SUNSTONE METALS

ANNUAL REPORT 2020

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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Investor Enquiries: 1300 850 505
Website: computershare.com.au

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

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Milton QLD 4064

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Email: info@sunstonemetals.com.au

AUDITOR

BDO Audit Pty Ltd

Level 10/12 Creek Street
Brisbane QLD 4000

BANK

National Australia Bank Limited

Level 23, 100 Creek Street
Brisbane QLD 4000

TABLE OF CONTENTS

4 Chairman's Review

5 Operating Review

12 Tenement Schedule

13 Director's Report

17 Remuneration Report

24 Auditor's Independence Declaration

25 Corporate Governance Statement

28 Consolidated Statement of Profit or Loss and Other Comprehensive Income

29 Consolidated Statement of Financial Position

30 Consolidated Statement of Changes in Equity

31 Consolidated Statement of Cash Flows

32 Notes to the Financial Statements

60 Directors' Declaration

61 Independent Audit Report to the Members

65 ASX Additional Information

Dear Fellow Shareholders,

On behalf of the Board of Directors, it is my pleasure to present the 2020 Annual Report for Sunstone Metals Limited ('Sunstone' or 'Company'), and to thank all shareholders for your continued support of Sunstone.

Sunstone, like many other companies, has been impacted by the global COVID-19 pandemic resulting in exploration activities at the Bramaderos Project being temporarily suspended in March 2020 in line with the directives of the Ecuadorian government decree declaring a nationwide emergency to manage the risks associated with the pandemic. Field work resumed during May under strict operating procedures to responsibly manage the risks associated with COVID-19.

Sunstone continues to grow its business in Ecuador with a significant increase in activity at the Bramaderos project including the recommencement of drilling in September 2020, and the acquisition of the highly prospective El Palmar copper-gold porphyry project in northern Ecuador.

Sunstone achieved several milestones at the Bramaderos gold-copper project in southern Ecuador during the year, meeting the expenditure commitments to earn 51% and subsequently negotiating a move to an 87.5% interest in the project which removed the requirements of Sunstone to meet various milestones such as funding and completing a feasibility study within 5 years to achieve a greater than 51% interest.

Exciting results were received from drilling at the Limon and Brama porphyry targets demonstrating that we have identified a very large mineralised system that hosts multiple gold-copper porphyry bodies. Ongoing exploration within the western epithermal gold corridor that has defined twelve targets for follow-up, including the Espiritu gold-silver target that saw very encouraging results from the first trench. Espiritu is interpreted to be part of a gold-silver polymetallic system which typically occur on the margins of porphyry gold-copper deposits.

With the addition of recent exploration data an in-depth review of all data from Bramaderos provided new exploration insights and significantly identified that the higher-grade gold-copper porphyries exhibit pipe-like geometries, not broad, disseminated geometries as previously believed. The interpretation of the geometry of these porphyry systems has enhanced our exploration approach and has vastly improved the potential for building significant tonnes, and at higher grades.

The Company has built a team in the junior resource sector that we believe is second to none. The teams previous work in Ecuador and overseas has led to significant discoveries and shareholder value growth, and the Sunstone team will work towards repeating that success at Bramaderos.

During the year, the value of Sunstone's investment in Swedish listed exploration company, Copperstone Resources AB (listed on Nasdaq Sweden First North) steadily increased with the appreciation of Copperstone's share price on the back of exciting drilling results from Viscaria and the increase in the copper price. Sunstone holds ~25% of Copperstone and hence retains exposure to the Viscaria Copper Project as well as to Copperstone's other copper exploration projects in Sweden.

The Company continues to receive strong support from its shareholders and during the year completed an over-subscribed placement to existing shareholders and new sophisticated investors plus a share purchase plan to existing eligible shareholders. In addition to this, the exercising of 154,837,500 Listed Options exercisable at $0.03 was successfully underwritten to raise $4.6 million before fees. Myself and my fellow non-executive directors also exercised 4,500,000 options at $0.032 which were to expire on 31 August 2019.

I would like to take this opportunity to express my thanks to Sunstone's staff, management and my fellow directors for their dedication and work during the past 12 months. We are committed to delivering strong shareholder returns and growing the Company through its activities in Ecuador, and realising value from the investment in shares held in Copperstone.

Yours sincerely

Graham Ascough
Chairman Sunstone Metals Limited

4 September 2020

INTRODUCTION

Sunstone Metals Limited ("Sunstone" or "Company") is an exploration and mineral development company, focussed on creating value for shareholders from Gold-Copper Projects in Ecuador, the Southern Finland Gold Project, and the major shareholding in Copperstone Resources AB who hold the Viscaria Copper Project in Sweden. Value for shareholders will be created by:

1. Exploring and drill testing the Bramaderos Gold-Copper Project in Ecuador, working towards repeating the Sunstone team's previous success of significant discoveries of porphyry copper-gold systems and delivering shareholder value growth;
2. Realising the value of the Viscaria Copper Project for the benefit of shareholders through the significant shareholding in Copperstone Resources AB;
3. Evaluating potential new opportunities to add to our portfolio which has resulted in the agreement to acquire the highly prospective El Palmar project in Northern Ecuador; and
4. Investigating potential opportunities to monetise or involve third parties in progressing the development of the Southern Finland Gold Project.

Sunstone has a strong technical and operational team, which is considered to be one of the key strengths of the company.

Sunstone's vision is to be a successful explorer in the porphyry copper-gold space. The Bramaderos and El Palmar Gold-Copper Projects are considered to be highly prospective for the discovery of large gold-copper systems.

Sunstone Metals is in the business of maximising shareholder return through the discovery and development of safe, efficient and environmentally and socially responsible mining projects that offer a clear path forward to development. We aim to outperform our peers through discovery in areas with ready access to existing infrastructure, low utility costs and recognised commodity exposure.

Sunstone, like many other companies, has been impacted by the global COVID-19 pandemic resulting in exploration activities at the Bramaderos Project being temporarily suspended in March 2020 in line with the directives of the Ecuadorian government decree declaring a nationwide emergency to manage the risks associated with the pandemic. Field work resumed during May under strict operating procedures to responsibly manage the risks associated with COVID-19. Sunstone takes the welfare of its employees very seriously and will review plans frequently to ensure that the company is managing the COVID-19 risk appropriately.

As the Company is an exploration entity there is not yet any sales revenue being generated from sale of products and therefore the entity's financial condition has not been severely affected by the impact of the COVID-19 pandemic.

COMPANY HIGHLIGHTS

- Securing an 87.5% interest in the Bramaderos Gold-Copper Project;
- Exciting initial results from exploration activities at the Bramaderos Gold-Copper Project;
- Increase in the value of Sunstone's investment in Copperstone Resources AB (following the sale of the Viscaria Copper Project to Copperstone);
- Successful placement and SPP to raise $4.1 million (345 million and 486 million shares respectively at $0.005 per share);
- Fully underwritten Option exercising to raise $4.6 million at $0.03 per share, along with non-executive directors exercising 4.5 million options at $0.032

PROJECT OVERVIEW

BRAMADEROS GOLD-COPPER PROJECT

On 7 January 2020, Sunstone announced that the terms of the Earn-in Joint Venture with TSX-V listed Cornerstone Capital Resources (TSXV:CGP) had been amended to provide Sunstone with an immediate 87.5% interest and Cornerstone with a loan carried 12.5% interest in La Plata Minerales S.A. (PLAMIN) the holder of the 4,949 hectare Bramaderos concession.

The amendment was agreed as a result of the Joint Venture Agreement Phase 2 decision whereby Sunstone could progress to a 70% interest by funding expenditures through to completion of a feasibility study, and making a cash payment based on resources defined, or Sunstone to remain at 51% (and Cornerstone at 49%) with both parties funding the ongoing exploration (refer to ASX announcement dated 10 April 2017).

Sunstone and Cornerstone agreed that the preferred approach would be to move the JV structure forward and allow Sunstone, as the majority owner, to focus on the delivery of discoveries across several targets and not be constrained by the path of completing feasibility studies. Cornerstone's 12.5% interest is to be loan-carried by Sunstone through to the start of commercial production, including interest, and repayable out of 90% of Cornerstone's share of future Bramaderos Project earnings or dividends.

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.

The Sunstone team has worked previously with Cornerstone on other projects in Ecuador which have led to significant discoveries and shareholder value growth, and the Sunstone team will work towards repeating that success at Bramaderos.

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

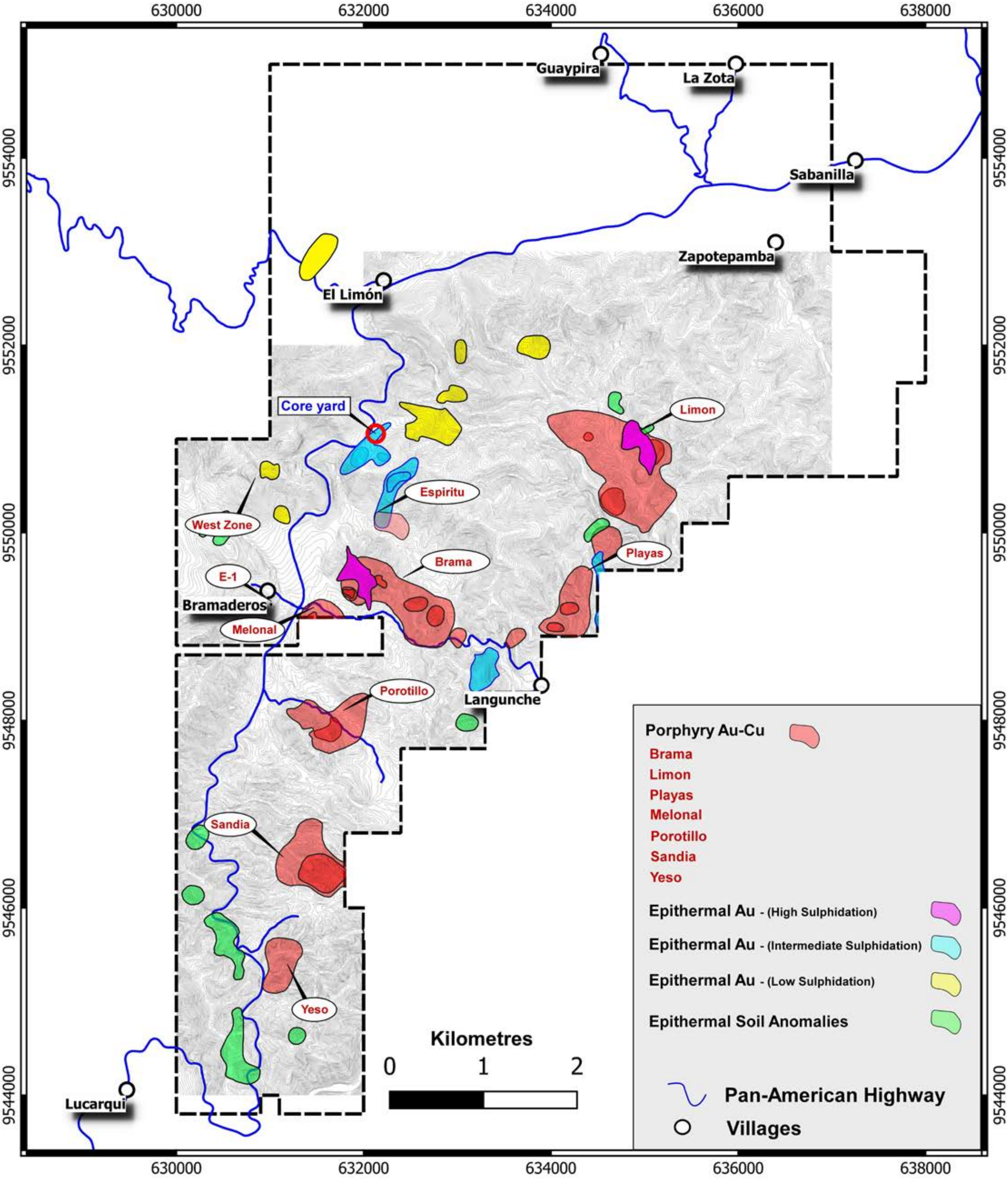

Figure 1: Bramaderos Project showing the location of the gold-copper porphyry targets and the suite of high- intermediate- and low-sulpidation epithermal Au targets plus additional soil geochemical anomalies.

comprise 7 targets for porphyry gold-copper, an additional 12 targets for epithermal gold-silver and a number of additional precious-element geochemical anomalies.

BRAMA TARGET

At the Brama target, a large complex magnetic body has been modelled with a vertical depth 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 believed. Some leading porphyries globally display this pipe-like geometry, while many other porphyries, such as those in Chile and Asia, exhibit broader disseminated geometries (on which the original exploration model for Bramaderos was based).

The interpretation of the geometry of these porphyry systems has been enhanced and the potential for building significant tonnes, and at higher grades, is vastly improved.

Detailed analysis of the 3-D magnetic model identifies clusters of these more magnetic bodies at Brama, and at many of the other porphyry targets within the Bramaderos project. These pipe-like bodies cluster within each system, so for example at Brama, five discrete targets exist and correlate with higher grades where drilled.

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. Our ongoing work with magnetics data and structural interpretation will further assist in unlocking the geometry.

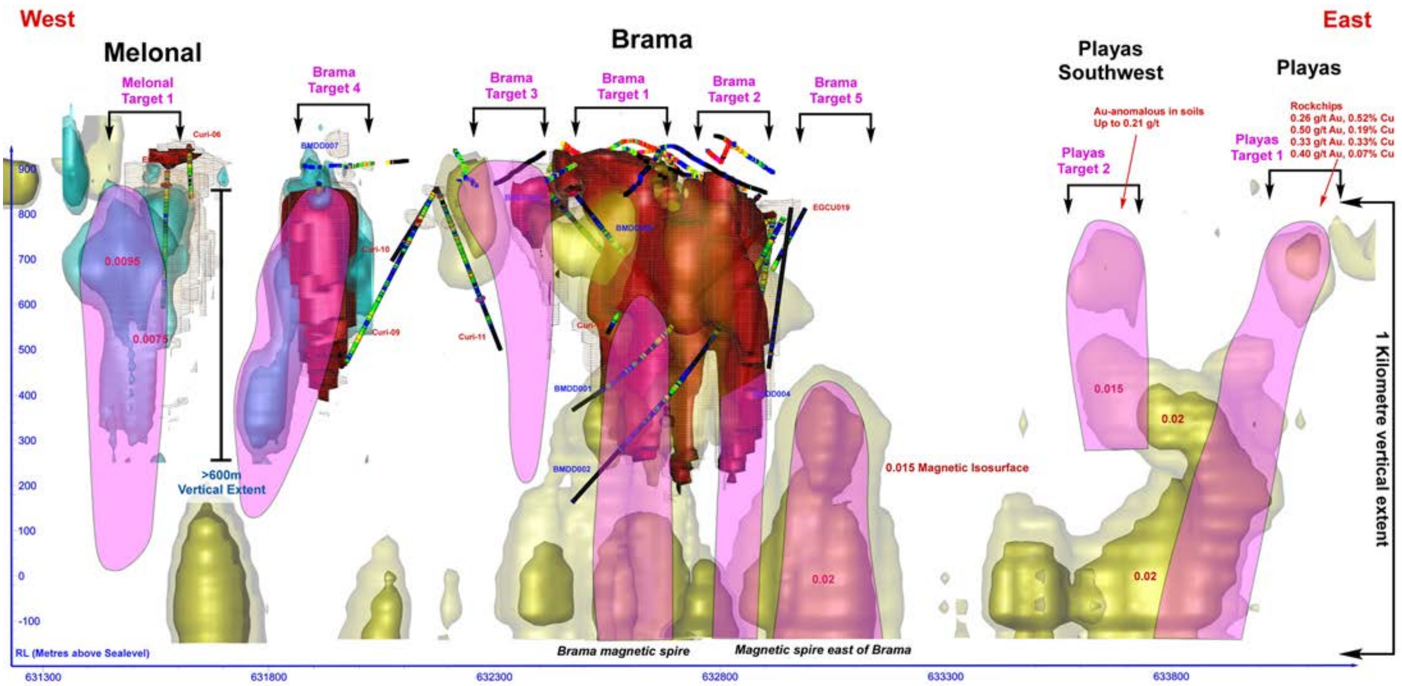

Figure 2: Pipe-like target areas shown in pink over 3-D modelling of discrete magnetic bodies that correspond – where drilled – to higher grade gold-copper porphyry systems. This cluster, across three systems Melonal, Brama and Playas, extends over 2.5km and includes at least 8 targets, all of which have been shown to be mineralised to some extent.

LIMON TARGET

The Limon target is part of the portfolio of multiple gold-copper porphyry systems identified at the Bramaderos Project (see ASX announcement dated 27th August 2019). At Limon 4 effective completed holes have been drilled, and all have intersected alteration and weak copper-gold-molybdenum mineralisation consistent with being in close proximity to a large porphyry system.

Significantly, LMDD004 (refer ASX announcement dated 15th October 2019) intersected a 'high sulphidation' epithermal system in a shallow position that could develop into an exploration target in its own right. Geologically, 'high sulphidation' systems can develop in a variety of styles, and are related to porphyry systems. Examples include Tampakan and Lepanto in the Philippines, the Tujuh Bukit gold-silver oxide system in Indonesia, and the Yanacocha deposits in Peru.

The updated exploration model for the Brama target is transferable to all other porphyry systems at Bramaderos including Limon. Applying this model, Limon contains at least 3 discrete porphyry targets - T1, T2 and T3 ranging from shallow, near trench LM01, to deep near drill holes LMDD002 and LMDD004.

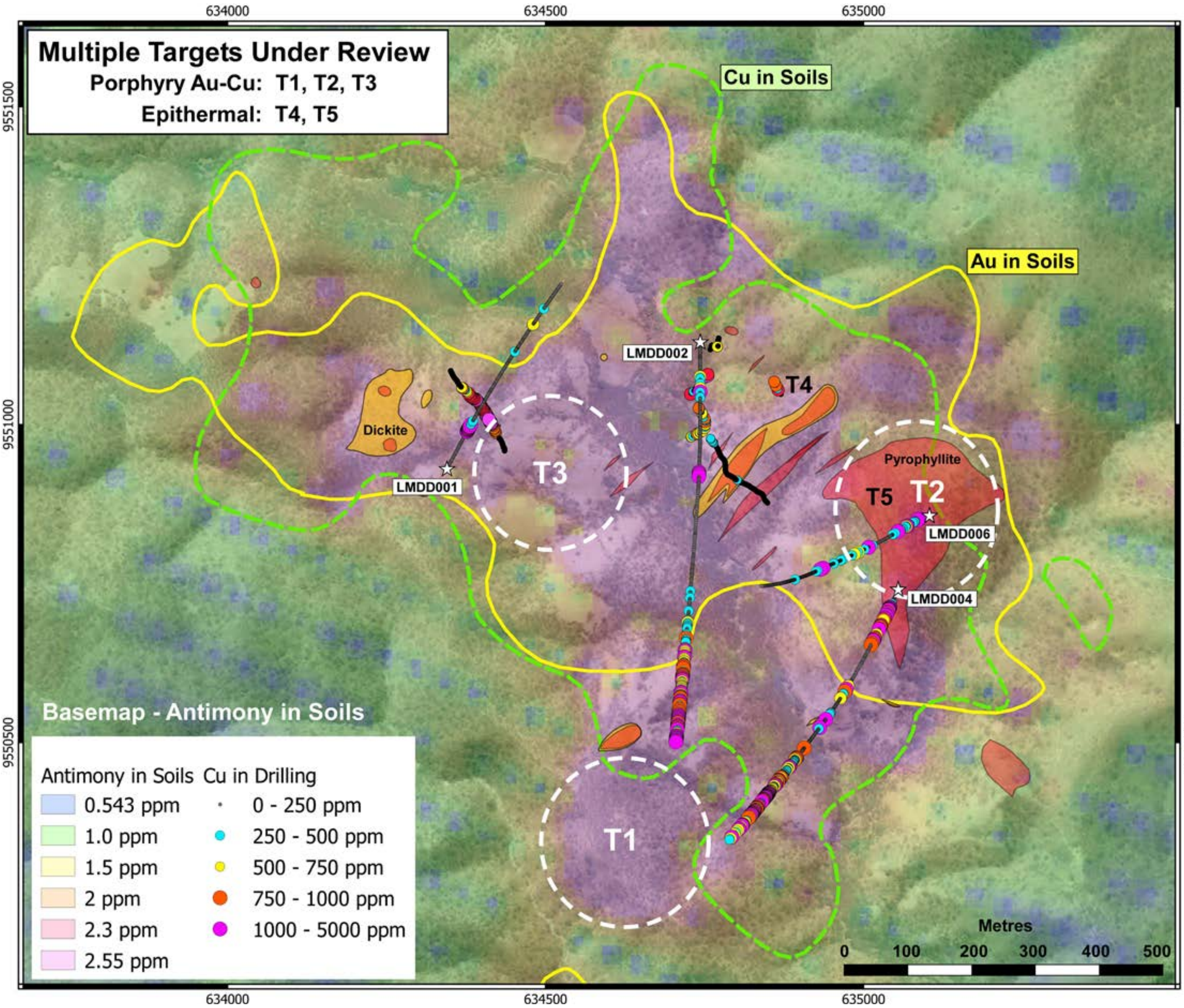

Figure 3: Targets at Limon under review – 3 gold-copper porphyry target areas (T1-T3) and 2 epithermal targets (T4-T5).

WESTERN EPITHERMAL GOLD CORRIDOR

Exploration within the western epithermal gold corridor within the Bramaderos Project has defined at least twelve targets for detailed follow-up ahead of drilling.

These targets all sit within the Bramaderos epithermal gold corridor (Figure 4), which is the north-east extension of the 2 million ounce gold producing Dynasty Goldfield located 5km to the south-west (held by ASX listed Titan Minerals Limited).

They include the Espiritu gold-silver target area where results from the first trench (refer to ASX announcement dated 13 July 2020), returned very encouraging high grades of silver, lead, and zinc with associated gold over a width of 4m (415g/t silver, 0.9g/t gold, 6.9% zinc and 6% lead) within a broader zone of 21m at 82.4 g/t silver. The mineralisation exposed in Trench ES-01 is interpreted to be part of a gold-silver polymetallic system which typically occur on the margins of porphyry gold-copper deposits. Multiple targets within the broader Espiritu anomaly have been identified for further soil sampling, trenching and drilling.

Targeting of similar mineralised systems within the Bramaderos concession has been on-going during the easing of restrictions related to COVID-19 and has resulted in the generation of at least 12 targets (Figure 1). These will be explored initially with more detailed soil sampling to be followed with mapping, trenching and chip/channel sampling on specific epithermal targets. This work has commenced at the E-1 target, where recent trenching returned results of up to 2.1g/t gold and 7.7g/t silver over 0.9m and where historical rock chip sampling returned up to 32.5g/t gold and 271g/t silver.

Drilling at West Zone identified anomalous epithermal gold values, and these latest results have been re-interpreted to yield a revised target geometry. The main target at West Zone is now interpreted to be related to the North Breccia Pod area as a structurally constrained zone with an eastward plunge component.

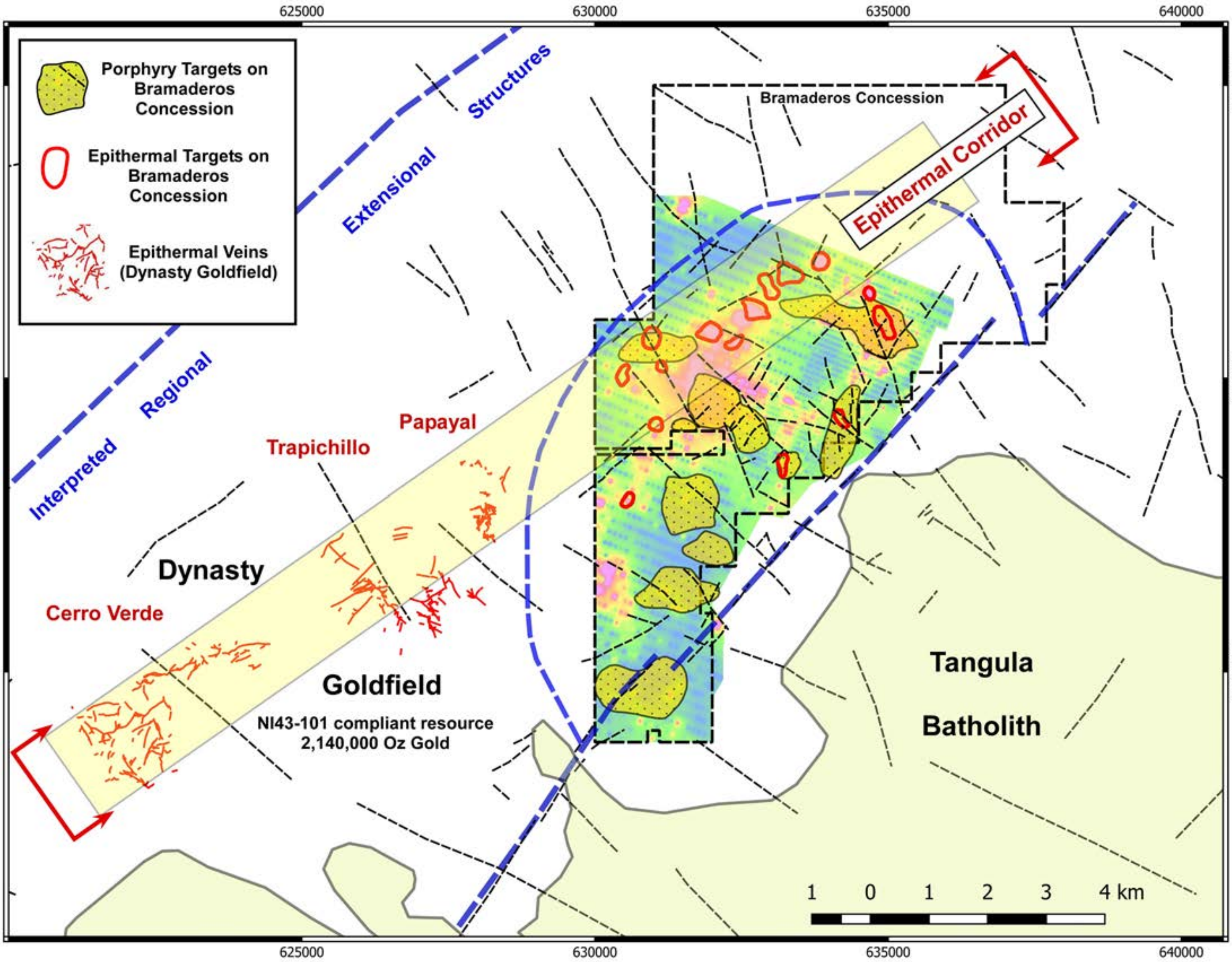

Figure 4: The Bramaderos concession showing the multiple porphyry gold-copper systems and the extension of the 2 million ounce Dynasty Goldfield epithermal belt.

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.

At Playas the pipe-like magnetic bodies correlate with areas of highest-grade gold and copper in surface samples giving us confidence that drilling will extend that mineralisation to depth. Playas has never been drilled.

Melonal, Porotillo and Sandia all present similar relationships.

At Porotillo a historical drill hole (CURI-05) intersected 26m at 1.1g/t gold and 0.2% copper demonstrating that significantly higher grades can be delivered from these systems.

EL PALMAR PROJECT - NORTHERN ECUADOR

On 12 August 2020 the Company announced that it had agreed to acquire the highly prospective El Palmar copper-gold porphyry project in Ecuador as part its strategy to expand its land holdings in Ecuador on projects which pass our technical and commercial hurdles and offer the potential for significant resource discoveries. El Palmar will be explored in parallel with the highly prospective Bramaderos gold-copper porphyry and gold-silver epithermal project.

INVESTMENT IN COPPERSTONE RESOURCES AB

In the prior financial year, 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. The Viscaria Copper Project is a high quality, Pre-Feasibility Study stage copper project, with excellent exploration upside, holding significant value in a strengthening copper price environment.

Sunstone has to date received cash of 35 million Swedish Kronor (MSEK) equal to approximately $5.4 million (20 MSEK of this received in prior year), 12.5 million shares in lieu of 5 MSEK cash owed plus interest and 160 million shares in Copperstone. During the year ended 30 June 2020 12.5 million shares were sold on market which resulted in cash of 5.5 MSEK, equivalent to $865,319, received.

Copperstone continues to advance work on the Viscaria Copper Project. As announced on 24th March and 26th June 2020, Copperstone has completed eight diamond drill holes on the D Zone North shoot in the past eight months and the results to date strongly reinforce the interpreted geometry of thicker and higher-grade steep shoots extending to depth. It is expected that multiple shoots will be defined as drilling progresses.

Copperstone has completed an 8,000m drilling program at Viscaria and is expecting to resume drilling in Q3 2020 to follow-up these strong results at D Zone and to drill at the A Zone and B Zone orebodies as a component of the ongoing feasibility study.

Multiple high-grade copper intersections were reported by Copperstone from the D Zone orebody at the Viscaria Copper Project and include:

- 16.5m at 2.3% copper from 668.6m in VDD 210
- 18.9m at 1.3% copper from 468.1m in VDD 212
- 7.1m at 3.8% copper from 615.2m in VDD 213, including 0.6m at 20.1% copper from 617.6m
- 9.3m at 1.0% copper from 689.5m in VDD 215

The intersections, apart from VDD 212, are all outside of the area of the existing Mineral Resource estimate.

As at 30 June 2020 Sunstone holds ~25 per cent of the shares in Copperstone, and thus retains significant exposure to Viscaria as well as to Copperstone's other copper exploration projects in Sweden, with potential synergies across the projects.

Copperstone's share price has increased significantly since 30 June 2019 and Sunstone's current ~25 per cent stake is valued at ~A$19.7 million (160 million shares at 0.787 SEK as at 3 September 2020), with the value as at 30 June 2020 being $16.7 million (160 million shares at 0.67 SEK). Sunstone's shares are under escrow to 9th September 2020.

Sunstone has further exposure to success at Viscaria, with Copperstone to make a Stage 2 cash payment to Sunstone of 20 MSEK (~A$3.1 million) and issue Sunstone an additional 46 million COPP B shares (currently valued at ~A$5.7 million) upon issuance of an Environmental Permit for the development of Viscaria.

Sunstone remains optimistic regarding its investment in Copperstone given recent very encouraging drilling results from the Viscaria Project, and an increasing copper price environment.

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

SOUTHERN FINLAND GOLD PORTFOLIO

Sunstone holds an 80% interest in claim areas that include two known gold opportunities, Satulinmäki and Riukka. Historical drilling was undertaken by the Finnish Geological Survey (GTK) and only tested to ~70m below surface, delivering results including 22m @ 3.6 g/t gold from 50 metres (hole 391) at Satulinmäki.

Results from a large Induced Polarisation (IP) geophysical survey at Satulinmäki have identified discrete anomalies that coincide with the high-grade intersections delivered by holes such as SMDD007, 23.5m at 3.3g/t gold including 9.2m at 7.3g/t gold (refer ASX announcement dated 14 November 2016).

Based on Sunstone's regional assessment of gold prospectivity in southern Finland, areas of interest are held under approved Exploration Permits, and applications have been lodged for Exploration Permits covering known gold occurrences and will be explored systematically.

No significant activities were undertaken during the year.

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 year.

GOLD-COPPER TENEMENTS – ECUADOR

Tenement Holder	Tenement Name	Location	Status	Sunstone Ownership
La Plata Minerales S.A.	Bramaderos^	Loja, Ecuador	Granted	87.5%

GOLD TENEMENTS - FINLAND

Tenement Holder	Tenement Name	Location	Status	Sunstone Ownership
Kultatie Oy	Somero*	Somero, Finland	Granted	80%
Kultatie Oy	Perämäki#	Somero, Finland	Application	80%
Kultatie Holding Oy	Katinhanta†	Somero, Finland	Application	100%
Kultatie Holding Oy	Luutasuo†	Somero, Finland	Application	100%
Kultatie Holding Oy	Palikkala	Somero, Finland	Granted	100%

LITHIUM TENEMENTS – FINLAND AND SWEDEN

Tenement Holder	Tenement Name	Location	Status	Sunstone Ownership
Litiumloydos Oy	Tammela*	Somero, Finland	Granted	80%
Litiumloydos Oy	Ojalankulma#	Somero, Finland	Application	80%

^ Sunstone announced on 7 January 2020 that the terms of the Earn-in Joint Venture with TSX-V listed Cornerstone Capital Resources (TSXV:CGP) had been amended to provide Sunstone with an immediate 87.5% interest and Cornerstone with a loan carried 12.5% interest in La Plata Minerales S.A. (PLAMIN) the holder of the Bramaderos concession.

* Somero 1-12 and Tammela 1-3 Claims under the old legislation have been converted to Exploration Permits under the new legislation.

Subject to earn-in joint venture with Nortec Minerals Corp.

† Applications for Exploration Concessions that relate to ground covered by expired Exploration Reservations Arolanmaki and Humppila

Your Directors present their report on Sunstone Metals Ltd ("Sunstone" or "Company"), and the entities it controlled ("Consolidated Entity" or "Group") for the financial year ended 30 June 2020.

DIRECTORS

The following persons were Directors of Sunstone Metals Ltd at all times during the financial 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 Don Hyma
Non-Executive Director
(resigned 23 April 2020)

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 be paid to members during the financial period.

REVIEW OF OPERATIONS

Refer to the Operating Review contained in the Annual Report for further discussion regarding the Company's operations.

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

FINANCIAL PERFORMANCE

During the year ended 30 June 2020 the Group earned a profit of $4,553,829 (2019: loss of $22,934,205). The profit is largely due to reversal of impairment expenses from prior year relating to the market value of the investment in Copperstone Resources AB ("Copperstone").

FINANCIAL POSITION

The Company's non-current assets increased from $23,749,070 at 30 June 2019 to $38,875,365 at 30 June 2020 due to expenditure incurred on the Bramaderos Project in Ecuador in addition to the value of the shares held in Copperstone increasing with share price moving from 0.47 SEK per share at 30 June 2019 to 0.67 SEK per share at 30 June 2020.

During the year, the Company had a net increase in contributed equity of $8,586,077 as a result of:

- Successful placement and SPP to raise $4.1 million before fees (345 million and 480.6 million shares respectively at $0.005 per share) during April and May 2020;
- 154,837,500 shares issued under fully underwritten exercising of Listed Options to raise $4.6 million before fees at $0.03 per share, along with non-executive directors exercising 4.5 million options at $0.032 during September 2019
- Vesting of 3,668,874 performance rights with a value of $97,592 in September 2019.
- Vesting of 504,496 performance rights with a value of $6,054 in July 2019.

	2020 $	2019 $
Revenue and other income	165,004	87,262
Profit/(loss) before income tax	4,553,829	(22,934,205)
Income tax expense	-	-
Profit/(loss) attributable to members of Sunstone Metals Limited	4,562,120	(22,934,205)
Profit/(loss) attributable to non-controlling interests	(8,291)	(3,602)
Earnings per share	**2020 cents**	**2019 cents**
Basic and diluted earnings per share	0.3	(1.9)

At the end of the financial period, the Group had cash balances of $3,686,349 (2019 $1,874,864) and net assets of $42,001,740 (2019: $28,127,130). Total liabilities amounted to $745,871 (2019: $695,959) and included trade, other payables, lease liabilities and provisions.

EVENTS OCCURRING AFTER REPORTING DATE

On 12 August 2020 the Company announced that it had agreed to acquire the highly prospective El Palmar copper-gold porphyry project in Ecuador as part its strategy to expand its land holdings in Ecuador on projects which pass our technical and commercial hurdles and offer the potential for significant resource discoveries. El Palmar will be explored in parallel with the highly prospective Bramaderos gold-copper porphyry and gold-silver epithermal project.

No other matter or circumstance has occurred subsequent to year end that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group or economic entity in subsequent financial periods.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Other than those matters discussed in this report, no significant changes in the state of affairs of the Group occurred during the financial period.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Group will continue exploration and development activities. The Group assesses commercial opportunities for corporate growth, including the acquisition of interests in projects, as they arise. Due to the unpredictable nature of these opportunities, developments could occur at short notice.

ENVIRONMENTAL REGULATION

The Group is subject to the environmental laws and regulations imposed under the Environmental Codes in the jurisdictions in which it operates. The Group is currently engaged in exploration activities which are governed by conditions or recommendations imposed through the granting of a licence or permit to explore. Compliance with these laws and regulations is regarded as a minimum standard for the Group to achieve. There were no known breaches of any environmental laws or regulations during the year.

DIRECTORS

The Directors of the Company at any time during or since the end of the financial year were:

MR GRAHAM ASCOUGH

Appointed as Non-Executive Chairman 29 November 2013

Member of the Audit and Financial Risk Committee & Remuneration Committee

Experience and expertise

Mr Ascough (BSc, PGeo, MAusIMM) is a senior resources executive with more than 30 years of industry experience evaluating mineral projects and resources in Australia and overseas. He is currently non-executive Chairman of ASX listed companies: PNX Metals Ltd and Musgrave Minerals Ltd.

Mr Ascough, a geophysicist by training, has had broad industry involvement playing a leading role in setting the strategic direction for companies, completing financing and in implementing successful exploration programmes. He is a member of the Australasian Institute of Mining and Metallurgy and is a Professional Geoscientist of Ontario, Canada.

Mr Ascough was the Managing Director of Mithril Resources Ltd from October 2006 until June 2012. Prior to joining Mithril in 2006, he was the Australian Manager of Nickel and PGM Exploration at the major Canadian resources house, Falconbridge Ltd, which was acquired by Xstrata Plc in 2006.

Other directorships of listed companies in the past three years

PNX Metals Ltd (formerly Phoenix Copper Ltd) (appointed 7 December 2012)

Mithril Resources Ltd (appointed 9 October 2006; Ceased 15 May 2019)

Musgrave Minerals Ltd (appointed 26 May 2010)

MR MALCOLM NORRIS

Appointed as CEO & Managing Director 1 April 2014

Member of the Audit and Financial Risk Committee & Remuneration Committee

Experience and expertise

Mr Norris (MSc, MAppFin, FAusIMM) is a senior mining industry professional with extensive experience in business management, mineral exploration, development of new business opportunities and asset transactions. His roles have covered a wide range of commodities, geographic locations and management of global portfolios of projects in both large and small organisations.

Mr Norris holds an MSc in Geology and a Masters in Applied Finance. He has more than 30 years of industry experience and in the last 15 years has focused primarily on corporate roles. He led the team which discovered the giant 2Bt Tujuh Bukit copper-gold deposit in Indonesia. Previous experience has included 23 years with WMC Resources, followed by roles with Intrepid Mines and SolGold.

Other directorships of listed companies in the past three years

Magmatic Resources Ltd (appointed 20 December 2016; Ceased 3 February 2020)

MR STEPHEN STROUD

Appointed as a Non-Executive Director 6 September 2017

Chairman of the Audit and Financial Risk Committee & member of the Remuneration Committee

Experience and expertise

Mr Stroud (B.Acc, CPA, FINSIA) is an experienced CPA qualified corporate finance executive with over 20 years experience advising across all aspects of corporate finance both as an advisor and client. He has advised boards and management teams across a broad range of transactions including public and private equity raisings, debt/hybrid debt, Initial Public Offerings, mergers & acquisitions, sell-downs and restructures both in Australia and overseas.

Mr Stroud is Director - Corporate Finance with Morgans Financial Ltd, with a key focus on the small-mid cap market listed space on the ASX working across a broad range of sectors including IT, retail, FMCG, healthcare, metals and mining, energy, property and general industrials. Mr Stroud possesses strong relationships across buy and sell side clients across Australia, Asia, UK and North America.

Other directorships of listed companies in the past three years

Explaurum Ltd (appointed 21 January 2016; Ceased 6 March 2019)

MR DON HYMA

Appointed as a Non-Executive Director 19 March 2014; Retired 23 April 2020

Chairman of the Remuneration Committee & member of the Audit and Financial Risk Committee

Experience and expertise

Mr Hyma (BSc, MSc, PEng, IED) is a mining industry executive with more than 25 years of progressive capital project experience in the resource sector in Canada, Chile, New Caledonia and Australia. His experience includes direct involvement in delivering numerous major projects, taking them from studies through to implementation, for several multi-national resource companies in the nickel, copper and iron ore industries.

Mr Hyma holds a BSc in Mining Engineering and an MSc in Mineral Processing. Mr Hyma is currently Project Director for Fortescue Metals Group and was previously Chief Technical Officer with Mitsui & Co. Mr Hyma has also had roles as Vice-President – Expansion Projects for the Iron Ore Company of Canada and General Manager, Mine and Infrastructure Projects for Rio Tinto Iron Ore. Mr Hyma has also held senior management and engineering roles at Falconbridge Ltd working on the Koniambo nickel, Raglan nickel and Collahuasi copper projects.

Other directorships of listed companies in the past three years

Nil

COMPANY SECRETARY

MR GAVIN LEICHT

Appointed 28 April 2015

Mr Leicht has over 25 years experience in various financial roles, including more than 15 years in senior financial positions in the resources sector in Australia and overseas with Rio Tinto Ltd and PanAust Ltd.

Mr Leicht holds a Bachelor of Commerce degree from the University of Newcastle. He has also been a Member of the Australian Society of Certified Practicing Accountants, Governance Institute of Australia and the Finance & Treasury Association.

MEETINGS OF DIRECTORS

There were 8 meetings of the Company's board of Directors held during the year ended 30 June 2020. The number of meetings attended by each Director are outlined in the table below.

Further details of the operation of all Committees are contained in the Corporate Governance Statement.

	Meeting of Directors		Audit and Financial Risk Committee	
	Eligible to attend	Attended	Eligible to attend	Attended
Mr Graham Ascough	8	8	2	2
Mr Malcolm Norris	8	8	2	2
Mr Stephen Stroud	8	8	2	2
Mr Don Hyma	6	6	2	2

KEY MANAGEMENT PERSONNEL

The remuneration report outlines the Director and executive remuneration arrangements of the Group in accordance with the requirements of the Corporations Act 2001 and its Regulations. For the purposes of this report, key management personnel (KMP) of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, including any Director (whether executive or otherwise) of the Company.

For the purposes of this report, the term “executive” encompasses the chief executive, senior executives, general managers and the Chief Financial Officer & Company Secretary of the Group.

Key management personnel during the year and at the date of this report (unless otherwise stated) are:

DIRECTORS OF THE COMPANY

Chairman

Mr Graham Ascough
Non-Executive Chairman
(appointed 29 November 2013)

CEO & Managing Director

Mr Malcolm Norris
CEO & Managing Director
(appointed 1 April 2014)

Non-Executive Directors

Mr Stephen Stroud
Non-Executive Director
(appointed 6 September 2017)

Mr Don Hyma
Non-Executive Director
(appointed 19 March 2014;
Retired 23 April 2020)

OTHER KEY MANAGEMENT PERSONNEL

Mr Ray Robinson
General Manager Studies & Technical Services (appointed 12 January 2015)

Dr Bruce Rohrlach
General Manager Geology
(appointed 7 April 2015)

Mr Gavin Leicht Chief Financial Officer & Company Secretary
(appointed 20 April 2015)

The remuneration report is set out under the following main headings:

A Principles used to determine the nature and amount of remuneration

B Details of remuneration

C Executive contractual arrangements

D Share-based compensation

A. PRINCIPLES USED TO DETERMINE THE NATURE AND AMOUNT OF REMUNERATION

The Group’s executive reward framework is designed to reward performance for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders, and seeks to conform to market best practice for delivery of rewards. The Board considers the following key criteria for good reward governance practices in determining executive rewards:

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage/alignment of executive compensation
- transparency
- capital management.

The Group has structured an executive remuneration framework that aims to be market competitive and complimentary to the reward strategy of the organisation.

Alignment to shareholders’ interests:

- focuses on exploration success and project development as the creation of shareholder value and returns
- attracts and retains high calibre executives.

Alignment to program participants’ interests:

- rewards capability and experience
- reflects competitive reward for contribution to growth in shareholder wealth
- provides a clear structure for earning rewards
- provides recognition for contribution.

The overall level of executive reward takes into account the performance of the Group. The Group is involved in mineral exploration and did not derive a profit and therefore growth in earnings is not considered relevant. Shareholder wealth is dependent upon exploration success and has fluctuated accordingly.

Impact on shareholder wealth

	2020 cents	2019 cents	2018 cents	2017 cents	2016 cents
Gain/(loss) per share	0.3	(1.9)	(0.2)	(0.4)	(1.0)
Share price	0.7	4.1	3.8	1.5	1.6

The Company’s performance rights plan links employees’ remuneration to the share price of the Company as the performance conditions include ASX trading price hurdles.

EXECUTIVE PAY

The executive pay and reward framework has two components:

- Fixed remuneration (base salary, superannuation & other non-monetary benefits)
- Variable remuneration (long-term incentives through participation in the performance rights plan and short-term incentives through cash bonuses)

The combination of these components comprises the executive’s total remuneration.

FIXED REMUNERATION

Base salary

Base salary is structured as a total employment cost package which may be delivered as a combination of cash and prescribed non-financial benefits. Executives are offered a competitive base pay that comprises the fixed component of pay and rewards. Base pay for senior executives is reviewed annually to assess if the executive's pay is competitive with the market.

There are no guaranteed base pay increases included in any senior executives' contracts.

Non-monetary benefits

Executives may receive benefits including car allowances, car parking and reasonable entertainment expenses.

Post-employment benefits

Executives are permitted to nominate a superannuation fund of their choice to receive contributions.

Long-term benefits

Long-term benefits include long service leave entitlements.

VARIABLE REMUNERATION

Long Term Incentive (Employee Performance Rights Plan)

At the discretion of the Board, employees can be invited to participate in the Company's Employee Performance Rights Plan. The issue of performance rights is designed to reward key employees for performance and align their performance with the Company growth and strategic objectives. Options and performance rights issued to Directors are subject to shareholder approval. The Board feels that the expiry date, exercise price and, where applicable, vesting performance conditions of option and performance rights issues to executives is appropriate to align the goals of the executives with those of the shareholders to maximise shareholder wealth.

Short Term Incentive (Cash bonuses)

The Board reviews the Company's Short Term Incentive (STI) program annually and sets the Key Performance Indicators (KPIs) required to be achieved to receive any STI payment. The total potential STI available to individual executives is set at a level so as to provide sufficient incentive to executives to achieve their targets while ensuring that the cost to the Company is reasonable in the circumstances.

The STI for the 2019/20 year includes five KPIs, each one equating to a cash bonus of 20% of base salary if achieved. At the Board's discretion a payment under the STI may be increased to a maximum of double in recognition of exceptional performance, therefore the maximum potential STI payment is 200% of base salary. The measures were chosen as they represent the key drivers for the short-term success of the business and provide a framework for delivering long-term value.

A one-off cash bonus was paid to the Managing Director during the year in lieu of expired share rights. Performance rights were offered to and accepted by all employees under the same terms and conditions apart from shareholder approval being required for the Managing Director. The performance hurdle was achieved prior to shareholder approval and all other employees received the corresponding shares. The Board determined that a cash bonus should be paid to the Managing Director for the value of the shares that would have vested were it not for the time delay in calling a meeting to seek shareholder approval. No other cash bonuses have been paid during the year ended 30 June 2020 (2019: 40% of base salary on achievement of 2 KPIs).

As part of the terms and conditions of employment, the Company prohibits executives from entering into arrangements to protect the value of unvested long term incentive awards. This includes entering into contracts to hedge their exposure to options or shares granted as part of their remuneration package. Entering into such arrangements has been prohibited by law since 1 July 2011.

NON-EXECUTIVE DIRECTORS

Fees and payments to non-executive Directors are structured to reflect the demands which are made on, and the responsibilities of, the Directors. Non-executive Directors' fees and payments are reviewed annually by the Board. The Chairman's fees are determined independently to the fees of non-executive Directors based on comparative roles in the external market. The Chairman is not present at any discussions relating to the determination of his own remuneration.

DIRECTORS' FEES

The base remuneration was reviewed and increased by the Board from 1 July 2018. Fees for the Chairman are $85,000 p.a. and fees for other Non-executive Directors $50,000 p.a. Directors' remuneration is inclusive of committee fees. As a result of COVID-19 the Directors voluntarily deferred 20% of their fees from 1 April 2020.

Non-executive Directors' fees are determined within an aggregate Directors' fee pool limit, which is periodically recommended for approval by shareholders. The total maximum currently stands at $300,000.

RETIREMENT ALLOWANCES FOR DIRECTORS

Directors are permitted to nominate a superannuation fund of their choice to receive superannuation contributions.

B. DETAILS OF REMUNERATION

Details of the remuneration of the Directors and the key management personnel of Sunstone Metals Ltd are set out in the following tables.

2020	Short-term benefits		Post-employment benefits		Share based payments		
Name	**Cash salary and fees $**	**Cash bonus $**	**Super-annuation $**	**Termination Payments $**	**Options and Rights $**	**Total $**	**Performance related %**
Directors of Sunstone Metals Ltd							
Mr G Ascough	79,330	-	-	-	12,267	91,597	13.4%
Mr M Norris	285,950	21,200	27,165	-	27,713	362,028	13.5%
Mr S Stroud	47,500	-	-	-	12,267	59,767	20.5%
Mr D Hyma (1)	37,500	-	-	-	-	37,500	0.0%
Other key management personnel							
Mr R Robinson	232,375	-	22,076	-	13,887	268,337	5.2%
Mr G Leicht	231,800	-	22,021	-	13,887	267,708	5.2%
Dr B Rohrlach	231,800	-	22,021	-	13,887	267,708	5.2%
Total	**1,146,255**	**21,200**	**93,283**	**-**	**93,908**	**1,354,645**	

(1) Resigned 23 April 2020

Performance Rights issued are dependent on the satisfaction of performance conditions, and the amounts included in the above table represent the accounting expense recognised during the financial year.

As a result of COVID-19 cash salary and fees for key management personnel was voluntarily reduced by 20% from March/April 2020.

2019	Short-term benefits		Post-employment benefits		Share based payments		
Name	**Cash salary and fees $**	**Cash bonus $**	**Super-annuation $**	**Termination Payments $**	**Options and Rights $**	**Total $**	**Performance related %**
Directors of Sunstone Metals Ltd							
Mr G Ascough	85,000	-	-	-	9,016	94,016	9.6%
Mr M Norris	275,400	110,160	26,163	-	39,093	450,816	33.1%
Mr S Stroud	50,000	-	-	-	9,016	59,016	15.3%
Mr D Hyma (1)	50,000	-	-	-	9,016	59,016	15.3%
Other key management personnel							
Mr R Robinson	234,600	93,840	22,287	-	50,247	400,974	35.9%
Mr G Leicht	204,000	81,600	20,531	-	52,497	358,628	37.4%
Dr B Rohrlach	204,000	81,600	20,531	-	52,497	358,628	37.4%
Total	**1,103,000**	**367,200**	**89,513**	**-**	**221,382**	**1,781,095**	

LOANS TO KEY MANAGEMENT PERSONNEL

There were no loans made to Directors or other key management personnel and their related parties.

C. EXECUTIVE CONTRACTUAL ARRANGEMENTS

Remuneration for the CEO & Managing Director and Key Management Personnel are formalised in service agreements.

Mr Malcolm Norris, CEO & Managing Director

Base salary, exclusive of superannuation and other benefits, is $301,000, following a salary review and increase on 1 July 2019, to be reviewed annually on 1 July of each year. Four weeks annual leave is provided.

The Executive Services Agreement stipulates Mr Norris or the Company may provide six (6) months written notice of termination. The agreement includes a provision for a termination payment equal to the maximum amount calculated in accordance with section 200F of the Corporations Act 2001 (Cth), subject to any restrictions or approvals under the Listing Rules and the Corporations Act.

Other Key Management

Contracts for other Key Management Personnel have no fixed duration and can be terminated by the employee by providing three (3) months written notice. The Company may terminate employment by providing three (3) months written notice or by payment of six (6) months salary in lieu of notice.

Base salary for other Key Management Personnel are reviewed annually on 1 July of each year, with an increase last occurring on 1 July 2019.

D. SHARE-BASED COMPENSATION

Options and performance rights provided as remuneration and shares issued on exercise

Performance Rights movements during the financial year:

2020	Beginning Balance	Granted as remuneration	Vested during year	Lapsed	Balance at end of year	Vested		Lapsed	
						$	%	$	%
Directors of Sunstone Metals Ltd									
Mr M Norris	7,127,982	2,400,000	(1,379,656)	(2,089,000)	6,059,326	9,658	14.5%	29,107	21.9%
Other key management personnel									
Mr R Robinson	4,431,717	1,800,000	(768,177)	(1,392,735)	4,070,805	5,377	12.3%	18,384	22.3%
Mr G Leicht	4,431,717	1,800,000	(768,177)	(1,392,735)	4,070,805	5,377	12.3%	18,384	22.3%
Dr B Rohrlach	4,431,717	1,800,000	(768,177)	(1,392,735)	4,070,805	5,377	12.3%	18,384	22.3%
Total	**20,423,133**	**7,800,000**	**(3,684,187)**	**(6,267,205)**	**18,271,741**	**25,789**	**13.1%**	**84,259**	**22.2%**

Vested value reflects the closing share price at 30 June 2020 of $0.007 per share vested during the year. Lapsed value reflects the actuarial value calculated at grant date for the rights that lapsed during the year.

Shareholder approval was obtained at the Annual General Meeting held on 31 October 2019, for the issue of 2,400,000 Performance Rights with an exercise period of 3 years to Mr M Norris on the following terms (also 1,800,000 granted to each of the other key management personnel during the financial year on the same terms and same allocation between tranches):

- Tranche 1 – 33.33% to vest upon the later of both the following vesting conditions occurring:
  - Closing Price of Sunstone Shares being $0.08 or more for 10 trading days out of any 20 consecutive trading days; and
  - 12 months after issue;
- Tranche 2 – 33.33% to vest upon TSR performance as measured against the ASX Small Resources Index, as follows:
  - Performance below the index no shares will vest.
  - Performance equal to the index will see 50% vest, increasing linearly with outperformance of the index by up to 25%, such that 100% of shares will vest should Sunstone's performance be greater than 25% above the index performance.
  - Testing will be annually on 30th June; and
- Tranche 3 – 33.33% to vest upon the later of both the following vesting conditions occurring:
  - Closing Price of Sunstone Shares being $0.11 or more for 10 trading days out of any 20 consecutive trading days; and
  - 12 months after issue.

During the 2020 financial year a total of 4,173,370 performance rights that were granted in 2017 and 2018 vested for key management personnel:

- 3,668,874 performance rights subject to a Total Shareholder Return (TSR) hurdle, with the Sunstone share price outperforming the ASX Small Resources Index over the relevant testing period by 20.9% resulting in 91.72% of the relevant 2018 performance rights vesting; and
- 504,496 performance rights subject to a Total Shareholder Return (TSR) hurdle, with the Sunstone share price outperforming the ASX Small Resources Index over the relevant testing period by 20.8% resulting in 91.62% of the relevant 2017 performance rights vesting (74.8% of these had already vested in the prior testing period 12 months earlier, leaving an additional 16.8% to vest);

Performance Rights issued in 2016 expired in August 2019, with 6,267,205 performance rights for key management personnel lapsing.

Option movements during the financial year:

2020	Beginning Balance	Granted as remuneration	Lapsed	Exercised during year	Balance at end of year	Vested and exercisable at end of year
Directors of Sunstone Metals Ltd						
Mr G Ascough	2,437,500	4,000,000	-	(2,437,500)	4,000,000	-
Mr D Hyma	1,500,000	4,000,000	(4,000,000)	(1,500,000)	-	-
Mr S Stroud	1,500,000	4,000,000	-	(1,500,000)	4,000,000	-
Mr M Norris	3,125,000	-	(2,500,000)	(625,000)	-	-
Other key management personnel						
Mr R Robinson	1,312,500	-	(1,000,000)	(312,500)	-	-
Mr G Leicht	1,362,500	-	(1,000,000)	(362,500)	-	-
Dr B Rohrlach	800,000	-	(800,000)	-	-	-
Total	**12,037,500**	**12,000,000**	**(9,300,000)**	**(6,737,500)**	**8,000,000**	**-**

SHAREHOLDINGS OF KEY MANAGEMENT PERSONNEL

The numbers of shares in the Company held during the financial year by each Director and the other key management personnel of the Group, including their personally related entities, are set out below.

2020	Beginning Balance	Vesting of Performance Rights	Exercise of Options	Purchases	Disposals	Balance at end of year
Directors of Sunstone Metals Ltd						
Mr G Ascough	10,979,881	-	2,437,500	6,000,000	-	19,417,381
Mr M Norris	14,453,126	1,379,656	625,000	5,643,435	-	22,101,217
Mr D Hyma	703,125	-	1,500,000	-	-	2,203,125
Mr S Stroud	2,105,264	-	1,500,000	6,000,000	-	9,605,264
Other key management personnel						
Mr R Robinson	6,671,099	768,177	312,500	500,000	-	8,251,776
Mr G Leicht	6,937,160	768,177	362,500	6,000,000	-	14,067,837
Dr B Rohrlach	6,497,339	768,177	-	-	-	7,265,516
Total	**48,346,994**	**3,684,187**	**6,737,500**	**24,143,435**	**-**	**82,912,116**

Shares held by M Norris are via direct interest in 11,371,106 shares, 8,173,149 shares held by superannuation funds where Mr Norris is a direct beneficiary, and 2,556,962 shares held by an associate of Mr Norris.

Options exercised by key management personnel during the 2020 year include 1,500,000 options for each non-executive director at an exercise price of $0.032 per option with the remaining balance being listed options exercised at $0.03 per option.

Purchases during the year include 643,435 purchased on-market by an associate of M Norris with the remaining purchases being acceptances under the Securities Purchase Plan offered to all eligible shareholders.

END OF REMUNERATION REPORT (AUDITED)

INSURANCE OF OFFICERS

During the period the Company paid a premium to insure the Directors and officers of the Company. Under the terms of the policy the Company cannot publish amounts paid for premiums or the extent of the liabilities insured.

No indemnities have been given, during or since the end of the financial year, for any person who is or has been an officer or auditor of the consolidated group.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the Corporations Act 2001.

AUDITORS' INDEPENDENCE DECLARATION

A copy of the auditors' independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 24.

AUDIT AND NON-AUDIT SERVICES

During the year BDO Audit Pty Ltd, or its related entities, has performed certain other services in addition to the statutory audit.

The Board has considered the non-audit services provided during the year and is satisfied that the provision of those non-audit services during the year is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reason:

The non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, as they did not result in the auditor reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Group, acting as an advocate for the Group or jointly sharing risks and rewards.

Details of the amounts paid to the auditor of the Group, currently BDO Audit Pty Ltd, and their related practices for audit and non-audit services provided during the year are set out below:

	2020 $	2019 $
BDO Audit services		
Auditors of the Group		
Audit and review of financial reports	82,604	71,312
Other services		
Taxation compliance and advice	11,952	23,827
	94,556	95,139

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

Mr Graham Ascough
Chairman

Brisbane, Queensland
4 September 2020

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

As lead auditor of Sunstone Metals Limited for the year ended 30 June 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 audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

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

R M Swaby
Director

BDO Audit Pty Ltd

Brisbane, 4 September 2020

STATEMENT

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of Sunstone Metals Limited ("Company") have adhered to the principles of corporate governance and this statement outlines the main corporate governance practices in place throughout the financial year. The ASX Corporate Governance Council released revised Corporate Governance Principles and Recommendations (fourth edition) in February 2019. Having regard to the size of the Company and the nature of its enterprise, it is considered that the Company complies as far as possible with the spirit and intentions of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations.

The current Directors of the Company at the date of this report are:

Mr Graham Ascough
Non-Executive Chairman
Independent

Mr Malcolm Norris
CEO & Managing Director

Mr Stephen Stroud
Non-Executive Director
Independent

For information on each Director, refer to the Directors' Report.

The following policies or obligations have been established by the Board:

- Continuous disclosure
- Code of conduct
- Share trading
- Audit & Financial Risk
- Board Charter
- Risk Management

INDEPENDENT DIRECTORS

When determining whether or not a Non-Executive Director is independent, the Director must not fail any of the following materiality thresholds:

- more than 5% of Company shares are held by the Director and any entity or individual directly or indirectly associated with the Director;
- no sales are made to, or purchases made from, any entity or individual directly or indirectly associated with the Director; and
- none of the Directors' income or the income of an individual or entity directly or indirectly associated with the Director, is derived from a contract with any member of the Group other than income as derived as a Director of the entity.

At the date of this report, the board consists of one independent Non-Executive Chairman, one Executive Director and two independent, Non-Executive Directors. Independent Directors have shareholdings less than 5% of the total shares on issue. The board is considered to be appropriate for the size of the Company and the nature of its activities. It is a cost effective structure for managing the Company and there is no justification for appointing additional independent directors.

BOARD COMPOSITION

When the need for a new director is identified, selection is based on the skills and experience of prospective directors, having regard to the present and future needs of the Company. Any director so appointed must then stand for election at the next meeting of shareholders of the Company.

DIRECTOR AND EXECUTIVE EDUCATION

All new Directors are educated about the nature of the business, current issues, the corporate strategy, the culture and values of the Group, and the expectations of the Group concerning performance of Directors. In addition, Directors are also educated regarding meeting arrangements and Director interaction with each other, senior executives and stakeholders. Directors have the opportunity to visit Group facilities and meet with management to gain a better understanding of operations. Directors are given access to continuing education opportunities to update and enhance their skills and knowledge upon joining the Group. Directors will be educated on the Group's structure, strategy, operations, financial position and risk management policies. It also familiarises the individual with respective rights, duties, responsibilities and roles of the individual and the Board.

TERM OF APPOINTMENT AS A DIRECTOR

The constitution of the Company provides that a director, other than the Managing Director, may not retain office for more than three calendar years or beyond the third annual general meeting following his or her election, whichever is longer, without submitting for re-election. One third of the directors must retire each year and are eligible for re-election. The directors who retire by rotation at each Annual General Meeting are those with the longest length of time in office since their appointment or last election.

RISK MANAGEMENT AND INTERNAL COMPLIANCE AND CONTROLS

AUDIT AND FINANCIAL RISK COMMITTEE

The board has established an Audit and Financial Risk Committee.

All directors are members of the Committee, with a Non-Executive Director that is not the Chairman of the Board being the Chairman of the Committee. Given the size of the Company and the nature of its activities, it is considered important that all directors participate in matters relating to audit and financial risk. It is a cost effective structure and there is no justification for appointing additional independent directors.

The Committee members are:

Mr Stephen Stroud (Chairman), Mr Graham Ascough, and Mr Malcolm Norris (Mr Don Hyma was a member prior to his resignation).

The Committee's responsibilities include:

- providing the Board with advice and recommendations regarding the ongoing development of financial risk oversight and management policies (covering oversight, risk profile, risk management, compliance and control) that set out the roles and respective accountabilities of the Board, the Audit Committee and management;
- receiving and reviewing management's recommendations and providing the Board with advice and recommendations regarding the establishment of a financial risk management system and financial risk profile;
- regularly reviewing the Company's financial risk profile (provided by management) having regard to key financial risk, legal and regulatory risk and disclosure reporting;
- reviewing internal controls and their effectiveness, in the absence of a formal internal audit function;
- reviewing financial statements provided by management for accuracy, adequacy and clarity to ensure they give a true and fair view of the Company's financial position and adhere to accounting standards and policies and legislative requirements;
- with respect to the external auditor, approving and recommending policies and procedures for appointing or removing an external auditor and terms of engagement;
- regularly reviewing and assessing the compliance of the external auditor with policies and procedures, the effectiveness, and independence of the external auditor; and
- monitoring the relationship between management and the auditor.

The Audit and Financial Risk Committee has met twice during the financial year. The CEO & Managing Director and the Chief Financial Officer & Company Secretary are invited to attend the Committee meetings.

Where appropriate, the Board and the Audit and Financial Risk Committee engage independent experts or professional advisors to assist with the identification and/or management of any key risk areas identified.

To ensure that risks, and also opportunities, are identified on a timely basis and that activities are aligned with the risks and opportunities identified, the Board has also adopted a Risk Management Policy to:

- ensure the Company's risk management policies and procedures are adequate;
- monitor compliance with the Company's risk management policies and procedures;
- keep itself appraised of the latest developments, policies, trends in relation to financial matters, rules, regulations, to the extent that they may affect the Company or the markets in which the Company operates;
- review the Company's internal financial control mechanisms and risk management policies;
- compile a risk profile of the material risks facing the Company;
- review major non-financial regulatory matters covering areas of exposure including the environment, safety and health, asset protection (including insurance), discrimination and harassment, conflict of interest and ethical standards.

The Company does not believe it has any material exposure to economic, environmental or social sustainability risks due to its size and nature of activities.

This financial year the CEO & Managing Director and the Chief Financial Officer & Company Secretary provided a statement to the Board in writing in respect to the integrity of the financial statements, that they are founded on a sound system of risk management and internal compliance and control systems are operating efficiently and effectively in all material respects.

REMUNERATION/ NOMINATION AND PERFORMANCE

The Board had previously established a Remuneration Committee with all directors being members of the Committee. With the resignation of the Chairman of the Committee in April 2020 all matters previously considered by the Remuneration Committee are now the responsibility of the full Board of directors.

Given the size of the Company and the nature of its activities, it is considered that all directors participate in matters relating to remuneration and director nomination. It is a cost effective structure and there is no justification for appointing additional independent directors.

The Board deals with matters of remuneration and nomination. The nomination of new Directors and the setting, or review, of remuneration levels of Directors and senior executives, is performed by the Board and recommendations made to the Board as a whole for approval by resolution (with abstentions from relevant directors where there is a conflict of interest). Where the Board considers that particular expertise or information is required, which is not available from within the Board, appropriate external advice may be taken prior to a final decision.

The Board also deals with the remuneration of Directors and key executives of the Company. The Company's policy is to remunerate non-executive Directors at market rates for time, commitment and responsibilities. The Board determines payments to the non-executive Directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought where required. The maximum aggregate amount of fees that can be paid to non-executive Directors is subject to approval by shareholders.

The Company does not currently have a documented formal process for periodically evaluating the performance of the board, its committees and individual directors, however, does undertake informal evaluations. The Board undertakes an annual review of key executives, evaluating their performance and remuneration levels. This annual review was last undertaken in June 2020.

CODE OF CONDUCT

The board has adopted a Code of Conduct to guide Directors, officers, employees and contractors in carrying out their duties and responsibilities. This Code of Conduct set out the principles and standards which the Board, management, employees and contractors of the Company are encouraged to strive towards when dealing with each other, shareholders and the community as a whole.

CONFLICT OF INTEREST

Each Director must keep the Company informed on an ongoing basis, of any interest that could potentially conflict with those of the Company. Where the Board believes a significant conflict exists, the director concerned does not receive the relevant Board papers and is not present at the meeting whilst the item is considered.

INDEPENDENT PROFESSIONAL ADVICE

Each Director has the right of access to all relevant Company information and to the Company's executives. Directors have the right, in connection to their duties and responsibilities as Directors, to seek independent professional advice at the Company's expense. For independent legal advice in excess of a cost of $15,000, prior approval of the Chairman is required, which will not be unreasonably withheld, before any expense is incurred on behalf of the Company.

SHARE TRADING POLICY

Directors and employees are not permitted to trade shares whist in the possession of price sensitive information. Directors and employees are prohibited from trading in securities whilst in possession of any inside information in accordance with the Corporations Act 2001.

COMMUNICATION TO MARKET AND SHAREHOLDERS

The Board Charter, Code of Conduct and Share Trading Policy all recognise legal and other obligations and support the legitimate interests of all stakeholders. Directors aim to ensure that the shareholders, on behalf of whom they act are informed of all information necessary to assess the performance of the Directors and the Company. Information is communicated to shareholders and the market through:

- the Annual Report, which is available to all shareholders:
- other periodic reports, such as Quarterly Reports, which are lodged with ASX and available for shareholder scrutiny;
- other announcements made in accordance with ASX Listing Rules;
- special purpose information memoranda issued to shareholders as appropriate;
- the Annual General Meeting and other meetings called to obtain approval for Board action as appropriate;
- electronic reporting to shareholders from the Company's share registry; and
- the Company's website.

The continuous disclosure policy adopted by the Board ensures procedures are in place so that the market is properly informed of matters which may have a material impact on the price at which securities are traded.

DIVERSITY POLICY

The Company does not at present have a Diversity Policy in place due to the size and stage of development of the Company. The Company currently has four fulltime employees and two non-executive directors in Australia and currently has no female employees or directors. In Ecuador the Company's subsidiary La Plata Minerales S.A. has fourteen full-time permanent employees, of which four are female.

EXTERNAL AUDITORS

The external auditor is BDO Audit Pty Ltd. The external auditor attends the Annual General Meeting and part of the agenda is the tabling of the financial statements and inviting shareholders to ask the Directors or the auditor any questions with regard to the financial statements and the audit report.

OTHER INFORMATION

The Corporate Governance Policies of the Company will be continually reviewed in accordance with the standards required of the Company by the Directors, ASX, ASIC and other stakeholders to ensure that appropriate governance standards are maintained.

Further information relating to the Company's corporate governance practices and policies has been made publicly available on the Company's web site at www.sunstonemetals.com.au.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2020

	Note	2020 $	2019 $
Interest income		**91,004**	87,262
Other income - Government grants		**74,000**	-
Employee Benefits Expense	4	**(907,975)**	(1,360,758)
Corporate and administration expenses		**(792,740)**	(738,022)
Share of associate losses using the equity method		**(392,978)**	(300,922)
Net fair value adjustments of financial assets at fair value through profit or loss	8	**978,746**	(2,256,932)
Loss on sale of subsidiary		**-**	(5,549,471)
Depreciation expense		**(56,720)**	(5,325)
Reversal of impairment / (impairment expense)	4	**5,573,456**	(12,803,781)
Interest paid		**(12,964)**	(6,256)
Profit/(Loss) before income tax		**4,553,829**	(22,934,205)
Income tax expense	5	**-**	-
Net profit/(loss) for the period		**4,553,829**	(22,934,205)
Other comprehensive income / (loss)			
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation differences – foreign operations		**18,162**	1,921,637
Total comprehensive profit/(loss) for the period		**4,571,991**	(21,012,568)
Net profit/(loss) for the period is attributable to:			
Members of Sunstone Metals Ltd		**4,562,120**	(22,930,603)
Non-controlling interests		**(8,291)**	(3,602)
		4,553,829	(22,934,205)
Total comprehensive profit/(loss) for the period attributable to:			
Members of Sunstone Metals Ltd		**4,580,390**	(21,010,445)
Non-controlling interests		**(8,399)**	(2,123)
		4,571,991	(21,012,568)
Earnings per share for profit/(loss) attributable to the ordinary equity holders of the Company:			
		Cents	Cents
Basic earnings per share	18	**0.3**	(1.9)
Diluted earnings per share	18	**0.3**	(1.9)

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 30 JUNE 2020

	Note	30-Jun-20 $	30-Jun-19 $
Current assets			
Cash and cash equivalents	6	**3,686,349**	1,874,864
Trade and other receivables	7	**185,897**	3,199,155
Total current assets		**3,872,246**	5,074,019
Non-current assets			
Financial assets at fair value through profit or loss	8	**5,036,204**	4,057,459
Plant and equipment	9	**150,216**	4,626
Exploration and evaluation	10	**16,972,821**	8,151,339
Investments accounted for using the equity method	11	**16,716,124**	11,535,646
Total non-current assets		**38,875,365**	23,749,070
Total assets		**42,747,611**	28,823,089
Current liabilities			
Trade and other payables	12	**308,491**	525,509
Lease liabilities		**30,123**	-
Provisions	13	**260,679**	170,450
Total current liabilities		**599,293**	695,959
Non-current liabilities			
Provisions	13	**146,578**	-
Total non-current liabilities		**146,578**	-
Total liabilities		**745,871**	695,959
Net assets		**42,001,740**	28,127,130
Equity			
Contributed equity	14	**88,193,617**	79,607,540
Reserves	15	**4,207,384**	4,206,540
Accumulated losses		**(51,282,221)**	(55,667,713)
Equity attributable to owners of Sunstone Metals Limited		**41,118,780**	28,146,367
Non-controlling interests	16	**882,960**	(19,237)
Total equity		**42,001,740**	28,127,130

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 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	**79,607,540**	**3,800,946**	**405,594**	**(55,667,713)**	**28,146,367**	**(19,237)**	**28,127,130**
Profit/(loss) for the year				4,562,120	4,562,120	(8,291)	4,553,829
Other comprehensive Income			18,270		18,270	(108)	18,162
Consolidation of acquired entity				(176,631)	(176,631)	(25,233)	(201,864)
Total comprehensive income/(loss) for the year	-	-	18,270	4,385,489	4,403,759	(33,632)	4,370,127
Shares issued	9,020,771				9,020,771	935,832	9,956,603
Share issue costs	(434,694)				(434,694)		(434,694)
Share based payment transactions		(17,426)			(17,426)		(17,426)
Total Equity at the end of the financial year	**88,193,617**	**3,783,520**	**423,864**	**(51,282,224)**	**41,118,777**	**882,963**	**42,001,740**

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	**77,502,820**	**3,732,841**	**(1,522,323)**	**(32,737,110)**	**46,976,228**	**(9,553)**	**46,966,675**
Profit/(loss) for the year				(22,930,603)	(22,930,603)	(3,602)	(22,934,205)
Other comprehensive Income			1,927,917		1,927,917	(6,280)	1,921,637
Total comprehensive income/(loss) for the year	**-**	**-**	**1,927,917**	**(22,930,603)**	**(21,002,686)**	**(9,882)**	**(21,012,568)**
Shares issued	2,212,449				2,212,449	198	2,212,647
Share issue costs	(107,729)				(107,729)		(107,729)
Share based payment transactions		68,105			68,105		68,105
Total Equity at the end of the financial year	**79,607,540**	**3,800,946**	**405,594**	**(55,667,713)**	**28,146,367**	**(19,237)**	**28,127,130**

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2020

	Note	2020 $	2019 $
Cash flows from to/from operating activities			
Payments to suppliers and employees		(1,477,052)	(1,875,495)
Sundry income		74,000	-
Interest paid		(12,964)	(6,256)
Interest received		42,140	21,057
Net cash outflow from operating activities	17	(1,373,876)	(1,860,694)
Cash flows to/from investing activities			
Payments for plant and equipment		(83,765)	(3,878)
Exploration and evaluation expenditure		(8,359,707)	(2,840,019)
Proceeds from sale of subsidiary		2,281,461	1,974,729
Proceeds from sale of shares		865,319	-
Net cash used in investing activities		(5,296,692)	(869,167)
Cash flows to/from financing activities			
Proceeds from issue of securities		8,917,125	2,019,920
Costs of share issues		(434,694)	(107,729)
Net cash provided by financing activities		8,482,431	1,912,191
Net increase/(decrease) in cash		1,811,863	(817,670)
Effect of exchange rate fluctuations on cash held		(378)	38,745
Cash and cash equivalents at the beginning of the financial year		1,874,864	2,653,789
Cash at the end of the financial year	**6**	**3,686,349**	**1,874,864**

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

Note 1. Summary of Significant Accounting Policies

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied for the financial year to 30 June 2020, unless otherwise stated.

Corporate information

The consolidated financial report of Sunstone Metals Limited for the year ended 30 June 2020 was authorised for issue in accordance with a resolution of the Directors on 4 September 2020.

Sunstone Metals Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange. Its registered office and principal place of business is 9 Gardner Close, Milton QLD 4064.

The Group is a for-profit entity. A description of the nature of the Consolidated Entity's operations and its principal activities is included in the Directors' report.

Through the use of the internet, the Company seeks to ensure that our corporate reporting is timely, complete and available globally at minimum cost to the Group. All financial reports, Company announcements and other information are available on the Company's website: www.sunstonemetals.com.au

(a) Basis of preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board.

The presentation currency is Australian dollars.

The report has been prepared on the basis of the going concern and historical cost conventions.

Going concern

The Group earned a net profit of $4,553,829 for the year ended 30 June 2020. As at 30 June 2020 the Group has net cash reserves of $3,686,349 and a net current asset surplus of $3,272,954.

The ability of the Group to continue as a going concern is principally dependent upon one or more of the following:

- the ability of the company to raise additional capital in the future; and
- the successful exploration and subsequent exploitation of the Group's tenements

These conditions give rise to a material uncertainty which may cast significant doubt over the Company's ability to continue as a going concern.

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;
- During September 2020 the 18 month escrow period on the 160 million shares held in Copperstone expires and this provides Sunstone with greater flexibility in monetising this investment, if required. The value of this investment at 30 June 2020 equates to $16.7 million;
- 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.

Should the Group be unable to continue as a going concern, it may be required to realise its assets and extinguish its liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial statements.

This financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts or classification of liabilities and appropriate disclosures that may be necessary should the Group be unable to continue as a going concern.

Note 1. Summary of Significant Accounting Policies (continued)

(b) Statement of compliance

The financial report complies with Australian Accounting Standards and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

(c) Basis of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Sunstone Metals Limited ("Company", "Sunstone" or "Parent Entity") as at 30 June 2020 and the results of all the subsidiaries for the financial period then ended. The Company and its subsidiaries together are referred to in this financial report as the Group or Consolidated Entity.

Subsidiaries are all those entities (including structured entities) over which the Group has control. The group has control over an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to use its controlling power to affect those returns.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(d) Operating segments

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. This includes start-up operations which are yet to earn revenues. Management will also consider other factors in determining operating segments such as the existence of a line manager and the level of segment information presented to the Board of Directors.

Operating segments have been identified based on the information provided to the chief operating decision makers, being the Board of Directors.

The Group aggregates two or more operating segments when they have similar economic characteristics, and the segments are similar in each of the following respects:

- Nature of the products and production process;
- Type or class of customer for the products; and
- Methods used to distribute the products

Operating segments that meet the quantitative criteria as prescribed by AASB 8 are reported separately. However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements.

Information about other business activities and operating segments that are below the quantitative criteria are combined and disclosed in a separate category for 'all other segments'.

Note 1. Summary of Significant Accounting Policies (continued)

(e) Revenue recognition

Interest income

Revenue recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Government grants

Revenue received from government grants, such as Research and Development rebates, are recognised in profit or loss on a systematic basis over the period(s) in which the entity recognises, as expenses, the costs for which the grant was intended to compensate. If the offset relates to items that have been capitalised (e.g. exploration assets, development assets, etc.), the offset income must be deferred by deducting the offset from the carrying amount of the asset for which the offset/grant was intended to compensate.

(f) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

(g) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the Statement of Financial Position.

(h) Other receivables

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

Note 1. Summary of Significant Accounting Policies (continued)

(i) Financial assets at fair value through profit or loss

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.

The non-current contingent consideration receivable being Copperstone receivable – cash and Copperstone receivable – shares, does not satisfy the solely payment of principal and interest test and is therefore classified as financial assets at fair value through profit or loss.

(j) Associates

Associates are entities over which the consolidated entity has significant influence but not control or joint control. Investments in associates are accounted for using the equity method. Under the equity method, the share of the profits or losses of the associate is recognised in profit or loss and the share of the movements in equity is recognised in other comprehensive income. Investments in associates are carried in the statement of financial position at cost plus post-acquisition changes in the consolidated entity's share of net assets of the associate and less impairment losses. Dividends received or receivable from associates reduce the carrying amount of the investment.

When the consolidated entity's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured long-term receivables, the consolidated entity does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The consolidated entity discontinues the use of the equity method upon the loss of significant influence over the associate and recognises any retained investment at its fair value. Any difference between the associate's carrying amount, fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

(k) Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset’s recoverable amount. An asset’s recoverable amount is the higher of its fair value less costs of disposal and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs.

When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses relating to continuing operations are recognised in profit or loss.

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset’s recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset’s revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Note 1. Summary of Significant Accounting Policies (continued)

(l) Employee benefits

(i) Wages, salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled in full within 12 months after the end of the reporting date are recognised for employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Other long-term employee benefits

Provision is made for employees' long service leave not expected to be settled in full within 12 months after the end of the reporting period in which the employees' render the services. Other long-term employee benefits are measured at the present value of the expected future payments to be made to employees.

(iii) Retirement benefit obligations

The Group contributes to various defined contribution superannuation funds for its employees.

Contributions to the funds are recognised as an expense as they become payable.

(iv) Share-based payments

Share-based compensation benefits are provided to employees via the employee performance rights plan, and options approved by the Board from time to time.

The fair value of options and performance rights granted is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the Directors or employees become unconditionally entitled to the options or performance rights. The fair value at grant date is independently valued using a Trinomial pricing model.

The cumulative expense recognised between grant date and vesting date is adjusted to reflect the Directors' best estimate of the number of options or performance rights that will ultimately vest because of internal conditions of the options or performance rights, such as the employee having to remain with the Company until vesting date, or such that employees are required to meet internal targets. No expense is recognised for options/performance rights that do not ultimately vest because internal conditions are not met. An expense is still recognised for options/performance rights that do not ultimately vest because a market condition was not met.

(m) Trade and other payables

Trade payables are carried at amortised cost. These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

(n) Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

(o) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Note 1. Summary of Significant Accounting Policies (continued)

(p) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit or loss attributable to equity holders of the Consolidated Entity, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(q) Goods and services tax (GST) / Value added Tax (VAT)

GST is applicable to Australia and reported through the Australian Taxation Office whilst VAT is applicable in Ecuador, Sweden and Finland. GST and VAT are similar tax instruments.

Revenues, expenses and assets are recognised net of the amount of associated GST/VAT, unless the GST/VAT incurred is not recoverable from the respective taxation offices. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST/VAT receivable or payable. The net amount of GST/VAT recoverable from, or payable to, the respective taxation offices is included with other receivables or payables in the Statement of Financial Position.

Cash flows are presented on a gross basis. The GST/VAT components of cash flows arising from investing or financing activities which are recoverable from, or payable to the respective taxation offices, are presented as operating cash flows.

(r) Exploration and evaluation expenditure

Exploration and evaluation expenditure incurred by or on behalf of the Group is accumulated separately for each area of interest. Such expenditure comprises net direct costs and an appropriate portion of related overhead expenditure, but does not include general overheads or administrative expenditure not having a specific focus with a particular area of interest.

Each area of interest is limited to a size related to a known or probable mineral resource capable of supporting a mining operation. Exploration and evaluation expenditure for each area of interest is carried forward as an asset provided that the rights to tenure of the area of interest are current and one of the following conditions is met:

- such costs are expected to be recouped through successful development and exploitation of the area of interest or, alternatively, by its sale; or
- exploration and evaluation activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in relation to the area are continuing.

Expenditure which fails to meet the conditions outlined above is written off, furthermore, the Directors regularly review the carrying value of exploration and evaluation expenditure and make write downs if the values are not expected to be recoverable.

When an area of interest is abandoned, any expenditure carried forward in respect of that area is written off. All capitalised exploration assets are not being depreciated.

Note 1. Summary of Significant Accounting Policies (continued)

(s) Foreign currency transactions and balances

(i) Functional and presentation currency

The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the Company's functional and presentation currency. The functional currency of the Consolidated Entity's foreign operations is primarily US Dollar as well as Euro and Swedish Krona.

(ii) Transactions and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period end exchange rate. Exchange differences arising on the translation of foreign currency transactions are recognised in profit or loss.

(iii) Group companies

The results and the financial position of all the Group entities (none of which has a currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities are translated at period-end exchange rates prevailing at the reporting date;
- Income and expenses are translated at average exchange rates for the period; and
- Retained profits are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on the translation of foreign operations are transferred directly to the Group's foreign currency translation reserve in the Statement of Financial Position. These differences are recognised in the profit or loss in the period in which the operation is disposed.

(t) Application of new and revised Accounting Standards

A number of new or amended standards became applicable for the current reporting period and the group had to change its accounting policies as a result of adopting the standards. The impact of the adoption of these standards and the new accounting policies are disclosed below. The other standards did not have any impact on the group's accounting policies and did not require retrospective adjustments.

AASB 16 Leases

The Group adopted AASB 16 using the modified retrospective approach, without restatement of comparative figures where the right-of-use asset is recognised at the date of initial application at an amount equal to the lease liability ($67,015 at 1 July 2019), using the entity's incremental borrowing rate. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening Statement of Financial Position on 1 July 2019.

Management consider the impacts from adoption of AASB 16 to be immaterial.

(i) Adjustments recognised on adoption of AASB 16

As a lessee, the group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under AASB 16, the group recognizes right-of-use assets and lease liabilities for most leases. However, the group has elected not to recognise right-of-use assets and lease liabilities for some leases of low value assets based on the value of the underlying asset when new or for short-term leases with a lease term of 12 months or less.

On adoption of AASB 16, the Group recognised right-of-use assets (refer to note 9) and lease liabilities in relation to leases of office space which had previously been classified as operating leases. The lease liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as at 1 July 2019. The Group's incremental borrowing rate is the rate at which a similar borrowing could be obtained from an independent creditor under comparable terms and conditions. The weighted-average rate applied was 6.2%.

Note 1. Summary of Significant Accounting Policies (continued)

Included in profit or loss for the period are $38,294 of amortisation of right-of-use assets and $3,127 of finance cost on lease liabilities. Short-term and low-value leases included in profit or loss for the period were $1,896.

(ii) Accounting policy for leases from 1 July 2019

All leases are accounted for by recognising a right-of-use asset and a lease liability except for leases of low value assets and leases with a term of 12 months or less.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the group's incremental borrowing rate on commencement of the lease.

On initial recognition, the carrying value of the lease liability also includes:

- amounts expected to be payable under any residual value guarantee;
- the exercise price of any purchase option granted in favour of the group if it is reasonably certain to exercise that option;
- any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised.

Right of use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:

- lease payments made at or before commencement of the lease;
- initial direct costs incurred; and
- the amount of any provision recognised where the group is contractually required to dismantle, remove or restore the leased asset.

Subsequent to initial measurement lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if, rarely, this is judged to be shorter than the lease term. Lease liabilities are remeasured when there is a change in future lease payments arising from a change in an index or rate or when there is a change in the assessment of the term of any lease.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office furniture.

(u) New Accounting Standards issued but not yet effective

There are no accounting standards that are not yet effective and that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

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 carrying value of exploration and evaluation assets at 30 June 2020 is $16,972,821 (2019: $8,151,339).

At 30 June 2020 the Group has a 25.2% interest in Copperstone Resources AB. 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 ie their fair value has been determined using unobservable inputs. Refer to note 8 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 segment based upon reports reviewed by the Board (Chief Operating Decision Makers) for making strategic decisions. The Board has identified three operating segments being exploration for and evaluation of copper, gold and lithium projects in Ecuador and Finland, as well as investments held through the Australian Parent Company.

The reportable segment is based on aggregated operating 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 annual report.

Geographical areas

Revenue from external sources, mainly derived from interest, and non-current assets by geographical location is detailed below.

	2020 **$**	2019 $
Revenue/Income		
Australia	**164,980**	87,258
Ecuador	**24**	-
Finland	**-**	4
	165,004	87,262
Non-current assets		
Australia	**22,311,464**	16,008,659
Ecuador	**13,645,759**	4,991,136
Finland	**2,918,142**	2,749,274
	38,875,365	23,749,070

Note 4. Expenses

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

	2020 $	2019 $
Employee benefits expense*		
Salaries & wages	**443,927**	753,738
Directors' fees	**164,330**	184,999
Defined contribution superannuation expense	**40,159**	55,229
Share based payments	**86,220**	260,634
Movement in leave provisions	**139,834**	25,660
Other	**33,505**	80,498
	907,975	**1,360,758**

* Excludes employee costs capitalised to exploration and evaluation expenditure

Impairment Expense / (Reversal of Impairment)		
Relinquished exploration concessions	**-**	215,330
Shares in Copperstone Resources AB	**(5,573,456)**	12,588,451
	(5,573,456)	**12,803,781**

The consideration for the sale of Avalon Minerals Viscaria AB to Copperstone Resources AB ("Copperstone") includes 20 million Swedish Kronor (SEK) ($3.1 million) and 160 million shares in Copperstone at closing in March 2019, a further 20 million SEK in cash and shares was received during the year ended 30 June 2020.

The Copperstone share price at 30 June 2020 was 0.67 (2019: 0.47 SEK), resulting in the reversal of impairment recognised in prior year for the value of the 160 million shares Sunstone holds in Copperstone, as well as the future consideration to be received in shares contingent on receipt of an environmental permit for Viscaria. 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 Krona.

The contingent consideration of 20 million SEK cash and a further 46 million Copperstone shares for accounting purposes has been discounted to present value using a 12% discount rate and assuming 3 years to receive the contingent consideration. This discount on the contingent consideration will be unwound over the periods until receipt of the consideration and may also include foreign currency fluctuations.

Note 5. Income tax

	2020 $	2019 $
(a) Numerical reconciliation between aggregate tax expense recognised in the statement of comprehensive income and tax expense calculated per the statutory income tax rate		
Accounting profit / (loss) before income tax	**4,553,829**	(22,934,205)
At the Group's statutory income tax rate of 30%	**1,366,149**	(6,880,261)
Expenditure not allowable/(assessable) for income tax purposes	**1,877,141**	1,744,984
Deferred tax asset/(liability) not brought to account as realisation is not considered probable	**(3,243,289)**	5,135,277
Income tax expense	**-**	-

	Statement of Financial Position	
	2020 $	2019 $
Deferred tax assets		
Employee provisions	**93,085**	46,874
Other accruals and provisions	**31,667**	13,276
Share issue costs charged to equity	**23,201**	17,476
Unused income tax losses	**4,305,692**	8,529,080
Total deferred tax assets	**4,453,645**	8,606,706
Total unrecognised deferred tax assets	**(4,453,645)**	(8,606,706)
Net deferred tax assets	**-**	-

The Group has not recognised the deferred tax assets in the financial statements as it is not considered probable that sufficient taxable amounts will be available in future periods with which to be offset.

Note 6. Cash and cash equivalents

	2020 $	2019 $
Cash on hand and at bank	**3,686,349**	1,874,864

Cash at bank earns interest at floating rates based on daily bank deposit rates. The cash at bank is bearing floating interest rates between 0.01% and 1.55% (2019: 0.01% and 2.15%). The carrying amounts of cash and cash equivalents represent fair value.

Restricted cash balances totalling $15,225 (2019: $15,225) representing term deposits securing various performance guarantees have been disclosed under other receivables (refer Note 7).

Note 7. Other receivables

	2020 $	2019 $
Current		
Copperstone receivable - cash	**-**	3,067,991
Other debtors	**169,017**	86,249
Deposits	**15,225**	15,225
Prepayments	**1,655**	29,690
	185,897	3,199,155

Current Copperstone receivable – cash for the previous financial year relates to the deferred consideration on sale of Avalon Minerals Viscaria AB to Copperstone of 20 million SEK. During the year ended 30 June 2020 15 million SEK cash ($2.2 million) was received in cash, with 5 million SEK plus interest ($0.9 million) converted into 12.5 million Copperstone shares at 0.46 SEK per share.

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.

No allowance has been made for impairment of any other receivables as it is highly probable that they will be recovered. All other receivables excluding deposits are non-interest bearing and balances are current.

Note 8. Financial assets at fair value through profit or loss

	2020 $	2019 $
Non-current		
Copperstone receivable - cash	**1,981,977**	1,949,764
Copperstone receivable - shares	**3,054,227**	2,107,695
	5,036,204	4,057,459

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

	2020 $	2019 $
Opening fair value	**4,057,459**	-
Additions	**-**	6,314,391
Fair value increments / (decrements)	**978,746**	(2,256,932)
Closing fair value	**5,036,204**	4,057,459

Non-current financial assets at fair value through profit or loss relates to the contingent consideration upon receiving an environmental permit for Viscaria of 20 million SEK cash and 46 million Copperstone shares. These fall under level 3 of the fair value hierarchy referred to in AASB 13 Fair Value measurement ie their fair value has been determined using unobservable inputs.

Non-current financial assets at fair value are revalued at each reporting date using a discounted cash flow model that takes into account the SEK spot rate and Copperstone quoted share price at balance date (observable inputs), and the discount rate, management's assessment of the probability of receiving the environmental permit for Viscaria and the timeframe in which this is expected to occur (unobservable inputs).

Whilst management believe the probability of receiving the environmental permit for Viscaria is extremely high, a probability of 90% has been utilised to reflect that factors involved in the ultimate granting of the permit are out of the control of the Company.

Following is further detail regarding the unobservable inputs and the sensitivity in relation to these:

Unobservable input	**Estimate applied**	**Sensitivity**	
		% Change	**Increase / decrease in fair value $**
Discount rate	12%	1%	175,907
Probability of environmental licence approval	90%	5%	251,816
Period for environmental licence approval - years	3	1	539,587

Note 9. Property, plant and equipment

	Office equipment $	Computer equipment $	Exploration equipment $	Leasehold improvements $	Mine infrastructure $	Total $
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)**
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**
Year Ended 30 June 2019						
Carrying amount at beginning of financial year	70	6,003	-	-	62,403	68,476
Additions	-	3,878	-	-	-	3,878
Disposals	-	-	-	-	(62,403)	(62,403)
Depreciation expensed	(70)	(5,255)	-	-	-	(5,325)
Carrying amount at end of financial year	-	4,626	-	-	-	4,626
As at 30 June 2019						
At Cost	23,944	57,741	121,687	-	-	203,372
Accumulated Depreciation	(23,944)	(53,115)	(121,687)	-	-	(198,746)
	-	4,626	-	-	-	4,626

Note 10. Exploration and evaluation assets

	2020 $	2019 $
At Cost - less amounts written off	**16,972,821**	8,151,339
Balance at 1 July	**8,151,339**	44,474,691
Exploration and evaluation expenditure	**8,804,446**	2,361,621
Relinquished tenements	**-**	(215,330)
Effect of movement in foreign exchange	**17,036**	740,151
Disposal of subsidiary	**-**	(39,209,794)
Balance at 30 June	**16,972,821**	8,151,339

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 11. Investments accounted for using the equity method

	2020 $	2019 $
Shares in Copperstone Resources AB - cost	**24,124,097**	24,124,097
Accumulated impairment	**(7,407,973)**	(12,588,451)
	16,716,124	11,535,646

The consideration for the sale of Avalon Minerals Viscaria AB to Copperstone Resources AB ("Copperstone") included 160 million shares in Copperstone at closing. At 30 June 2020 the Copperstone share price was 0.67 SEK (2019: 0.47 SEK), resulting in the reversal of impairment previously recognised for the value of the 160 million 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 Krona.

Refer to note 24 for further information on interests in associates.

Note 12. Trade and other payables

	2020 $	2019 $
Trade payables	**185,931**	485,410
Sundry payables and accrued expenses	**122,560**	40,099
	308,491	525,509

Note 13. Provisions

	2020 $	2019 $
Current		
Employee leave liabilities	**260,679**	170,450
Non-current		
Employee leave liabilities	**146,578**	-

Note 14. Contributed equity

(a) Share capital

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

(b) Movements in ordinary share capital

		Number of shares	Issue price $	$
	Balance as at 1 July 2018	**1,141,702,039**		**77,502,820**
Jul-18	Consideration for 20% holding in Scandian Metals Pty Ltd	600,000	0.038	22,800
Sep-18	Vesting of Employee Performance Rights	5,244,072	0.013	66,529
Nov-18	Share placement	67,330,665	0.030	2,019,920
Apr-19	Vesting of Employee Performance Rights	6,000,000	0.042	103,200
	Share issue costs			(107,729)
	Balance as at 30 June 2019	**1,220,876,776**		**79,607,540**

		Number of shares	Issue price $	$
	Balance as at 1 July 2019	**1,220,876,776**		**79,607,540**
Jul-19	Vesting of Employee Performance Rights	3,668,874	0.027	97,592
Sep-19	Exercise of unlisted Options	4,500,000	0.032	144,000
Sep-19	Exercise/underwriting of Listed Options	154,837,500	0.030	4,645,125
Sep-19	Vesting of Employee Performance Rights	504,496	0.012	6,054
Apr-20	Vesting of Employee Performance Rights	345,000,000	0.005	1,725,000
May-20	Vesting of Employee Performance Rights	480,600,000	0.005	2,403,000
	Share issue costs			(434,694)
	Balance as at 30 June 2020	**2,209,987,646**		**88,193,617**

Note 14. Contributed equity (continued)

(c) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

(d) Employee and Director's Option Plan / Performance Right's Plan

Information relating to the Employee share option plan and performance right's plan, including details of instruments issued, exercised and lapsed during the financial year are set out in Note 19.

(e) Options/Performance Rights

At the end of the 2020 financial year there were 8,000,000 unlisted options, and 18,271,741 performance rights over ordinary shares on issue (see Note 19).

(f) Capital management

The objective is to ensure the entity continues as a going concern as well as to maintain an optimal structure to reduce the cost of capital. Sunstone is a junior exploration company and it is dependent from time to time on its ability to raise capital from the issue of new shares and its ability to realise value from its exploration and evaluation assets. The Board is responsible for capital management. This involves the use of cash flow forecasts to determine future capital requirements. Capital management is undertaken to ensure a secure, cost-effective and flexible supply of funds is available to meet the Group's operating and capital expenditure requirements. The Company does not have any debt facilities and is not subject to any external capital requirements. Surplus funds are invested in a cash management account and are available as required. Financial liabilities of the Group at balance date are trade and other payables. Trade and other payables are unsecured and usually paid within 30 days of recognition.

The ability to raise equity in the future to fund the Group's operations, investigations and exploration activities is a risk that could influence the activities of the Company. The Group has historically raised sufficient capital to fund its operations, however, it recognises that it is at risk of financial markets which dictate its ability to fund operations beyond exhaustion of the current cash funds.

	2020 **$**	2019 $
Current assets	**3,872,246**	5,074,019
Current liabilities	**599,293**	695,959
Liquidity ratio	**6.5 : 1**	7.3 : 1

The Company intends to raise funds in the medium term to fund its exploration, investigating and evaluation activities.

Note 15. Reserves

	2020 $	2019 $
Share based payments reserve	**3,783,520**	3,800,946
Foreign currency translation reserve	**423,864**	405,594
Total reserves	**4,207,384**	4,206,540
Movements in reserves were as follows:		
Share based payments reserve		
Opening balance	**3,800,946**	3,732,841
Share based payments - employees	**86,220**	237,834
Shares Issued on vesting	**(103,646)**	(169,729)
Closing balance	**3,783,520**	3,800,946
Foreign currency translation reserve		
Opening balance	**405,594**	(1,522,323)
Foreign exchange gains/(losses) on translation	**18,270**	1,927,917
Closing balance	**423,864**	405,594

Nature and purpose of reserves

Share-based payments reserve

The share based payments reserve is used to record the fair value of share based payments provided to Directors, employees, including key management personnel, and contractors as payment for services.

Foreign currency translation reserve

The foreign currency translation reserve is used to recognise foreign exchange gains or losses arising on the translation of the financial report of foreign subsidiary companies. The functional currency of Sunstone is the Australian Dollar and that of its foreign operations is primarily the US Dollar plus Swedish Krona and Euro.

Note 16. Non-controlling interests

	2020 $	2019 $
Interest In:		
Share capital	**943,699**	7,867
Foreign currency translation reserve	**(47)**	61
Retained earnings	**(60,689)**	(27,164)
	882,963	(19,236)

Note 17. Cash Flow Information

Reconciliation of net loss after tax to net cash outflow from operating activities:

	2020 **$**	2019 $
Operating profit/(loss) after income tax	**4,553,829**	(22,934,205)
Non-cash flows in loss		
Depreciation	**56,720**	5,325
(Reversal of impairment) / Impairment expense	**(5,573,456)**	12,803,781
Net fair value (gain) / loss on financial assets at fair value through profit or loss	**(978,746)**	2,256,932
Interest Income received in shares	**(48,841)**	-
Loss on sale of subsidiary	**-**	5,549,471
Share of associates loss	**392,978**	300,922
Share based payments - performance rights/options	**86,220**	260,634
Changes in operating assets and liabilities		
Decrease/(increase) in trade & other receivables	**(54,733)**	(115,319)
(Decrease)/increase in trade & other payables	**52,319**	(13,895)
(Decrease)/increase in provisions	**139,834**	25,660
	(1,373,876)	(1,860,694)

There were no significant non-cash investing and financing activities during the financial year.

Note 18. Earnings per share

	2020 **cents**	2019 cents
Basic earnings per share	**0.3**	(1.9)
Diluted earnings per share	**0.3**	(1.9)
Weighted average number of shares used as the denominator	**Number**	Number
Weighted average number of shares used as the denominator in calculating basic earnings per share	**1,709,084,440**	1,189,881,026
Effect of dilution:		
Share options/performance rights	**26,271,741**	-
	1,735,356,181	1,189,881,026
Gains/(losses) used in calculating basic and diluted losses per share	**$**	$
	4,553,829	(22,934,205)

Note 19. Share-based payments

(a) Issue of Options and Performance Rights

The fair values of the options and performance rights have been determined by an external party using a Trinomial Lattice model for options which defines the conditions under which employees are expected to exercise their options after vesting in terms of the share price reaching a specified multiple of the exercise price, and a Monte Carlo simulation for performance rights.

Share price volatility has a powerful influence on the estimation of the fair value of an option and performance right, much of the value of which is derived from its potential appreciation. The more volatile the share price, the more valuable the option. Volatility for the fair value of the options has been determined by the external party performing the valuation using the historical 3 year volatility.

The tables below outline the key details for all options and performance rights outstanding as at 30 June 2020:

Options:

Grant Date	Options Issued	Expiry Date	Value per Option	Total Value	Exercise Price	Share price at Grant Date	Share Volatility	Risk Free rate of return
Options:								
31 October 2019	12,000,000	31/10/2022	$ 0.0046	$ 55,200	$ 0.042	$ 0.019	94%	0.66%
	12,000,000			**$ 55,200**				

Weighted Average remaining life 2.3 years

4,000,000 of these options have lapsed due to the resignation of a non-executive director in April 2020.

Performance Rights:

Grant Date	Rights Outstanding	Expiry Date	Value per Right	Total Value	Vesting Condition	Share price at Grant Date	Share Volatility	Risk Free rate of return
Performance Rights:								
31 Oct 2019: Tranche 1	2,600,000	31/10/2022	$ 0.0087	$ 22,620	$ 0.080	$ 0.019	94%	0.66%
31 Oct 2019: Tranche 2	2,600,000	31/10/2022	$ 0.0156	$ 40,560	TSR	$ 0.019	94%	0.66%
31 Oct 2019: Tranche 3	2,600,000	31/10/2022	$ 0.0072	$ 18,720	$ 0.110	$ 0.019	94%	0.66%
27 Nov 2018: Tranche 1	3,466,667	27/11/2021	$ 0.0260	$ 90,133	$ 0.050	$ 0.030	100%	2.08%
27 Nov 2018: Tranche 2	286,976	27/11/2021	$ 0.0266	$ 7,634	TSR	$ 0.030	100%	2.08%
27 Nov 2018: Tranche 3	3,466,666	27/11/2021	$ 0.0232	$ 80,427	$ 0.065	$ 0.030	100%	2.08%
7 Sept 2017: Tranche 2	251,432	7/09/2020	$ 0.0120	$ 3,017	TSR	$ 0.018	140%	1.94%
7 Sept 2017: Tranche 3	3,000,000	7/09/2020	$ 0.0111	$ 33,300	$ 0.06	$ 0.018	140%	1.94%
	18,271,741			**296,411**				
Weighted Average $			$ 0.0162			$ 0.023		
Weighted Average remaining life		1.6 years						

Note 19. Share-based payments (continued)

The tables below outline the movements for all share-based payments options and performance rights during 2020:

Options:

Grant Date	Beginning Balance	Granted during year	Exercised during year	Lapsed	Balance at end of year
31 October 2019		12,000,000	-	(4,000,000)	8,000,000
22 November 2017	4,500,000	-	(4,500,000)	-	-
21 February 2017	7,500,000	-	(7,500,000)	-	-
14 December 2016	5,000,000	-	(5,000,000)	-	-
23 August 2016	10,000,000	-	(10,000,000)	-	-
29 May 2015	300,000	-	-	(300,000)	-
8 May 2015	1,800,000	-	-	(1,800,000)	-
12 Jan 2015	1,000,000	-	-	(1,000,000)	-
3 November 2014	2,500,000	-	-	(2,500,000)	-
Total	**32,600,000**	**12,000,000**	**(27,000,000)**	**(9,600,000)**	**8,000,000**

Performance Rights:

Grant Date	Beginning Balance	Granted as remuneration	Exercised during year	Lapsed	Balance at end of year
31 Oct 2019: Tranche 1	-	3,000,000	-	(400,000)	2,600,000
31 Oct 2019: Tranche 2	-	3,000,000	-	(400,000)	2,600,000
31 Oct 2019: Tranche 3	-	3,000,000	-	(400,000)	2,600,000
27 Nov 2018: Tranche 1	4,000,000	-	-	(533,333)	3,466,667
27 Nov 2018: Tranche 2	4,000,000	-	(3,668,874)	(44,150)	286,976
27 Nov 2018: Tranche 3	4,000,000	-	-	(533,334)	3,466,666
13 Mar 2018	1,000,000	-	-	(1,000,000)	-
7 Sept 2017: Tranche 2	755,928	-	(504,496)	-	251,432
7 Sept 2017: Tranche 3	3,000,000	-	-	-	3,000,000
15 Jul 2016: Tranche 1	696,265	-	-	(696,265)	-
15 Jul 2016: Tranche 2	2,785,060	-	-	(2,785,060)	-
15 Jul 2016: Tranche 3	2,785,880	-	-	(2,785,880)	-
Total	**23,023,133**	**9,000,000**	**(4,173,370)**	**(9,578,022)**	**18,271,741**

Note 19. Share-based payments (continued)

During the 2020 financial year a total of 4,173,370 performance rights vested for key management personnel, that had been granted in 2017 and 2018:

- 3,668,874 performance rights subject to a Total Shareholder Return (TSR) hurdle, with the Sunstone share price outperforming the ASX Small Resources Index over the relevant testing period by 20.9% resulting in 91.72% of the relevant 2018 performance rights vesting; and
- 504,496 performance rights subject to a Total Shareholder Return (TSR) hurdle, with the Sunstone share price outperforming the ASX Small Resources Index over the relevant testing period by 20.8% resulting in 91.62% of the relevant 2017 performance rights vesting (74.8% of these had already vested in the prior testing period 12 months earlier, leaving an additional 16.8% to vest);

Performance Conditions attached to the performance rights granted in the year ended 30 June 2020 were:

Tranche 1 – to vest upon the later of both the following conditions occurring:

- The Closing Price of Sunstone Shares being $0.08 or more for 10 trading days out of any 20 consecutive trading days; and
- 12 months after issue.

Tranche 2 – TSR performance as measured against the ASX Small Resources Index, as follows:

- Performance below the index no shares will vest.
- Performance equal to the index will see 50% vest, increasing linearly with outperformance of the index by up to 25%, such that 100% of shares will vest should Sunstone's performance be greater than 25% above the index performance.
- Testing will be annually on 30th June; and

Tranche 3 – to vest upon the later of both the following conditions occurring:

- The Closing Price of Sunstone Shares being $0.11 or more for 10 trading days out of any 20 consecutive trading days; and
- 12 months after issue.

Each tranche of Shares will not be able to be released from the Share Plan until the performance based Vesting Conditions for that tranche have been achieved.

(b) Amortisation expense of Options and Performance Rights

The amortised expense for performance rights in the statement of profit or loss and other comprehensive income for the year ended 30 June 2020 was $61,687 (2019: $210,785). Expense for options was $24,533 (2019: $27,049).

Note 20. Related party transactions and Key Management Personnel

Controlling entities

The ultimate parent entity in the wholly-owned Group is Sunstone Metals Limited.

Interests in subsidiaries are disclosed in note 23.

Key Management Personnel compensation

	2020 $	2019 $
Short-term employee benefits	**1,167,454**	1,470,199
Post employment benefits	**93,283**	89,513
Share based payments	**93,908**	221,382
	1,354,645	1,781,094

Note 21. Capital and other commitments

Commitments on Tenements	2020 $	2019 $
- not later than 12 months	**200,756**	579,716
- between 12 months and 5 years	**210,260**	-
	411,016	579,716

Exploration tenement fees are required to keep licenses in good standing. The Group is committed to this expenditure on the current tenements. In order to maintain current rights to tenure of its mineral tenement leases, the Group will be required to pay exploration tenement/claim fees to the government in Ecuador and to landowners in Finland, in addition to prove reasonable exploration activities have been undertaken. These obligations may be varied from time to time, or subject to approval, and are expected to be fulfilled in the normal course of operations of the Group.

Note 22. Financial instruments and financial risk management

The Group's activities expose it to a variety of financial risks including credit risk, liquidity risk, interest rate risk and foreign currency risk.

The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

Risk management is carried out by the Board of Directors under policies approved by the Board.

The Board identifies and evaluates financial risks and provides written principles for overall risk management.

(i) Credit risk

The Group's maximum exposures to credit risk at the reporting date in relation to each class of recognised financial asset is the carrying amount of those assets as indicated in the Statement of Financial Position.

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents and trade and other receivables.

The Group trades only with recognised, credit worthy third parties. As the Group holds the majority of the Group's cash balances with one institution, the credit risk is concentrated in one area. Risk is considered minimal as the institution is Australian and AA rated.

The Group's primary banker is National Australia Bank Limited. At balance sheet date all operating accounts are with this bank, except for funds transferred to Ecuador, Finland and Sweden to meet the working capital needs of the subsidiary companies. The cash needs of the subsidiary operations are monitored by the Company and funds are advanced to the operations on an as needs basis. The Directors believe this is the most efficient method of balancing the monitoring and mitigation of potential credit risks arising out of holding cash assets in overseas jurisdictions, and the funding mechanisms required by the Group.

Refer to Notes 4, 8 and 11 for impairment of the Group's financial assets recognised during the year ended 30 June 2020.

(ii) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash to meet commitments as and when they fall due.

It is the Group's policy to review the Group's liquidity position including cash flow forecasts to determine the forecast liquidity position and maintain appropriate liquidity levels.

The remaining contractual maturities of the Group's liquid financial assets and financial liabilities are:

	2020 **$**	2019 $
Liquid financial assets		
Three months or less	**3,846,753**	5,058,794
Greater than three months	**21,777,821**	15,608,329
	25,624,574	20,667,123
Liquid financial liabilities		
Three months or less	**355,018**	525,511
	355,018	525,511

Note 22. Financial instruments and financial risk management (continued)

Fair values

All financial assets and liabilities recognised on the Consolidated Statement of Financial Position, whether they are carried at amortised cost or at fair value, are recognised at amounts that represent a reasonable approximation of fair value unless otherwise stated in the applicable notes.

(iii) Interest rate risk

The Group's exposure to interest rates primarily relates to its cash and cash equivalents.

At balance date, the Group had the following exposure to variable interest rate risk.

	2020 $	2019 $
Financial assets		
Cash and cash equivalents	**3,686,349**	1,874,864
	3,686,349	1,874,864

The following sensitivity analysis is based on the interest rate risk exposure in existence at the reporting date. The 1% sensitivity (2019: 1%) is based on reasonably possible changes over a financial year, using the observed range of actual historical rates for the preceding five year period.

At 30 June 2020, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post-tax loss would have been affected as follows:

	2020 $	2019 $
Post tax gain/(loss)		
+1.0% (100 basis points)	**36,863**	18,749
-1.0% (100 basis points)	**(36,863)**	(18,749)

The average interest rate for the year ended 30 June 2020 was 1.10% (2019: 1.71%).

The Group deals with financial institutions that have an AA rating or better.

(iv) Foreign currency risk

As a result of significant investment in Ecuador and Europe, the Group's balance sheet can be affected significantly by movements in the US Dollar/Australian Dollar exchange rates, as well as Euro and Swedish Krona.

Included in non-current assets is financial assets at fair value of $5,036,204 (2019: $4,057,458 and current receivables of $3,067,991) which are denominated in Swedish Krona. If the Australian dollar weakened by 10% / strengthened by 10% against the Swedish Krona and all other variables held constant, the consolidated entity's profit before tax would have been $457,837 lower / $559,578 higher (2019: $647,768 lower / $791,717 higher).

Investments accounted for using the equity method of $16,716,124 (2019: $11,535,646) are also denominated in Swedish Krona. If the Australian dollar weakened by 10% / strengthened by 10% against the Swedish Krona and all other variables held constant, the consolidated entity's profit before tax would have been $1,519,648 lower / $1,857,347 higher (2019: $1,048,695 lower / $1,281,738 higher).

Note 23. Subsidiaries

Name of entity	Country of incorporation	Class of shares	Ownership interest held by group *	
			2020	2019
Avalon Minerals Adak AB	Sweden	Ordinary	100%	100%
Scandian Metals Pty Ltd	Australia	Ordinary	100%	100%
Scandian Metals AB	Sweden	Ordinary	100%[1]	100%[1]
Kultatie Holding Oy	Finland	Ordinary	100%	100%
Kultatie Oy	Finland	Ordinary	80%[2]	80%[2]
Litiumloydos Oy	Finland	Ordinary	80%[3]	80%[3]
Sunstone Metals Canada Limited	Canada	Ordinary	100%	100%
Sunstone Metals Ecuador S.A.	Ecuador	Ordinary	100%[4]	100%[4]
La Plata Minerales SA	Ecuador	Ordinary	87.5%	0%

* The proportion of ownership interest is equal to the proportion of voting power held

1 Scandian Metals AB is a 100% owned subsidiary of Scandian Metals Pty Ltd
2 Kultatie Oy is an 80% owned subsidiary of Kultatie Holding Oy
3 Litiumloydos Oy is an 80% owned subsidiary of Scandian Metals AB
4 Sunstone Metals Ecuador is a 100% owned subsidiary of Sunstone Metals Canada

During the financial year, the terms of the Earn-in Joint Venture with TSX-V listed Cornerstone Capital Resources (TSXV:CGP) had been amended to provide Sunstone with an immediate 87.5% interest and Cornerstone with a loan carried 12.5% interest in La Plata Minerales S.A. (PLAMIN) the holder of the 4,949 hectare Bramaderos concession.

Note 24. Associates

At 30 June 2020 the Group held 160 million shares in Copperstone Resources AB which equated to 25.2% of the shares on issue (2019: 38.2%).

Summarised financial information:	2020 $	2019 $
Current assets	3,180,742	1,191,147
Non-current assets	49,884,843	45,778,567
Total assets	53,065,584	46,969,715
Current liabilities	770,782	2,658,721
Non-current liabilities	7,446,784	13,474,923
Total liabilities	8,217,565	16,133,644
Net assets	44,848,019	30,836,070
Issued Capital	60,731,455	45,082,593
Accumulated losses	(15,883,436)	(14,246,523)
Share based payment reserve	-	-
Total shareholders' equity	44,848,019	30,836,070
Net income/(loss)	(1,558,562)	(779,592)
Total Comprehensive income/(loss)	(1,558,562)	(779,592)

Reconciliation of the consolidated entity's carrying amount:

	2020	2019
Opening carrying acount	11,535,646	-
Shares acquired on the disposal of Avalon Minerals Viscaria AB	882,044	24,425,019
Shares sold during the financial year	(865,319)	-
Loss on sale of shares	(16,725)	-
Share of loss	(392,978)	(300,922)
Reversal of impairment / (impairment)	5,573,456	(12,588,451)
Closing carrying amount	16,716,124	11,535,646

Note 25. Remuneration of auditors

	2020 $	2019 $
During the period the following fees were paid or payable for services provided by the auditor of the Company and its related practices:		
Audit and Review Services		
Audit and review of consolidated financial statements	70,836	56,434
Audit of Scandinavian subsidiaries financial statements	11,768	14,878
Other services		
Taxation matters - Australia	11,179	20,160
Accounting advice - Scandinavia	-	-
Taxation matters - Scandinavia	773	3,667

Note 26. Contingent liabilities

The Company is not aware of any other material contingent liabilities at 30 June 2020 not otherwise disclosed in the Financial Statements.

Note 27. Dividends

No dividend was paid or declared by the Company in the period since the end of the previous financial year, and up to the date of this report. The Directors do not recommend that any amount be paid by way of dividend for the financial period ended 30 June 2020 (2019: nil).

The balance of the Company's franking account is nil (2019: nil).

Note 28. Events occurring after reporting date

On 12 August 2020 the Company announced that it had agreed to acquire the highly prospective El Palmar copper-gold porphyry project in Ecuador as part its strategy to expand its land holdings in Ecuador on projects which pass our technical and commercial hurdles and offer the potential for significant resource discoveries. El Palmar will be explored in parallel with the highly prospective Bramaderos gold-copper porphyry and gold-silver epithermal project.

Following the reporting date, operation activities have resumed under strict operating procedures to responsibly manage the risks associated with Covid-19. Sunstone takes the welfare of its employees very seriously and will review plans frequently to ensure that the company is managing the Covid-19 risk appropriately.

No other matter or circumstance has occurred subsequent to year end that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group or economic entity in subsequent financial periods.

Note 29. Parent Entity Information

Information relating to Sunstone Metals Limited:

	2020 **$**	2019 $
Current assets	**3,513,134**	9,092,785
Non-current assets	**24,309,524**	17,902,532
Total assets	**27,822,658**	26,995,317
Current liabilities	**631,357**	686,960
Total liabilities	**631,357**	686,960
Net assets	**27,191,302**	26,308,357
Issued Capital	**88,193,617**	79,607,540
Accumulated losses	**(64,785,835)**	(57,100,130)
Share based payment reserve	**3,783,520**	3,800,946
Total shareholders' equity	**27,191,302**	26,308,357
Net income/(loss) for the year	**(7,685,705)**	18,157,586
Total Comprehensive income/(loss)	**(7,685,705)**	18,157,586

There have been no guarantees entered into by the Parent Entity in relation to any debts of its subsidiaries.

The Parent Entity has restricted cash balances totalling $15,225 (2019: $15,225) representing term deposits securing performance guarantees over rental of the Company's office premises.

In accordance with a resolution of the Directors of Sunstone Metals Limited I state that:

In the opinion of the Directors:

a. the financial statements and notes of the Consolidated Entity 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 30 June 2020 and of its performance for the year ended on that date; and

    ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;

b. the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 1(b)

c. subject to the achievement of matters described in note 1(a), there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

d. this declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the Corporations Act 2001 for the financial year ended 30 June 2020.

On behalf of the Board

Mr Graham Ascough
Chairman

Brisbane, Queensland
4 September 2020

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INDEPENDENT AUDITOR'S REPORT

To the members of Sunstone Metals Limited

Report on the Audit of the Financial Report

Qualified opinion

We have audited the financial report of Sunstone Metals Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 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 year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

In our opinion, except for the effects of the matter described in the *Basis for qualified opinion* section of our report, the accompanying financial report of the Group, is in accordance with the *Corporations Act 2001*, including:

(i) Giving a true and fair view of the Group's financial position as at 30 June 2020 and of its financial performance for the year ended on that date; and

(ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for qualified opinion

Sunstone Metals Limited's investment in Copperstone Resources AB, a foreign associate acquired during the prior year and accounted for by the equity method, is carried at $16,716,124 on the statement of financial position as at 30 June 2020, and Sunstone Metals Limited's share of Copperstone Resources AB's loss of $392,978 is included in the statement of comprehensive income for the year then ended. We were unable to obtain sufficient appropriate audit evidence about the carrying amount of Sunstone Metals Limited's investment in Copperstone Resources AB as at 30 June 2020 and Sunstone Metals Limited's share of Copperstone Resources AB's profit for the year because we were denied access to the financial information, management, and the auditors of Copperstone Resources AB. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report. We are independent of the Group in accordance with the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards) (the Code) that are relevant to our audit of the 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 in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Material uncertainty related to going concern

We draw attention to Note 1 in the financial report which describes the events and conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the group's ability to continue as a going concern and therefore the group may be unable to realise its assets and discharge its liabilities in the normal course of business. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matters described in the *Basis for qualified opinion* and *material uncertainty related to going concern* sections, we have determined the matters described below to be the key audit matters to be communicated in our report.

Recoverability of exploration and evaluation assets

Key audit matter	***How the matter was addressed in our audit***
Refer to Note 10 in the financial report The Group has capitalised exploration and evaluation assets in relation to the application of the Group's accounting policy for exploration and evaluation assets. The recoverability of exploration and evaluation assets is a key audit matter due to: • The significance of the total balance; and • The level of procedures undertaken to evaluate management's application of the requirements of AASB 6 Exploration for and Evaluation of Mineral Resources ('AASB 6') in light of any indicators of impairment that may be present.	Our procedures included, but are not limited to the following: • Obtaining evidence that the Group has valid rights to explore in the areas represented by the capitalised exploration and evaluation expenditure by obtaining supporting documentation such as licence agreements and also considering whether the Group maintains the tenements in good standing; • Tested a sample of capitalised exploration expenditure during the year to ensure it meets the recognition criteria under AASB 6; • Making enquiries of management with respect to the status of ongoing exploration programs in the respective areas of interest and assessing the Group's cash flow forecast for the level of budgeted spend on exploration projects;

	• Enquiring of management, reviewing ASX announcements and reviewing directors' minutes to ensure that the Group had not decided to discontinue activities in any applicable areas of interest and to assess whether there are any other facts or circumstances that existed to indicate impairment testing was required; and • Reviewed budgets and evaluated assumptions made by the entity to ensure that substantive expenditure on further exploration for and evaluation of the mineral resources in the areas of interest were planned.

Other information

The directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 30 June 2020, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the Financial Report

The directors of the Company are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (http://www.auasb.gov.au/Home.aspx) at: https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf

This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 17 to 22 of the directors' report for the year ended 30 June 2020.

In our opinion, the Remuneration Report of Sunstone Metals Limited, for the year ended 30 June 2020, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

BDO Audit Pty Ltd

BDO

R M Swaby
Director

Brisbane, 4 September 2020

Additional information required by the Australian Securities Exchange Limited ("ASX") Listing Rules and not disclosed elsewhere in this report.

SHAREHOLDINGS

SUBSTANTIAL SHAREHOLDERS

The following are substantial shareholders within the Company as per announcements to ASX as at 31 August 2020.

Holders (above 5%)	Ordinary shares held	Interest held
Valbonne II	127,953,887	5.79%

CLASS OF SHARES AND VOTING RIGHTS

At 31 August 2020, there were 2,128 holders of the ordinary shares of the Company. The voting rights attached to the ordinary shares, set out in clause 93 of the Company's Constitution, are:

Subject to any special rights or restrictions for the time being attached to any class or classes of Shares, at meetings of Shareholders or classes of Shareholders:

- each Shareholder entitled to vote may vote in person or by proxy, attorney or Representative;
- on a show of hands, every person present who is a Shareholder or a proxy, attorney or Representative of a Shareholder has one vote; and
- on a poll every person present who is a Shareholder or a proxy, attorney, or Representative of a Shareholder shall, in respect of each fully paid Share held by him, or in respect of which he is appointed a proxy, attorney or Representative, have one vote for the Share, but in respect of partly paid Shares, shall have such number of votes being equivalent to the proportion which the amount paid (not credited) is of the total amounts paid and payable in respect of those shares, (excluding amounts credited).

At 31 August 2020, there were options and performance rights over unissued ordinary shares. There are no voting rights attached to the unissued ordinary shares. Voting rights will be attached to the unissued ordinary shares when the options have been exercised or the performance rights have vested.

ON-MARKET BUY-BACK

There is no current on-market buy-back.

DISTRIBUTION OF SHARE HOLDERS (AS AT 31 AUGUST 2020)

	Number of holders
Category	Ordinary shares
1 – 1,000	80
1,001 – 5,000	32
5,001 – 10,000	18
10,001 – 100,000	782
100,001 – 1,000,000	889
1,000,001 and over	327
	2,128

There were 337 holders holding less than a marketable parcel of ordinary shares as at 31 August 2020.

UNQUOTED SECURITIES

Options and performance rights on issue were allotted as part of an employee share option plan and performance rights plan and are unquoted.

RESTRICTED SECURITIES

There were no restricted securities as at 31 August 2020.

TWENTY LARGEST SECURITY HOLDERS AS AT 31 AUGUST 2020

Holder name	Ordinary Shares Number	%
BNP PARIBAS NOMS PTY LTD <DRP>	147,313,030	6.67
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	141,213,773	6.39
MR DARREN CARTER	88,471,110	4.00
ILWELLA PTY LTD	86,865,103	3.93
POTEZNA GROMADKA LTD	57,566,320	2.60
PRECISION OPPORTUNITIES FUND LTD <INVESTMENT A/C>	50,120,197	2.27
BT PORTFOLIO SERVICES LIMITED <WARRELL HOLDINGS S/F A/C>	36,500,000	1.65
MR MOHD FAIQ ABU SAHID	33,552,414	1.52
BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	30,139,982	1.36
CITICORP NOMINEES PTY LIMITED	22,114,094	1.00
WYNTORC SA	20,777,778	0.94
MS JIANJUN LUO	20,661,766	0.93
LOTUS RESEARCH PTY LTD	17,565,790	0.79
CROMMO PTY LTD	17,365,000	0.79
NATIONAL NOMINEES LIMITED	15,733,315	0.71
NATIONAL NOMINEES LIMITED <DB A/C>	15,386,283	0.70
NELSON ENTERPRISES PTY LTD <CAVAN STREET A/C>	15,000,000	0.68
BNP PARIBAS NOMS PTY LTD <UOB KH P/L AC UOB KH DRP>	14,160,000	0.64
MR GAVIN LEICHT	14,067,837	0.64
MR GRAHAM LESLIE ASCOUGH + MRS PATRICIA LYNN ASCOUGH <ASCOUGH S/F A/C>	13,812,117	0.62
Total	**858,385,909**	**38.84**

OTHER INFORMATION

Sunstone Metals Limited, incorporated and domiciled in Australia, is a publicly listed company limited by shares.