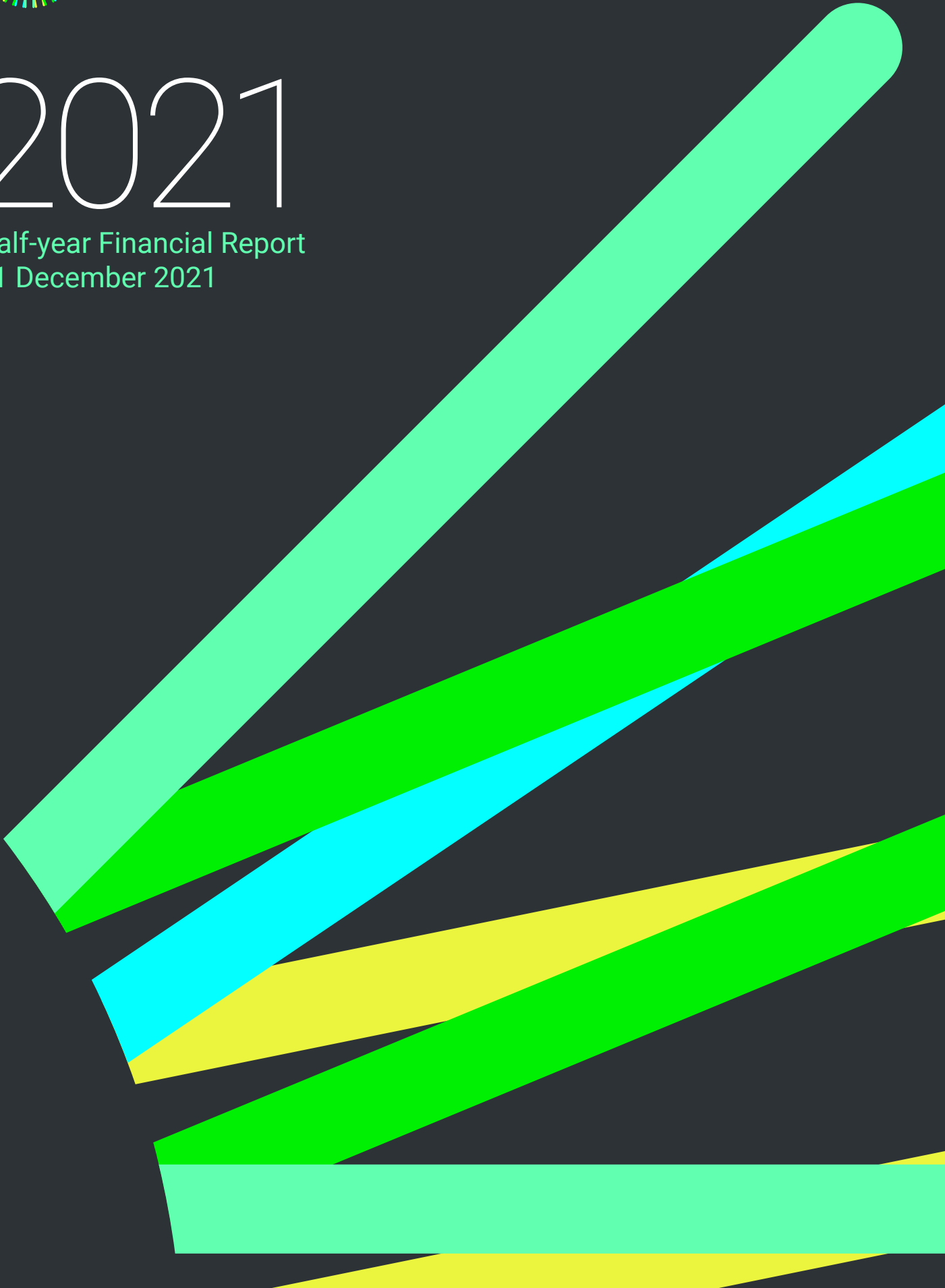


sunrise
energy metals

2021

Half-year Financial Report
31 December 2021

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Contents

Directors' report	1
Lead auditor's independence declaration	7
Consolidated statement of profit or loss and other comprehensive income	8
Consolidated statement of financial position	10
Consolidated statement of changes in equity	11
Consolidated statement of cash flows	12
Notes to financial statements	13
Directors' declaration	21
Independent auditor's review report	22
Corporate directory	24

Directors' report

For the financial half-year ended 31 December 2021

The directors present their report, together with the financial statements, on the Consolidated Entity consisting of Sunrise Energy Metals Limited (referred to hereafter as the 'Parent Entity', 'the Company' or 'Sunrise Energy Metals') and the entities it controlled (referred to hereafter as the 'Consolidated Entity'), for the financial half-year ended 31 December 2021, referred to hereafter as the 'financial half-year', and the auditor's review report thereon.

DIRECTORS

The following persons were directors of Sunrise Energy Metals Limited during the whole of the financial half-year and up to the date of this report, unless otherwise stated:

Robert Friedland (Co-Chairman and Non-Executive Director)

Jiang Zhaobai (Co-Chairman and Non-Executive Director)

Sam Riggall (Managing Director and Chief Executive Officer)

Stefanie Loader (Lead Independent Non-Executive Director)

Eric Finlayson (Non-Executive Director)

Trevor Eton (Non-Executive Director)

PRINCIPAL ACTIVITIES

During the financial half-year the principal continuing activities of the Consolidated Entity consisted of the development of the Consolidated Entity's Sunrise Battery Materials Complex ('Sunrise Project') in New South Wales utilising the Company's Clean-iX[®] resin technology for extraction and purification of a range of metals as well as progressing exploration activities at the Company's other mineral tenements ('Metals Division').

During the financial half-year the Consolidated Entity completed a reorganisation of its water purification business which is focused on the engineering design, procurement and commissioning of water treatment plants for clients in the municipal, industrial and mining sectors as well as being actively engaged in research and development into complementary value adding new technologies including the development of a graphene oxide membrane for water filtration ('Water Business'). During the financial year ended 30 June 2021 the assets and liabilities associated with the Water Business were transferred into a new entity, Clean TeQ Water Limited ('Clean TeQ Water'). On 1 July 2021 the Consolidated Entity disposed of its interest in the Water Business when it undertook a capital reduction by way of an in-specie distribution to Sunrise Energy Metals shareholders of all of the shares in Clean TeQ Water. As such, the Water Business is presented herein as a discontinued operation.

There have been no other significant changes in the nature of the Consolidated Entity's activities during the financial half-year.

DIVIDENDS

There were no dividends paid, recommended or declared during the current financial half-year or previous financial year.

Directors' report

Continued

REVIEW OF OPERATIONS

The Consolidated Entity reported a net loss after tax from continuing operations for the financial half-year of \$10,200,000 (31 December 2020: loss of \$8,624,000). During the financial half-year, the Consolidated Entity's revenue from continuing operations increased to \$317,000 (31 December 2020: \$27,000).

The continuing development of the Sunrise Project resulted in an \$8,328,000 net cash outflow from operating activities during the financial half-year (31 December 2020: net outflow \$11,578,000). This net cash outflow from operating activities was financed largely from existing cash reserves.

The Consolidated Entity's net assets increased during the financial half-year by \$6,634,000 to \$29,122,000 (30 June 2021: \$22,488,000). Working capital, being current assets less current liabilities, was a surplus of \$29,100,000 (30 June 2021: \$22,458,000 surplus), with cash reserves decreasing from \$54,657,000 to \$29,305,000 during the financial half-year.

SUNRISE BATTERY MATERIALS COMPLEX

During the financial half-year, the Consolidated Entity continued to progress the development of the Sunrise Battery Materials Complex ('Sunrise Project') and its portfolio of exploration tenements. A range of workstreams remain ongoing to progress a number of value-adding deliverables aimed at minimising Project start time once funding is secured.

Conditional finance support from Export Finance Australia

Following the end of the financial half-year a letter of conditional finance support was received from Export Finance Australia ('EFA') for up to A\$400 million of debt funding for the Sunrise Project.

EFA is Australia's export credit agency and provides financial solutions to support Australian exporters through loans, guarantees, bonds and insurance. EFA also manages the Australian Government's \$2 billion Critical Minerals Facility which was established in 2021 to support projects that are aligned with the Australian Government's 'Critical Minerals Strategy' and are otherwise in Australia's national interest.

Major Project Status Award

During the financial half-year the Australian Minister for Industry, Energy and Emissions Reduction, the Honourable Angus Taylor MP, awarded Commonwealth Government 'Major Project Status' to the Sunrise Project. The award of Major Project Status formally recognises the significance of the Sunrise Project to the Australian economy and regional communities in New South Wales.

Permitting and Approvals

The Consolidated Entity completed a Project Execution Plan ('PEP') in late 2020. Undertaken by an integrated Sunrise Energy Metals and Fluor Australia Pty Ltd team, the PEP updated the 2018 Definitive Feasibility Study, incorporating revised cost estimates, updated design and engineering work as well as a revised master schedule for the engineering, procurement, construction, commissioning and ramp-up of the Sunrise Project. The PEP resulted in several enhancements to the project layout and design, requiring a handful of modifications to be made to the Sunrise Project Development Consent – the key NSW state government approval. During the financial half-year the Consolidated Entity progressed the process for approval of these modifications. Final approval of these modifications (Mod 7) was received in January 2022.

Progress continues on the long-lead electrical transmission line work scope. The application to connect to the NSW electrical grid is currently in progress and will continue through CY22. Connection to the NSW electrical grid is a key enabler of the Consolidated Entity's commitment to procure renewable energy to supply 100% of the Sunrise Project's external power requirements.

The Consolidated Entity has also continued to progress commercial discussions with landowners, local councils, the NSW State Government and other impacted parties required for land access agreements for key infrastructure including the water pipeline and the electrical transmission line.

Offtake

In 2017 the Consolidated Entity entered into a binding offtake contract with Beijing Easpring Material Technology Co Ltd ('Easpring') under which the Consolidated Entity committed to sell tonnages representing approximately 20% of the nickel and cobalt sulphate production for the first five years of operation of the Sunrise Project. During the financial half-year the Consolidated Entity (with the mutual agreement of Easpring) terminated the offtake contract.

Sunrise Energy Metals now has all the production of battery materials from the Sunrise Project available for sale to strategic partners who may want product offtake as a condition of a direct investment in the Project.

Test Work Programs

The Consolidated Entity is progressing a number of research and development workstreams aimed at demonstrating the capability of the Sunrise Project to diversify further downstream into the production of precursor cathode active material as well as processing of the lithium-ion battery recycling intermediate product, 'black mass'.

Part of this work scope will be undertaken through the Future Battery Industries Co-operative Research Centres Program (FBICRC), of which Sunrise Energy Metals is an associate member of the independently managed government-industry partnership to build an Australian battery industry.

Scandium Development

During the financial half-year the Consolidated Entity entered into a binding agreement for the development of aluminium-scandium alloys with UACJ Corporation ('UACJ'). The agreement with UACJ, Japan's largest aluminium producer, will focus on the research and future development of aluminium scandium alloys for use in transportation parts and equipment. Under the agreement UACJ and the Consolidated Entity will develop a range of aluminium-scandium alloys for material characterisation testing in specific components. Sunrise Energy Metals will contribute its technical expertise and, over time, provide the scandium needed by UACJ for use in the alloys.

Autoclaves

The Consolidated Entity owns two autoclaves – the major component of the hydrometallurgical leaching circuit for the Sunrise processing plant – which were being stored at Port Pirie. Due to significant port maintenance works to be undertaken at the port, the autoclaves were relocated to an alternate storage location during the financial-half year.

The autoclaves and their associated equipment are unused, in excellent condition and are ideally sized for the Sunrise Project. Manufactured with steel shells and an explosively bonded titanium lining, they are designed to withstand the operating conditions required for the effective leaching of nickel, cobalt and scandium from the Sunrise ore.

EXPLORATION

The Consolidated Entity continues to advance activities across its range of exploration assets in New South Wales.

Sunrise East (EL4573)

Exploration licence EL4573 is located to the east and west of the Sunrise Project mining lease ML1770. During the financial half-year Sunrise Energy Metals reprocessed and modelled airborne magnetics associated with the eastern part of EL4573 which covers a strong discrete magnetic high of dimensions 2.0x1.5km. Preliminary interpretation suggested that the magnetic feature has a high potential to be an intrusive complex with numerous cross-cutting zones of magnetic destruction associated with hydrothermal alteration.

Directors' report

Continued

Initial drilling at Sunrise East intersected laterite and saprolite from surface to a depth of 12.8m before intersecting ultramafic pyroxenite and dunite lithologies (for full details including JORC 2012 disclosures see ASX announcement dated 20 January 2022). Assay results received from the oxide zone of drill hole SDD029 returned cobalt grades comparable to the Sunrise Project resource. Cobalt intercepts included 11m @829ppm from 1.8 to 12.8m, including 5.8m @ 1120ppm from 7 to 12.8m. The drill hole also intersected a thick interval of strong silica-carbonate-fuchsite-pyrite alteration on the contact of the intrusive and sedimentary country rocks. Base metal sulphides and pyrite were observed throughout this interval and the zone has characteristics typically associated with a carbonate-base metal-gold system. Assays below the oxide zone were pending as at the date of this report.

On the strength of the cobalt assay results from SDD029, and the extent of the intrusive complex from magnetic imagery, Sunrise Energy Metals has designed a 53-hole reverse circulation ('RC') drilling program for Sunrise East to be carried out during CY2022. This drilling program will test the extent and tenor of cobalt-bearing oxide mineralisation over the western half of the Sunrise East intrusive complex. The drill holes will also be extended into fresh ultramafic rock and will be assayed for platinum group elements.

The second diamond drill hole (SDD030) targeted a deeper magnetic anomaly and intersected a multi-phase mafic to felsic intrusive complex with numerous wide intervals of red rock alteration and narrow reddened monzonite and tonalite dykes with minor disseminated and blebby chalcopyrite. The more evolved characteristics of the rocks intersected in SDD030 indicate that the Sunrise East magnetic feature reflects a zoned Alaskan-style intrusion with the age of rocks likely to be Ordovician and similar to that of the nearby Tout Intrusive Complex which hosts the Sunrise Project. It is interpreted that the numerous reddened dykes, associated with copper mineralisation, are associated with a proximal porphyry phase located at depth or proximal to the drill hole. A strong silica-pyrite alteration zone was intersected at depth within SDD030 and is interpreted to be a deeper intersection of the same alteration zone intersected in SDD029. Initial surface mapping and surface sampling suggests that this alteration zone has a strike extent of over 1000m.

Phoenix Platinum (ML1770)

All multi element and fire assay results from Phase 2 of the Phoenix diamond drilling program were received during the financial half-year. Phase 2 of the planned diamond drilling program at Phoenix comprised four diamond holes (totalling 1605 metres) targeting platinum mineralisation intersected in Phase 1 drilling. The four holes targeted potential down dip, up dip and along strike platinum mineralisation intersected in drill hole SDD022 drilled in late CY2020. SDD022 returned a bonanza grade intersection of 0.6m @ 129g/t platinum at 255.9m downhole as well as a 0.3m interval of 9g/t platinum from 124.3-124.6m. The intersection also includes significant grades of palladium, rhodium, iridium, osmium and ruthenium (for further details including JORC 2012 disclosures see ASX announcement dated 3 May 2021).

Drill hole SDD025 tested the up dip extension of platinum mineralisation intersected in SDD022, however platinum grades were lower compared to SDD022, with several other shallower and deeper narrow intervals. Drill hole SDD026 tested the down dip extension of platinum mineralisation in SDD022 and intersected multiple intervals of platinum mineralisation including 109.07-109.5m @ 2.19g/t platinum and 392.7-393.45m @ 3.29g/t platinum. Several intervals of +1 g/t platinum were also intersected. Drill holes SDD027 and SDD028 intersected multiple intervals with platinum grades of 0.2-0.7g/t. Several wide intervals of low-grade platinum mineralisation associated with +1g/t intervals were intersected in SDD026, which suggests mineralisation may broaden to the south and at depth.

The Phase 2 diamond drilling program intersected many wide zones of coarse-grained pyroxenite dykes associated with strong serpentinization and platinum intercepts. Platinum was also found to be associated with chromite veins and shear zones. It is interpreted that platinum is remobilised into permeable zones within the dunite core and potentially along its contacts with surrounding pyroxenite. Research is continuing on the timing and controls to platinum mineralisation. Results so far strongly suggest that the platinum is magmatic in origin.

Boona Gap (EL8833)

During the financial half-year a total of 40 RC holes were drilled at the Meloola limestone prospect within the Boona Gap exploration licence. Limestone is an important reagent that will be used for nickel and cobalt extraction at the Sunrise Project. Sunrise Energy Metals has a long-term contractual arrangement in place with a local quarry for the supply of limestone for the project, however, the Consolidated Entity seeks to define alternative limestone resources which may in future augment those existing supply arrangements.

A total of 2212m were drilled with samples submitted for analysis. All assay results were received during the financial half-year with the majority of drill holes returning moderate to long intervals of limestone of good to variable quality. Geotechnical data including bulk densities were recorded during the drilling campaign and along with assays will be reviewed to determine the potential of completing a resource estimate.

Hylea Project (EL8641, EL8520 and EL8801)

Land access agreements were negotiated during the period and a drilling activity approval application has been made in preparation for an RC drilling program to commence in March-April 2022. The drilling program will test the magnetic footprint of the Hylea Intrusive Complex for battery metals including nickel and cobalt as well as platinum group elements that are hosted in laterite and hard rock. The Hylea Project contains significant potential for high grade cobalt mineralisation from historic intercepts at the Tigers Creek Prospect contained wholly within the Hylea licences.

Burra Creek (EL9317)

A new exploration licence at Burra Creek, EL9317, was granted to the Consolidated Entity in October 2021. The licence is located to the north of the Sunrise Project and is prospective for tin, precious and battery metals. The licence contains the Burra Creek tin alluvial workings, Tresylva ultramafic intrusive complex and some of the largest historic hard rock gold workings in the area. Sunrise Energy Metals will commence a data review and target generation and land holder negotiations during CY2022.

Sunrise North (EL9259)

A data review and target generation work were commenced during the financial half-year. Reprocessing of geophysical imagery and landholder negotiations were also commenced during the period. Sunrise North (EL9259) is prospective for a number of mineral systems including battery metals.

Minore Project (EL8961 and EL9031)

Historic data compilation and a review of prior target generation was completed during the financial half-year for the Minore Project. Work will ramp up in CY2022 with land access negotiations and reconnaissance investigations and surface sampling at high priority target areas. Targets include rare earth and copper gold systems.

CORPORATE**Demerger of Clean TeQ Water**

The demerger of Clean TeQ Water was completed on 1 July 2021 in line with the timetable detailed in the Demerger Booklet released to the ASX on 17 May 2021.

Hylea Acquisition completion

The Consolidated Entity's acquisition of the Hylea Project was completed during the financial half-year. Sunrise Energy Metals acquired a 100% interest in Exploration Licences EL8520, EL8641 and EL8801 for A\$2.5 million, with A\$1.0 million paid in cash and A\$1.5 million paid in Sunrise Energy Metals shares (724,086 shares).

Directors' report

Continued

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

During the financial half-year the Consolidated Entity completed a reorganisation of its Water Business. During the financial year ended 30 June 2021 the assets and liabilities associated with the Water Business were transferred into a new entity, Clean TeQ Water. On 1 July 2021 the Consolidated Entity disposed of its interest in the Water Business when it undertook a capital reduction by way of an in-specie distribution to Sunrise Energy Metals shareholders of all of the shares in Clean TeQ Water.

There were no other significant changes in the state of affairs of the Consolidated Entity during the financial half-year.

Matters subsequent to the end of the financial half-year

No matter or circumstance has arisen since 31 December 2021 that has significantly affected, or may significantly affect the Consolidated Entity's operations, the results of those operations, or the Consolidated Entity's state of affairs in future financial years.

Rounding of amounts

The Company is of a kind referred to in Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 7 and forms part of the directors' report for the financial half-year ended 31 December 2021.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the *Corporations Act 2001*.

On behalf of the directors



Sam Riggall
Managing Director and Chief Executive Officer

28 February 2022
Melbourne

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Lead auditor's independence declaration

For the financial half-year ended 31 December 2021



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Sunrise Energy Metals Limited

I declare that, to the best of my knowledge and belief, in relation to the review of Sunrise Energy Metals Limited for the half-year ended 31 December 2021 there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and
- ii. no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

Tony Romeo

Partner

Melbourne

28 February 2022

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Consolidated statement of profit or loss and other comprehensive income

For the financial half-year ended 31 December 2021

	Note	Consolidated	
		31 Dec 2021 \$'000	31 Dec 2020 \$'000
Revenue and other income	4	317	27
Interest Income		42	101
Expenses			
Employee benefits expenses	5	(1,645)	(4,239)
Exploration and evaluation		(3,567)	(2,007)
Acquisition of exploration and evaluation licences		(2,500)	-
Research and development test work		(153)	(204)
Depreciation and amortisation expenses		(201)	(377)
Legal and professional expenses		(1,073)	(392)
Occupancy expenses		(738)	(533)
Other expenses		(673)	(967)
Finance costs		(9)	(33)
Loss before income tax benefit from continuing operations		(10,200)	(8,624)
Income tax benefit		-	-
Loss after income tax benefit from continuing operations		(10,200)	(8,624)
Profit after income tax upon disposal of discontinued operation	6	15,378	-
Loss after income tax benefit from discontinued operations	6	-	(1,507)
Profit/(loss) after income tax benefit attributable to the owners of Sunrise Energy Metals Limited		5,178	(10,131)
Profit/(loss) after income tax benefit for the year is attributable to:			
Owners of the company		5,178	(10,039)
Non-controlling interests		-	(92)
Other comprehensive income for the half-year		-	-
Total comprehensive income for the half-year		5,178	(10,131)
Total comprehensive income for the half-year is attributable to:			
Continuing operations		(10,200)	(8,624)
Discontinued operations		15,378	(1,415)
Non-controlling interests		-	(92)
		5,178	(10,131)

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

	Consolidated	
	31 Dec 2021 Cents	31 Dec 2020 Cents
Profit/(loss) per share from continuing operations attributable to the owners of Sunrise Energy Metals Limited		
Diluted profit/(loss) per share	(11.35)	(11.40)
Basic profit/(loss) per share	(11.35)	(11.40)
Profit/(loss) per share from discontinued operations attributable to the owners of Sunrise Energy Metals Limited		
Basic profit/(loss) per share	17.11	(1.99)
Diluted profit/(loss) per share	17.11	(1.99)
Profit/(loss) per share attributable to the owners of Sunrise Energy Metals Limited		
Basic profit/(loss) per share	5.76	(13.39)
Diluted profit/(loss) per share	5.76	(13.39)

Note: The Company undertook a one for ten share consolidation on 29 March 2021. All share and share price figures, including comparative years, are quoted herein on a post consolidation basis.

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

Consolidated statement of financial position

As at 31 December 2021

	Note	Consolidated	
		31 Dec 2021 \$'000	30 June 2021 \$'000
Current assets			
Cash and cash equivalents		29,305	38,652
Trade and other receivables		385	429
Research and development incentive receivable		407	201
Assets of disposal group classified as held for distribution to owners		-	21,250
Total current assets		30,097	60,531
Non-current assets			
Other financial assets		106	146
Lease assets		277	420
Property, plant and equipment		249	177
Total non-current assets		632	743
Total assets		30,729	61,275
Current liabilities			
Trade and other payables		540	924
Employee benefits		214	198
Deferred revenue		47	47
Lease liabilities		196	277
Provisions		-	35,121
Liabilities associated with assets of disposal group classified as held for distribution to owners		-	1,506
Total current liabilities		997	38,073
Non-current liabilities			
Employee benefits		85	63
Deferred revenue		285	355
Lease liabilities		86	144
Provisions		154	152
Total non-current liabilities		610	714
Total liabilities		1,607	38,787
Net assets		29,122	22,488
Equity			
Issued capital	7	298,091	326,428
Reserves	8	16,198	(18,773)
Accumulated losses		(285,166)	(285,167)
Total equity		29,122	22,488

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity

For the financial half-year ended 31 December 2021

	Contributed Equity	Accumulated Losses	Reserves	Non-Controlling Interests	Total Equity
Consolidated	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2020	289,637	(264,102)	16,835	(286)	42,084
Loss after income tax benefit for the financial half-year	-	(10,039)	-	(92)	(10,131)
Total comprehensive income for the financial half-year	-	(10,039)	-	(92)	(10,131)
<i>Transactions with owners in their capacity as owners:</i>					
Equity contributions, net of transaction costs	15,956	-	-	-	15,956
Share-based payments	-	-	773	-	773
Total contribution and distribution:	15,956	-	773	-	16,729
Total transactions with owners of the Company	15,956	(10,039)	773	(92)	6,598
Balance at 31 December 2020	305,593	(274,141)	17,608	(378)	48,682
Balance at 1 July 2021	326,428	(285,167)	(18,773)	-	22,488
Profit after income tax benefit for the financial half-year	-	5,178	-	-	5,178
Total comprehensive income for the financial half-year	-	5,178	-	-	5,178
<i>Transactions with owners in their capacity as owners:</i>					
Equity contributions, net of transaction costs	1,500	-	-	-	1,500
Demerger of Clean TeQ Water	(29,837)	(5,177)	35,014	-	-
Share-based payments	-	-	(43)	-	(43)
Total contribution and distribution:	(28,337)	(5,177)	34,970	-	1,456
Total transactions with owners of the Company	(28,337)	1	34,970	-	6,634
Balance at 31 December 2021	298,091	(285,166)	16,198	-	29,122

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated statement of cash flows

For the financial half-year ended 31 December 2021

	Consolidated	
	31 Dec 2021 \$'000	31 Dec 2020 \$'000
Cash flows from operating activities		
Receipts from customers (inclusive of GST)	72	555
Payments to suppliers and employees (inclusive of GST)	(8,442)	(12,247)
Cash used in operating activities	(8,370)	(11,692)
Interest received	42	114
Net cash used in operating activities	(8,328)	(11,578)
Cash flows from investing activities		
Payments for property, plant and equipment	(142)	(39)
Proceeds from sale of property, plant and equipment	5	16
Payments for exploration and evaluation assets	(1,000)	-
Net cash used in investing activities	(1,137)	(23)
Cash flows from financing activities		
Proceeds from issue of shares, net of issuance costs	-	15,956
Payments of principal for rental leases	(139)	(408)
Payments to/receipts from cash on deposit for bank guarantee security	256	-
Demerger of Clean TeQ Water	(16,005)	-
Net cash from financing activities	(15,888)	15,548
Net increase/(decrease) in cash and cash equivalents	(25,353)	3,947
Cash and cash equivalents at the beginning of the period	54,657	40,083
Cash and cash equivalents at the end of the period	29,305	44,030

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to financial statements

For the financial half-year ended 31 December 2021

Note 1. General information

The financial statements cover the Sunrise Energy Metals Limited group as a Consolidated Entity consisting of Sunrise Energy Metals Limited ('Sunrise Energy Metals' or 'Company') and its subsidiaries ('Consolidated Entity'). The financial statements are presented in Australian dollars, which is the Consolidated Entity's functional and presentation currency.

Sunrise Energy Metals Limited is a for-profit listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 6, 350 Collins Street
Melbourne VIC 3000
Australia

The financial statements were authorised for issue, in accordance with a resolution of directors, on 28 February 2022.

Note 2. Significant accounting policies

These general purpose financial statements for the financial half-year reporting period ended 31 December 2021 have been prepared in accordance with Australian Accounting Standard AASB 134 '*Interim Financial Reporting*' and the *Corporations Act 2001*, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 '*Interim Financial Reporting*'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2021 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

(a) Rounding of amounts

The Company is of a kind referred to in Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

(b) New standards and interpretations adopted

A number of new standards are effective from 1 July 2021 but they do not have a material effect on the Consolidated Entity's half-year financial statements.

(c) Going concern

The financial report has been prepared on a going concern basis, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

The Consolidated Entity reported a net loss after tax from continuing operations for the financial half-year of \$10,200,000 (31 December 2020: loss of \$8,624,000).

Net cash outflows from operating activities were \$8,328,000 for the financial half-year (31 December 2020: net outflow \$11,578,000), with cash reserves decreasing from \$54,657,000 to \$29,305,000 during the financial half-year.

Working capital, being current assets less current liabilities, was a surplus of \$29,100,000 (30 June 2021: \$22,458,000 surplus).

Notes to financial statements

Continued

During the financial half-year, the following events have taken place to support the going concern basis of preparation for the Consolidated Entity:

- ▶ The Consolidated Entity has available cash on hand as at 31 December 2021 of \$29,305,000;
- ▶ The Consolidated Entity is able to defer major development expenditure at the Sunrise Project until a funding package is secured;
- ▶ The Consolidated Entity expects to receive cash rebates from the Australian Tax Office for eligible research and development expenditure incurred in FY2021 and FY2022. The Consolidated Entity has recognised a \$407,000 receivable for the estimated refund due to it for expenditure incurred during FY2021 and the financial half-year; and
- ▶ Forecast cash flows indicate the ability of the Consolidated Entity to maintain a positive cash position for at least the period of 12 months to February 2023.

The Consolidated Entity expects that the relationship with its major investors will also assist in widening the Consolidated Entity's opportunities for profitable commercialisation of its technologies in addition to assisting in securing further funding required.

The Consolidated Entity will continue working towards securing a financing package to support the development of the Sunrise Project and anticipates the Consolidated Entity to produce substantial revenues in the future.

The directors are confident that the Consolidated Entity can continue to access debt and equity funding to meet medium term working capital requirements and has a history of securing such funding as required to support their confidence.

On the basis of cash and cash equivalents available as at 31 December 2021, cashflow forecasts to February 2023 and beyond, the ability of the Consolidated Entity to scale back planned activities if required to preserve cash and that sufficient funding is expected to be raised to meet the Consolidated Entity's medium to long term expenditure forecasts, the directors consider that the Consolidated Entity remains a going concern and these financial statements have been prepared on this basis.

Note 3. Operating segments

Operating segment information

	Metals	Total
Consolidated – 31 December 2021	\$'000	\$'000
Revenue and other income		
Rental income	35	35
Other revenue	282	282
Total revenue and other income	317	317
Reportable segment (loss)/profit before tax		
Profit/(loss) before income tax benefit	(10,200)	(10,200)
Income tax benefit	–	–
Loss after income tax benefit	(10,200)	(10,200)
Assets		
Segment assets	30,729	30,729
Total assets	30,729	30,729
Liabilities		
Segment liabilities	1,607	1,607
Total liabilities	1,607	1,607

Note: following the demerger of Clean TeQ Water from the Consolidated Entity on 1 July 2021 there is only one operating segment and the Metals and Unallocated segments from the comparative period have been combined.

Operating segment information

	Metals	Water	Intersegment eliminations/ Unallocated	Total
Consolidated – 31 December 2020	\$'000	\$'000	\$'000	\$'000
Revenue and other income				
Sales to external customers	–	1,243	–	1,243
Other revenue	–	–	314	314
Total revenue and other income	–	1,243	314	1,557
Reportable segment (loss)/profit before tax				
Profit/(loss) before income tax benefit	(3,823)	(615)	(5,693)	(10,131)
Income tax benefit	–	–	–	–
Loss after income tax benefit	(3,823)	(615)	(5,693)	(10,131)
Assets				
Segment assets	–	5,823	47,947	53,770
Total assets	–	5,823	47,947	53,770
Liabilities				
Segment liabilities	1,390	1,735	1,963	5,088
Total liabilities	1,390	1,735	1,963	5,088

Note 4. Revenue and other income

	Consolidated	
	31 Dec 2021 \$'000	31 Dec 2020 \$'000
Revenue and other income		
Government grants	277	–
Proceeds from sale of non-current asset	5	16
Rental income	35	–
Sundry Income	–	11
Revenue and other income	317	27

Notes to financial statements

Continued

Note 5. Employee benefits expenses

	Consolidated	
	31 Dec 2021 \$'000	31 Dec 2020 \$'000
Wages and salaries	(1,253)	(1,849)
Employee entitlements	(111)	(160)
Superannuation	(112)	(162)
Equity settled share-based payments*	43	(773)
Contractors and consultants	(141)	(1,085)
Other costs	(71)	(210)
	(1,645)	(4,239)

* The positive balance in the current period resulted primarily from the cancellation of performance rights upon the demerger of Clean TeQ Water Limited from the Consolidated Entity that had been granted to employees of the Water Business.

Note 6. Discontinued Operations

On 18 June 2021 the shareholders of the Company approved a resolution to demerge the Consolidated Entity's Water Business into a new ASX listed company – Clean TeQ Water Limited ('Clean TeQ Water'). The demerger was undertaken as a capital return by way of an in-specie distribution on a one for two basis of Clean TeQ Water shares to the Company's shareholders on 1 July 2021. Clean TeQ Water was listed on ASX on 2 July 2021 and operates the Water Business while Sunrise Energy Metals continues to operate the Metals Business including the Sunrise Project. The Water Business was classified as an asset held for distribution in the Consolidated Entity's financial statements for the financial year ended 30 June 2021.

The \$35,121,000 value of the capital return by way of an in-specie distribution undertaken during the financial half-year was determined with reference to the market capitalisation of Clean TeQ Water in the five trading days immediately following the demerger. The difference between the carrying amounts of assets and liabilities held for distribution to the owners upon the demerger occurring (\$19,744,000) is an amount of \$15,378,000. This amount is recognised in the statement of profit or loss and other comprehensive income in the financial half-year as a profit after income tax upon disposal of discontinued operation.

Accounting policy for discontinued operations

A discontinued operation is a component of the Consolidated Entity that has been disposed of or is held for distribution to the owners and that represents a separate major line of business or a separate geographical area of operations, is part of a single co-ordinate plan to dispose of such a line of business or area of operations or is a subsidiary acquired exclusively with a view to resale. The results of the discontinued operations are presented separately on the face of the statement of profit or loss.

Results of Discontinued Operation

	31 Dec 2021 \$'000	31 Dec 2020 \$'000
Discontinued operation sales revenue	-	1,243
Discontinued operation other income	-	233
Raw materials and other direct costs	-	(274)
Employee benefits expense	-	(988)
Depreciation and amortisation	-	(374)
Legal and professional	-	(264)
Occupancy expenses	-	(436)
Net interest and finance charges	-	(2)
Other expenses (incl. WIP movement)	-	(645)
Profit upon disposal of discontinued operation	15,378	-
Profit/(loss) before income tax	-	(1,507)
Income tax expense	-	-
Profit/(loss) after income tax from discontinued operations	15,378	(1,507)

Cash flows from Discontinued Operations

	31 Dec 2021 \$'000	31 Dec 2020 \$'000
Net cash used in operating activities	-	(3,207)
Net cash used in investing activities	-	-
Net cash used in financing activities	-	-
Demerger of Clean TeQ Water	(16,005)	-
Net cash flows from Discontinued Operations	(16,005)	(3,207)

Notes to financial statements

Continued

Note 7. Equity – issued capital

	Consolidated			
	31 Dec 2021 Shares	30 Jun 2021 Shares	31 Dec 2021 \$'000	30 Jun 2021 \$'000
Ordinary shares – fully paid	90,057,879	89,333,793	298,091	326,428

Movements in ordinary share capital

Details	Date	Shares	Issue Price	\$'000
Balance	1 Jul 2021	89,333,793		326,428
Demerger of Clean TeQ Water	1 Jul 2021			(29,837)
Shares issued	13 Aug 2021	724,086	\$2.07	1,500
Balance	31 Dec 2021	90,057,879		298,091

Note 8. Equity – reserves

	Consolidated	
	31 Dec 2021 \$'000	30 June 2021 \$'000
Demerger reserve	–	(35,121)
Share based payments reserve	18,233	18,276
Other reserves	(2,035)	(1,928)
	16,198	(18,773)

Movements in reserves

Movements in each class of reserve during the current financial half-year are set out below:

Consolidated	Demerger \$'000	Share based payments \$'000	Other \$'000	Total \$'000
Balance as at 1 July 2021	(35,121)	18,276	(1,928)	(18,773)
Demerger of Clean TeQ Water	35,121	–	–	35,121
Share based payments	–	(43)	–	(43)
Other reserves	–	–	(107)	(107)
Balance as at 31 December 2021	–	18,233	(2,035)	16,198

Note 9. Equity – dividends

Dividends

There were no dividends paid, recommended or declared during the current financial half-year, previous financial half-year or previous financial year.

Note 10. Events after the reporting period

No matter or circumstance has arisen since 31 December 2021 that has significantly affected, or may significantly affect the Consolidated Entity's operations, the results of those operations, or the Consolidated Entity's state of affairs in future financial years.

Note 11. Share-based payments

Sunrise Energy Metal's approach to remuneration is to ensure that employee remuneration is closely linked to the Consolidated Entity's performance and the returns generated for shareholders. Performance-linked compensation, as outlined in the Consolidated Entity's Employee Incentive Plan ('EIP'), includes both short-term and long-term incentives, and is designed to incentivise and reward employees for meeting or exceeding Company-wide and individual objectives. The short-term incentive ('STI') is an "at risk" bonus provided in the form of cash and/or shares, while the long-term incentive ('LTI') is provided as options and performance rights over ordinary shares of the Company granted pursuant to the Company's EIP Rules which were approved by shareholders on 15 October 2020.

Performance rights are granted at the discretion of the Board to employees by way of issue at nil cost both at the time of grant and vesting. Vesting is contingent on the Company meeting or exceeding performance hurdles over the performance period. The performance hurdles involve an assessment of the Company's total shareholder returns in absolute terms and relative to Comparator Peer Group of companies. The Comparator Peer Group is selected on the basis that it presents the best fit for Sunrise Energy Metals over the coming years and is an established and 'live' index. The Comparator Peer Group is reviewed for each tranche of performance rights to ensure the group maintains ongoing relevance.

The EIP also provides for certain key executives to receive, for no consideration, options over ordinary shares of the Company at specified exercise prices as determined by the Board. The grant of options is intended to align the interests of senior executives with other owners of the Company over the medium to longer term and to increase those senior executives' proportion of 'at risk' remuneration. The ability to exercise the options is conditional upon each key executive's ongoing employment by the Company and other applicable vesting hurdles determined by the Board from time to time.

Set out below are summaries of options granted as at 31 December 2021:

Grant date	Expiry date	Exercise price	Balance at the start of the financial half-year	Granted	Exercised	Expired/forfeited/other	Balance at the end of the financial half-year
12-Aug-19	09-Aug-23	\$4.966*	574,656	-	-	-	574,656
01-Nov-19	09-Aug-23	\$4.966*	100,000	-	-	-	100,000
			674,656	-	-	-	674,656
		Weighted average exercise price:	\$4.966	-	-	-	\$4.966

The weighted average number of years to expiry for share options issued under the Plan is 1.60 years (30 June 2021: 2.11 years).

* During the financial half-year the exercise price of these options were adjusted down from \$5.30 to \$4.966 per option to reflect the impact of the demerger of Clean TeQ Water.

Notes to financial statements

Continued

Set out below are summaries of performance rights granted as at 31 December 2021:

Grant date	Expiry date	Exercise price	Balance at the start of the financial half-year	Granted	Vested	Expired/forfeited/Other*	Balance at the end of the financial half-year
06-Sep-18	01-Jul-21	\$0.00	57,157	-	-	(57,157)	-
22-Nov-18	01-Jul-21	\$0.00	14,234	-	-	(14,234)	-
06-Feb-19	01-Jan-22	\$0.00	140,103	18,330	-	(57,605)	100,828
01-Nov-19	01-Jan-22	\$0.00	34,874	7,749	-	-	42,623
16-Aug-19	01-Jul-22	\$0.00	164,073	19,114	-	(86,840)	96,347
01-Nov-19	01-Jul-22	\$0.00	40,811	9,068	-	-	49,879
12-Mar-20	01-Jan-23	\$0.00	240,752	22,222	-	(155,216)	107,758
15-Oct-20	01-Jan-23	\$0.00	67,151	14,921	-	-	82,072
17-Jul-20	01-Jul-23	\$0.00	493,539	44,222	-	(313,241)	224,520
15-Oct-20	01-Jul-23	\$0.00	217,319	48,287	-	-	265,606
03-Feb-21	01-Jan-24	\$0.00	295,223	24,123	-	(198,491)	120,855
24-Mar-21	01-Jan-24	\$0.00	134,701	29,930	-	-	164,631
09-Sep-21	01-Jul-24	\$0.00	-	235,845	-	(75,093)	160,752
22-Oct-21	01-Jul-24	\$0.00	-	198,694	-	-	198,694
			1,899,937	672,505	-	(957,877)	1,614,565

* Performance rights forfeited as they did not meet the vesting conditions prior to the expiry date or due to the employee ceasing employment.

For the performance rights granted during the current financial period, a Binomial Option Valuation model was used to value the performance rights. A probability adjustment for market vesting conditions is then attached to the value of the performance rights. Each performance right, once vested, entitles the performance right holder to receive one fully paid ordinary share in the Company for zero consideration. The valuation model inputs used to determine the fair value at the grant date are as follows:

Grant date	Expiry date	Share price at grant date	Volatility	Dividend Yield	Vesting probability	Fair value at grant date
09-Sep-21	01-Jul-24	\$1.70	80.39%	-%	50.00%	\$0.587
22-Oct-21	01-Jul-24	\$1.97	80.39%	-%	100.00%	\$1.418

Directors' declaration

For the financial half-year ended 31 December 2021

In the opinion of the directors of Sunrise Energy Metals Limited ('Company') and its controlled entities ('Consolidated Entity'):

- the consolidated financial statements and notes set out on pages 8 to 20, are in accordance with the *Corporations Act 2001*, including:
 - giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2021 and of its performance, for the six-month period ended on that date; and
 - complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and
- there are reasonable grounds to believe that the Company and the Consolidated Entity will be able to pay their debts as and when they become due and payable.

Signed in accordance with a resolution of the directors:

On behalf of the directors



Sam Riggall
Managing Director and Chief Executive Officer

28 February 2022
Melbourne

Independent auditor's review report

For the financial half-year ended 31 December 2021



Independent Auditor's Review Report

To the shareholders of Sunrise Energy Metals limited

Report on the Half-year Financial Report

Conclusion

We have reviewed the accompanying **Half-year Financial Report** of Sunrise Energy Metals Limited.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Half-year Financial Report of Sunrise Energy Metals Limited does not comply with the *Corporations Act 2001*, including:

- giving a true and fair view of the **Consolidated Entity's** financial position as at 31 December 2021 and of its performance for the Half-year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The **Half-year Financial Report** comprises:

- Consolidated statement of financial position as at 31 December 2021
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity and Consolidated statement of cash flows for the Half-year ended on that date
- Notes 1 to 11 comprising a summary of significant accounting policies and other explanatory information
- The Directors' Declaration.

The **Consolidated Entity** comprises Sunrise Energy Metals Limited (the Company) and the entities it controlled at the Half year's end or from time to time during the Half-year.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report.

We are independent of the Consolidated Entity in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with these requirements.

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Responsibilities of the Directors for the Half-year Financial Report

The Directors of the Company are responsible for:

- the preparation of the Half-year Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- such internal control as the Directors determine is necessary to enable the preparation of the Half-year Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Review of the Half-year Financial Report

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

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

KPMG

Tony Romeo

Partner

Melbourne

28 February 2022

Corporate directory

DIRECTORS

Robert Friedland (Co-Chairman and Non-Executive Director)
Jiang Zhaobai (Co-Chairman and Non-Executive Director)
Sam Riggall (Managing Director and Chief Executive Officer)
Stefanie Loader (Lead Independent Non-Executive Director)
Eric Finlayson (Non-Executive Director)
Trevor Eton (Non-Executive Director)

COMPANY SECRETARY

Melanie Leydin

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SHARE REGISTER

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Telephone: +61 (03) 9415 5000

AUDITORS

KPMG
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727 Collins Street
Docklands, Victoria 3008

LEGAL ADVISORS

Baker & McKenzie
Level 19, 181 William Street
Melbourne, Victoria 3000

STOCK EXCHANGE LISTING

Sunrise Energy Metals Limited shares are listed on the Australian Securities Exchange (ASX: SRL) and OTCQX Market in the United States (OTCQX: SREMF)

WEBSITE

www.sunriseem.com

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