



SOVEREIGN
METALS LIMITED

SOVEREIGN METALS LIMITED
ABN 71 120 833 427

INTERIM FINANCIAL REPORT
FOR THE HALF YEAR ENDED
31 DECEMBER 2022

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

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Operations Office

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Stock Exchange Listings

Australia

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

United Kingdom

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

Nominated Advisor

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Thomson Geer

Auditor

Ernst & Young

Bankers

National Australia Bank
 Standard Bank – Malawi

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The Directors of Sovereign Metals Limited present their report on Sovereign Metals Limited (**Sovereign** or the **Company** or **Parent**) and the entities it controlled at the end of, or during, the half year ended 31 December 2022 (**Consolidated Entity** or **Group**).

DIRECTORS

The names of Directors in office at any time during the financial period or since the end of the financial period 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

All Directors were in office from 1 July 2022 until the date of this report, unless otherwise noted.

REVIEW AND RESULTS OF OPERATIONS

Highlights during and subsequent to period end

Kasiya Rutile Project PFS continues to progress on schedule

- Sovereign is well advanced with the Pre-Feasibility Study (**PFS**) for the Kasiya Rutile Project (**Kasiya**), an industry-leading major source of critical raw materials from Malawi.
- The PFS will build on the Expanded Scoping Study (**ESS**) which confirmed Kasiya as potentially **one of the world's largest and potentially lowest cost** producers of **natural rutile and natural graphite** with a carbon-footprint substantially lower than other current and planned producers.
- The PFS is on track to be completed in H1 2023 with all major works packages well progressed.

Resource infill drilling completed

- The Company completed a 4,660 metre, 191-hole deeper air-core (AC) and 2,206 metre, 247-hole push tube (**PT**) mineral resource infill drilling program to upgrade the Kasiya Mineral Resource Estimate (**MRE**), with the update targeted for late Q1 2023.
- The drilling program confirmed consistency of high-grade rutile and graphite mineralisation laterally and at depth.
- Infill core PT drilling of numerous Inferred category pits and potential pit extensions is expected to add new blocks of Indicated material.

Offtake MoU and Market Alliance with major Japanese trader

- In July 2022, Memorandum of Understanding (**MoU**) (non-binding) was signed with Mitsui & Co Ltd (**Mitsui**), one of the largest global trading and investment companies in Japan.
- The MoU establishes a marketing alliance and offtake for 30,000 tonnes of natural rutile per annum. The alliance will allow Sovereign to leverage Mitsui's extensive network and their market-leading understanding of the titanium industry and global logistics.

Offtake MoU with Chemours, one of the world's largest's producers of high-quality titanium dioxide pigment

- In November 2022, a MoU (non-binding) was signed for supply of 20,000 tonnes of natural rutile per annum from Kasiya to the US-based Chemours Company (**Chemours**), one of the world's largest producers of high-quality titanium dioxide pigments.

Sovereign to Demerge Standalone Graphite Projects

- Sovereign to demerge its standalone Graphite Projects (being the Nanzeka, Malingunde, Duwi and Mabuwa Projects) into a 100%-owned subsidiary, NGX Limited, via an in-specie distribution.
- The Demerger seeks to unlock the value of the Graphite Projects for Sovereign shareholders and separate Kasiya and its standalone Graphite Projects into two distinct companies.
- General Meeting for Demerger to take place on 17 March 2023.

Sovereign Metals Limited (ASX: SVM & AIM: SVML) is an ASX and AIM-listed company focussed on the development of its Kasiya rutile project (Kasiya) in Malawi.

Kasiya, located in central Malawi, is the **largest natural rutile deposit and one of the largest flake graphite deposits in the world**. Sovereign is aiming to develop an **environmentally and sustainable operation** to supply highly sought-after natural rutile and graphite to global markets.

Sovereign is completing a PFS which will build on the ESS, released in June 2022, with targeted completion in H1 2023.

The ESS confirmed Kasiya as potentially **one of the world's largest and lowest cost** producers of **natural rutile and natural graphite** with a carbon-footprint substantially lower than current alternatives. The ESS showed outstanding results including:

- a two-stage development (stage 2 self-funded) with full production at **24Mtpa throughput producing 265kt rutile and 170kt graphite** per annum over a **25 year mine life**
- exceptional economics including a post-tax **NPV₈ of US\$1,537m** and post-tax **IRR of 36%**
- a **large-scale operation with a low-cost profile** resulting from the deposit's near surface nature, high-grade, conventional processing flowsheet, and excellent existing infrastructure



Figure 1: Sovereign's project area showing its position in South-East Africa and Nacala and Beira ports.

PRE-FEASIBILITY STUDY

The Company commenced a PFS which will build on the ESS which confirmed Kasiya as one of the world's largest and potentially lowest cost producers of natural rutile and natural graphite with a carbon-footprint substantially lower than other current and planned producers.

The PFS is advancing well under the guidance of globally recognised consultants and is on schedule to be completed by its target date of H1 2023.

KASIYA RESOURCE INFILL DRILLING

During the period, the Company completed a 4,660 metre, 191-hole AC and 2,206 metre, 247-hole PT drilling program at Kasiya. Drilling was conducted on a nominal 200m x 200m grid spacing targeting upgrading of mineralisation into the Indicated category which could convert to Probable Reserves as part of the forthcoming PFS. The AC results confirmed that rutile mineralisation is continuous in many pit areas from surface down to the top of saprock, normally between 20m and 30m from surface.

PRODUCT MARKETING & OFF-TAKE

Mitsui

In July 2022, Sovereign entered into a non-binding MoU with Mitsui, one of the largest global trading and investment companies in Japan. The MoU establishes a marketing alliance and offtake for 30,000 tonnes of natural rutile per annum from the Company's world-class Kasiya project.

This MoU creates a marketing alliance between the two parties to jointly market Sovereign's rutile across Asia and other markets. The alliance will allow Sovereign to leverage off Mitsui's extensive network and their market-leading understanding of the titanium industry and global logistics.

Mitsui has shared samples of rutile product from Kasiya with Asian end-users that have confirmed its premium chemical specifications should be suitable for use in their titanium sponge and pigment processes, as a precursor for high-grade, high-specification titanium metal and pigment production.

Chemours

In November 2022, Sovereign entered into a non-binding MOU with Chemours for the potential supply of 20,000 tonnes per annum of natural rutile from Kasiya.

The MOU covers the potential supply of 20,000 tonnes per annum of natural rutile at Stage 1 nameplate capacity and an option to take additional product (tonnage to be agreed) when Kasiya reaches Stage 2 nameplate capacity. Further, volumes may be varied up or down by mutual agreement and pricing will reference market prices of the day (both to be included in the definitive agreement).

The MOU is non-exclusive and non-binding and remains subject to negotiation and execution of the definitive agreement. The MOU will expire two years from the execution date but can be extended by agreement by both parties should a definitive agreement not have been reached by that time.

Chemours is a leading provider of performance chemicals that are key inputs in end-products and processes across a variety of industries. Chemours operates 29 manufacturing sites serving approximately 3,200 customers in approximately 120 countries.

Its Titanium Technologies segment is one of the world's largest producers of high-quality titanium dioxide (TiO_2) pigment and aspires to be the most sustainable TiO_2 enterprise in the world. Using its proprietary chloride technology—pioneered in 1931 and improving ever since—Chemours provides innovative TiO_2 solutions for coatings, plastics, and laminates.

It operates four TiO_2 pigment production facilities: two in the United States, one in Mexico, and one in Taiwan totalling TiO_2 pigment nameplate capacity of 1.25 million tonnes per year. In the year ended 31 December 2021, Chemours' Titanium Technologies segment reported net sales of US\$3.4 Billion.

The Company is continuing product marketing with further offtake MOUs expected to be executed in the near-term.

DEMERGER OF STANDALONE GRAPHITE PROJECTS

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

The Demerger allows Sovereign and the existing management team to focus on its flagship Kasiya Rutile Project, the largest natural rutile deposit in the world, with Sovereign retaining all graphite co-product from Kasiya.

Sovereign proposes, 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.

Upon completion of the Demerger, NGX intends to seek admission to the official list of the ASX. NGX will undertake a capital raising to satisfy the ASX admission requirements.

Sovereign shareholders will have the opportunity to retain further exposure to the value and upside of the Graphite Projects as the NGX IPO is expected to comprise a priority offer to existing shareholders on the basis of one (1) new NGX Share for every one (1) NGX Share received pursuant to the Demerger to raise approximately \$8,600,000 and a general offer of \$1,000,000 to assist with satisfying ASX spread requirements. This will ensure there is no cash outflow from Sovereign to NGX as part of the Demerger, other than applicable Sovereign expenses to effect the Demerger. The terms of the NGX IPO are yet to be finalised however.

The General Meeting for the Demerger is to take place on 17 March 2023.

OPERATING RESULTS

The net operating loss after tax for the half year ended 31 December 2022 was \$8,486,503 (2021: \$7,716,384) which is attributable to:

- (i) exploration and evaluation expenditure of \$5,792,042 (2021: \$4,188,770), which is attributable to the Group's accounting policy of expensing exploration and evaluation expenditure (other than expenditures incurred in the acquisition of the rights to explore) incurred by the Group in the period subsequent to the acquisition of the rights to explore up to the successful completion of definitive feasibility studies for each separate area of interest. The exploration and evaluation expenditure in the current period predominately relates to the Group's on-going PFS at its Kasiya in Malawi and associated MRE drilling;
- (ii) business development expenses of \$1,130,083 (2021: \$894,214) which are attributable to the Group's costs in relation to its listing on the AIM Market of the London Stock Exchange and investor and shareholder relations including public relations, marketing and digital marketing, conference fees and travel costs;
- (iii) one off upfront costs in relation to the demerger of NGX of \$121,839 (2021: nil); and
- (iv) non-cash share based payments expenses of \$1,061,657 (2021: \$2,210,324) which is attributable to the Group's accounting policy of expensing the value of shares, incentive options and rights (estimated using an appropriate pricing model) granted to key employees, consultants and advisors. The value of incentive options and rights is measured at grant date and recognised over the period during which the option and rights holders become unconditionally entitled to the incentive securities.

SIGNIFICANT POST BALANCE DATE EVENTS

Other than the above, there are no matters or circumstances which have arisen since 31 December 2022 that have significantly affected or may significantly affect:

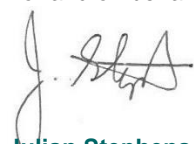
- the operations, in periods subsequent to 31 December 2022, of the Group;
- the results of those operations, in periods subsequent to 31 December 2022, of the Group; or
- the state of affairs, in periods subsequent to 31 December 2022, of the Group.

AUDITOR'S INDEPENDENCE DECLARATION

Section 307C of the Corporations Act 2001 requires our auditors, Ernst & Young, to provide the directors of Sovereign Metals Limited with an Independence Declaration in relation to the review of the half year financial report. This Independence Declaration is on page 15 and forms part of this Directors' Report.

This report is made in accordance with a resolution of the directors made pursuant to section 306(3) of the Corporations Act 2001.

For and on behalf of the Directors



Julian Stephens
Managing Director

13 March 2023

**CONDENSED CONSOLIDATED STATEMENT OF
PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**
FOR THE HALF YEAR ENDED 31 DECEMBER 2022



	Note	Half Year Ended 31 December 2022 \$	Half Year Ended 31 December 2021 \$
Interest income		138,366	10,187
Other income/(expenses)		(45,234)	30,000
Exploration and evaluation expenses		(5,792,042)	(4,188,770)
Corporate and administrative expenses		(474,014)	(463,263)
Business development expenses		(1,130,083)	(894,214)
Share based payments expense	4(d)	(1,061,657)	(2,210,324)
Upfront demerger expenses		(121,839)	-
Loss before income tax		(8,486,503)	(7,716,384)
Income tax expense		-	-
Loss for the period		(8,486,503)	(7,716,384)
Other comprehensive income, net of income tax:			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange differences on foreign entities		(38,018)	(7,096)
Other comprehensive income for the period, net of income tax		(38,018)	(7,096)
Total comprehensive loss for the period		(8,524,521)	(7,723,480)
Loss attributable to members of Sovereign Metals Limited		(8,524,521)	(7,723,480)
Total comprehensive loss attributable to members of Sovereign Metals Limited		(8,524,521)	(7,723,480)
Loss per share			
Basic and Diluted loss per share (cents per share)	5	(1.8)	(1.8)

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

**CONDENSED CONSOLIDATED STATEMENT OF
FINANCIAL POSITION**
AS AT 31 DECEMBER 2022



	Note	31 December 2022 \$	30 June 2022 \$
ASSETS			
Current Assets			
Cash and cash equivalents		11,109,198	18,892,741
Other receivables		395,423	302,424
Other financial assets		150,000	200,000
Total Current Assets		11,654,621	19,395,165
Non-current Assets			
Property, plant and equipment		541,457	537,238
Exploration and evaluation assets	3	7,170,282	7,170,282
Total Non-current Assets		7,711,739	7,707,520
TOTAL ASSETS		19,366,360	27,102,685
LIABILITIES			
Current Liabilities			
Trade and other payables		1,589,812	1,845,954
Provisions		139,704	95,593
Total Current Liabilities		1,729,516	1,941,547
TOTAL LIABILITIES		1,729,516	1,941,547
NET ASSETS		17,636,844	25,161,138
EQUITY			
Issued capital	4(a)	78,810,865	78,860,187
Reserves	4(b)	3,008,302	1,996,771
Accumulated losses		(64,182,323)	(55,695,820)
TOTAL EQUITY		17,636,844	25,161,138

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

**CONDENSED CONSOLIDATED
STATEMENT OF CHANGES IN EQUITY**
FOR THE HALF YEAR ENDED 31 DECEMBER 2022



	Issued Capital \$	Share Based Payments 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 period	-	-	-	(8,486,503)	(8,486,503)
Other comprehensive income	-	-	(38,018)	-	(38,018)
Total comprehensive income/(loss) for the period	-	-	(38,018)	(8,486,503)	(8,524,521)
Transactions with owners, recorded directly in equity					
Issue of shares upon exercise of options	27,000	-	-	-	27,000
Transfer from SBP reserve upon exercise of options	12,108	(12,108)	-	-	-
Share based payments expense	-	1,061,657	-	-	1,061,657
Share issue costs	(88,430)	-	-	-	(88,430)
Total transactions with owners recorded directly in equity	(49,322)	1,049,549	-	-	1,000,227
Balance at 31 December 2022	78,810,865	3,134,015	(125,713)	(64,182,323)	17,636,844
Balance at 1 July 2021	55,276,410	1,800,267	(24,333)	(41,976,089)	15,076,255
Net loss for the period	-	-	-	(7,716,384)	(7,716,384)
Other comprehensive income	-	-	(7,096)	-	(7,096)
Total comprehensive income/(loss) for the period	-	-	(7,096)	(7,716,384)	(7,723,480)
Transactions with owners, recorded directly in equity					
Issue of shares upon exercise of options	840,250	-	-	-	840,250
Transfer from SBP reserve upon exercise of options	2,169,763	(2,169,763)	-	-	-
Share based payments expense	-	2,210,324	-	-	2,210,324
Total transactions with owners recorded directly in equity	3,010,013	40,561	-	-	3,050,574
Balance at 31 December 2021	58,286,423	1,840,828	(31,429)	(49,692,473)	10,403,349

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

**CONDENSED CONSOLIDATED
STATEMENT OF CASH FLOWS**
FOR THE HALF YEAR ENDED 31 DECEMBER 2022



	Half Year Ended 31 December 2022 \$	Half Year Ended 31 December 2021 \$
Cash flows from operating activities		
Payments to suppliers and employees	(7,314,907)	(4,849,726)
Interest received	150,791	10,187
Net cash used in operating activities	(7,164,116)	(4,839,539)
Cash flows from investing activities		
Payments for purchase of plant and equipment	(23,970)	(211,804)
Net cash used in investing activities	(23,970)	(211,804)
Cash flows from financing activities		
Proceeds from issue of shares upon exercise of options	-	840,250
Payments for share issue costs	(600,221)	-
Net cash (used in)/from financing activities	(600,221)	840,250
Net decrease in cash and cash equivalents	(7,788,307)	(4,211,093)
Net foreign exchange differences	4,764	-
Cash and cash equivalents at the beginning of the period	18,892,741	7,957,660
Cash and cash equivalents at the end of the period	11,109,198	3,746,567

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Sovereign Metals Limited (the "Company") is a for profit company limited by shares and incorporated in Australia, whose shares are publicly traded on the Australian Securities Exchange and the AIM Market of the London Stock Exchange. The consolidated interim financial statements of the Company as at and for the period from 1 July 2022 to 31 December 2022 comprise the Company and its subsidiaries (together referred to as the "Group"). The nature of the operations and principal activities of the Group are as described in the Directors' Report. The interim consolidated financial statements of the Group were authorised for issue in accordance with the resolution of the directors on 8 March 2023. This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the audited annual report of Sovereign for the year ended 30 June 2022 (where comparative amounts have been extracted from) and any public announcements made by the Group during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

(a) Basis of Preparation of Half Year Financial Report

The consolidated financial statements have been prepared on the basis of historical cost, except for the revaluation of certain financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars. There have been no changes in the critical accounting judgements or key sources of estimation since 30 June 2022.

(b) Statement of Compliance

The consolidated interim financial report complies with Australian Accounting Standards, including AASB 134 which ensures compliance with International Financial Reporting Standard ("IFRS") IAS 34 "*Interim Financial Reporting*" as issued by the International Accounting Standards Board. The accounting policies adopted in the preparation of the half-year financial report are consistent with those applied in the preparation of the Group's annual financial report for the year ended 30 June 2022, except for new standards, amendments to standards and interpretations effective 1 July 2022. In the current half year, the Group has adopted all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for the current annual reporting period.

(d) Issued standards and interpretations not early adopted

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 reporting period ended 31 December 2022. Those which may be relevant to the Group are set out in the table below, 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 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 – Classification of Liabilities as Current or Non-Current – Deferral of Effective Date	1 January 2024	1 July 2024
AASB 2021-2 Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates	1 January 2024	1 July 2024

(e) Going Concern

The Group has no sources of operating cash inflows other than interest income and funds sourced through capital raising activities. At 31 December 2022, the Group has cash and cash equivalents totalling \$11,109,198 (30 June 2022: \$18,892,741) and net working capital of \$9,925,105 (30 June 2022: \$17,453,618). The Directors believe that the Group has sufficient cash resources to continue its activities to advance the Group's Kasiya project, allow it to meet its minimum expenditure commitments on existing tenements and operate corporately for at least the next 12 months from the date of approval of these interim consolidated financial statements. For this reason these interim consolidated financial statements have been prepared on a going concern basis.

2. SEGMENT INFORMATION

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

3. EXPLORATION AND EVALUATION ASSETS

	31 December 2022 \$	30 June 2022 \$
(a) Movement in Exploration and Evaluation Assets		
<u>Malawi Project:</u>		
Carrying amount as at 1 July	7,170,282	7,170,282
Closing balance⁽ⁱ⁾	7,170,282	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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2022
(Continued)



4. EQUITY SECURITIES ISSUED

	31 December 2022 \$	30 June 2022 \$
(a) Issued Capital		
470,875,023 (30 June 2022: 470,725,023) fully paid ordinary shares (Note 4(c))	78,810,865	78,860,187
(b) Reserves		
<i>Share Based Payment Reserve</i>		
Nil (30 June 2022: 2,500,000) unlisted \$0.18 options	-	12,108
5,360,000 (30 June 2022: 5,120,000) tranche 2 performance rights	1,758,515	1,101,931
7,440,000 (30 June 2022: 7,320,000) tranche 3 performance rights	1,375,500	970,427
Total Share Based Payments Reserve (Note 4(d))	3,134,015	2,084,466
<i>Foreign Currency Translation Reserve (FCTR)</i>		
Exchange differences	(125,713)	(87,695)
Total Foreign Currency Translation Reserve (FCTR)	(125,713)	(87,695)
Total Reserves	3,008,302	1,996,771

(c) Movements in Ordinary Share Capital were as follows:

Date	Details	No. of Shares	Issue Price \$	\$
1 Jul 2022	Opening balance	470,725,023	-	78,860,187
7 Jul 2022	Issue of shares upon exercise of options	150,000	\$0.14	27,000
7 Jul 2022	Transfer from SBP reserve upon exercise of options	-	-	12,108
31 Dec 2022	Share issue costs	-	-	(88,430)
31 Dec 2022	Closing balance	470,875,023	-	78,810,865
1 Jul 2021	Opening Balance	421,196,827		55,276,410
30 July 2021	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 2021	Issue of shares upon conversion of performance rights	4,585,000	-	-
19 Jan 2022	Share placement	3,571,428	0.52	1,857,142
13 May 2022	Share placement	22,210,268	0.67	14,880,880
23 Jun 2022	Exercise of \$0.14 incentive options	250,000	0.14	35,000
23 Jun 2022	Exercise of \$0.14 incentive options (cashless)	4,410,000	-	-
23 Jun 2022	Exercise of \$0.18 incentive options (cashless)	1,184,000	-	-
23 Jun 2022	Exercise of \$0.18 incentive options (cashless)	1,600,000	-	-
30 Jun 2022	Transfer from SBP reserve upon exercise of options and conversion of performance rights	-	-	2,657,786
30 Jun 2022	Share issue costs	-	-	(1,005,781)
30 Jun 2022	Closing Balance	470,725,023		78,860,187

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2022
(Continued)



4. EQUITY SECURITIES ISSUED (CONTINUED)

(d) **Movements in Options and Performance Rights were as follows:**

Date	Details	Number of Unlisted Incentive Options	No. of Performance Rights	\$ ⁽ⁱ⁾
1 Jul 2022	Opening balance	-	12,440,000	2,084,466
7 Jul 2022	Transfer from SBP reserve upon exercise of options	-	-	(12,108)
23 Nov 2022	Issue of performance rights	-	360,000	-
31 Dec 2022	Share based payment expense	-	-	1,061,657
31 Dec 2022	Closing balance	-	12,800,000	3,134,015
1 Jul 2021	Opening Balance	12,875,000	14,100,000	1,800,267
30 July 2021	Exercise of \$0.15 options	(2,000,000)	-	(78,764)
Various	Issue of performance rights	-	3,975,000	808,774
23 Dec 2021	Conversion of performance rights	-	(4,585,000)	(2,091,000)
1 Apr 2022	Lapse of performance rights	-	(1,050,000)	-
23 Jun 2022	Exercise of \$0.14 incentive options	(4,350,000)	-	(281,735)
23 Jun 2022	Exercise of \$0.18 incentive options	(6,525,000)	-	(206,287)
30 Jun 2022	Share-based payment expense	-	-	2,133,211
30 Jun 2022	Closing Balance	-	12,440,000	2,084,466

Notes

(i) *The value of performance rights granted during the period is estimated as at the date of grant based on the underlying share price (recognised over the vesting period (if applicable) in accordance with Australian Accounting Standards.*

During the period, 240,000 "Pre-Feasibility Study Milestone" and 120,000 "Definitive Feasibility Study Milestone" performance rights were issued, the terms of which are consistent with what is disclosed in the Group's Annual Report for 30 June 2022. Since 31 December 2022, a further 740,000 "Pre-Feasibility Study Milestone" and 820,000 "Definitive Feasibility Study Milestone" performance rights were issued. In accordance with AASB 2, these performance rights were deemed to be granted prior to 31 December 2022 and as such, have been partially expensed to 31 December 2022.

5. LOSS PER SHARE

	Half Year Ended 31 December 2022 Cents per Share	Half Year Ended 31 December 2021 Cents per Share
Basic and diluted loss per share		
From continuing operations	(1.8)	(1.8)
Total basic and diluted loss per share	(1.8)	(1.8)

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

	Half Year Ended 31 December 2022 \$	Half Year Ended 31 December 2021 \$
Net loss used in calculating basic and diluted earnings per share	(8,486,503)	(7,716,384)

	Half Year Ended 31 December 2022 No. of Shares	Half Year Ended 31 December 2021 No. of Shares
Weighted average number of ordinary shares used in calculating basic earnings per share	470,870,105	423,284,871
Adjusted weighted average number of ordinary shares and potential ordinary shares used in calculating basic and diluted earnings per share	470,870,105	423,284,871

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2022
(Continued)



5. LOSS PER SHARE (CONTINUED)

Non-dilutive securities

As at 31 December 2022, 11,105,125 unlisted Options and 12,800,000 unlisted Performance Rights (which represent 23,905,125 potential Ordinary Shares) were non-dilutive as they would decrease the loss per share. As at 31 December 2021, 10,875,000 unlisted Incentive Options and 12,965,000 unlisted Performance Rights (which represent 23,840,000 potential Ordinary Shares) were non-dilutive as they would decrease the loss per share.

Conversions, calls, subscriptions or issues after 31 December 2022

Since 31 December 2022, 1,560,000 Performance Rights were issued. 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.

6. COMMITMENTS AND CONTINGENCIES

(a) Commitments

	31 December 2022 \$	30 June 2022 \$
<i>Exploration Commitments - Malawi Project:</i>		
Within one year	153,593	92,151
After one year but not more than five years	402,653	135,053
	556,246	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

At the last annual reporting date, the Consolidated Entity did not have any material contingent liabilities. There has been no material change in contingent assets and liabilities of the Consolidated Entity during the half year.

7. DIVIDENDS PAID OR PROVIDED FOR

No dividend has been paid or provided for during the half year (2021: nil).

8. FAIR VALUE OF FINANCIAL INSTRUMENTS

The net fair value of financial assets and financial liabilities approximates their carrying value.

9. SUBSEQUENT EVENTS AFTER BALANCE DATE

Other than the above, there are no matters or circumstances which have arisen since 31 December 2022 that have significantly affected or may significantly affect:

- the operations, in periods subsequent to 31 December 2022, of the Group;
- the results of those operations, in periods subsequent to 31 December 2022, of the Group; or
- the state of affairs, in periods subsequent to 31 December 2022, of the Group.

DIRECTORS' DECLARATION



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

In the opinion of the Directors:

- (a) the financial statements and notes thereto are in accordance with the Corporations Act 2001, including:
 - (i) complying with Accounting Standard AASB 134: *Interim Financial Reporting* and the Corporations Regulations 2001; and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2022 and of its performance for the half year ended on that date.
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is signed in accordance with a resolution of the Board of Directors made pursuant to section 303(5) of the Corporations Act 2001.

On behalf of the Board

A handwritten signature in black ink, appearing to read "J. Stephens", written over a faint circular stamp.

Julian Stephens
Managing Director

13 March 2023

COMPETENT PERSON STATEMENT

Competent Person Statement

The information in this report that relates to the Mineral Resource Estimate is extracted from the announcement dated 5 April 2022. The announcement is available to view on www.sovereignmetals.com.au. Sovereign confirms that a) it is not aware of any new information or data that materially affects the information included in the announcement; b) all material assumptions included in the 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 report have not been materially changed from the announcement.

Mineral Resource Category	Material Tonnes (millions)	Rutile (%)	Rutile Tonnes (millions)	Total Contained Graphite (TGC) (%)	TGC Tonnes (millions)	RutEq. Grade* (%)
Indicated	662	1.05%	6.9	1.43%	9.5	1.76%
Inferred	1,113	0.99%	11.0	1.26%	14.0	1.61%
Total	1,775	1.01%	18.0	1.32%	23.4	1.67%

* RutEq. Formula: Rutile Grade x Recovery (98%) x Rutile Price (US\$1,308/t) + Graphite Grade x Recovery (62%) x Graphite Price (US\$1,085/t) / Rutile Price (US\$1,308/t). All assumptions are taken from this Study ** Any minor summation inconsistencies are due to rounding

The information in this report that relates to Production Targets, Processing, Infrastructure and Capital and Operating Costs, is extracted from the announcement dated 16 June 2022 entitled 'Kasiya Expanded Scoping Study Results'. Sovereign confirms that: a) it is not aware of any new information or data that materially affects the information included in the 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 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.

The information in this report that relates to the Metallurgy is extracted from the announcement dated 7 December 2021. The announcement is available to view on www.sovereignmetals.com.au. Sovereign confirms that a) it is not aware of any new information or data that materially affects the information included in the announcement; b) all material assumptions included in the 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 report have not been materially changed from the announcement.

The information in this report that relates to the Exploration Results is extracted from the announcement dated 8 September 2022, 26 October 2022 and 30 January 2023. The announcements are available to view on www.sovereignmetals.com.au. Sovereign confirms that a) it is not aware of any new information or data that materially affects the information included in the announcements; b) all material assumptions included in the announcements 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 report have not been materially changed from the announcements.

Forward Looking Statement

This release 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 release, to reflect the circumstances or events after the date of that release.



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

As lead auditor for the review of the half-year financial report of Sovereign Metals Limited for the half-year ended 31 December 2022, 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 review;
- b. No contraventions of any applicable code of professional conduct in relation to the review; and
- c. No non-audit services provided that contravene any applicable code of professional conduct in relation to the review.

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



Ernst & Young



Pierre Dreyer
Partner
13 March 2023



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

Conclusion

We have reviewed the accompanying half-year financial report of Sovereign Metals Limited (the Company) and its subsidiaries (collectively the Group), which comprises the condensed consolidated statement of financial position as at 31 December 2022, the condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the half-year ended on that date, notes comprising a statement of significant accounting policies and other explanatory information, and the directors' declaration.

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

- a. Giving a true and fair view of the consolidated financial position of the Group as at 31 December 2022 and of its consolidated financial performance for the half-year ended on that date; and
- b. Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* (ASRE 2410). Our responsibilities are further described in the *Auditor's responsibilities for the review of the half-year 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 annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Directors' responsibilities for the half-year financial report

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

Auditor's responsibilities for the review of the half-year financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2022 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



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



Ernst & Young



Pierre Dreyer
Partner
Perth
13 March 2023

