2023 ANNUAL REPORT

SOVEREIGN
METALS LIMITED

ASX:**SVM**
AIM:**SVML**

ABN: 71 120 833 427

CORPORATE DIRECTORY

DIRECTORS

Mr Benjamin Stoikovich – Chairman
Dr Julian Stephens – Managing Director
Mr Ian Middlemas – Non-Executive Director
Mr Mark Pearce – Non-Executive Director
Mr Nigel Jones – Non-Executive Director

COMPANY SECRETARY

Mr Dylan Browne

REGISTERED & PRINCIPAL OFFICE

Level 9, 28 The Esplanade,
Perth WA 6000 Australia
Tel: +61 8 9322 6322
Fax: +61 8 9322 6558

OPERATIONS OFFICE

Area 4
Lilongwe, Malawi

AUDITOR

Ernst and Young

BANKERS

Australia – National Australia Bank Limited, Australia and New Zealand Banking Group Limited
Malawi – Standard Bank

SOLICITORS

Thomson Geer

MORE INFO

www.sovereignmetals.com.au
info@sovereignmetals.com.au

NOMINATED ADVISOR & BROKER

SP Angel Corporate Finance LLP
Prince Frederick House
35-39 Maddox Street
London W1S 2PP, United Kingdom

BROKERS

Berenberg, Gossler & Co, KG, London Branch
60 Threadneedle Street
London EC2R 8HP, United Kingdom
Tel: +44 20 3753 3132

STOCK EXCHANGE

Australian Securities Exchange
ASX Code: **SVM – Ordinary Shares**

London Stock Exchange (AIM)
AIM Code: **SVML – Depository Interests**

SHARE REGISTRY

Australia
Computershare Investor Services Pty Ltd
Level 17
221 St Georges Terrace
Perth WA 6000
Tel: 1300 850 505
Int: +61 8 9323 2000
Fax: +61 8 9323 2033

United Kingdom
Computershare Investor Services PLC
The Pavilions,
Bridgewater Road,
Bristol BS99 6ZZ
Tel: +44 370 702 0000

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The Directors of Sovereign Metals Limited present their report on the Group consisting of Sovereign Metals Limited ("the Company" or "Sovereign" or "Parent") and the entities it controlled at the end of, or during, the year ended 30 June 2023 ("Group").

HIGHLIGHTS

Pre-Feasibility Study Confirms Kasiya as a Major Critical Minerals Project

- **"Market Leader" Position in Two Critical Minerals:**
  - Positioned to become the **world's largest rutile producer at 222kt per annum** and potentially one of the **world's largest natural graphite producers** outside of China at 244kt per annum for an initial 25 year life-of-mine ("LOM")
  - **Extremely low CO_2-footprint operation** incorporating climate-smart attributes including hydro-mining with renewables power solution
  - Initial Probable Ore Reserves declared of 538Mt, representing conversion of **only 30% of the total Mineral Resource**
  - **Substantial production rate and mine life upside** exists as the PFS modelling was limited to only 25 years
- **The PFS demonstrated compelling economic outcomes including:**
  - Post-tax NPV_8 of **US$1,605m** and post-tax **IRR of 28%**
  - Average **EBITDA of US$415m** per annum
  - Cash operating costs of **US$404/t of product** will position Kasiya as the **lowest cost producer of rutile and graphite globally**
- **Optimisation with Strategic Investor Rio Tinto to Commence:**
  - Advancing into an optimisation phase prior to moving to the Definitive Feasibility Study (**DFS**) and formal establishment of the Technical Committee with the Company's strategic investor, Rio Tinto

Rio Tinto invests $40.6m to become a 15% Strategic Investor

- **Subsequent to the end of the period, Rio Tinto made an investment of A$40.6 million** in Sovereign resulting in an **initial 15% shareholding** plus options to increase their position to potentially 19.99% within 12 months
- Investment proceeds will be used to advance the Kasiya rutile-graphite project (**Kasiya** or **Project**) in Malawi
- Rio Tinto's investment represents a **significant step towards unlocking a major new supply of low-CO_2-footprint natural rutile and flake graphite**
- Under the Investment Agreement, Rio Tinto will provide assistance and advice on technical and marketing aspects of Kasiya including with respect to Sovereign's graphite co-product, with a primary focus on spherical purified graphite for the lithium-ion battery anode market

Strong Support from the Government of Malawi

- The Government applauded the timely investment by Rio Tinto and marked it as a milestone towards realising the country's aspirations of growing the mining sector as a priority industry
- The Government's public statement confirms its commitment to ensuring the growth of the mining sector through deliberate initiatives aiming at establishing a conducive investment environment in the sector
- With mining being one of the key pillars for growth under Malawi's economic development strategy (Agriculture, Tourism, Mining - ATM Policy) and the potential for Kasiya to be a project of national significance, the Government has constituted an Inter-ministerial Project Development Committee to work alongside the Company

Indicated Resource Increased by over 80%

- Kasiya's Indicated Resource now stands at **1.2 Billion tonnes at 1.0% rutile and 1.5% graphite** with **over 66% of tonnes now in the Indicated category**.
- Updated MRE moves over **0.5 Billion tonnes from Inferred to Indicated** – an increase of 81% to the Indicated category.

Downstream Testwork on Kasiya's Graphite shows Excellent Suitability for use in Lithium-Ion Batteries

- Downstream testwork on Kasiya's graphite co-product demonstrated it to have **superior qualities** showing excellent suitability for use in **lithium-ion batteries**. Key outcomes include:
  - Near perfect **crystallinity** – an indicator of battery anode performance
  - Above benchmark **>99.95% carbon purity** achieved
  - **No critical impurities** or deleterious elements commonly found in other natural graphite sources

OPERATING AND FINANCIAL REVIEW

Sovereign is focused on the development of its Kasiya project in Malawi. The recently announced Pre-Feasibility Study ("PFS") confirms Kasiya potentially major critical minerals project delivering industry-leading economic returns and sustainability metrics.

The Company's objective is to develop a large-scale, long life rutile-graphite operation, focusing on developing an environmentally and socially responsible, sustainable operation.

Figure 1: Sovereign's Kasiya project displaying its position in South-East Africa.

Kasiya is the largest rutile deposit in the world with more than double the contained rutile as its nearest rutile peer, Sierra Rutile. The Kasiya Mineral Resource Estimate ("MRE") is 1.8 Billion tonnes ("Bt") at 1.0% rutile resulting in 17.9 Million tonnes ("Mt") tonnes of contained natural rutile and 24.4Mt of contained graphite. The MRE has broad zones of very high-grade rutile which occurs contiguously across a very large area of over 200km^2. Rutile mineralisation lies in laterally extensive, near surface, flat "blanket" style bodies in areas where the weathering profile is preserved and not significantly eroded. Kasiya's graphite by-product MRE is 1.8Bt at 1.4% graphite, containing over 24.4Mt of graphite.

PFS CONFIRMS KASIYA AS A MAJOR CRITICAL MINERALS PROJECT DELIVERING INDUSTRY-LEADING ECONOMIC RETURNS AND SUSTAINABILITY METRICS

The PFS confirmed Kasiya as potentially a major critical minerals project with an extremely low CO_2-footprint delivering major volumes of natural rutile and graphite while generating significant economic returns.

The PFS is an Association for the Advancement of Cost Engineering International ("AACEI") Class 3 estimate with an accuracy of -20% and +25%.

ECONOMIC HIGHLIGHTS

US$1,605M	28%	US$415M
After Tax NPV_8	After Tax IRR	Ave. Annual EBITDA
US$16Bn	**US$404/t**	**US$597M**
Total Revenue (initial modelled 25 years LOM)	Operating Cost (FOB Nacala per tonne of product)	Capex to 1st Production

- **"Market Leader" Position in Two Critical Minerals:**
  - Positioned to potentially become the **world's largest rutile producer** at 222kt per annum for an initial 25 year LOM
  - Potentially **one of the world's largest natural graphite producers** outside of China at 244kt per annum
  - Natural rutile facing **extreme global supply deficit** estimated to widen a further 40% over the next 5 years
  - Natural graphite market moving into deficit as **demand rapidly grows** in the lithium-ion battery and electric vehicle ("EV") sectors
  - Initial Probable Ore Reserves declared of 538Mt, representing conversion of only **30% of the total Mineral Resource**
  - **Substantial production rate and mine life upside exists** as the PFS modelling was limited to only 25 years
- **Highly Compelling Cost Profile:**
  - Cash operating costs of **US$404/t of product** will position Kasiya as the **lowest cost producer of rutile and graphite globally**
  - Increased capital to first production is primarily due to bringing forward capital items previously planned for Stage 2 including a rail spur, full-scale water dam, integrated power and optimised graphite production, as well as generally enhanced engineering and global cost inflation
- **Industry-Redefining Environmental and Social Advantages:**
  - **Extremely low CO_2-footprint operation** incorporating climate-smart attributes including hydro-mining with renewables power solution
  - CO_2 emissions expected to be **lowest in class** versus existing and planned operations and versus alternative synthetic products
  - **Low-impact operation** with mineralisation at surface, zero-strip ratio, low reagent usage, simple process flowsheet and progressive land rehabilitation

OPERATING AND FINANCIAL REVIEW (CONTINUED)

Table 1: Key PFS Outcomes

Outcome	Unit	Kasiya
NPV_8 (real post-tax)	US$	$1,605M
NPV_{10} (real post-tax)	US$	$1,205M
IRR (post-tax)	%	28%
Capital Costs to First Production (Stage 1)	US$	$597M
Expansion Capital (Stage 2)	US$	$287M
Plant relocation	US$	$366M
Operating Costs	US$/t mined	$8.74
Operating Costs	US$/t product	$404
Revenue to Cost Ratio	X	2.8
NPV_8 / Capital Costs to First Production	X	2.7
Throughput (Average LOM)	Mtpa	21.5
Modelled Life	years	25
Annual Production (Average LOM) – rutile	ktpa	222
Annual Production (Average LOM) – graphite	ktpa	244
Total Revenue (LOM)	US$	$16,121M
Annual Revenue (Average LOM)	US$	$645M
Annual EBITDA (Average LOM)	US$/year	$415M
Payback – from start of production	years	4.3 years

RIO TINTO INVESTS $40.6M TO BECOME A 15% STRATEGIC INVESTOR

Subsequent to the end of the year, Sovereign completed a A$40.6 million strategic investment by Rio Tinto Mining and Exploration Limited (**Rio Tinto**) to advance Sovereign's world-class Kasiya Rutile-Graphite Project in Malawi.

Rio Tinto subscribed for 83.3 million new fully paid ordinary shares (**Shares**) in Sovereign at a price of A$0.486 per Share for aggregate proceeds of A$40.6 million resulting in Rio Tinto holding approximately 15% of the ordinary shares of the Company.

The subscription also involved Rio Tinto being granted A$0.535 options to acquire 34.5 million further Shares in Sovereign on or before 21 July 2024 which could potentially result in Rio Tinto's shareholding in the Company increasing up to 19.99% (based on the number of shares in issue in the Company as at the date of this report).

The Company will use the proceeds from Rio Tinto's strategic investment to fund the advancement of Kasiya, including advancing into an optimisation phase prior to moving to the Definitive Feasibility Study ("DFS").

GOVERNMENT OF MALAWI APPLAUDS RIO TINTO'S INVESTMENT

In a Press Release issued on 20 July 2023, the Government of Malawi has publicly applauded the timely investment by Rio Tinto and marked it as a milestone towards realising the country's aspirations of growing the mining industry as promoted in the Malawi Vision 2063, which identifies mining as a priority industry.

The Government's statement confirms its commitment to ensuring the growth of the mining sector through deliberate initiatives aiming at establishing a conducive investment environment in the sector.

With mining being one of the key pillars for growth under Malawi's economic development strategy (Agriculture, Tourism, Mining - ATM Policy) and the potential for Kasiya to be a project of national significance, the Government has constituted an Inter-ministerial Project Development Committee to work alongside the Company.

INDICATED RESOURCE UPGRADE

In April 2023, Sovereign announced the updated MRE for its world-class Kasiya rutile-graphite deposit in Malawi. The updated MRE resulted in over 0.5 Billion tonnes converting from Inferred to Indicated, an 81% increase in the Indicated category. Kasiya now contains 1.2Bt @ 1.0% rutile and 1.5% graphite in the Indicated category and a total MRE of 1.8Bt @ 1.0% rutile and 1.4% graphite.

Kasiya remains the world's largest natural rutile deposit and one of the largest flake graphite deposits.

Table 2: Kasiya Total Indicated + Inferred Mineral Resource Estimate at 0.7% rutile cut-off grade

Classification	Resource (Mt)	Rutile Grade (%)	Contained Rutile (Mt)	Graphite Grade (TGC) (%)	Contained Graphite (Mt)
Indicated	1,200	1.0%	12.2	1.5%	18.0
Inferred	609	0.9%	5.7	1.1%	6.5
Total	**1,809**	**1.0%**	**17.9**	**1.4%**	**24.4**

The updated MRE has further defined broad and contiguous zones of high-grade rutile and graphite which occur across a very large area of over 201km^2. Rutile mineralisation is concentrated in laterally extensive, near surface, flat "blanket" style bodies in areas where the weathering profile is preserved and not significantly eroded. Graphite is depleted near surface with grades improving at depths generally >4m to the base of the saprolite zone which averages about 22m.

Sovereign's 2022 drill program at Kasiya used push tube ("PT") core holes to in-fill and convert Inferred mineralisation into the Indicated category. The consistency and robustness of the geology allowed for an efficient conversion of this previously Inferred material on a near-identical one-for-one basis to the Indicated category.

A total of 66% of the MRE now reports to the Indicated category @ 1.0% rutile and 1.5% TGC - up from 33% previously. Overall, the new Indicated components show coherent, broad bodies of mineralisation that have coalesced well, particularly in the southern parts of the MRE.

Further advancement in this MRE update was the application of air-core ("AC") drilling to define the depth of mineralisation in a number of selected higher-grade areas. As expected, this drilling shows that high-grade rutile and graphite mineralisation extends to the base of the soft saprolite unit terminating on the saprock basement averaging about 22m depth. This deeper AC drilling targeted early-scheduled mining pits mainly in the southern areas of the MRE footprint.

A number of higher-grade graphite zones at depth were identified which are generally associated with higher grade rutile at surface. Some of these zones have graphite grades at depths >6m in the 4% to 8% TGC range and represent significant contained coarse flake graphite tonnages.

ESG FRAMEWORK ADVANCES SOCIAL INITIATIVES IN MALAWI

Sovereign has established an Environmental, Social and Governance ("ESG") framework to advance Sovereign's Corporate Social Responsibility in Malawi which continues to undertake several initiatives to assist in the development of Malawi and its local communities, including:

- Promoting education in Malawi through a Schools Upgrade Program and creation of a Scholarship Program for high school learners
- Advancing local community infrastructure including construction of a new Community Centre and commissioning of water bores across the Company's licence area to provide local communities with drinking water
- Establishing international standard mining industry facilities with the construction of an extensive rutile sample laboratory in Lilongwe
- Employment of a diverse workforce and developing key exploration and mining-applicable skills through training programs

Continuing engagement with key stakeholders from local communities through to Government level

OPERATING AND FINANCIAL REVIEW (CONTINUED)

Corporate

Subsequent to 30 June 2023, the Group completed a A$40.6 million strategic investment by Rio Tinto to advance Kasiya. Rio Tinto subscribed for 83.3 million Shares in Sovereign at a price of A$0.486 per Share for aggregate proceeds of A$40.6 million resulting in Rio Tinto holding approximately 15% of the ordinary shares of the Company. The subscription also involved Rio Tinto being granted unlisted options, exercisable at $0.535 each on or before 21 July 2024, to acquire 34.5 million further Shares in Sovereign which could result in Rio Tinto's shareholding in the Company potentially increasing up to 19.99% (based on the number of shares on issue in the Company as at the date of this report).

Results of Operations

The net loss of the Group for the year ended 30 June 2023 was $5,819,873 (2022: $13,719,731). Significant items contributing to the year end loss include the following:

- Exploration and evaluation expenses of $10,627,458 (2022: $8,072,133) in relation to the Group's projects in Malawi. This is attributable to the Group's accounting policy of expensing exploration and evaluation expenditure incurred by the Group subsequent to acquisition of the rights to explore and up to the completion of feasibility studies;
- Non-cash share-based payments expenses totalling $2,083,592 (2022: $2,941,985) relating to performance rights. The fair value of performance rights are recognised over the vesting period of the incentive security;
- Business development expenses of $2,096,822 (2022: $1,964,460) which includes the Group's investor relations activities including but not limited to public relations costs, marketing and digital marketing, broker fees, travel costs, conference fees, business development consultant fees and costs of the Group's AIM listing; and
- A one-off gain of $9,480,980 (2022: nil) from the demerger of NGX Limited (NGX) relating to the difference between the fair value of the in-specie distribution of NGX shares to existing Sovereign shareholders and the carrying value of the net assets demerged, less costs.

Financial Position

As at 30 June 2023, the Group had cash and cash equivalents of $5,564,376 as at 30 June 2023 (2022: $18,892,741) and borrowings of nil (2022: nil). The Group had net assets of $9,672,569 at 30 June 2023 (2022: $25,161,138), a decrease of $15,488,569 or approximately 62% compared with the previous year. The decrease is largely driven by the reduction in cash due to expenditure activities and the impact of the demerger of NGX Limited during the financial year.

At the date of this report, the Company had cash and cash equivalents of approximately $43 million and no debt.

Business Strategies and Prospects for Future Financial Years

The objective of the Group is to create long-term shareholder value through the discovery, development and acquisition of technically and economically viable mineral deposits.

To date, the Group has not commenced production of any minerals. To achieve its objective, the Group currently has the following business strategies and prospects over the medium to long term:

- Following completion of the PFS at Kasiya, the Company will advance into an optimisation phase prior to moving to the DFS with support from the Company's strategic investor, Rio Tinto;
- Conduct further exploration programs across rutile targets identified on the Group's tenements; and

All of these activities are inherently risky and the Board is unable to provide certainty that any or all of these developments will be able to be achieved. The material business risks faced by the Group that are likely to have an effect on the Group's future prospects, and how the Group manages these risks, include:

- **The Group's exploration properties may never be brought into production** – The exploration for, and development of, mineral deposits involves a high degree of risk. Few properties which are explored are ultimately developed into producing mines. To mitigate this risk, the Group will undertake systematic and staged exploration and testing programs on its mineral properties and, subject to the results of these exploration programs, the Group will then progressively undertake a number of technical and economic studies with respect to its projects prior to making a decision to mine. However there can be no guarantee that the studies will confirm the technical and economic viability of the Group's mineral properties or that the properties will be successfully brought into production;
- **The Group's activities will require further capital** – The exploration and any development of the Group's exploration properties will require substantial additional financing. Failure to obtain sufficient financing may result in delaying or indefinite postponement of exploration and any development of the Group's properties or even a loss of property interest. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favourable to the Group;
- **The Group is subject to sovereign risk of the Republic of Malawi –** The Group's operations in the Republic of Malawi are exposed to various levels of political, economic and other risks and uncertainties. The Republic of Malawi is a developing country and there can be no assurances that the risks of operating in the Republic of Malawi will not directly impact the Group's operations. During the period, the Government of Malawi proposed a new Mines and Minerals Bill (2023) ("New Bill") which was passed by the Malawian Parliament and awaits Malawian Presidential Assent and publication in the Malawi Gazette before coming into force. If approved, the New Bill will replace the Mines and Minerals Act (2019) ("Mines Act"). The New Bill introduces amendments to improve transparency and governance of the mining industry in Malawi. Sovereign notes the following updates in the New Bill which may affect the Company in the future: (i) Exploration Licenses ("ELs") will now be granted for an initial period of 5 years with the ability to extend by 3 years on two occasions (total 11 years); (ii) the Malawian Government maintains a right to free equity ownership for large-scale mining licences but the New Bill proposes to remove the automatic free government equity ownership with the right to be a negotiation matter; and (iii) A new Mining and Regulatory Authority will be responsible for implementing the objectives of the New Bill;
- **The Group may be adversely affected by fluctuations in commodity prices and/or foreign exchange –** The price of rutile, graphite and other commodities fluctuates widely and is affected by numerous factors beyond the control of the Group. Future production, if any, from the Group's mineral properties will be dependent upon the price of rutile and graphite and other commodities being adequate to make these properties economic. Current and planned development activities are predominantly denominated in US dollars and the Group's ability to fund these activities may be adversely affected if the Australian dollar continues to fall against the US Dollar. The Group currently does not engage in any hedging or derivative transactions to manage commodity price or foreign exchange risk. As the Group's operations change, this policy will be reviewed periodically going forward; and

Business Strategies and Prospects for Future Financial Years (Continued)

- **Global financial conditions may adversely affect the Group's growth and profitability** – Many industries, including the mineral resource industry, are impacted by these market conditions. Some of the key impacts include contraction in credit markets resulting in a widening of credit risk, devaluations and high volatility in global equity, commodity, foreign exchange and precious metal markets, and a lack of market liquidity. Due to the current nature of the Group's activities, a slowdown in the financial markets or other economic conditions may adversely affect the Group's growth and ability to finance its activities.

DIRECTORS

The names of Directors in office at any time during or since the end of the financial year are:

Current Directors

Mr Benjamin Stoikovich	Chairman
Dr Julian Stephens	Managing Director
Mr Ian Middlemas	Non-Executive Director
Mr Mark Pearce	Non-Executive Director
Mr Nigel Jones	Non-Executive Director

Unless otherwise disclosed, Directors held their office from 1 July 2022 until the date of this report.

CURRENT DIRECTORS AND OFFICERS

Benjamin Stoikovich
Chairman
Qualifications – B.Eng, M.Eng, M.Sc, CEng, CEnv

Mr Stoikovich is an experienced mining executive and corporate finance professional residing in London. Mr Stoikovich is currently the Chief Executive Officer of GreenX Metals Limited (ASX: GRX) and was formerly a Director of the Mining and Metals Corporate Finance Division of Standard Chartered Bank in London, with extensive experience in financing the development of African mining projects and exposure to the mineral sands sector.

Mr Stoikovich started his career as a mining engineer with BHP Billiton in Australia, gaining broad experience across mine operations management and qualifying as a mine manager. He holds a post graduate degree in Environmental Engineering and UK professional designation as a Chartered Environmentalist (CEnv) with wide ranging experience of managing the environmental, social and sustainability aspects of mining projects across the life-cycle and the ESG requirements of the investment community. Mr Stoikovich was appointed a Director of the Company on 13 October 2020. During the three year period to the end of the financial year, Mr Stoikovich held a directorship in GreenX Metals Limited (June 2013 – present).

Julian Stephens
Managing Director
Qualifications – B.Sc (Hons), PhD, MAIG

Dr Stephens originally identified and secured the Malawi properties acquired by Sovereign in 2012. He has since been closely involved with the subsequent exploration and development of these projects, including the discovery of the Kasiya rutile deposit.

Dr Stephens has extensive experience in the resources sector having spent in excess of 25 years in board, executive management, senior operational and economic geology research roles for a number of companies. He has spent over a decade working on African projects, particularly projects in Malawi. Dr Stephens holds a PhD from James Cook University, Queensland and is a member of the Australian Institute of Geoscientists. Dr Stephens was appointed a Director of Sovereign Metals Limited on 22 January 2016 and subsequently appointed Managing Director on 27 June 2016. During the three year period to the end of the financial year, Dr Stephens did not hold any other directorships in publicly listed companies.

Ian Middlemas
Non-Executive Director
Qualifications – B.Com, CA

Mr Middlemas is a Chartered Accountant and holds a Bachelor of Commerce degree. He worked for a large international Chartered Accounting firm before joining the Normandy Mining Group where he was a senior group executive for approximately 10 years. He has had extensive corporate and management experience, and is currently a director of a number of publicly listed companies in the resources sector.

Mr Middlemas was appointed a Director of Sovereign Metals Limited on 20 July 2006. During the three year period to the end of the financial year, Mr Middlemas has held directorships in Constellation Resources Limited (November 2017 – present), Apollo Minerals Limited (July 2016 – present), GCX Metals Limited (October 2013 – present), Berkeley Energia Limited (April 2012 – present), GreenX Metals Limited (August 2011 – present), NGX Limited (April 2021 – present), Salt Lake Potash Limited (Receivers and Managers Appointed) (January 2010 – present), Equatorial Resources Limited (November 2009 – present), Odyssey Gold Limited (September 2005 – present), Piedmont Lithium Limited (September 2009 – December 2020) and Peregrine Gold Limited (September 2020 – February 2022).

Mark Pearce
Non-Executive Director
Qualifications – B.Bus, CA, FCIS, FFin

Mr Pearce is a Chartered Accountant and is currently a director of several listed companies that operate in the resources sector. He has had considerable experience in the formation and development of listed resource companies. Mr Pearce is also a Fellow of the Institute of Chartered Secretaries and a member of the Financial Services Institute of Australasia.

Mr Pearce was appointed a Director of Sovereign Metals Limited on 20 July 2006. During the three year period to the end of the financial year, Mr Pearce has held directorships in Constellation Resources Limited (July 2016 – present), GreenX Metals Limited (August 2011 – present), Equatorial Resources Limited (November 2009 – present), GCX Metals Limited (June 2022 – present), NGX Limited (April 2021 – present), Peregrine Gold Limited (September 2020 – February 2022), Odyssey Gold Limited (September 2005 – August 2020), Salt Lake Potash Limited (Receivers and Managers Appointed) (August 2014 – October 2020) and Apollo Minerals Limited (July 2016 – February 2021).

Nigel Jones
Non-Executive Director
Qualifications – MA

Mr Jones has over 30 years of mining industry experience with 22 years in a number of senior roles at Rio Tinto Group, where most recently, Mr Jones was Managing Director of Rio Tinto's Simandou iron ore project, one of the world's largest proposed mining developments.

In this role, he was accountable for all aspects of the project's development, including its complex ESG strategy. Such aspects included impacts on natural ecosystems, biodiversity, and community and government relations.

Mr Jones was also a member of the senior leadership team of the Energy and Minerals product group, which incorporated Rio Tinto's titanium dioxide feedstock businesses in Canada and southern Africa. Prior roles in Rio Tinto included Head of Business Development, Head of Business Evaluation and Managing Director of the group's Marine operations.

Mr Jones was appointed a Director of Sovereign Metals Limited on 10 February 2022. During the three year period to the end of the financial year, Mr Jones held a directorship in Berkeley Energia Limited (June 2017 – November 2020).

Mr Dylan Browne
Company Secretary
Qualifications – B.Com, CA, AGIA ACG

Mr Browne is a Chartered Accountant and Associate Member of the Governance Institute of Australia (Chartered Secretary) who is currently Company Secretary for a number of ASX and European listed companies that operate in the resources sector. He commenced his career at a large international accounting firm and has since been involved with a number of exploration and development companies operating in the resources sector, based in London and Perth, including Berkeley Energia Limited, Apollo Minerals Limited, GreenX Metals Limited and Papillon Resources Limited. Mr Browne successfully listed Prairie Mining Limited on the Main Board of the London Stock Exchange ("LSE") and the Warsaw Stock Exchange and oversaw Berkeley's listings on the Main Board LSE and the Madrid, Barcelona, Bilboa and Valencia Stock Exchanges. Mr Browne was appointed Company Secretary of the Company on 29 April 2021.

PRINCIPAL ACTIVITIES

The principal activities of the Group during the year consisted of development of Kasiya. No significant change in the nature of these activities occurred during the year.

DIVIDENDS

No dividends have been declared, provided for or paid in respect of the financial year ended 30 June 2023 (30 June 2022: nil).

LOSS PER SHARE

	2023 Cents	2022 Cents
Basic and diluted loss per share	**(1.24)**	(3.17)

CORPORATE STRUCTURE

Sovereign Metals Limited is a company limited by shares that is incorporated and domiciled in Australia. The Company has prepared a consolidated financial report including the entities it incorporated and controlled during the financial year.

CONSOLIDATED RESULTS

	2023 $	2022 $
Loss of the Group before income tax expense	**(5,819,873)**	(13,719,731)
Income tax expense	**-**	-
Net loss	**(5,819,873)**	**(13,719,731)**

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

In March 2023, Sovereign successfully demerged its standalone graphite projects; Nanzeka Project, Malingunde Project, Duwi Project and Mabuwa Project into NGX Limited. The demerger has allowed Sovereign and the existing management team to focus on Kasiya, while retaining extensive graphite exposure via Kasiya's graphite co-product.

There are no significant changes in the state of affairs of the Group during the year not otherwise disclosed in this report.

SIGNIFICANT POST BALANCE DATE EVENTS

Subsequent to 30 June 2023, the Group completed a A$40.6 million strategic investment by Rio Tinto to advance Kasiya. Rio Tinto subscribed for 83.3 million Shares in Sovereign at a price of A$0.486 per Share for aggregate proceeds of A$40.6 million resulting in Rio Tinto holding approximately 15% of the ordinary shares of the Company. The subscription also involved Rio Tinto being granted unlisted options, exercisable at $0.535 each on or before 21 July 2024, to acquire 34.5 million further Shares in Sovereign which could result in Rio Tinto's shareholding in the Company potentially increasing up to 19.99% (based on the number of shares on issue in the Company as at the date of subscription).

On 25 August 2023, the Company issued 2.5 million Shares to SCP Resource Finance as a 3% advisory fee on the amount of Rio Tinto's initial investment.

There are no other matters or circumstances which have arisen since 30 June 2023 that have significantly affected or may significantly affect:

- the operations, in financial years subsequent to 30 June 2023 of the Group;
- the results of those operations, in financial years subsequent to 30 June 2023 of the Group; or
- the state of affairs, in financial years subsequent to 30 June 2023 of the Group.

INFORMATION ON DIRECTORS' INTERESTS IN SECURITIES OF SOVEREIGN

As at the date of this report, the Directors' interests in the securities of the Company are as follows:

Interest in Securities at the Date of this Report			
Current Directors	Ordinary Shares(i)	Performance Rights – Pre-Feasibility Study Milestone(ii)	Performance Rights – Definitive Feasibility Study Milestone (iii)
Benjamin Stoikovich	3,590,000	600,000	600,000
Julian Stephens	15,657,518	900,000	1,200,000
Ian Middlemas	16,100,000	-	-
Mark Pearce	4,295,842	225,000	300,000
Nigel Jones	-	225,000	300,000

Notes:

(i) "Ordinary Shares" means fully paid ordinary shares in the capital of the Company;

(ii) "Performance Rights – "Pre-Feasibility Study Milestone" means an unlisted performance right that converts to one Share in the capital of the Company upon satisfaction of the relevant milestone; and

(iii) "Performance Rights – "Definitive Feasibility Study Milestone" means an unlisted performance right that converts to one Share in the capital of the Company upon satisfaction of the relevant milestone.

SHARE OPTIONS AND PERFORMANCE RIGHTS

At the date of this report the following options and rights have been issued by the Company over unissued capital:

- 34,549,598 Unlisted Options exercisable at $0.535 each on or before 21 July 2024;
- 6,100,000 Performance Rights subject to the Pre-Feasibility Study Milestone that expire on 30 September 2023; and
- 7,810,000 Performance Rights subject to the Definitive Feasibility Study Milestone that expire on 31 October 2025.

During the year ended 30 June 2023 and up to the date of this report, 150,000 ordinary shares have been issued as a result of the exercise of options and/or conversion of performance rights.

MEETINGS OF DIRECTORS

The following table sets out the number of meetings of the Company's Directors held during the year ended 30 June 2023, and the number of meetings attended by each Director.

	Board Meetings		ESG Committee	
Current Directors	Eligible to Attend	Number Attended	Eligible to Attend	Number Attended
Benjamin Stoikovich	4	4	2	2
Julian Stephens	4	4	-	-
Ian Middlemas	4	4	-	-
Mark Pearce	4	4	-	-
Nigel Jones	4	4	2	2

The Board as a whole currently performs the functions of an Audit Committee, Risk Committee, Nomination Committee and Remuneration Committee. However this will be reviewed should the size and nature of the Company's activities change.

The ESG Committee was established to support the Company's ongoing commitment to environmental, health and safety, corporate social responsibility, corporate governance, sustainability and other public policy matters relevant to the Company. Please refer to the Corporate Governance section on page 57 for further discussion on the Company's Corporate Governance Statement and policies.

REMUNERATION REPORT (AUDITED)

This Remuneration Report, which forms part of the Directors' Report, sets out information about the remuneration of Key Management Personnel ("KMP") of the Group.

Details of KMP

The KMP of the Group during or since the end of the financial year is as follows:

Directors

Mr Benjamin Stoikovich	Chairman
Dr Julian Stephens	Managing Director
Mr Ian Middlemas	Non-Executive Director
Mr Mark Pearce	Non-Executive Director
Mr Nigel Jones	Non-Executive Director

Other KMP

Mr Frank Eagar	General Manager – Africa (appointed 30 November 2022)
Mr Paul Marcos	Head of Project Development
Mr Sam Cordin	Business Development Manager

Unless otherwise disclosed, the KMP held their position from 1 July 2022 until the date of this report.

Remuneration Policy

The Group's remuneration policy for its KMP has been developed by the Board taking into account the size of the Group, the size of the management team for the Group, the nature and stage of development of the Group's current operations, and market conditions and comparable salary levels for companies of a similar size and operating in similar sectors.

In addition to considering the above general factors, the Board has also placed emphasis on the following specific issues in determining the remuneration policy for KMP:

- the Group is currently focused on undertaking exploration, appraisal and development activities;
- risks associated with small cap resource companies whilst exploring and developing projects; and
- other than profit which may be generated from asset sales, the Company does not expect to be undertaking profitable operations until sometime after the commencement of commercial production on any of its projects.

Executive Remuneration

The Group's remuneration policy is to provide a fixed remuneration component and a performance based component (options, performance rights and a cash bonus, see below). The Board believes that this remuneration policy is appropriate given the considerations discussed in the section above and is appropriate in aligning executives' objectives with shareholder and business objectives.

Fixed Remuneration

Fixed remuneration consists of base salaries, as well as employer contributions to superannuation funds and other non-cash benefits. Fixed remuneration is reviewed annually by the Board. The process consists of a review of company and individual performance, relevant comparative remuneration externally and internally and, where appropriate, external advice on policies and practices.

Performance Based Remuneration – Short Term Incentive

Some executives are entitled to an annual cash bonus upon achieving various key performance indicators ("KPI's"), as set by the Board. Having regard to the current size, nature and opportunities of the Company, the Board has determined that these KPI's will include measures such as the successful completion of business development activities (e.g. project acquisition and capital raisings) and exploration activities (e.g. completion of exploration programs within budgeted timeframes and costs). The Board assesses performance against these criteria annually.

During the 2023 financial year, a total bonus sum of $270,000 (2022: $230,000), representing 100% of KMP entitlement, was accrued to executives after achievement of KPIs set by the Board. For the 2023 year, the KPI areas of focus included: (a) announcement of upgraded resources at Kasiya in April 2023 (b) progression with the Pre-Feasibility study (PFS) at the Kasiya Rutile Project (Kasiya); (c) announcement of downstream testwork for the Kasiya graphite co-product; (d) completion of the NGX Demerger; (e) completion of successful drilling programs at Kasiya; (f) announcement of rutile offtake and a marketing alliance with Mitsui & Co Ltd; and (g) announcement of rutile offtake with The Chemours Company. Specific KPIs are set and weighted individually for each KMP and are designed to drive successful business outcomes. No cash bonuses were forfeited during the financial year.

Performance Based Remuneration – Long Term Incentive

The Group has a long-term equity incentive plan ("Incentive Plan") comprising the grant of Performance Rights and/or Incentive Options to reward KMP and key employees and contractors for long-term performance. To achieve its corporate objectives, the Group needs to attract, incentivise, and retain its key employees and contractors. The Board believes that grants of Performance Rights and/or Incentive Options to KMP will provide a useful tool to underpin the Group's employment and engagement strategy.

(i) Performance Rights

The Group has an Incentive Plan that provides for the issuance of unlisted performance share rights ("Performance Rights") which, upon satisfaction of the relevant performance conditions attached to the Performance Rights, will result in the issue of an Ordinary Share for each Performance Right. Performance Rights are issued for no consideration and no amount is payable upon conversion thereof. The Incentive Plan enables the Group to: (a) recruit, incentivise and retain KMP and other key employees and contractors needed to achieve the Group's business objectives; (b) link the reward of key staff with the achievement of strategic goals and the long-term performance of the Group; (c) align the financial interest of participants of the Plan with those of Shareholders; and (d) provide incentives to participants of the Incentive Plan to focus on superior performance that creates Shareholder value.

Performance Rights granted under the Incentive Plan to eligible participants will be linked to the achievement by the Group of certain performance conditions as determined by the Board from time to time. These performance conditions must be satisfied in order for the Performance Rights to vest. Upon Performance Rights vesting, Ordinary Shares are automatically issued for no consideration. If a performance condition of a Performance Right is not achieved by the expiry date then the Performance Right will lapse.

During the financial year, 1,410,000 Performance Rights were granted to KMP under the Plan and a further 360,000 separate to the Plan. No Performance Rights held by KMP lapsed during the financial year.

The vesting conditions of the Performance Rights are performance conditions as follows:

a. Pre-Feasibility Study Milestone means announcement on or before 30 September 2023, of a positive Pre-Feasibility Study for the Malawi Rutile Project in accordance with the provisions of the JORC Code which demonstrates the following:
    i. A minimum net present value of US$1,000M (using a minimum discount rate of 8%);
    ii. A minimum life of mine of 20 years; and
    iii. A minimum internal rate of return of 25%.
b. Definitive Feasibility Study Milestone means announcement on or before 31 October 2025, of a positive Definitive Feasibility Study for the Malawi Rutile Project in accordance with the provisions of the JORC Code which demonstrates the following:
    i. A minimum net present value of US$1,000M (using a minimum discount rate of 8%);
    ii. A minimum life of mine of 20 years; and
    iii. A minimum internal rate of return of 25%.

(ii) Incentive Options

The Incentive Plan also that provides for the issuance of unlisted incentive options ("Incentive Options") as part of remuneration and incentive arrangements in order to attract and retain services and to provide an incentive linked to the performance of the Group. The Board's policy is to grant Incentive Options to KMP with exercise prices at or above market share price (at the time of agreement). As such, the Incentive Options granted to KMP are generally only of benefit if the KMP performs to the level whereby the value of the Group increases sufficiently to warrant exercising the Incentive Options granted. Other than service-based vesting conditions (if any) and the exercise price required to exercise the Incentive Options, there are no additional performance criteria on the Incentive Options granted to KMP, as given the speculative nature of the Group's activities and the small management team responsible for its running, it is considered that the performance of the KMP and the performance and value of the Group are closely related. The Group prohibits executives from entering into arrangements to limit their exposure to Incentive Options granted as part of their remuneration package.

During the financial year, no Incentive Options were granted, exercised or lapsed to KMP.

Remuneration Policy for Non-Executive Directors

The Board policy is to remunerate Non-Executive Directors at market rates for comparable companies for time, commitment and responsibilities. Given the current size, nature and risks of the Company, incentive options and performance rights have been used to attract and retain Non-Executive Directors. 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 when required.

The maximum aggregate amount of fees that can be paid to Non-Executive Directors is subject to approval by shareholders at a General Meeting and is currently $500,000. Director's fees paid to Non-Executive Directors accrue on a daily basis. Fees for Non-Executive Directors are not linked to the performance of the economic entity. However, to align Directors' interests with shareholder interests, the Directors are encouraged to hold shares in the Company and Non-Executive Directors have received incentive options and performance rights in order to secure their services and as a key component of their remuneration.

Fees for the Chairman are $95,000 (£50,000) per annum (2022: $36,000) and fees for Non-Executive Directors' are $76,000 (£40,000) to $20,000 per annum (2022: $73,000 (£40,000) to $20,000 per annum). Non-Executive Directors may receive additional remuneration for other services provided to the Company, including but not limited to, membership of committees including the ESG Committee. The Chair of the ESG Committee currently receives £10,000 (2022: £10,000) for chairing the ESG Committee.

Relationship between Remuneration of KMP and Shareholder Wealth

During the Company's exploration and development phases of its business, the Board anticipates that the Company will retain earnings (if any) and other cash resources for the exploration and development of its resource projects. Accordingly the Company does not currently have a policy with respect to the payment of dividends and returns of capital. Therefore there was no relationship between the Board's policy for determining, or in relation to, the nature and amount of remuneration of KMP and dividends paid and returns of capital by the Company during the current and previous four financial years.

The Board did not determine, and in relation to, the nature and amount of remuneration of the KMP by reference to changes in the price at which shares in the Company traded between the beginning and end of the current and the previous four financial years. However, as noted above, a number of KMP have received incentive options which generally will only be of value should the value of the Company's shares increase sufficiently to warrant exercising the incentive options, and performance rights which are linked to the achievement of certain performance conditions.

Relationship between Remuneration of KMP and Earnings

As discussed above, the Company is currently undertaking exploration and development activities, and does not expect to be undertaking profitable operations (other than by way of material asset sales, none of which is currently planned) until sometime after the successful commercialisation, production and sales of commodities from one or more of its projects. Accordingly the Board does not consider earnings during the current and previous four financial years when determining, and in relation to, the nature and amount of remuneration of KMP.

General

In addition to a focus on operating activities, the Board is also focused on finding and completing new business and other corporate opportunities. The Board considers that the prospects of the Company and resulting impact on shareholder wealth will be enhanced by this approach. Accordingly, the Board may pay a bonus or issue securities to KMP (executive or non-executive) based on their success in generating suitable new business or other corporate opportunities. A bonus may be paid or an issue of securities may also be made upon the successful completion of a new business or corporate transaction.

Where required, KMP receive superannuation contributions, equal to 10.5% of their salary, and do not receive any other retirement benefit. From time to time, some individuals have chosen to sacrifice part of their salary to increase payments towards superannuation. Effective 1 July 2023, the superannuation contribution rate is 11%.

All remuneration paid to KMP is valued at cost to the Company and expensed. Incentive options are valued using the Black Scholes option valuation methodology. The value of these incentive options is expensed over the vesting period. The fair value of performance rights granted is estimated as at the date of grant using the share price at the grant date. The value of the performance right is expensed over the vesting period.

Remuneration of KMP

Details of the nature and amount of each element of the remuneration of each KMP of the Company for the year ended 30 June 2023 and 30 June 2022 are as follows:

2023	Short-Term Benefits Salary & Fees $	Short-Term Benefits Cash Bonus $	Post Employment Superannuation $	Non-Cash Equity Options/ Rights $	Other Non-Cash Benefits $	Total $	Percentage Performance Related %
Directors							
Benjamin Stoikovich(i)	207,059	-	-	184,988	-	392,047	47
Julian Stephens	350,000	170,000	27,500	216,135	-	763,635	51
Ian Middlemas	36,000	-	3,780	-	-	39,780	-
Mark Pearce	20,000	-	2,100	111,705	-	133,805	83
Nigel Jones	93,932	-	-	105,836	-	199,768	53
Other KMP							
Frank Eagar(ii)	217,710	-	-	214,674		432,384	50
Paul Marcos	270,000	50,000	27,500	214,237		561,737	47
Sam Cordin	205,000	50,000	26,775	120,432	-	402,207	42
	1,399,701	**270,000**	**87,655**	**1,168,007**	**-**	**2,925,363**	

2022	Short-Term Benefits Salary & Fees $	Short-Term Benefits Cash Bonus $	Post Employment Superannuation $	Non-Cash Equity Options/ Rights $	Other Non-Cash Benefits $	Total $	Percentage Performance Related %
Directors							
Benjamin Stoikovich(i)	153,450	-	-	136,313	-	289,763	47
Julian Stephens	300,000	100,000	27,500	340,782	-	768,282	57
Ian Middlemas	36,000	-	3,600	-	-	39,600	-
Mark Pearce	20,000	-	2,000	215,680	-	237,680	91
Nigel Jones(iii)	33,693	-	-	36,013	-	69,706	52
Other KMP							
Paul Marcos	250,000	50,000	27,292	355,267		682,559	59
Sam Cordin	180,000	80,000	26,000	136,313	-	422,313	51
	973,143	**230,000**	**86,392**	**1,220,368**	**-**	**2,509,903**	

Notes:

(i) In addition to Non-Executive Directors fees, Selwyn Capital Limited, an entity associated with Mr Stoikovich, was paid, or is payable, A$117,254 (2022: $124,703) for additional services provided in respect of corporate and business development activities which is included in Mr Stoikovich's salary and fee amount.

(ii) Appointed 30 November 2022.

(iii) Appointed 10 February 2022.

Performance Rights Holdings of KMP

2023	Held at 1 July 2022 (#)	Granted as Compen-sation (#)	Options/ Rights Exercised (#)	Options/ Rights Expired (#)	Net Change Other (#)	Held at 30 June 2023 (#)	Vested and Exercisable at 30 June 2023(ii) (#)
Directors							
Benjamin Stoikovich	840,000	360,000	-	-	-	1,200,000	-
Julian Stephens	2,100,000	-	-	-	-	2,100,000	-
Mark Pearce	525,000	-	-	-	-	525,000	-
Nigel Jones	525,000	-	-	-	-	525,000	-
Other KMP							
Frank Eagar	-(i)	1,200,000	-	-	-	1,200,000	-
Paul Marcos	1,200,000	-	-	-	-	1,200,000	-
Sam Cordin	840,000	210,000	-	-	-	1,050,000	-

Notes:
(i) As at date of appointment.
(ii) There are no performance rights that are vested but not yet exercisable.

Incentive Securities Granted to KMP

Details of unlisted incentive securities granted by the Company to KMP of the Group during the past two financial years are as follows:

	Options/ Rights	Grant Date	Expiry Date	Exercise Price $	Grant Date Fair Value(i) $	No. Granted(ii)	Total Value of Options/ Rights Granted $	No. Vested at 30 June 2023(iii)
Director								
Benjamin Stoikovich	Rights	18-Nov-22	30 Sep 23	-	0.460	240,000	110,400	-
	Rights	18-Nov-22	31 Oct 25	-	0.460	120,000	55,200	-
Mark Pearce	Rights	25-Nov-21	30 Sep 23	-	0.650	225,000	146,250	-
	Rights	25-Nov-21	31 Oct 25	-	0.650	300,000	195,000	-
Nigel Jones	Rights	9-Feb-22	30 Sep 23	-	0.470	225,000	105,750	-
	Rights	9-Feb-22	31 Oct 25	-	0.470	300,000	141,000	-
Other KMP								
Frank Eagar	Rights	9-Sep-22	30 Sep 23	-	0.440	500,000	220,000	-
	Rights	9-Sep-22	31 Oct 25	-	0.440	700,000	308,000	-
Paul Marcos	Rights	6-Sep-21	30 Sep 23	-	0.545	450,000	245,250	-
	Rights	6-Sep-21	31 Oct 25	-	0.545	750,000	408,750	-
Sam Cordin	Rights	20-Dec-22	30 Sep 23	-	0.410	90,000	36,900	-
	Rights	20-Dec-22	31 Oct 25	-	0.410	120,000	49,200	-

Notes:
(i) The fair value of the unlisted performance rights as at grant date is consistent with the closing share price of the Company as at that date.
(ii) Each unlisted performance right converts into one ordinary share of Sovereign Metals Limited subject to the performance conditions being met;
(iii) The vesting conditions are performance conditions as follows:
a. **Pre-Feasibility Study Milestone** means announcement on or before 30 September 2023, of a positive Pre-Feasibility Study for the Malawi Rutile Project in accordance with the provisions of the JORC Code which demonstrates, a) a minimum net present value of US$1,000M (using a minimum discount rate of 8%), b) a minimum life of mine of years; and c) a minimum internal rate of return of 25%.
b. **Definitive Feasibility Milestone** means announcement on or before 31 October 2025, of a positive Definitive Feasibility Study for the Malawi Rutile Project in accordance with the provisions of the JORC Code which demonstrates, a) a minimum net present value of US$1,000M (using a minimum discount rate of 8%), b) a minimum life of mine of years; and c) a minimum internal rate of return of 25%.
The performance rights will also immediately vest if a change of control event or financing event occurs in respect of the shares and/or assets of the Company.

Details of the value of unlisted securities granted, lapsed or converted for each KMP of the Company or Group during the financial year are as follows:

2023	No. of options & rights granted #	No. of options & rights vested #	No. of options & rights cancelled/ lapsed #	Value of Options and Rights Granted During the Year $	Value of Options and Rights Exercised During the Year(i) $	Value of Options and Rights Lapsed During the Year $	Value Options and Rights included in Remuneration for the Period $	Percentage of Remuneration for the Period that Consists of Options and Rights %
Directors								
Benjamin Stoikovich	360,000	-	-	165,600	-	-	184,988	47
Julian Stephens	-	-	-	-	-	-	216,135	51
Mark Pearce	-	-	-	-	-	-	111,705	83
Nigel Jones	-	-	-	-	-	-	105,836	53
Other KMP								
Frank Eagar	1,200,000	-	-	528,000	-	-	214,674	50
Paul Marcos	-	-	-	-	-	-	214,237	47
Sam Cordin	210,000	-	-	86,100	-	-	120,432	42

Notes:
(i) Determined at the time of exercise or conversion at the intrinsic value.

Loans to/from KMP

No loans were provided to or received from KMP during the year ended 30 June 2023 (2022: Nil).

Ordinary Shareholdings of KMP

2023	Held at 1 July 2022 (#)	Granted as compensation (#)	On Exercise of Options/ Rights (#)	Purchases/Sell (#)	Net Other Change (#)	Held at 30 June 2023 (#)
Directors						
Benjamin Stoikovich	3,590,000	-	-	-	-	3,590,000
Julian Stephens	15,657,518	-	-	-	-	15,657,518
Ian Middlemas	16,100,000	-	-	-	-	16,100,000
Mark Pearce	4,295,842	-	-	-	-	4,295,842
Nigel Jones	-	-	-	-	-	-
Other KMP						
Frank Eagar	-(i)	-	-	-	-	-
Paul Marcos	300,000	-	-	-	-	300,000
Sam Cordin	4,079,413	-	-	-	-	4,079,413

Notes:
(i) As at date of appointment.

Other Transactions with KMP

Selwyn Capital Limited ("Selwyn"), a company associated with Mr Stoikovich is engaged under an agreement to provide consulting services to the Company, on a rolling 12-month term that either party may terminate with one month written notice. Selwyn receives a daily rate of £1,000 under the consulting agreement. These services provided during the financial year amounted to $117,254 (2022: $124,703).

Apollo Group Pty Ltd, a company of which Mr Mark Pearce is a Director and beneficial shareholder, was paid, or is payable, $348,000 (2022: $300,000) for the provision of serviced office facilities, administration services and additional consulting services provided during the year. Effective 1 July 2023, the monthly fee has been increased to $31,000. The amount is based on a monthly retainer due and payable in advance and able to be terminated by either party with one month's notice.

REMUNERATION REPORT (AUDITED) - CONTINUED

Employment Contracts with KMP

Dr Julian Stephens, Managing Director, has a letter of appointment confirming the terms and conditions of his appointment as Managing Director of the Company dated 27 June 2016. The contract specifies the duties and obligations to be fulfilled by the Managing Director. The contract has a rolling annual term and may be terminated by the Company by giving 3 months' notice. No amount is payable in the event of termination for neglect or incompetence in regards to the performance of duties. As agreed by the Board, Dr Stephens' annual salary was increased to $350,000 plus superannuation with an annual bonus of up to $120,000 payable in two equal instalments upon successful completion of KPIs as determined by the Board.

Mr Frank Eagar, General Manager - Africa, has a letter of employment confirming the terms and conditions of his appointment dated 9 September 2022. The contract specifies the duties and obligations to be fulfilled by the General Manager - Africa. The letter of employment has no fixed term and can be terminated by either party by giving 3 months' notice. No amount is payable in the event of termination for neglect or incompetence in regards to the performance of duties. Mr Eagar receives a salary of US$252,000.

Mr Paul Marcos, Head of Project Development, has a letter of employment confirming the terms and conditions of his appointment dated 14 May 2021. The contract specifies the duties and obligations to be fulfilled by the Head of Project Development. The letter of employment has no fixed term and can be terminated by either party by giving 3 months' notice. No amount is payable in the event of termination for neglect or incompetence in regards to the performance of duties. Mr Marcos receives a salary of $270,000 plus superannuation with an annual bonus of $50,000 payable upon successful completion of KPIs as determined by the Board.

Mr Sam Cordin, Business Development Manager, has a letter of employment confirming the terms and conditions of his appointment dated 9 August 2018. The contract specifies the duties and obligations to be fulfilled by the Business Development Manager. The letter of employment has no fixed term and can be terminated by either party by giving 3 months' notice. No amount is payable in the event of termination for neglect or incompetence in regards to the performance of duties. Mr Cordin receives an annual salary of $205,000 plus superannuation with an annual bonus of up to $50,000 payable in two equal instalments upon successful completion of KPIs as determined by the Board.

All Directors have a letter of appointment confirming the terms and conditions of their appointment as a Director.

End of Remuneration Report

PROCEEDINGS ON BEHALF OF COMPANY

No person has applied for leave of court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a part for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceedings during the year.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The Group's operations are subject to various environmental laws and regulations under the relevant government's legislation. Full compliance with these laws and regulations is regarded as a minimum standard for all operations to achieve. Instances of environmental non-compliance by an operation are identified either by external compliance audits or inspections by relevant government authorities.

There have been no significant known breaches by the Group during the financial year.

INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

The Company has entered into Deeds of Indemnity with the Directors indemnifying them against certain liabilities and costs to the extent permitted by law.

The Group has paid, or agreed to pay, a premium in respect of Directors' and Officers' Liability Insurance and Company Reimbursement policies for the 12 months ended 30 June 2023 and 2022, which cover all Directors and officers of the Group against liabilities to the extent permitted by the Corporations Act 2001. The policy conditions preclude the Group from any detailed disclosures including the premium amount paid.

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

NON-AUDIT SERVICES

During the financial year, the Company’s current auditor, Ernst & Young (or by another person or firm on the auditor’s behalf) provided non-audit services relating to income tax preparation and advice, totalling $64,141 (2022: $14,214). The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act. The nature and scope of the non-audit services provided means that auditor independence was not compromised.

AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration for the year ended 30 June 2023 has been received and can be found on page 20 of the Directors' Report.

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

For and on behalf of the Directors

JULIAN STEPHENS
Managing Director
Perth, 29 September 2023

Ernst & Young
11 Mounts Bay Road
Perth WA 6000 Australia
GPO Box M939 Perth WA 6843

Tel: +61 8 9429 2222
Fax: +61 8 9429 2436
ey.com/au

Auditor's independence declaration to the directors of Sovereign Metals Limited

As lead auditor for the audit of the financial report of Sovereign Metals Limited for the financial year ended 30 June 2023, I declare to the best of my knowledge and belief, there have been:

a. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit;

b. No contraventions of any applicable code of professional conduct in relation to the audit; and

c. No non-audit services provided that contravene any applicable code of professional conduct in relation to the audit.

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

Ernst & Young

Ernst & Young

Pierre Dreyer
Partner
29 September 2023

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2023

	Notes	2023 $	2022 $
Continuing Operations			
Interest Income		**268,967**	33,117
Other income/(expenses)	2(a)	**97,412**	(65,992)
Exploration and evaluation expenses		**(10,627,458)**	(8,072,133)
Corporate and administrative expenses		**(859,360)**	(708,278)
Share-based payment expenses	18	**(2,083,592)**	(2,941,985)
Business development expenses		**(2,096,822)**	(1,964,460)
Gain on demerger of NGX Limited	15	**9,480,980**	-
Loss before income tax		**(5,819,873)**	**(13,719,731)**
Income tax expense	3	**-**	-
Loss for the year		**(5,819,873)**	**(13,719,731)**
Loss attributable to members of the parent		**(5,819,873)**	**(13,719,731)**
Other Comprehensive loss, net of income tax:			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on foreign entities		**(51,803)**	(63,362)
Other comprehensive loss for the year, net of income tax		**(51,803)**	**(63,362)**
Total comprehensive loss for the year		**(5,871,676)**	**(13,783,093)**
Total comprehensive loss attributable to members of Sovereign Metals Limited		**(5,871,676)**	**(13,783,093)**
Basic and diluted loss per share from continuing operations (cents per share)	12	**(1.24)**	(3.17)

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 30 JUNE 2023

	Notes	2023 $	2022 $
Current Assets			
Cash and cash equivalents	11(b)	**5,564,376**	18,892,741
Other receivables	4	**286,484**	302,424
Other financial assets		**420,000**	200,000
Total Current Assets		**6,270,860**	**19,395,165**
Non-current Assets			
Property, plant and equipment	5	**532,039**	537,238
Exploration and evaluation assets	6	**5,086,129**	7,170,282
Total Non-current Assets		**5,618,168**	**7,707,520**
TOTAL ASSETS		**11,889,028**	**27,102,685**
Current Liabilities			
Trade and other payables	7	**2,063,838**	1,845,954
Provisions	8	**152,621**	95,593
Total Current Liabilities		**2,216,459**	**1,941,547**
TOTAL LIABILITIES		**2,216,459**	**1,941,547**
NET ASSETS		**9,672,569**	**25,161,138**
EQUITY			
Contributed equity	9	**74,508,488**	78,860,187
Reserves	10	**(3,320,226)**	1,996,771
Accumulated losses		**(61,515,693)**	(55,695,820)
TOTAL EQUITY		**9,672,569**	**25,161,138**

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2023

	Notes	2023 $	2022 $
Cash flows from operating activities			
Interest received		**281,287**	20,416
Payments to suppliers and employees		**(13,096,569)**	(10,036,070)
Net cash used in operating activities	11(a)	**(12,815,282)**	**(10,015,654)**
Cash flows from investing activities			
Payments for purchase of plant and equipment		**(80,528)**	(313,405)
Repayment of loan receivable from NGX Limited		**271,509**	-
Movement in cash on deconsolidation of subsidiary		**(131,255)**	-
Net cash from/(used) in investing activities		**59,726**	**(313,405)**
Cash flows from financing activities			
Proceeds from issue of shares		**-**	21,811,772
Share issue costs		**(600,221)**	(498,640)
Funds received in advance for exercise of options		**-**	27,000
Net cash (used)/from financing activities		**(600,221)**	**21,340,132**
Net (decrease)/increase in cash and cash equivalents		**(13,355,776)**	11,011,073
Net foreign exchange differences		**27,411**	(75,992)
Cash and cash equivalents at the beginning of the financial year		**18,892,741**	7,957,660
Cash and cash equivalents at the end of the financial year	11(b)	**5,564,376**	**18,892,741**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2023

	Issued Capital $	Share-based Payments Reserve $	Demerger Reserve $	Foreign Currency Translation Reserve $	Accumulated Losses $	Total Equity $
Balance at 1 July 2022	**78,860,187**	**2,084,466**	**-**	**(87,695)**	**(55,695,820)**	**25,161,138**
Net loss for the year	**-**	**-**	**-**	**-**	**(5,819,873)**	**(5,819,873)**
Other comprehensive loss						
Foreign currency translation	**-**	**-**	**-**	**(38,079)**	**-**	**(38,079)**
Reclassification of foreign currency translation	**-**	**-**	**-**	**(13,724)**	**-**	**(13,724)**
Total comprehensive loss for the year	**-**	**-**	**-**	**(51,803)**	**(5,819,873)**	**(5,871,676)**
Transactions with owners recorded directly in equity						
Issue of Ordinary Shares upon exercise of options	**27,000**	**-**	**-**	**-**	**-**	**27,000**
Share issue costs	**(212,693)**	**-**	**-**	**-**	**-**	**(212,693)**
Transfer from SBP Reserve	**12,108**	**(12,108)**	**-**	**-**	**-**	**-**
In-specie distribution on demerger of NGX Limited	**(4,178,114)**	-	**(7,336,678)**	**-**	**-**	**(11,514,792)**
Share-based payments expense	**-**	**2,083,592**	**-**	**-**	**-**	**2,083,592**
Balance at 30 June 2023	**74,508,488**	**4,155,950**	**(7,336,678)**	**(139,498)**	**(61,515,693)**	**9,672,569**
Balance at 1 July 2021	**55,276,410**	**1,800,267**	**-**	**(24,333)**	**(41,976,089)**	**15,076,255**
Net loss for the year	-	-	-	-	(13,719,731)	(13,719,731)
Other comprehensive loss						
Foreign currency translation	-	-	-	(63,362)	-	(63,362)
Total comprehensive loss for the year	**-**	**-**	**-**	**(63,362)**	**(13,719,731)**	**(13,783,093)**
Transactions with owners recorded directly in equity						
Placement of Ordinary Shares	16,738,022	-	-	-	-	16,738,022
Issue of Ordinary Shares upon exercise of options	5,193,750	-	-	-	-	5,193,750
Share issue costs	(1,005,781)	-	-	-	-	(1,005,781)
Transfer from SBP Reserve	2,657,786	(2,657,786)	-	-	-	-
Share-based payments expense	-	2,941,985	-	-	-	2,941,985
Balance at 30 June 2022	**78,860,187**	**2,084,466**	**-**	**(87,695)**	**(55,695,820)**	**25,161,138**

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

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in preparing the financial report of Sovereign Metals Limited ("Sovereign" or "Company") and its consolidated entities ("Group") for the year ended 30 June 2023 are stated to assist in a general understanding of the financial report. Sovereign is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange and the AIM Market of the London Stock Exchange.

The financial report of the Group for the year ended 30 June 2023 was authorised for issue in accordance with a resolution of the Directors on 26 September 2023.

(a) Basis of Preparation

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ("AASBs") and interpretations adopted by the Australian Accounting Standards Board ("AASB") and the *Corporations Act 2001*. The financial statements comprise the consolidated financial statements of the Group. For the purposes of preparing the consolidated financial statements, the Company is a for profit entity.

The consolidated financial statements have been prepared on a going concern basis which assumes the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the ordinary course of business. The financial report has also been prepared on a historical cost basis. The financial report is presented in Australian dollars.

(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.

In the current financial year, the Group has adopted all of the new and revised Standards and Interpretations issued by the AASB that are mandatory for the current annual reporting period. The adoption of these new and revised Standards or Interpretations has had an immaterial impact (if any) on the Group. Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

(c) New and revised Australian Accounting Standards and Interpretations on issue but not yet effective

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Group for the annual reporting period ended 30 June 2023. Those which may be relevant to the Group are set out in the following table, but these are not expected to have any significant impact on the Group's financial statements.

Standard/Interpretation	Application Date of Standard	Application Date for Group
AASB 2021-2 Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates	1 January 2023	1 July 2023
AASB 2021-5 Amendments to Australian Accounting Standards – Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023	1 July 2023
AASB 2020-1 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-Current	1 January 2024	1 July 2024
AASB 2022-6 Amendments to Australian Accounting Standards – Non-current Liabilities with Covenants	1 January 2024	1 July 2024
AASB 2022-5 Amendments to Australian Accounting standards – Lease Liability in a Sale and Leaseback	1 January 2024	1 July 2024
AASB 2014-10 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	1 January 2025	1 July 2025
AASB 2021-7(a-c) Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections	1 January 2025	1 July 2025

(d) Principles of Consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Company as at 30 June 2023 and the results of all subsidiaries for the year then ended. Control is achieved when the Company has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to use its power to affect its returns. The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above. When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power.

Subsidiaries are all those entities (including special purpose entities) over which the Company has the power to govern the financial and operating policies, is exposed or has rights to variable returns from its involvement and has the ability to use its power to affect the returns of those entities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Company. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases. Intercompany transactions and balances, income and expenses and profits and losses between Group companies, are eliminated.

Non-controlling interests are allocated their share of net profit after tax in the statement of comprehensive income and are presented within equity in the consolidated statement of financial position, separately from the equity of the owners of the parent. Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance. A change in the ownership interest of a subsidiary that does not result in a loss of control, is accounted for as an equity transaction.

(e) 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 3 months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the Statement of Financial Position.

(f) Other Receivables

Receivables are recognised and carried at their original amount less an expected credit loss provision. An estimate for the expected credit loss is made based on the historical risk of default and expected loss rates at the inception of the transaction. Inputs are selected for the expected credit loss impairment calculation based on the Group’s past history, existing market conditions and forward looking estimates.

(g) Property, Plant and Equipment

Plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Statement of Comprehensive Income during the financial period in which they are incurred.

Plant and equipment are depreciated or amortised on a straight line basis at rates based upon their expected useful lives as follows:

	Life
Office Furniture and Equipment	3 – 10 years
Computer Equipment	3 years
Plant and Equipment, Vehicles	2 - 15 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the Statement of Profit or Loss and Other Comprehensive Income.

(h) Exploration and Evaluation Expenditure

Expenditure on exploration and evaluation is accounted for in accordance with the 'area of interest' method and with AASB 6 *Exploration for and Evaluation of Mineral Resources*, which is the Australian equivalent of IFRS 6. Exploration and evaluation expenditure encompasses expenditures incurred by the Group in connection with the exploration for and evaluation of mineral resources before the technical feasibility and commercial viability of extracting a mineral resource are demonstrable.

Exploration and evaluation expenditure incurred in relation to the acquisition of a project by the Group is accumulated for each area of interest and recorded as an asset if:

- the rights to tenure of the area of interest are current; and
- at least one of the following conditions is also met:
  - the exploration and evaluation expenditures are expected to be recouped through successful development and exploitation of the area of interest, or alternatively, by its sale; and
  - exploration and evaluation activities in the area of interest have not at the reporting date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing.

For each area of interest, expenditure incurred in the acquisition of rights to explore is capitalised, classified as tangible or intangible, and recognised as an exploration and evaluation asset. Exploration and evaluation assets are measured at cost at recognition. Exploration and evaluation expenditure incurred by the Group subsequent to acquisition of the rights to explore is expensed as incurred, up until the technical feasibility and commercial viability of the project has been demonstrated with a bankable feasibility study.

Capitalised exploration costs are reviewed each reporting date to establish whether an indication of impairment exists. If any such indication exists, the recoverable amount of the capitalised exploration costs is estimated to determine the extent of the impairment loss (if any). Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in previous years.

Where a decision is made to proceed with development, accumulated expenditure is tested for impairment and transferred to development properties, and then amortised over the life of the reserves associated with the area of interest once mining operations have commenced. Recoverability of the carrying amount of the exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

(i) Investments and Other Financial Assets

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the Group commits itself to either the purchase or sale of the asset. Financial assets are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets (other than financial assets at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets at fair value through profit or loss are recognised immediately in profit or loss.

(i) Classification and subsequent measurement of financial assets

For the purpose of subsequent measurement, financial assets other than those designated and effective as hedging instruments are classified into the following categories upon initial recognition:

- amortised cost
- fair value through profit or loss (“FVPL”)
- equity instruments at fair value through other comprehensive income (“FVOCI”)
- debt instruments at FVOCI

All income and expenses relating to financial assets that are recognised in profit or loss are presented within other income or expenses respectively.

Classifications of financial assets are determined by both:

- The entity’s business model for managing the financial asset; and
- The contractual cash flow characteristics of the financial assets.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Investments and Other Financial Assets (Continued)

(ii) Loans and receivables

Loans and receivables are measured at amortised cost using the effective interest method less impairment in accordance with *(iv) Impairment of Financial Assets* below. Interest is recognised by applying the effective interest rate.

(iii) Fair Value Estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. The fair value of financial instruments traded in an active market is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price. Transaction costs that are directly attributable to the acquisition or issue of financial assets (other than financial assets at fair value through profit or loss) are added to or deducted from the fair value of the financial assets, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets at fair value through profit or loss are recognised immediately in profit or loss.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as discounted cash flows, are used to determine fair value for the remaining financial instruments. The nominal value less estimated credit adjustments of receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

(iv) Impairment of Financial Assets

The Group recognises a loss allowance for expected credit losses on receivables. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

(vi) Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss. On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

(j) Payables

Trade and other payables are recognised at amortised cost and represent liabilities for the goods and services provided to the Group prior to the end of the financial period that 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.

(k) Employee Benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled wholly within twelve months of the reporting date are recognised in provisions in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable. Employee benefits payable later than one year are measured at the present value of the estimated future cash flows to be made for those benefits.

(l) Issued Capital

Ordinary shares are classified as equity. Issued and paid up capital is recognised at the fair value of the consideration received by the Company. Incremental costs directly attributable to the issue of new shares or other securities (classified as equity) are shown in equity as a deduction, net of tax, from the proceeds.

(m) Other Income Recognition

Interest revenue is recognised as it accrues, taking into account the effective yield on the financial asset.

(n) Income Tax

The income tax expense for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction 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 on goodwill or 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 liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future. 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. The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. Current and deferred tax balances attributable to amounts recognised directly in other comprehensive income or equity are also recognised directly in equity. Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against tax liabilities and the deferred tax liabilities relate to the same taxable entity and the same taxation authority.

(o) Earnings per Share

Basic earnings per share (“EPS”) is calculated by dividing the net profit attributable to members of the Company for the reporting period, after excluding any costs of servicing equity, by the weighted average number of ordinary shares of the Company, adjusted for any bonus issue. Diluted EPS is calculated by dividing the basic EPS earnings, adjusted by the after tax effect of financing costs associated with dilutive potential Ordinary Shares and the effect on revenues and expenses of conversion to Ordinary Shares associated with dilutive potential Ordinary Shares, by the weighted average number of Ordinary Shares and dilutive Ordinary Shares adjusted for any bonus issue.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Goods and Services and Value Added Taxes

Revenues, expenses and assets are recognised net of the amount of GST or VAT. Receivables and payables in the Statement of Financial Position are shown inclusive of GST or VAT. Cash flows are presented in the Statement of Cash Flows on a gross basis, except for the GST or VAT component of investing and financing activities, which are disclosed as operating cash flows.

(q) Dividends

Provision is made for the amount of any dividend declared on or before the end of the period but not distributed at balance date.

(r) Impairment of 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 the 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. 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.

(s) Share-Based Payments

Equity-settled share-based payments are provided to officers, employees, consultants and other advisors. These share-based payments are measured at the fair value of the equity instrument at the grant date using an appropriate valuation model. Where ordinary shares are issued, fair value is determined using volume weighted average price for ordinary shares for an appropriate period prior to the issue of the shares. Further details on how the fair value of equity-settled share-based payments has been determined can be found in Note 18. The fair value determined at the grant date is expensed on a straight-line basis over the vesting period (if applicable), based on the Company's estimate of equity instruments that will eventually vest. At each reporting date, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss over the remaining vesting period, with a corresponding adjustment to the share-based payments reserve.

(t) 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 executive management team.

(u) Use and Revision of Accounting Estimates, Judgements and Assumptions

The preparation of the financial report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- Note 6 – Exploration and Evaluation Assets

Impairment of exploration and evaluation assets

The Group's accounting policy for exploration and evaluation assets is set out at Note 1(h). The application of this policy requires management to make certain estimates and assumptions as to future events and circumstances, in particular, the assessment of whether economic quantities of reserves have been found.

Any such estimates and assumptions may change as new information becomes available. If, after having capitalised expenditure under the policy, the Group concludes that it is unlikely to recover the expenditure by future exploitation or sale, then the relevant capitalised amount will be written off to the statement of comprehensive income. Subsequent to the acquisition costs capitalised, no exploration expenditure is currently being capitalised.

- Note 15 – Demerger of NGX Limited

The Group has determined the measurement of the fair value of the dividend liability in accordance with Note 15.

- Note 18 – Share-Based Payments

The Group measures the cost of share-based payments issued by reference to the fair value of the equity instruments at the date at which they are granted. Estimation is required at the date of issue to determine the fair value. The fair value is determined using an appropriate valuation model. The accounting estimates and assumptions relating to the equity settled transactions would have no impact on the carrying value of assets and liabilities within the next annual reporting period but may impact expenses and equity.

	2023 $	2022 $
2. LOSS FROM OPERATIONS		
(a) Other Income/(Expenses)		
Foreign exchange gains/(losses)	**27,412**	(75,992)
Fair value movements in other financial assets	**70,000**	10,000
	97,412	**(65,992)**
(b) Depreciation		
Depreciation of property, plant and equipment (Note 5)	**93,696**	104,380
(c) Employee Benefits Expense		
Salaries and wages	**2,735,797**	2,414,548
Defined contribution plan	**176,173**	142,886
Annual leave provision	**57,041**	34,335
Non-cash benefits	**40,238**	26,534
Share-based payments expense	**2,083,592**	2,941,985
	5,092,841	**5,560,288**

	2023 $	2022 $
3. INCOME TAX		
(a) Recognised in the Statement of Comprehensive Income		
Adjustments in respect of current income tax of previous years	-	-
Origination and reversal of temporary differences	-	-
Deferred tax assets not brought to account	-	-
Income tax expense reported in the Statement of Comprehensive Income	**-**	-
(b) Reconciliation Between Tax Expense and Accounting Loss Before Income Tax		
Accounting loss before income tax	**(5,819,873)**	(13,719,731)
At the income rate of 30% (2022: 30%)	**(1,745,961)**	(4,115,919)
Expenditure not allowable for income tax purposes	**2,898,625**	2,695,917
Other amounts of assessable income	**137,145**	-
Income not assessable for income tax purposes	**(2,946,138)**	-
Deferred tax assets not brought to account	**1,656,329**	1,420,002
Income tax expense reported in the Statement of Comprehensive Income	**-**	-
(c) Deferred Income Tax		
Deferred Tax Liabilities		
Accrued interest	**115**	3,811
Other receivables	**6,508**	14,815
Other financial assets at fair value through profit or loss	**21,000**	-
Deferred tax assets used to offset deferred tax liabilities	**(27,623)**	(18,626)
	-	-
Deferred Tax Assets		
Other financial assets	**1,711**	1,711
Accruals	**25,122**	26,654
Provisions	**45,786**	28,678
Capital allowances	**103,168**	37,205
Tax losses available to offset against future taxable income	**8,325,504**	6,673,750
Deferred tax assets used to offset deferred tax liabilities	**(27,623)**	(18,626)
Deferred tax assets not brought to account	**(8,473,668)**	(6,749,372)
	-	-

The benefit of deferred tax assets not brought to account will only be brought to account if:

- future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised;
- the conditions for deductibility imposed by tax legislation continue to be complied with; and
- no changes in tax legislation adversely affect the Group in realising the benefit.

(d) Tax Consolidation

The Company and its wholly-owned Australian resident entities have formed a tax consolidated group from 11 January 2007 and are therefore taxed as a single entity from that date. The head entity within the tax consolidated group is Sovereign Metals Limited. The members of the tax consolidated group are identified at Note 14.

	2023 $	2022 $
4. CURRENT ASSETS – OTHER RECEIVABLES		
Accrued interest	**384**	12,702
GST receivable	**139,972**	90,338
Prepayments	**21,694**	49,384
Consideration – Sale of Carpentaria Joint Venture	**-**	150,000
Other	**124,434**	-
	286,484	**302,424**

	2023 $	2022 $
5. NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT		
(a) Office Furniture and Equipment		
Cost	**56,955**	53,753
Accumulated depreciation and impairment	**(13,584)**	(19,937)
	43,371	**33,816**
(b) Computer Equipment		
Cost	**57,599**	158,734
Accumulated depreciation and impairment	**(25,177)**	(128,029)
	32,422	**30,705**
(c) Plant & Equipment		
Cost	**731,065**	849,956
Accumulated depreciation and impairment	**(274,819)**	(377,239)
	456,246	**472,717**
Net carrying amount	**532,039**	**537,238**

	Office Furniture and Equipment $	Computer Equipment $	Plant & Equipment $	Total $
5. NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT				
Carrying amount at 1 July 2022	**33,816**	**30,705**	**472,717**	**537,238**
Additions	**7,829**	**14,045**	**58,654**	**80,528**
Depreciation charge	**(355)**	**(12,781)**	**(80,560)**	**(93,696)**
Foreign exchange differences	**2,081**	**453**	**5,435**	**7,969**
Carrying amount at 30 June 2023, net of accumulated depreciation and impairment	**43,371**	**32,422**	**456,246**	**532,039**
Carrying amount at 1 July 2021	2,511	8,411	304,661	315,583
Additions	34,804	29,927	277,057	341,788
Depreciation charge	(3,779)	(9,301)	(91,300)	(104,380)
Foreign exchange differences	280	1,668	(17,701)	(15,753)
Carrying amount at 30 June 2022, net of accumulated depreciation and impairment	**33,816**	**30,705**	**472,717**	**537,238**

	2023 $	2022 $
6. NON-CURRENT ASSETS – EXPLORATION AND EVALUATION ASSETS		
Movement in Exploration and Evaluation Assets		
Malawi Projects		
Carrying amount at beginning of year	**7,170,282**	7,170,282
Disposals – Demerger of NGX Limited(ii)	**(2,084,153)**	-
Carrying amount at end of year(i)	**5,086,129**	**7,170,282**

Note:

(i) The ultimate recoupment of costs carried forward for exploration and evaluation is dependent on the successful development and commercial exploitation or sale of the respective areas of interest.

(ii) Refer Note 15 for further information.

	2023 $	2022 $
7. CURRENT LIABILITIES – TRADE AND OTHER PAYABLES		
Trade creditors	**1,980,097**	1,757,107
Accrued expenses	**83,741**	88,847
	2,063,838	**1,845,954**

	2023 $	2022 $
8. CURRENT LIABILITIES – PROVISIONS		
Annual leave provisions	**152,621**	95,593
	152,621	**95,593**

	2023 $	2022 $
9. CONTRIBUTED EQUITY		
(a) Issued and Paid Up Capital		
470,875,023 fully paid ordinary shares (2022: 470,725,023)	**74,508,488**	78,860,187
	74,508,488	**78,860,187**

(b) Movements in Ordinary Share Capital During the Current and Prior Financial Periods Were as Follows:

Date	Details	Number of Shares	Issue Price $	$
1 Jul 22	**Opening Balance**	**470,725,023**		**78,860,187**
7 Jul 22	Issue of shares upon exercise of options	**150,000**	**$0.14**	**27,000**
7 Jul 22	Transfer from SBP reserve upon exercise of options	**-**	**-**	**12,108**
23 Mar 23	In-specie distribution on demerger of NGX Limited	**-**	**-**	**(4,178,114)**
30 Jun 23	Share issue costs	**-**	**-**	**(212,693)**
30 Jun 23	**Closing Balance**	**470,875,023**	**-**	**74,508,488**
1 Jul 21	**Opening Balance**	**421,196,827**		**55,276,410**
30 Jul 21	Issue of shares upon exercise of options	2,000,000	0.15	300,000
Various	Issue of shares upon exercise of options	9,717,500	0.50	4,858,750
23 Dec 21	Issue of shares upon conversion of performance rights	4,585,000	-	-
19 Jan 22	Share placement	3,571,428	0.52	1,857,142
13 May 22	Share placement	22,210,268	0.67	14,880,880
23 Jun 22	Exercise of $0.14 incentive options	250,000	0.14	35,000
23 Jun 22	Exercise of $0.14 incentive options (cashless)	4,410,000	-	-
23 Jun 22	Exercise of $0.18 incentive options (cashless)	1,184,000	-	-
23 Jun 22	Exercise of $0.18 incentive options (cashless)	1,600,000	-	-
30 Jun 22	Transfer from SBP reserve upon exercise of options and conversion of performance rights	-	-	2,657,786
30 Jun 22	Share issue costs	-	-	(1,005,781)
30 Jun 22	**Closing Balance**	**470,725,023**		**78,860,187**

Ordinary shares have no par value and the company does not have a limited amount of authorised capital.

9. CONTRIBUTED EQUITY (Continued)

(c) Terms and Conditions of Ordinary Shares

(i) General

The ordinary shares ("Shares") are ordinary shares and rank equally in all respects with all ordinary shares in the Company.

The rights attaching to the Shares arise from a combination of the Company's Constitution, statute and general law. Copies of the Company's Constitution are available for inspection during business hours at its registered office.

(ii) Reports and Notices

Shareholders are entitled to receive all notices, reports, accounts and other documents required to be furnished to shareholders under the Company's Constitution, the Corporations Act and the Listing Rules.

(iii) Voting

Subject to any rights or restrictions at the time being attached to any class or classes of shares, at a general meeting of the Company on a show of hands, every ordinary Shareholder present in person, or by proxy, attorney or representative (in the case of a company) has one vote and upon a poll, every Shareholder present in person, or by proxy, attorney or representative (in the case of a company) has one vote for any Share held by the Shareholder.

A poll may be demanded by the Chairperson of the meeting, any five Shareholders entitled to vote in person or by proxy, attorney or representative or by any one or more Shareholders holding not less than 5% of the total voting rights of all Shareholders having the right to vote.

(iv) Variation of Shares and Rights Attaching to Shares

Shares may be converted or cancelled with member approval and the Company's share capital may be reduced in accordance with the requirements of the Corporations Act.

Class rights attaching to a particular class of shares may be varied or cancelled with the consent in writing of holders of 75% of the shares in that class or by a special resolution of the holders of shares in that class.

(v) Unmarketable Parcels

The Company may procure the disposal of Shares where the member holds less than a marketable parcel of Shares within the meaning of the Listing Rules (being a parcel of shares with a market value of less than $500). To invoke this procedure, the Directors must first give notice to the relevant member holding less than a marketable parcel of Shares, who may then elect not to have his or her Shares sold by notifying the Directors.

(vi) Changes to the Constitution

The Company's Constitution can only be amended by a special resolution passed by at least three quarters of the members present and voting at a general meeting of the Company. At least 28 days written notice specifying the intention to propose the resolution as a special resolution must be given.

	2023 $	2022 $
10. RESERVES		
Share-based Payments Reserve		
Nil (30 June 2022: Nil) unlisted $0.18 options	-	12,108
6,100,000 (30 June 2022: 5,120,000) tranche 2 performance rights	**2,484,430**	1,101,931
7,810,000 (30 June 2022: 7,320,000) tranche 3 performance rights	**1,671,520**	970,427
Total Share-based Payments Reserve	**4,155,950**	**2,084,466**
Foreign Currency Translation Reserve - exchange differences	**(139,498)**	(87,695)
Total Foreign Currency Translation Reserve	**(139,498)**	**(87,695)**
Demerger Reserve	**(7,336,678)**	**-**
Total Demerger Reserve	**(7,336,678)**	**-**
Total Reserves	**(3,320,226)**	**1,996,771**

Share-based Payments Reserve - The share-based payments reserve is used to record the fair value of share-based payments made by the Company.

Foreign Currency Translation Reserve - The Foreign Currency Translation Reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

Demerger Reserve – The Demerger Reserve is used to record the value of the in-specie distribution to Sovereign shareholders in relation to the demerger of NGX Limited.

(a) Movements in Options and Performance Rights During the Current and Prior Financial Periods Were as Follows:

Date	Details	Number of Unlisted Incentive Options	Number of Unlisted Performance Rights	$[i]
1 Jul 22	**Opening Balance**	**-**	**12,440,000**	**2,084,466**
7 Jul 22	Transfer from SBP reserve upon exercise of options	**-**	**-**	**(12,108)**
Various	Issue of performance rights	**-**	**1,920,000**	**-**
1 Jun 23	Lapse of performance rights	**-**	**(450,000)**	**(256,164)**
30 Jun 23	Share-based payment expense	**-**	**-**	**2,339,756**
30 Jun 23	**Closing Balance**	**-**	**13,910,000**	**4,155,950**
1 Jul 21	**Opening Balance**	**12,875,000**	**14,100,000**	**1,800,267**
30 July 21	Exercise of $0.15 options	(2,000,000)	-	(78,764)
Various	Issue of performance rights	-	3,975,000	808,774
23 Dec 21	Conversion of performance rights	-	(4,585,000)	(2,091,000)
1 Apr 22	Lapse of performance rights	-	(1,050,000)	-
23 Jun 22	Exercise of $0.14 incentive options	(4,350,000)	-	(281,735)
23 Jun 22	Exercise of $0.18 incentive options	(6,525,000)	-	(206,287)
30 Jun 22	Share-based payment expense	-	-	2,133,211
30 Jun 22	**Closing Balance**	**-**	**12,440,000**	**2,084,466**

Note:

(i) The value of unlisted Incentive Options and Performance Rights granted is recognised over the vesting period of the grant, in accordance with Australian Accounting Standards. Refer to Note 18.

10. RESERVES (Continued)

(b) Terms and Conditions of unlisted Performance Rights

Performance Rights granted as share-based payments have the following terms and conditions:

- Each Performance Right automatically converts into one Share upon vesting of the Performance Right;
- Each Performance Right is subject to performance conditions (as determined by the Board from time to time) which must be satisfied in order for the Performance Right to vest;
- The Performance Rights outstanding at the end of the financial year have the following performance conditions and expiry dates:
  - 6,100,000 Performance Rights subject to the Feasibility Study Milestone that expire on 31 December 2023; and
  - 7,810,000 Performance Rights subject to the Definitive Feasibility Study Milestone that expire on 31 October 2025.
- Shares issued on conversion of the Performance Rights rank equally with the Shares of the Company;
- Application will be made by the Company to ASX for official quotation of the Shares issued upon conversion of the Performance Rights;
- If there is any reconstruction of the issued share capital of the Company, the rights of the Performance Right holders may be varied to comply with the ASX Listing Rules which apply to the reconstruction at the time of the reconstruction;
- No application for quotation of the Performance Rights will be made by the Company; and
- Without approval of the Board, Performance Rights may not be transferred, assigned or novated, except, upon death, a participant's legal personal representative may elect to be registered as the new holder of such Performance Rights and exercise any rights in respect of them.

	2023 $	2022 $
11. STATEMENT OF CASH FLOWS		
(a) Reconciliation of Loss for the Year to Net Cash Flows from Operating Activities		
Loss for the year	**(5,819,873)**	(13,719,731)
Adjustment for non-cash income and expense items		
Depreciation	**93,696**	104,380
Share-based payment expense	**2,083,592**	2,941,985
Fair value movements in other financial assets	**(70,000)**	(10,000)
Gain on demerger of NGX Limited	**(9,770,160)**	-
Changes in operating assets and liabilities		
(Increase) in other receivables	**(99,626)**	(103,020)
Increase in trade and other payables and provisions	**767,089**	770,732
Net cash outflow from operating activities	**(12,815,282)**	**(10,015,654)**
(b) Reconciliation of Cash Assets		
Cash at bank and on hand	**5,564,376**	8,892,741
Short term deposits	**-**	10,000,000
	5,564,376	**18,892,741**

(c) Credit Standby Arrangements with Banks

At balance date, the Company had no used or unused financing facilities (2022: none).

(d) Non-cash Financing and Investing Activities

During the year ended 30 June 2023, the Group demerged its Graphite Projects for consideration of 42,805,920 shares in NGX Limited which were in-specie distributed to shareholders of Sovereign. During the year ended 30 June 2022, 7,194,000 shares were issued upon the exercise of options utilising the cashless exercise facility.

	2023 Cents per Share	2022 Cents per Share
12. LOSS PER SHARE		
Basic and diluted loss per share		
From continuing operations	**(1.24)**	(3.17)
Total basic and diluted loss per share	**(1.24)**	**(3.17)**

The following reflects the loss and share data used in the calculations of basic and diluted loss per share:

	2023 $	2022 $
Net loss used in calculating basic and diluted earnings per share	**(5,819,873)**	(13,719,731)

	2023 Number of Shares	2022 Number of Shares
Weighted average number of ordinary shares used in calculating basic earnings per share	**470,872,550**	432,570,524
Adjusted weighted average number of ordinary shares and potential ordinary shares used in calculating basic and diluted earnings per share	**470,872,550**	**432,570,524**

Non-dilutive securities

As at 30 June 2023, 13,910,000 unlisted Performance Rights (which represent 13,910,000 potential Ordinary Shares) were non-dilutive as they would decrease the loss per share. As at 30 June 2022, 11,105,125 unlisted Options and 12,440,000 unlisted Performance Rights (which represent 23,545,125 potential Ordinary Shares) were non-dilutive as they would decrease the loss per share.

Conversions, calls, subscriptions or issues after 30 June 2023

Subsequent to 30 June 2023, the Group issued 86,028,378 new fully paid ordinary shares and 34,549,598 unlisted options, exercisable at $0.535 each on or before 21 July 2024. Other than the above, there have been no conversions to, calls of, or subscriptions for ordinary shares or issues of potential ordinary shares since the reporting date and before the completion of this financial report.

	2023 $	2022 $
13. COMMITMENTS AND CONTINGENCIES		
(a) Commitments		
Exploration Commitments - Malawi		
Within one year	**51,962**	92,151
After one year but not more than five years	**65,771**	135,053
	117,733	**277,204**

As a condition of retaining the current rights to tenure to exploration tenements, the Group is required to pay an annual rental charge and meet minimum expenditure requirements for each tenement. These obligations are not provided for in the financial statements and are at the sole discretion of the Group. The majority of the remaining exploration commitments relate to licences with a term greater than one year. For the purposes of disclosure, the Group has apportioned the remaining commitments on an equal monthly basis over the remaining term of the exploration licences.

(b) Contingencies

No material contingent assets or liabilities have been identified as at 30 June 2023 (2022: nil).

14. RELATED PARTIES

(a) Ultimate Parent

Sovereign Metals Limited is the ultimate parent of the Group.

(b) Subsidiaries

All controlled entities are included in the consolidated financial statements. The parent entity does not guarantee to pay the deficiency of its controlled entities in the event of a winding up of any controlled entity. The financial year-end of the controlled entities is the same as that of the parent entity.

Name	Country of Incorporation	Equity Interest 2023 %	Equity Interest 2022 %
McCourt Mining Pty Ltd(i)	Australia	100	100
McCourt Mining (UK) Limited	United Kingdom	100	100
McCourt Holdings (UK) Limited	United Kingdom	100	100
McCourt Mining Limited	Malawi	100	100
Sovereign Services Limited	Malawi	100	100
Sovereign Cloncurry Pty Ltd(i)	Australia	100	100
Sovereign Mozambique Pty Ltd(i)	Australia	100	100
Sovereign Zambia Pty Ltd(i)	Australia	100	100
Sovereign Coal Pty Ltd(i)	Australia	100	100
Sovereign Metals (Zambia) Ltd	Zambia	100	100
Sovereign Moçambique Limitada	Mozambique	-	100
NGX Limited(ii)	Australia	-	100
NGX Graphite Pty Ltd(ii)	Australia	-	100
NGX Mining Limited(ii)	Malawi	-	100
NGX Exploration Limited(ii)	Malawi	-	100
NGX Holdings UK Limited(ii)	United Kingdom	-	100
NGX Exploration UK Limited(ii)	United Kingdom	-	100
NGX Mining UK Limited(ii)	United Kingdom	-	100

Note:
(i) Member of the tax consolidated group.
(ii) Demerged via in-specie distribution effective 23 March 2023.

(c) Transactions with Related Parties in the Consolidated Group

There were no transactions with related parties during the 2023 financial year (2022: Nil) other than as noted below.

(d) KMP

Details relating to KMP, including remuneration paid, are included at Note 17.

(e) Other Transactions

Selwyn Capital Limited ("Selwyn"), a company associated with Mr Stoikovich is engaged under an agreement to provide consulting services to the Company, on a rolling 12-month term that either party may terminate with one month written notice. Selwyn receives a daily rate of £1,000 under the consulting agreement. This item has been recognised as an expense in the Statement of Profit or Loss and Other Comprehensive Income. These services provided during the period amounted to AUD$117,254 (2022: AUD$124,703).

Apollo Group Pty Ltd, a company of which Mr Mark Pearce is a Director and beneficial shareholder, was paid, or is payable, $348,000 (2022: $300,000) for the provision of serviced office facilities, administration services and additional consulting services provided during the year. The amount is based on a monthly retainer due and payable in advance and able to be terminated by either party with one month's notice. Effective 1 July 2023, the monthly fee has been increased to $31,000. This item has been recognised as an expense in the Statement of Profit or Loss and Other Comprehensive Income.

15. DEMERGER OF NGX LIMITED

On 7 December 2022, Sovereign announced that it intended to undertake a demerger ("Demerger") whereby Sovereign's Malawian graphite projects being the Nanzeka Project, Malingunde Project, Duwi Project and Mabuwa Project ("Graphite Projects") were to be demerged through NGX Limited ("NGX"), a wholly owned subsidiary of the Company, allowing Sovereign to focus on the development of Kasiya while unlocking value in its Graphite Projects for shareholders.

Sovereign proposed, subject to shareholder approval, to demerge the Graphite Projects via a spin-out of NGX and in-specie distribution of NGX fully paid ordinary shares ("NGX Shares") to Sovereign shareholders by issuing one (1) NGX Share for every eleven (11) Sovereign shares ("SVM Shares") held ("Distribution"), allowing Sovereign shareholders to retain exposure to the value and upside of the Graphite Projects. The transaction was recognised and measured with reference to the fair value of the NGX Shares, as Sovereign determined that it could not reliably measure the fair value of the Graphite Projects. This resulted in the issue of 42,805,920 NGX Shares valued at $0.269 per share, based on the 5-day volume weighted average price upon the listing of NGX shares on the ASX. The total distribution value of these shares is $11,514,792.

The Demerger of NGX was conducted pursuant to a demerger deed ("Demerger Deed") entered into between Sovereign, Sovereign's wholly-owned subsidiary Sovereign Services Limited ("SSL"), NGX and NGX's wholly owned subsidiaries NGX Exploration Limited ("NGX Exploration") and NGX Mining Limited ("NGX Mining") on 10 February 2023, which detailed the process by which the Demerger would be proposed and implemented and the terms and conditions that would govern the implementation of the Demerger between the parties, subject to the satisfaction or waiver of the conditions precedent.

On 15 February 2023, Sovereign lodged a Notice of General Meeting seeking shareholder approval for the transaction, with approval obtained at a General Meeting held on 17 March 2023. NGX demerged from Sovereign on 23 March 2023 via the in-specie issue of 42,805,920 shares to existing Sovereign shareholders.

The Group have applied *AASB Interpretation 17 Distribution of Non-Cash Assets to Owners* and *AASB 5 Non-Current Assets Held for Sale and Discontinued Operations* in regards to the Demerger.

	23 March 2023 $
Gain on Demerger of NGX Limited	
Value of In-specie distribution (42,805,920 NGX shares at $0.269 each)	**11,514,792**
Carrying value of the Graphite Projects[(i)]	**(2,084,153)**
Identifiable net liabilities deconsolidated	**325,897**
Release of Foreign Currency Translation Reserve	**13,725**
Demerger Costs	**(289,281)**
Total gain on Demerger	**9,480,980**

Note:

(i) The carrying value of the Graphite Projects is based on an allocation of area size of the Group's existing Exploration and Evaluation Asset (refer Note 6 for further information).

	23 March 2023 $
Identifiable net liabilities	
Cash and cash equivalents	**131,254**
Trade and other payables	**(195,302)**
Loan repayable to Sovereign	**(261,849)**
Identifiable net liabilities deconsolidated	**(325,897)**

	2023 $	2022 $
16. PARENT ENTITY DISCLOSURES		
(a) Financial Position		
Assets		
Current Assets	**6,127,340**	19,176,710
Non-Current Assets	**4,411,333**	7,094,474
Total Assets	**10,538,673**	**26,271,184**
Liabilities		
Current Liabilities	**866,104**	1,106,046
Total Liabilities	**866,104**	**1,106,046**
Equity		
Issued capital	**74,508,488**	78,860,187
Accumulated losses	**(64,608,799)**	(55,783,514)
Reserve	**(227,120)**	2,084,466
Total Equity	**9,672,569**	**25,161,138**
(b) Financial Performance		
Loss for the year	**(8,825,285)**	(13,532,691)
Other comprehensive loss	**-**	-
Total comprehensive loss	**(8,825,285)**	**(13,532,691)**

17. KEY MANAGEMENT PERSONNEL

(a) Details of KMP

The KMP of the Group during or as at the end of the financial year is as follows:

Directors	
Mr Benjamin Stoikovich	Chairman
Dr Julian Stephens	Managing Director
Mr Ian Middlemas	Non-Executive Director
Mr Mark Pearce	Non-Executive Director
Mr Nigel Jones	Non-Executive Director
Other KMP	
Mr Frank Eagar	General Manager – Africa (appointed 30 November 2022)
Mr Paul Marcos	Head of Project Development
Mr Sam Cordin	Business Development Manager

Unless otherwise disclosed, the KMP held their position from 1 July 2022 until the date of this report.

(b) KMP Compensation

	2023 $	2022 $
Short-term benefits	**1,669,701**	1,203,143
Post-employment benefits	**87,655**	86,392
Share-based payments	**1,168,007**	1,220,368
	2,925,363	**2,509,903**

SOVEREIGN METALS LIMITED

18. SHARE-BASED PAYMENTS

(a) Recognised Share-based Payment Expense

Goods or services received or acquired in a share-based payment transaction are recognised as an increase in equity if the goods or services were received in an equity-settled share-based payment transaction or as a liability if the goods and services were acquired in a cash settled share-based payment transaction.

For equity-settled share-based transactions, goods or services received are measured directly at the fair value of the goods or services received provided this can be estimated reliably. If a reliable estimate cannot be made the value of the goods or services is determined indirectly by reference to the fair value of the equity instrument granted.

From time to time, the Group provides incentive options, performance rights and ordinary shares to officers, employees, consultants and other key advisors as part of remuneration and incentive arrangements. The number of options, rights and shares granted/issued, and the terms of the options and rights granted are determined by the Board. Shareholder approval is sought where required.

	2023 $	2022 $
Expense arising from equity-settled share-based payment transactions (incentive option and performance rights)	**2,083,592**	2,941,985
	2,083,592	**2,941,985**

(b) Summary of Rights Granted and Pricing Models

The fair value of the equity-settled share options granted is estimated as at the date of grant using the Black Scholes option pricing model taking into account the terms and conditions upon which the options were granted. The fair value of the performance rights granted is estimated as at the date of grant using the share price at that date. The following table lists the inputs to the valuation model used for performance rights granted by the Group during the years ended 30 June 2023 and 30 June 2022:

	Security Type	Number	Grant Date	Expiry Date	Exercise Price $	Fair Value $
Series						
Pre-Feasibility Study	Right	500,000	9 Sep 22	31 Dec 23	-	0.460
	Right	240,000	18 Nov 22	31 Dec 23	-	0.410
	Right	240,000	20 Dec 22	31 Dec 23	-	0.440
	Right	850,000	6 Sep 21	31 Dec 23	-	0.545
	Right	225,000	25 Nov 21	31 Dec 23	-	0.650
	Right	225,000	9 Feb 22	31 Dec 23	-	0.470
Definitive Feasibility Study	Right	700,000	9 Sep 22	31 Oct 25	-	0.460
	Right	120,000	18 Nov 22	31 Oct 25	-	0.410
	Right	120,000	20 Dec 22	31 Oct 25	-	0.440
	Right	1,400,000	6 Sep 21	31 Oct 25	-	0.545
	Right	300,000	25 Nov 21	31 Oct 25	-	0.650
	Right	300,000	9 Feb 22	31 Oct 25	-	0.470

(c) Summary of Options and Rights

The following table illustrates the number and weighted average exercise prices (WAEP) of unlisted options and performance rights at the beginning and end of the financial year:

	2023 Number	2023 WAEP	2022 Number	2022 WAEP
Outstanding at beginning of year	**12,440,000**	**-**	26,975,000	$0.07
Rights granted during the year	**1,920,000**	**-**	3,975,000	-
Options exercised during the year	**-**	**-**	(12,875,000)	$0.16
Rights converted during the year	**-**	**-**	(4,585,000)	-
Rights lapsed during the year	**(450,000)**	**-**	(1,050,000)	-
Outstanding at end of year	**13,910,000**	**-**	**12,440,000**	**-**

The outstanding balance of rights granted as share-based payments on issue as at 30 June 2023 is represented by:

- 6,100,000 Pre-Feasibility Study Milestone Performance Rights, expiring 31 December 2023; and
- 7,810,000 Definitive Feasibility Study to Milestone Performance Rights, expiring 31 October 2025.

(d) Weighted Average Remaining Contractual Life

The weighted average remaining contractual life for rights outstanding as at 30 June 2023 was 1.42 years (2022: 2.58 years).

(e) Weighted Average Fair Value

The weighted average fair value of performance rights was $0.467 (2022: $0.480).

	2023 $	2022 $
19. REMUNERATION OF AUDITORS		
Current Auditor – Ernst & Young		
Amounts received or due and receivable by Ernst & Young for an audit or review of the financial report of the Company	**73,840**	55,000
Other services provided by Ernst & Young – taxation advice	**64,141**	14,214
Former Auditor – Deloitte Touche Tohmatsu		
Amounts received or due and receivable by Deloitte Touche Tohmatsu for an audit or review of the financial report of the Company	**-**	26,699
Total Auditors' Remuneration	**137,981**	**95,913**

20. SEGMENT INFORMATION

AASB 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. The Group has one operating segment, being exploration in Malawi. Information regarding this segment is reported below.

(a) Reconciliation of Non-current Assets by geographical location

	2023 $	2022 $
Malawi	**5,618,168**	7,707,520
	5,618,168	**7,707,520**

21. FINANCIAL INSTRUMENTS

(a) Overview

The Group's principal financial instruments comprise receivables, payables, cash and short-term deposits. The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. This Note presents information about the Group's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk, and the management of capital. Other than as disclosed, there have been no significant changes since the previous financial year to the exposure or management of these risks.

The Group manages its exposure to key financial risks in accordance with the Group's financial risk management policy. Key risks are monitored and reviewed as circumstances change (e.g. acquisition of a new project) and policies are revised as required. The overall objective of the Group's financial risk management policy is to support the delivery of the Group's financial targets whilst protecting future financial security. Given the nature and size of the business and uncertainty as to the timing and amount of cash inflows and outflows, the Group does not enter into derivative transactions to mitigate the financial risks. In addition, the Group's policy is that no trading in financial instruments shall be undertaken for the purposes of making speculative gains. As the Group's operations change, the Directors will review this policy periodically going forward. The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The Board reviews and agrees policies for managing the Group's financial risks as summarised below.

(b) Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. This risk arises principally from cash and cash equivalents, other receivables and other financial assets. There are no significant concentrations of credit risk within the Group. The carrying amount of the Group's financial assets represents the maximum credit risk exposure, as represented below:

	Notes	2023 $	2022 $
Cash and cash equivalents	11(b)	**5,564,376**	18,892,741
Other receivables	4	**124,818**	150,000
		5,689,194	**19,042,741**

The Group does not have any significant customers and accordingly does not have any significant exposure to bad or doubtful debts. Other receivables comprise accrued interest and other miscellaneous receivables. Where possible the Group only transacts with recognised, creditworthy third parties. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. There were no other receivables that were past due at 30 June 2023 (2022: nil). With respect to credit risk arising from cash and cash equivalents, the Group's exposure to credit risk arises from default of the counter party, with a maximum exposure equal to the carrying amount of these instruments. Credit risk related to balances with banks is considered low as the Group banks with a financial institution which is considered to have a high credit rating.

21. FINANCIAL INSTRUMENTS (Continued)

(c) Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Board's approach to managing liquidity is to ensure, as far as possible, that the Group will always have sufficient liquidity to meet its liabilities when due. At 30 June 2023 and 2022, the Group has sufficient liquid assets to meet its financial obligations. The contractual maturities of financial liabilities, including estimated interest payments, are provided below. There are no netting arrangements in respect of financial liabilities.

2023 Group	≤6 Months $	6-12 Months $	1-5 Years $	≥5 Years $	Total $
Financial Liabilities					
Trade and other payables	**2,063,838**	-	-	-	**2,063,838**
	2,063,838	**-**	**-**	**-**	**2,063,838**

2022 Group	≤6 Months $	6-12 Months $	1-5 Years $	≥5 Years $	Total $
Financial Liabilities					
Trade and other payables	**1,845,954**	-	-	-	**1,845,954**
	1,845,954	**-**	**-**	**-**	**1,845,954**

(d) Capital Management

The Board's policy is to maintain an adequate capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Given the stage of development of the Group, the Board's objective is to minimise debt and to raise funds as required through the issue of new shares. The Group continues to examine new business opportunities where acquisition/working capital requirements of a new project may involve additional funding in some format (which may include debt where appropriate). There were no changes in the Group's approach to capital management during the year. The Group is not subject to externally imposed capital requirements.

(e) Interest Rate Risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the cash with a floating interest rate. These financial assets with variable rates expose the Group to cash flow interest rate risk. All other financial assets and liabilities, in the form of receivables and payables are non-interest bearing. At the reporting date, the interest rate profile of the Group's interest-bearing financial instruments was:

	2023 $	2022 $
Interest-bearing financial instruments		
Cash at bank and on hand	**5,564,376**	8,892,741
Short term deposits	**-**	10,000,000
	5,564,376	**18,892,741**

The Group's cash at bank and on hand and short term deposits had a weighted average floating interest rate at year end of 3.97% (2022: 1.10%). The Group currently does not engage in any hedging or derivative transactions to manage interest rate risk.

21. FINANCIAL INSTRUMENTS (Continued)

(e) Interest Rate Risk (Continued)

Interest rate sensitivity

A sensitivity of +/-2% has been selected as this is considered reasonable given the current level of both short term and long term interest rates. A +/-2% movement in interest rates at the reporting date would have increased (decreased) profit and loss by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2022.

	Profit or Loss	
	+2% Increase	**-2% Decrease**
2023		
Cash and cash equivalents	**111,288**	**(111,288)**
2022		
Cash and cash equivalents	377,855	(207,286)

(f) Foreign Currency Risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the United States dollar ("USD") and the Malawian Kwacha ("MWK"). Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency and net investments in foreign operations. The Group has not formalised a foreign currency risk management policy however it monitors its foreign currency expenditure in light of exchange rate movements. The functional currency of the subsidiary companies incorporated in Malawi is USD. All parent and remaining subsidiaries balances are in Australian dollars. The Group does not have any material exposure to foreign currency risk relating to MWK.

Sensitivity Analysis for Currency Risk – United States Dollar (USD)

The year end AUD:USD exchange rate was 0.6630 (2022: 0.6889). A 10% movement in this exchange rate would have resulted in a movement in net assets of the Group of $34,662 (2022: $29,824). This analysis assumes that all other variables, in particular interest rates, remain constant. There would be no impact on profit or loss arising from changes in the currency risk variables relating to the Group's activities overseas as all changes in value are taken to a reserve.

(g) Fair Value

The net fair value of financial assets and financial liabilities approximates their carrying value. The methods for estimating fair value are outlined in the relevant notes to the financial statements.

22. SUBSEQUENT EVENTS

Subsequent to 30 June 2023, the Group completed a A$40.6 million strategic investment by Rio Tinto to advance Kasiya. Rio Tinto subscribed for 83.3 million Shares in Sovereign at a price of A$0.486 per Share for aggregate proceeds of A$40.6 million resulting in Rio Tinto holding approximately 15% of the ordinary shares of the Company. The subscription also involved Rio Tinto being granted unlisted options, exercisable at $0.535 each on or before 21 July 2024, to acquire 34.5 million further Shares in Sovereign which could result in Rio Tinto's shareholding in the Company potentially increasing up to 19.99% (based on the number of shares on issue in the Company as at the date of this report).

On 25 August 2023, the Company issued 2.5 million Shares to SCP Resource Finance as a 3% advisory fee on the amount of Rio Tinto's initial investment.

There are no other matters or circumstances which have arisen since 30 June 2023 that have significantly affected or may significantly affect:

- the operations, in financial years subsequent to 30 June 2023 of the Group;
- the results of those operations, in financial years subsequent to 30 June 2023 of the Group; or
- the state of affairs, in financial years subsequent to 30 June 2023 of the Group.

DIRECTORS' DECLARATION

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

(1) In the opinion of the Directors:

(a) the attached financial statements, notes and the additional disclosures included in the directors' report designated as audited, are in accordance with the Corporations Act 2001 including:

(i) section 296 (compliance with accounting standards and Corporations Regulations 2001); and

(ii) section 297 (gives a true and fair view of the financial position as at 30 June 2023 and of the performance for the year ended on that date of the Group); and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

(2) The attached financial statements are in compliance with International Financial Reporting Standards, as stated in Note 1(b) to the financial statements.

(3) The Directors have been given a declaration required by section 295A of the Corporations Act 2001 for the financial year ended 30 June 2023.

On behalf of the Board.

JULIAN STEPHENS
Managing Director

Perth, 29 September 2023

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Ernst & Young
11 Mounts Bay Road
Perth WA 6000 Australia
GPO Box M939 Perth WA 6843

Tel: +61 8 9429 2222
Fax: +61 8 9429 2436
ey.com/au

Independent auditor's report to the members of Sovereign Metals Limited

Report on the audit of the financial report

Opinion

We have audited the financial report of Sovereign Metals Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2023, 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, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

a. Giving a true and fair view of the consolidated financial position of the Group as at 30 June 2023 and of its consolidated financial performance for the year ended on that date; and

b. Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

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 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 financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

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1. Demerger of graphite exploration assets and in-specie distribution

Why significant	How our audit addressed the key audit matter
As disclosed in Note 15 of the financial statements, the Group demerged its Malawian graphite projects (Projects) via a spin-out of its wholly owned subsidiary, NGX Limited (NGX) and the subsequent in-specie distribution of NGX shares to the Company's shareholders. On 17 March 2023, the Company's shareholders approved the demerger whereby the Company provided an in-specie distribution of 42,805,920 NGX shares to eligible Company shareholders. The demerger of the Projects to NGX gave rise to a gain on demerger of $9,480,980 in the consolidated statement of profit or loss. The subsequent in-specie distribution of NGX shares has been accounted for as a dividend of $11,514,792. As a result of the disposal of its investment in NGX, the Group's foreign currency translation reserve relating to its interest in NGX was recycled to the consolidated statement of profit or loss. This was considered a key audit matter due to the: ► Significance of these transactions to the overall financial position and performance of the Group, ► Judgement involved in estimating the cost of capitalised exploration and evaluation assets derecognised of as part of the NGX demerger and the fair value of the in-specie distribution of NGX shares to the Company's shareholders.	Our audit procedures included the following: ► Assessed the accounting treatment for the demerger and subsequent in-specie distribution ► Recalculated the Group's calculation of the cost of the Project's capitalised exploration and evaluation assets derecognised as part of the NGX demerger ► Assessed the Group's calculation of the fair value of the in-specie distribution and the foreign currency translation reserve recycled to the consolidated statement of profit or loss ► Assessed the adequacy of the disclosure included in the Notes to the financial statements relating to the demerger and subsequent in-specie distribution.

2. Carrying amount of capitalised exploration and evaluation assets

Why significant	How our audit addressed the key audit matter
As disclosed in Note 6 to the financial statements, the Group held capitalised exploration and evaluation assets of $5,086,129 at 30 June 2023. The carrying amount of capitalised exploration and evaluation assets is assessed for impairment by the Group when facts and circumstances indicate that the carrying amount of capitalised exploration and evaluation assets may exceed its recoverable amount. The determination as to whether there are any indicators of impairment, involves judgment including whether the Group has tenure, will be able to perform ongoing expenditure and whether there is sufficient information for a decision to be made that the area of interest is not commercially viable. The Directors did not identify any impairment indicators as at 30 June 2023.	We evaluated the Group's assessment as to whether there were any indicators of impairment to require the carrying amount of capitalised exploration and evaluation assets to be tested for impairment. Our audit procedures included the following: ► Evaluated whether the Group's right to explore was current, which included obtaining and assessing supporting documentation such as license agreements. ► Assessed the Group's intention to carry out significant ongoing exploration and evaluation activities in the relevant areas of interest which included reviewing the Group's cash-flow forecast and enquiring of senior management and the Directors as to their intentions and the strategy of the Group.

EY Building a better working world

Why significant	How our audit addressed the key audit matter
Given the size of the balance and the judgmental nature of impairment indicator assessments associated with capitalised exploration and evaluation assets, we consider this a key audit matter.	▸ Assessed whether exploration and evaluation data or contrary information existed to indicate that the carrying amount of capitalised exploration and evaluation assets is unlikely to be recovered through successful development or sale. ▸ Assessed the adequacy of the disclosures included in Note 6 of the financial statements.

Information other than the financial report and auditor's report thereon

The directors are responsible for the other information. The other information comprises the information included in the Company's 2023 annual report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

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 Group's ability to continue as a going concern, disclosing, as applicable, matters relating 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 have 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.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2023.

In our opinion, the Remuneration Report of Sovereign Metals Limited for the year ended 30 June 2023, 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.

Ernst & Young

Ernst & Young

Pierre Dreyer
Partner
Perth
29 September 2023

ASX ADDITIONAL INFORMATION

The shareholder information set out below was applicable as at 31 August 2023.

1. TWENTY LARGEST HOLDERS OF LISTED SECURITIES

The names of the twenty largest holders of each class of listed securities are listed below:

Name	No of Ordinary Shares Held	Percentage of Issued Shares
BNP Paribas Nominees Pty Ltd ACF Clearstream	96,665,430	17.36
Citicorp Nominees Pty Limited	83,943,018	15.07
Rio Tinto Mining and Exploration Limited	83,535,510	15.00
BNP Paribas Noms Pty Ltd <DRP>	58,615,211	10.53
BNP Paribas Nominees Pty Ltd <IB AU Noms RetailClient DRP>	21,427,173	3.85
Arredo Pty Ltd	16,100,000	2.89
Mr Julian Rodney Stephens <One Way A/C>	15,657,518	2.81
HSBC Custody Nominees (Australia) Limited	13,492,662	2.42
Mr Mark Stuart Savage <Mark Savage Revocable A/C>	12,000,000	2.15
Jackhamish Pty Ltd	6,500,000	1.17
Mota-Engil Minerals & Mining Investments BV	6,000,000	1.08
CPO Superannuation Fund Pty Ltd <C & P O'Connor S/F A/C>	5,728,255	1.03
Computershare Clearing Pty Ltd <CCNL DI A/C>	4,909,112	0.88
Calama Holdings Pty Ltd <Mambat Super Fund A/C>	4,546,171	0.82
Mandel Pty Ltd <Mandel Super Fund A/C>	4,000,000	0.72
Mr Samuel Cordin	3,879,413	0.70
Mr Collin Francis Davy <The Bush Rat A/C>	3,479,166	0.62
Mr Andries Willem Kruger	3,435,162	0.62
National Bank Financial Inc <SCP Resource Finance LP A/C 41SEH0A>	2,492,868	0.45
Bouchi Pty Ltd	2,426,922	0.44
Total Top 20	**448,833,591**	**80.59**
Others	108,069,810	19.41
Total Ordinary Shares on Issue	**556,903,401**	**100**

2. DISTRIBUTION OF EQUITY SECURITIES

Analysis of number of shareholders by size of holding:

	Ordinary Shares	
Distribution	Number of Shareholders	Number of Shares
1 – 1,000	236	127,729
1,001 – 5,000	861	2,489,114
5,001 – 10,000	402	3,362,077
10,001 – 100,000	665	22,070,146
More than 100,000	209	528,854,335
Totals	**2,373**	**556,903,401**

There were 275 holders of less than a marketable parcel of ordinary shares.

3. VOTING RIGHTS

See Note 9(c) of the Notes to the Financial Statements.

ASX ADDITIONAL INFORMATION

4. SUBSTANTIAL SHAREHOLDERS

Substantial Shareholder Notices received by the Company are:

Substantial Shareholder Name	Number of Shares
Rio Tinto Mining and Exploration Limited	83,535,510
Sprott Inc. (Sprott) and each of its controlled bodies corporate listed in the notice.	43,653,965

5. UNQUOTED SECURITIES

The names of the security holders holding more than 20% of an unlisted class of security at 31 August 2023 other than those securities issued or acquired under an employee incentive scheme are listed below:

	21 July 2024 Unlisted Options exercisable at $0.535
Rio Tinto Mining and Exploration Limited	34,549,598
Total	**34,549,598**
Total number of holders	**1**

6. MINERAL RESOURCES AND ORE RESERVES STATEMENT

Governance

The Company engages external consultants and Competent Persons (as determined pursuant to the JORC Code 2012) to prepare and estimate the Mineral Resources and Ore Reserves. Management and the Board review these estimates and underlying assumptions for reasonableness and accuracy. The results of the Mineral Resources and Ore Reserves estimates are then reported in accordance with the requirements of the JORC Code 2012 and other applicable rules (including ASX Listing Rules). Where material changes occur during the year to the project, including the project's size, title, exploration results or other technical information, previous reserve and resource estimates and market disclosures are reviewed for completeness.

The Company reviews its Mineral Resources and Ore Resources as at 30 June each year. Where a material change has occurred in the assumptions or data used in previously reported Mineral Resources and Ore Reserves, then where possible a revised Mineral Resources and Ore Reserves estimate will be prepared as part of the annual review process. However, there are circumstances where this may not be possible (e.g. an ongoing drilling programme), in which case a revised Mineral Resources and Ore Reserves estimate will be prepared and reported as soon as practicable.

MINERAL RESOURCES – RUTILE AND GRAPHITE - KASIYA

Sovereign's Mineral Resources relating to rutile and graphite as at 30 June 2023 and 30 June 2022 are from the Kasiya Deposit, located in Malawi. The resources are reported in accordance with the 2012 Edition of the JORC Code as follows:

2023:

The Company reported its maiden rutile resource in June 2021. The Company reported an updated mineral resource estimate for Kasiya in April 2023.

Kasiya Total Indicated + Inferred Mineral Resource Estimate at 0.7% rutile cut-off grade					
Classification	Resource (Mt)	Rutile Grade (%)	Contained Rutile (Mt)	Graphite Grade (TGC) (%)	Contained Graphite (Mt)
Indicated	1,200	1.0%	12.2	1.5%	18.0
Inferred	609	0.9%	5.7	1.1%	6.5
Total	**1,809**	**1.0%**	**17.9**	**1.4%**	**24.4**

ASX ADDITIONAL INFORMATION (Continued)

2022:

Kasiya Total Indicated + Inferred Mineral Resource Estimate at 0.7% rutile cut-off grade					
Classification	**Resource (Mt)**	**Rutile Grade (%)**	**Contained Rutile (Mt)**	**Graphite Grade (TGC) (%)**	**Contained Graphite (Mt)**
Indicated	662	1.05%	6.9	1.43%	9.5
Inferred	1,113	0.99%	11.0	1.26%	14.0
Total	**1,775**	**1.01%**	**18.0**	**1.32%**	**23.4**

Competent Person Statement

The information in this Report that relates to Mineral Resources (Rutile and Graphite - Kasiya) is based on, and fairly represents, information compiled by Mr Richard Stockwell, a Competent Person, who is a Fellow of The Australian Institute of Geoscientists. Mr Stockwell is a principal of Placer Consulting Pty Ltd, an independent consulting company. Mr Stockwell has sufficient experience, which is relevant to the style of mineralisation and type of deposit under consideration, and to the activity he is undertaking, to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Stockwell consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

Mr Stockwell has approved the Mineral Resources Statement as a whole and consents to its inclusion in the form and context in which it appears.

7. EXPLORATION INTERESTS

The Company has an interest in the following projects in Malawi:

Licence	Holding Entity	Interest	Type	Licence Renewal Date	Expiry Term Date[1]	Licence Area (km^2)	Status
EL0609	MML	100%	Exploration	25/09/2024	25/09/2028	440.5	Granted
EL0582	SSL	100%	Exploration	15/09/2023	15/09/2027	285.0	Granted
EL0492	SSL	100%	Exploration	29/01/2025	29/01/2025	935.4	Granted
EL0528	SSL	100%	Exploration	27/11/2023	27/11/2025	16.2	Granted
EL0545	SSL	100%	Exploration	12/05/2024	12/05/2026	53.2	Granted
EL0561	SSL	100%	Exploration	15/09/2023	15/09/2027	124.0	Granted
EL0657	SSL	100%	Exploration	3/10/2025	3/10/2029	2.3	Granted

Notes:

SSL: Sovereign Services Limited, MML: McCourt Mining Limited

[1] An exploration licence (**EL**) covering a preliminary period in accordance with the Malawi Mines and Minerals Act (No 8. Of 2019) (**Mines Act**) is granted for a period not exceeding three (3) years. Thereafter two successive periods of renewal may be granted, but each must not exceed two (2) years. This means that an EL has a potential life span of seven (7) years. ELs that have come to the end of their term can be converted by the EL holder into a retention licence (**RL**) for a term of up to 5 years subject to meeting certain criteria.

[2] The Company submitted an extension application for EL0582 and EL0561 prior to the renewal date in accordance with the Mines Act.

8. ON-MARKET BUY BACK

There is currently no on-market buy back program for any of Sovereign Metals Limited's listed securities.

ASX ADDITIONAL INFORMATION

9. CORPORATE GOVERNANCE

Sovereign Metals Limited (Sovereign or Company) and the entities it controls believe corporate governance is important for the Company in conducting its business activities. The Board of Sovereign has adopted a suite of charters and key corporate governance documents which articulate the policies and procedures followed by the Company. These documents are available in the Corporate Governance section of the Company's website, www.sovereignmetals.com.au. These documents are reviewed at least annually to address any changes in governance practices and the law.

The Company's 2023 Corporate Governance Statement, which is current as at 30 June 2023 and has been approved by the Company's Board, explains how Sovereign complies with the ASX Corporate Governance Council's 'Corporate Governance Principles and Recommendations – 4th Edition' in relation to the year ended 30 June 2023. The Corporate Governance Statement is available in the Corporate Governance section of the Company's website, www.sovereignmetals.com.au/corporate/corporate-governance and will be lodged with ASX together with an Appendix 4G at the same time that this Annual Report is lodged with ASX.

In addition to the ASX Corporate Governance Council's 'Corporate Governance Principles and Recommendations – 4th Edition' the Board has taken into account a number of important factors in determining its corporate governance policies and procedures; including the:

- relatively simple operations of the Company, which currently only undertakes mineral exploration and development activities;
- cost verses benefit of additional corporate governance requirements or processes;
- size of the Board;
- Board's experience in the resources sector;
- organisational reporting structure and number of reporting functions, operational divisions and employees;
- relatively simple financial affairs with limited complexity and quantum;
- relatively small market capitalisation and economic value of the entity; and
- direct shareholder feedback.

The Company's corporate governance policies can be found here www.sovereignmetals.com.au/corporate/corporate-governance and include the following:

- Board Charter;
- Audit Committee Charter;
- Remuneration and Nomination Committee Charter;
- ESG Charter;
- Code Of Conduct;
- Securities Trading Policy;
- Continuous Disclosure Policy;
- Risk Management Policy;
- Anti-Bribery & Corruption Policy;
- Whistleblower Policy;
- Social Media Policy; and
- Data Privacy Policy.

11. COMPETENT PERSON AND FORWARD LOOKING STATEMENTS

The information in this announcement that relates to Production Targets, Ore Reserves, Processing, Infrastructure and Capital Operating Costs, Metallurgy (rutile and graphite) is extracted from the announcement dated 28 September 2023 entitled 'Kasiya Pre-Feasibility Study Results'. Sovereign confirms that: a) it is not aware of any new information or data that materially affects the information included in the original announcement; b) all material assumptions and technical parameters underpinning the Production Target, and related forecast financial information derived from the Production Target included in the original announcement continue to apply and have not materially changed; and c) the form and context in which the relevant Competent Persons' findings are presented in this presentation have not been materially modified from the Announcement.

Ore Reserve for the Kasiya Deposit

Classification	Tonnes (Mt)	Rutile Grade (%)	Contained Rutile (Mt)	Graphite Grade (TGC) (%)	Contained Graphite (Mt)	RutEq. Grade* (%)
Proved	-	-	-	-	-	-
Probable	538	1.03%	5.5	1.66%	8.9	2.00%
Total	**538**	**1.03%**	**5.5**	**1.66%**	**8.9**	**2.00%**

* RutEq. Formula: Rutile Grade x Recovery (100%) x Rutile Price (US$1,484/t) + Graphite Grade x Recovery (67.5%) x Graphite Price (US$1,290/t) / Rutile Price (US$1,484/t). All assumptions are taken from this Study ** Any minor summation inconsistencies are due to rounding.

This report may include forward-looking statements, which may be identified by words such as "expects", "anticipates", "believes", "projects", "plans", and similar expressions. These forward-looking statements are based on Sovereign's expectations and beliefs concerning future events. Forward looking statements are necessarily subject to risks, uncertainties and other factors, many of which are outside the control of Sovereign, which could cause actual results to differ materially from such statements. There can be no assurance that forward-looking statements will prove to be correct. Sovereign makes no undertaking to subsequently update or revise the forward-looking statements made in this report, to reflect the circumstances or events after the date of that report.

SOVEREIGN
METALS LIMITED

ASX:**SVM** | AIM:**SVML**
T: +61 8 9322 6322
E: info@sovereignmetals.com.au
www.sovereignmetals.com.au