-Dec-20 \$	30-Jun-20 \$
Shares in Copperstone Resources AB	24,124,097	24,124,097
Shares disposed	(624,684)	-
Less impairment	(5,619,616)	(7,407,973)
	17,879,797	16,716,124

The consideration for the sale of Avalon Minerals Viscaria AB to Copperstone Resources AB ("Copperstone") included 160 million shares in Copperstone at closing, with a share price of 1.015 SEK. At 30 June 2020 the Copperstone share price was 0.67 SEK. During the half-year ended 31 December 2020 5,979,219 shares were sold at an average price 0.808 SEK for approximately A\$758,000, leaving 154,020,781 shares held in Copperstone as at 31 December 2020.

At 31 December 2020 the Copperstone share price was 0.735 SEK, resulting in the reversal of impairment from prior years recognised for the value of the shares Sunstone holds in Copperstone. It is noted that this value may fluctuate from period to period due to share price movements of Copperstone and exchange rates between Australian Dollars and Swedish Kronor.

Subsequent to the half-year ended 31 December 2020, Copperstone announced that it had finalised a Rights Issue raising 170 million SEK by issuing 341,237,851 new shares. This issue of shares resulted in total shares on issue increasing to 982,513,554 and reduced Sunstone's interest to 15.7% and Sunstone will no longer account for this investment using the equity method.

Refer to note 18 for further information on interests in associates.

Notes to the Financial Statements

For the half-year ended 31 December 2020

Note 11 Trade and other payables

	31-Dec-20 \$	30-Jun-20 \$
Trade payables	191,190	185,931
Sundry payables and accrued expenses	58,477	122,560
	249,667	308,491

Note 12 Lease liabilities

	31-Dec-20 \$	30-Jun-20 \$
Current		
Office lease	26,003	30,123
Non-current		
Office lease	90,914	-

Note 13 Provisions

	31-Dec-20 \$	30-Jun-20 \$
Current		
Employee leave liabilities	228,014	260,679
Non-current		
Employee leave liabilities	156,892	146,578

Notes to the Financial Statements

For the half-year ended 31 December 2020

Note 14 Equity securities issued

	Number of shares	2020 \$
Ordinary shares - fully paid	2,209,987,646	88,193,617

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 2020	2,209,987,646		88,193,617
Balance as at 31 December 2020	2,209,987,646		88,193,617

Options and Performance Rights

During the half-year, a total of 30,000,000 performance rights have been issued to employees, 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 - 10,000,000 rights vesting upon the closing price of the Company's share price being \$0.0276 or more for 10 trading days out of any 20 consecutive trading days and minimum 12 months from issue date until vesting; Tranche 2 - 10,000,000 rights vesting dependent on the Company's Total Shareholder Return performance against the ASX Small Resources Index; Tranche 3 - 10,000,000 rights vesting upon the closing price of the Company's share price being \$0.05 or more for 10 trading days out of any 20 consecutive trading days and minimum 12 months from issue date until vesting.

Notes to the Financial Statements

For the half-year ended 31 December 2020

Note 15 Reserves

	31-Dec-20	30-Jun-20
	\$	\$
Share based payments reserve	3,828,926	3,783,520
Foreign currency translation reserve	(1,578,768)	423,864
Total reserves	2,250,158	4,207,384
Movements in reserves were as follows:		
Share based payments reserve		
Opening balance	3,783,520	3,800,946
Share based payments - employees	45,406	86,220
Shares Issued on vesting	-	(103,646)
Closing balance	3,828,926	3,783,520
Foreign currency translation reserve		
Opening balance	423,864	405,594
Foreign exchange gains/(losses) on translation	(2,002,632)	18,270
Closing balance	(1,578,768)	423,864

Note 16 Dividends

There were no dividends declared or paid during the half-year (2019: Nil).

Note 17 Events occurring after reporting period

On 29 January 2021, Sunstone announced that it will sell its Finnish subsidiary, Kultatie Holding Oy, the holder of the Southern Finland Gold Project (part of which is a JV with TSX.V listed Norotec Minerals), to ASX listed NewPeak Metals (ASX:NPM).

The terms of the Share Sale Agreement are (1) NPM to pay Sunstone A\$75,000 cash, and (2) NPM to issue A\$250,000 worth of NPM shares on closing (which occurred on 23 February 2021), and (3) a milestone payment of A\$1.5 million (cash or shares or combination at NPMs election) payable upon delivery of at least 500,000 ounces of gold equivalent in Measured and Indicated Resources from the acquired permits.

Also on 29 January 2021, Copperstone announced that it had finalised a Rights Issue raising 170 million SEK by issuing 341,237,851 new shares. This issue of shares resulted in total shares on issue increasing to 982,513,554 and reduced Sunstone's interest from 24% at 31 December 2020 to 15.7%.

Funds of 21.2 million SEK were received from Copperstone as per the agreement for the early payout of the future contingent consideration in February 2021.

No other matter or circumstance has arisen since 31 December 2020 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.

Notes to the Financial Statements

For the half-year ended 31 December 2020

Note 18 Associates

At 31 December 2020 the Group held 154,020,781 shares in Copperstone Resources AB which equated to 24% of the shares on issue (30 June 2020: 160 million shares for 25.2%).

Subsequent to the half-year ended 31 December 2020, Copperstone announced that it had finalised a Rights Issue raising 170 million SEK by issuing 341,237,851 new shares. This issue of shares resulted in total shares on issue increasing to 982,513,554 and reduced Sunstone's interest to 15.7% and Sunstone will no longer account for this investment using the equity method.

The last public announcement of results by Copperstone at the date of this report was as at 30 September 2020, with summarised financial information as below:

	30-Sep-20 \$	30-Jun-20 \$
Current assets	2,371,016	3,180,742
Non-current assets	52,047,370	49,884,843
Total assets	54,418,386	53,065,584
Current liabilities	1,711,137	770,782
Non-current liabilities	8,414,485	7,446,784
Total liabilities	10,125,622	8,217,565
Net assets	44,292,765	44,848,019
Issued Capital	61,512,481	60,731,455
Accumulated losses	(17,219,717)	(15,883,436)
Share based payment reserve	-	-
Total shareholders' equity	44,292,765	44,848,019
Net income/(loss)	(1,145,595)	(1,558,562)
Total Comprehensive income/(loss)	(1,145,595)	(1,558,562)

Reconciliation of the consolidated entity's carrying amount:

Opening carrying amount	16,716,124	11,535,646
Shares acquired on the disposal of Avalon Minerals Viscaria AB	-	882,044
Shares sold during the financial year	(758,552)	(865,319)
Gain/(loss) on sale of shares	133,868	(16,725)
Share of loss	(278,058)	(392,978)
Impairment	2,066,415	5,573,456
Closing carrying amount	17,879,797	16,716,124

Directors' Declaration

In the opinion of the Directors:

- (a) the financial statements and notes of the Consolidated Entity as set out on pages 10 to 23 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 2020 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

11 March 2021

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Sunstone Metals Limited

Report on the Half-Year Financial Report

Qualified 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 2020, 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, except for the effects of the matter described in the *Basis for qualified conclusion* section, 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 2020 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 qualified conclusion

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.

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 2020 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, 11 March 2021