SOVEREIGN
METALS LIMITED

Annual Report 2020

ABN 71 120 833 427

CONTENTS

CORPORATE DIRECTORY

DIRECTORS
Mr Ian Middlemas – Chairman
Dr Julian Stephens – Managing Director
Mr Mark Pearce – Non-Executive Director

COMPANY SECRETARY
Mr Lachlan Lynch

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ASX CODE
SVM – Fully paid ordinary shares

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AUDITOR
Deloitte Touche Tohmatsu

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

DIRECTORS' REPORT
30 June 2020

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 2020 ("Group").

OPERATING AND FINANCIAL REVIEW

The Company continues to aggressively explore for rutile, the rarest, highest grade and most valuable titanium source. The Company's primary focus is on Kasiya, the Company's flagship large scale, saprolite-hosted, high-grade rutile deposit in Malawi.

Kasiya has a current mineralised footprint of over 16km strike with widths up to 6km and remains open in a number of directions, with high-grade rutile mineralisation occuring from surface in soft, free-dig saprolite material. Sovereign plans to report a maiden JORC Mineral Resource Estimate (MRE) for Kasiya in Q4, 2020.

In addition to the flagship Kasiya, the Company has identified numerous other saprolite-hosted rutile prospects and targets. The Bua Channel is the Company's high-grade, rutile dominant, sand-hosted placer prospect along a 50km length of a fluvial channel system. Drilling in the southern part of the Bua Channel over ~8km confirmed excellent rutile grades with accessory ilmenite.

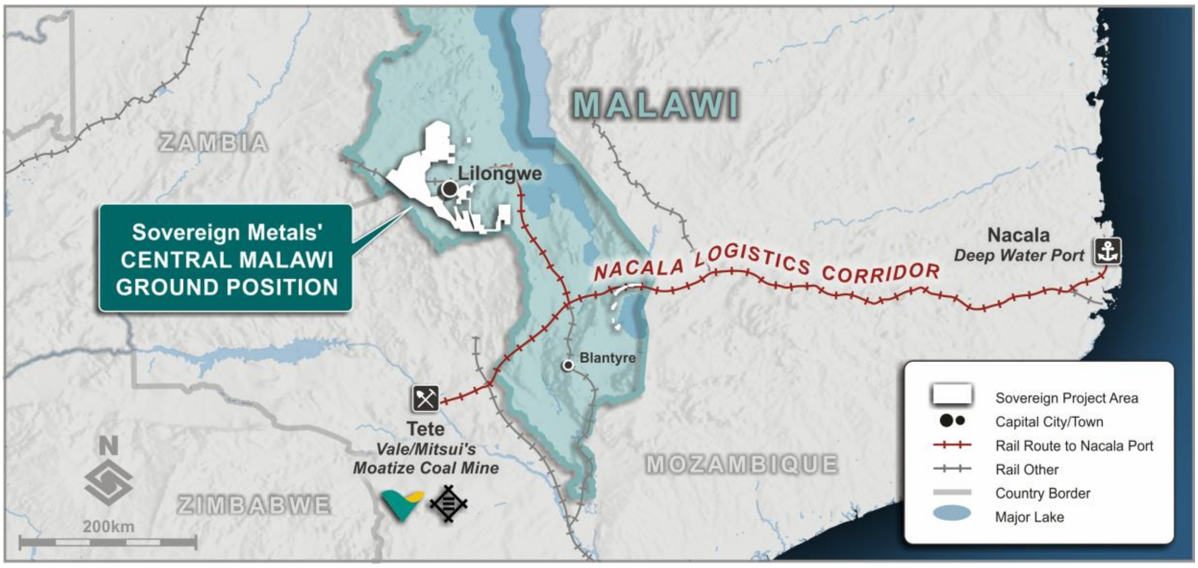


Figure 1: Project Location Map

This potentially globally significant rutile province is located in Malawi, a stable, transparent jurisdiction. Malawi is increasingly attracting international investment with substantial potential for mining to contribute to the country's economic growth and development. Central Malawi boasts excellent existing infrastructure including grid power and an excellent sealed road network. The Project is strategically located in close-proximity to the capital city of Lilongwe, providing access to a skilled workforce and mining and industrial services. The location provides access to the operating Nacala Rail Corridor linking to the Indian Ocean port of Nacala in Mozambique, providing a low-cost transport solution and access to major international markets.

Highlights and advancements during and subsequent to the end of the financial year include:

Discovery of a Globally Significant Rutile Project

- Exceptional high-grade rutile drill results reported;
- Significant expansion of mineralised footprint to over 16km strike and up to 6km width, covering over 66km^2;
- High-grade mineralisation occurs from surface and remains open laterally in most directions;
- Maiden rutile Mineral Resource Estimate on track for Q4, 2020;
- Stand-out recovery and rutile specifications achieved in a bulk scale (1 tonne) metallurgy program; and
- Multiple technical and supporting study work programs well underway.

OPERATING AND FINANCIAL REVIEW (CONTINUED)

Kasiya – A very large, high-grade rutile discovery

Sovereign has drilled over 233 hand-auger drill holes across Kasiya for a total of 2,298m. The results to date, have accumulated in defining a significantly large, high-grade rutile-mineralised envelope, extending to over 16km and expanding to widths up to 6km. The mineralised envelope continues to remain open along strike to the north and south, and laterally at its widest zone to the east. Drilling has consistently intercepted high-grade rutile from surface across the now 66km^2 mineralised footprint.

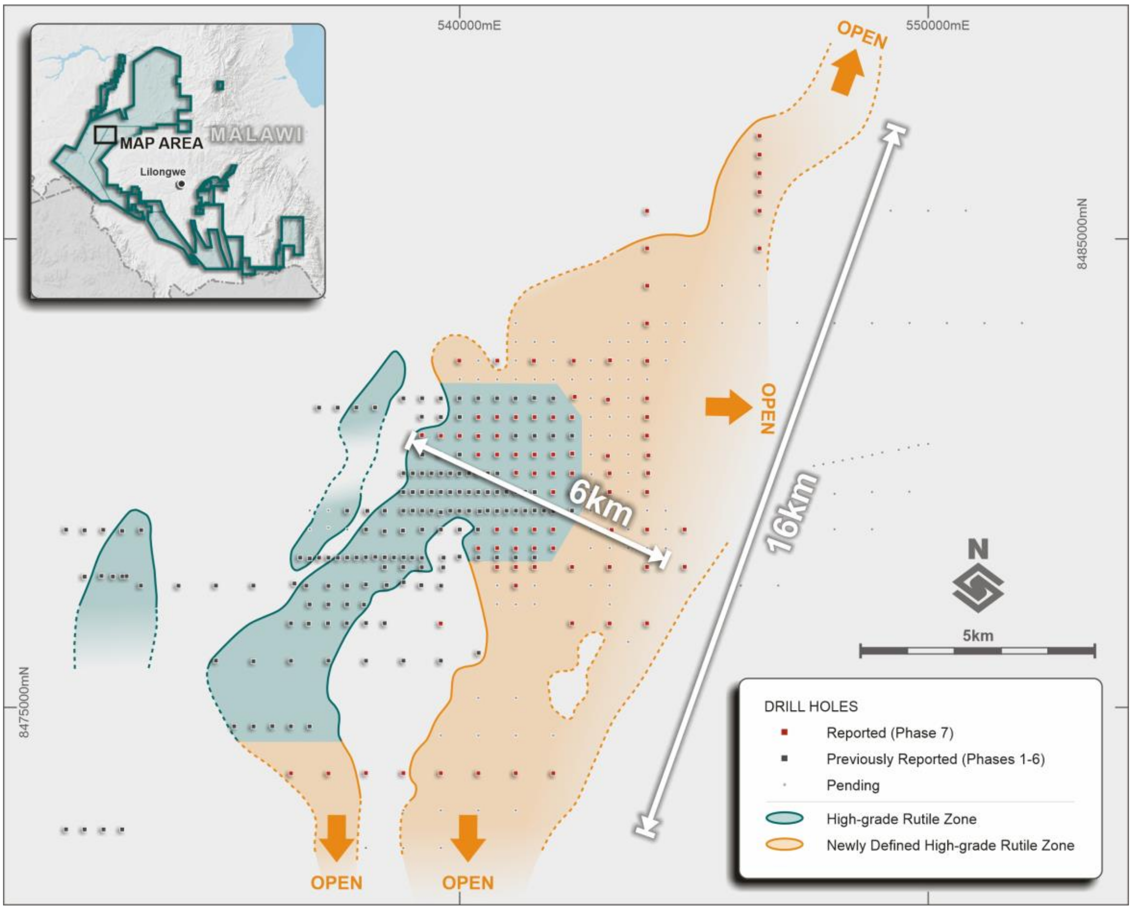


Figure 2. Kasiya drill plan showing extents of rutile mineralisation

The central area of ~30km^2 at Kasiya where the nominal drill spacing is 400m x 400m or closer will be under consideration for the maiden MRE, with the Company's objective to delineate a large rutile resource that could support a long-life, large-scale rutile operation.

The Company has recently achieved exceptional outcomes from its bulk scale metallurgy program. Premium chemical and sizing parameters were produced with over 98% recovery, via simple, conventional "off the shelf" processing methods.

The results achieved to date, confirm the Company's view that it has discovered a potentially globally significant rutile deposit at Kasiya in Malawi that forms part of a new rutile province. The ongoing work programs for Kasiya and the other prospects within the Company's large ground package include the maiden MRE for Kasiya which is targeted for Q4, 2020.

The Company is aiming to continue to build on the previous successful drilling, with step-out and extensional drilling planned at Kasiya and the broader surrounding area to identify extensions and satellite mineralised zones.

Sovereign is fast-tracking development and technical studies with a push-tube drilling program commenced to twin hand-auger holes and to obtain cored samples for specific gravity (SG) determination and initial geotechnical analysis. This will support mining studies that have already commenced in order to feed into a future Scoping Study targeted for H1 2021.

Carpentaria Joint Venture

Mount Isa Mines, a Glencore Company, continues to manage and sole fund all tenements comprising the Carpentaria Joint Venture ("CJV"). Under the terms of the CJV, Mount Isa Mines earns 1.5% for every $200,000 of expenditure. As at 30 June 2020, Sovereign's interest in the CJV has reduced to 23.37% (30 June 2019: 24.67%).

COVID-19

The outbreak of the 2019 novel strain of coronavirus causing a contagious respiratory disease known as COVID-19, and the subsequent quarantine measures imposed by the Australian, Malawian and other governments, and related travel and trade restrictions have caused disruption to businesses and resulted in significant global economic impacts. As at 30 June 2020, these impacts have not had a significant effect on the Group's financial results or operations. However, as the impact of COVID-19 continues to evolve, including changes in government policy and business reactions thereto, if our staff are unable to work or travel due to illness or government restrictions, we may be forced to reduce or suspend our exploration and development activities. In addition, as the COVID-19 pandemic and mitigation measures have also negatively impacted global economic conditions, this, in turn, could adversely affect our business in the future. Due to the continually evolving nature of COVID-19 the Directors cannot reasonably estimate the effects that the COVID-19 pandemic could have on future periods. There is uncertainty about the length and potential impact of any resultant disturbance and therefore, the Directors are unable to estimate the potential impact on the Group's future operations as at the date of these Financial Statements.

Corporate

The Company completed a placement with two well regarded North American and United Kingdom based institutional investors as well as a small number of high net worth investors to subscribe for 22,222,222 new ordinary shares of the Company, to raise gross proceeds of A$2.0 million (Placement). Included in the Placement were affiliates of the Sprott Group (Sprott). Sprott is a leading North American-based asset management firm with an enviable track record of identifying and funding successful early stage resource companies.

During and since the end of the financial year, the Company raised a further $2.0 million through the exercise of 11,650,000 options. As at the date of this report, the Company has a strong cash position of approximately $3.1 million.

Results of Operations

The net loss of the Group for the year ended 30 June 2020 was $3,050,844 (2019: $6,434,541). This loss is predominately 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. During the year, exploration expenditure totalled $2,330,875 (2019: $4,731,767) in relation to the Group's rutile projects in Malawi.

Financial Position

The Group had cash and cash equivalents of $2,364,525 as at 30 June 2020 (2019: $4,178,320). As noted above, the Group has cash and cash equivalents of approximately $3.1 million as at the date of this report.

The Group had net assets of $9,298,138 at 30 June 2020 (2019: $10,144,026), a decrease of $845,888 or approximately 8.34% compared with the previous year. The decrease is largely driven by the loss incurred for the financial year offset by the amounts raised through the Placement and exercise of options.

OPERATING AND FINANCIAL REVIEW (CONTINUED)

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 Company currently has the following business strategies and prospects over the medium to long term:

- Delineate a maiden rutile Mineral Resource Estimate at Kasiya;
- Complete a Scoping Study to establish a cost profile and determine the potential economics of the Kasiya rutile project;
- Conduct further exploration programs across rutile targets identified on the Company's tenements; and
- Continue to examine other new business development opportunities in the resources sector, both locally and overseas.

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 Company that are likely to have an effect on the Group's future prospects, and how the Group manages these risks, include:

- **The Company'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 Company will undertake systematic and staged exploration and testing programs on its mineral properties and, subject to the results of these exploration programs, the Company 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 Company's mineral properties or that the properties will be successfully brought into production;
- **The Company's activities will require further capital** – The exploration and any development of the Company'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 Company'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 Company;
- **The Company is subject to sovereign risk of the Republic of Malawi –** The Company'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 Company's operations;
- **The Company 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 Company. Future production, if any, from the Company's mineral properties will be dependent upon the price of graphite and other commodities being adequate to make these properties economic. Current and planned development activities are predominantly denominated in US dollars and the Company's ability to fund these activities may be adversely affected if the Australian dollar continues to fall against the US Dollar. The Company currently does not engage in any hedging or derivative transactions to manage commodity price or foreign exchange risk. As the Company's operations change, this policy will be reviewed periodically going forward; and
- **Global financial conditions may adversely affect the Company'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 Company's activities, a slowdown in the financial markets or other economic conditions may adversely affect the Company'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 Ian Middlemas	Chairman
Dr Julian Stephens	Managing Director
Mr Mark Pearce	Non-Executive Director

Unless otherwise disclosed, Directors held their office from 1 July 2019 until the date of this report.

CURRENT DIRECTORS AND OFFICERS

Ian Middlemas
Chairman
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 and Chairman 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), Paringa Resources Limited (October 2013 – present), Berkeley Energia Limited (April 2012 – present), Prairie Mining Limited (August 2011 – present), Salt Lake Potash Limited (January 2010 – present), Equatorial Resources Limited (November 2009 – present), Piedmont Lithium Limited (September 2009 – present), Odyssey Energy Limited (September 2005 – present) and Cradle Resources Limited (May 2016 – July 2019).

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

Dr Stephens originally identified and secured the Malawi graphite assets 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 Malingunde graphite deposits.

Dr Stephens has extensive experience in the resources sector having spent in excess of 20 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.

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), Apollo Minerals Limited (July 2016 – present), Salt Lake Potash Limited (August 2014 – present), Prairie Mining Limited (August 2011 – present), Equatorial Resources Limited (November 2009 – present), Odyssey Energy Limited (September 2005 – August 2020) and Piedmont Lithium Limited (September 2009 – August 2018).

Mr Lachlan Lynch
Company Secretary
Qualifications – B.Com, CA

Mr Lynch is a Chartered Accountant who commenced his career at a large international Chartered Accounting firm and is currently a Financial Controller for the Apollo Group which is involved in a number of listed companies that operate in the resources sector.

Mr Lynch was appointed as Company Secretary of Sovereign Metals Limited on 31 October 2018.

PRINCIPAL ACTIVITIES

The principal activities of the Group during the year consisted of mineral exploration, identification and appraisal of resource projects. 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 2020.

LOSS PER SHARE

	2020 Cents	2019 Cents
Basic loss per share	(0.83)	(2.10)
Diluted loss per share	**(0.83)**	(2.10)

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

	2020 $	2019 $
Loss of the Group before income tax expense	(3,050,844)	(6,434,541)
Income tax expense	-	-
Net loss	**(3,050,844)**	**(6,434,541)**

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the state of affairs of the Group during the year other than the following:

(i) The Company reported the identification of the large scale, saprolite-hosted, high-grade Kasiya rutile deposit in Malawi. Kasiya has a current mineralised footprint of over 16km strike with widths up to 6km. The high-grade rutile mineralisation occurs from surface in soft, free-dig saprolite material and remains open in a number of directions; and

(ii) In February 2020, the Company raised A$2.0 million through the issue of 22.2 million shares to two well regarded North American and United Kingdom based institutional investors as well as a small number of high net worth investors. A further A$2.0 million was raised through the conversion of options during and subsequent to the financial year.

SIGNIFICANT POST BALANCE DATE EVENTS

Subsequent to 30 June 2020, the Company issued 9,150,000 ordinary shares upon the conversion of options, raising $1,596,000.

There are no matters or circumstances which have arisen since 30 June 2020 that have significantly affected or may significantly affect:

- the operations, in financial years subsequent to 30 June 2020 of the Group;
- the results of those operations, in financial years subsequent to 30 June 2020 of the Group; or
- the state of affairs, in financial years subsequent to 30 June 2020 of the Group.

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, premiums totalling $12,038 in respect of Directors' and Officers' Liability Insurance and Company Reimbursement policies for the 12 months ended 30 June 2020 (2019: $10,213), 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.

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)]**	**$0.10 Incentive Options[(ii)]**	**$0.14 Incentive Options[(iii)]**
Ian Middlemas	16,100,000	-	-
Julian Stephens	11,317,518	2,000,000	2,000,000
Mark Pearce	4,070,842	-	-

Notes:

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

(ii) "$0.10 Incentive Options" means an option to subscribe for 1 ordinary Share in the capital of the Company at an exercise price of $0.10 on or before 30 June 2021; and

(iii) "$0.14 Incentive Options" means an option to subscribe for 1 ordinary Share in the capital of the Company at an exercise price of $0.14 on or before 30 June 2022.

SHARE OPTIONS

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

- 2,150,000 $0.15 Incentive Options that expire on 31 July 2021;
- 2,500,000 $0.18 Incentive Options that expire on 31 July 2022;
- 6,000,000 $0.10 Incentive Options that expire on 30 June 2021;
- 7,375,000 $0.14 Incentive Options that expire on 30 June 2022; and
- 2,000,000 $0.18 Incentive Options that expire on 30 June 2022.

During the year ended 30 June 2020 and up to the date of this report, 11,650,000 ordinary shares have been issued as a result of the exercise of options.

MEETINGS OF DIRECTORS

The following table sets out the number of meetings of the Company's Directors held during the year ended 30 June 2020, and the number of meetings attended by each Director.

Current Directors	Board Meetings Eligible to Attend	Board Meetings Attended
Ian Middlemas	3	3
Julian Stephens	3	3
Mark Pearce	3	3

There were no Board committees during the financial year. 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.

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 Key Management Personnel

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

Directors	
Mr Ian Middlemas	Chairman
Dr Julian Stephens	Managing Director
Mr Mark Pearce	Non-Executive Director
Other KMP	
Mr Sam Cordin	Business Development Manager

Unless otherwise disclosed, the KMP held their position from 1 July 2019 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 current financial year, no bonuses were paid or are payable to executives.

Performance Based Remuneration – Long Term Incentive

The Board has also chosen to issue incentive options to some executives as a key component of the incentive portion of their remuneration, in order to attract and retain the services of the executives and to provide an incentive linked to the performance of the Company. The Board considers that each executive's experience in the resources industry will greatly assist the Company in progressing its projects to the next stage of development and the identification of new projects. As such, the Board believes that the number of incentive options granted to executives is commensurate to their value to the Company.

The Board has a policy of granting options to executives with exercise prices at and/or above market share price (at the time of agreement). As such, incentive options granted to executives will generally only be of benefit if the executives perform to the level whereby the value of the Company increases sufficiently to warrant exercising the incentive options granted.

Other than service-based vesting conditions, there are no additional performance criteria on the incentive options granted to executives, as given the speculative nature of the Company's activities and the small management team responsible for its running, it is considered the performance of the executives and the performance and value of the Company are closely related.

During the financial year ended 30 June 2020, no Incentive Options were granted to KMP. 2,000,000 Incentive Options previously granted to KMP expired. 3,250,000 Incentive Options were exercised by KMP subsequent to financial year end.

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. 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 presently $36,000 per annum (2019: $36,000) and fees for Non-Executive Directors' are $20,000 per annum (2019: $20,000). The Directors accepted a 25% reduction in their fees, effective 1 May 2020. These fees cover main board activities only. Non-Executive Directors may receive additional remuneration for other services provided to the Company, including but not limited to, membership of committees. There were no other committees during the year.

Relationship between Remuneration of KMP and Shareholder Wealth

During the Company's project identification, acquisition, 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 new project acquisition, 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.

REMUNERATION REPORT (AUDITED) (Continued)

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. No amounts were paid as a bonus to KMP during the current financial year.

Where required, KMP receive superannuation contributions, equal to 9.5% 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.

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 seven day volume weighted average share price prior to issuance. The value of the performance right is expensed over the vesting period.

Remuneration of Key Management Personnel

Details of the nature and amount of each element of the remuneration of each KMP of the Company for the year ended 30 June 2020 and 30 June 2019 are as follows:

	Short-Term Benefits		Post Employment				
2020	**Salary & Fees $**	**Cash Bonus $**	**Superann-uation $**	**Equity Options/ Rights $**	**Other Non-Cash Benefits $**	**Total $**	**Percentage Performance Related %**
Directors							
Ian Middlemas	34,500	-	3,273	-	-	37,773	-
Julian Stephens	206,042	-	19,574	3,199	-	228,815	1
Mark Pearce	19,167	-	1,821	-	-	20,988	-
Other KMP							
Sam Cordin	158,125	-	15,022	38,188	-	211,335	18
	417,834	**-**	**39,690**	**41,387**	**-**	**498,911**	

	Short-Term Benefits		Post Employment				
2019	**Salary & Fees $**	**Cash Bonus $**	**Superann-uation $**	**Equity Options/ Rights $**	**Other Non-Cash Benefits $**	**Total $**	**Percentage Performance Related %**
Directors							
Ian Middlemas	36,000	-	3,420	-	-	39,420	-
Julian Stephens	215,000	-	20,425	205,411	-	440,836	47
Mark Pearce	20,000	-	1,900	-	-	21,900	-
Other KMP							
Sam Cordin[(i)]	148,289	-	14,087	110,049	-	272,425	40
	419,289	**-**	**39,832**	**315,460**	**-**	**774,581**	

Notes:

(i) Mr Cordin was appointed as Business Development Manager on 9 August 2018.

REMUNERATION REPORT (AUDITED) (Continued)

Options Granted to Key Management Personnel

Details of unlisted Incentive Options 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 2020(iii)
Director								
Julian Stephens	Options	20 Mar 19	30 Jun 21	0.10	0.0398	2,000,000	79,691	2,000,000
	Options	20 Mar 19	30 Jun 22	0.14	0.0423	2,000,000	84,602	2,000,000
Other KMP								
Sam Cordin	Options	27 Aug 18	31 Jul 20	0.12	0.0273	750,000	20,498	750,000
	Options	27 Aug 18	31 Jul 21	0.15	0.0325	1,000,000	32,515	1,000,000
	Options	27 Aug 18	31 Jul 22	0.18	0.0370	1,250,000	46,274	-
	Options	31 Jan 19	30 Jun 21	0.10	0.0396	625,000	24,748	625,000
	Options	31 Jan 19	30 Jun 22	0.14	0.0419	625,000	26,172	625,000

Notes:

(i) For details on the valuation of the options, including models and assumptions used, please refer to Note 18 to the financial statements;
(ii) Each unlisted Incentive Option converts into one Ordinary Share of Sovereign Metals Limited; and
(iii) The vesting conditions are service conditions. The Incentive Options 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 options granted, exercised or exercised for each Key Management Person of the Company or Group during the financial year are as follows:

2020	Options Granted Value at Grant Date $	Options Exercised Value at Exercise Date $	Options Expired Value at Time of Expiry $	Value of Options included in Remuneration for the Period $	Percentage of Remuneration for the Period that Consists of Options %
Directors					
Julian Stephens	-	-	80,600	3,199	1
Other KMP					
Sam Cordin	-	-	-	38,188	18

Loans to/from Key Management Personnel

No loans were provided to or received from KMP during the year ended 30 June 2020 (2019: Nil).

Incentive Option and Peformance Right Holdings of Key Management Personnel

2020	Held at 1 July 2019 (#)	Granted as Compen-sation (#)	Options/ Rights Exercised (#)	Options/ Rights Expired (#)	Net Change Other (#)	Held at 30 June 2020 (#)	Vested and Exercisable at 30 June 2020 (#)
Directors							
Ian Middlemas	-	-	-	-	-	-	-
Julian Stephens	8,500,000	-	-	(2,000,000)	-	6,500,000	6,500,000
Mark Pearce	-	-	-	-	-	-	-
Other KMP							
Sam Cordin	4,250,000	-	-	-	-	4,250,000	3,000,000

Shareholdings of Key Management Personnel

2020	Held at 1 July 2019 (#)	Granted as compensation (#)	On Exercise of Options/ Rights (#)	Purchases (#)	Net Other Change (#)	Held at 30 June 2020 (#)
Directors						
Ian Middlemas	13,060,000	-	-	3,040,000	-	16,100,000
Julian Stephens	10,067,518	-	-	-	-	10,067,518
Mark Pearce	4,070,842	-	-	-	-	4,070,842
Other KMP						
Sam Cordin	1,020,000	-	-	-	-	1,020,000

Other Transactions with Key Management Personnel

Apollo Group Pty Ltd, a company of which Mr Mark Pearce is a Director and beneficial shareholder, was paid, or is payable, $225,000 (2019: $240,000) 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. This item has been recognised as an expense in the Statement of Comprehensive Income. The monthly fee of $20,000 was reduced to $15,000 for the 3 months to 30 June 2020. At 30 June 2020, $16,500 inclusive of GST (2019: $22,000) was included as a current liability in the Statement of Financial Position.

Employment Contracts with Key Management Personnel

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 Julian Stephens' annual salary was increased to $215,000 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 effective 1 January 2018.

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 2 months' notice. No amount is payable in the event of termination for neglect or incompetence in regards to the performance of duties. The contract provides for an annual salary of $165,000 plus superannuation with an annual bonus of up to $30,000 payable in two equal instalments upon the successful completion of KPIs as determined by the Board and an incentive option package.

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.

NON-AUDIT SERVICES

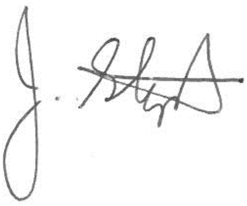
There were no non-audit services provided by the auditor (or by another person or firm on the auditor's behalf) during the financial year.

AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration for the year ended 30 June 2020 has been received and can be found on page 15 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

30 September 2020

AUDITOR'S INDEPENDENCE DECLARATION

Deloitte Touche Tohmatsu
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The Board of Directors
Sovereign Metals Limited
Level 9, BGC Centre
28 The Esplanade
Perth, WA 6000

30 September 2020

Dear Board Members

Sovereign Metals Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Sovereign Metals Limited.

As lead audit partner for the audit of the financial statements of Sovereign Metals Limited for the financial year ended 30 June 2020, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

David Newman
Partner
Chartered Accountants

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

SOVEREIGN METALS LIMITED

	Notes	2020 $	2019 $
Continuing Operations			
Interest Income		28,906	62,521
Other income/(expense)	2(a)	62,500	359,745
Exploration and evaluation expenses		(2,330,875)	(4,731,767)
Corporate and administrative expenses		(340,794)	(675,060)
Share based payment expenses	18(a)	126,626	(1,089,476)
Business development expenses		(597,207)	(360,504)
Loss before income tax		**(3,050,844)**	**(6,434,541)**
Income tax expense	3	**-**	**-**
Loss for the year		**(3,050,844)**	**(6,434,541)**
Loss attributable to members of the parent		**(3,050,844)**	**(6,434,541)**
Other Comprehensive Income, net of income tax:			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on foreign entities		9,104	1,361
Other comprehensive income/(loss) for the year, net of income tax		**9,104**	**1,361**
Total comprehensive loss for the year		**(3,041,740)**	**(6,433,180)**
Total comprehensive loss attributable to members of Sovereign Metals Limited		**(3,041,740)**	**(6,433,180)**
Basic and diluted loss per share from continuing operations (cents per share)	13	**(0.83)**	(2.10)

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 2020

	Notes	2020 $	2019 $
Current Assets			
Cash and cash equivalents	12(b)	2,364,525	4,178,320
Trade and other receivables	4	102,581	129,246
Total Current Assets		**2,467,106**	**4,307,566**
Non-current Assets			
Property, plant and equipment	5	122,613	118,002
Exploration and evaluation assets	6	7,170,282	7,170,282
Total Non-current Assets		**7,292,895**	**7,288,284**
TOTAL ASSETS		**9,760,001**	**11,595,850**
Current Liabilities			
Trade and other payables	7	422,725	1,419,143
Provisions	8	39,138	32,681
Total Current Liabilities		**461,863**	**1,451,824**
TOTAL LIABILITIES		**461,863**	**1,451,824**
NET ASSETS		**9,298,138**	**10,144,026**
EQUITY			
Contributed equity	9(a)	44,883,777	42,365,285
Reserves	10	1,323,150	1,886,713
Accumulated losses	11	(36,908,789)	(34,107,972)
TOTAL EQUITY		**9,298,138**	**10,144,026**

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 2020

	Notes	2020 $	2019 $
Cash flows from operating activities			
Interest received		37,919	63,147
COVID-19 cash flow boost		50,000	
R&D refund received		-	359,745
Payments to suppliers and employees		(4,211,374)	(5,449,293)
GST refunds		54,527	83,740
Net cash used in operating activities	12(a)	**(4,068,928)**	**(4,942,661)**
Cash flows from investing activities			
Payments for purchase of plant and equipment		(67,345)	(27,017)
Net cash used in investing activities		**(67,345)**	**(27,017)**
Cash flows from financing activities			
Proceeds from issue of shares		2,405,000	5,335,044
Share issue costs		(82,522)	(131,591)
Net cash from financing activities		**2,322,478**	**5,203,453**
Net (decrease)/increase in cash and cash equivalents		**(1,813,795)**	**233,775**
Cash and cash equivalents at the beginning of the financial year		**4,178,320**	**3,944,545**
Cash and cash equivalents at the end of the financial year	12(b)	**2,364,525**	**4,178,320**

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 2020

	Issued Capital $	Share Based Payments Reserve $	Foreign Currency Translation Reserve $	Accumulated Losses $	Total Equity $
Balance at 1 July 2019	**42,365,285**	**1,846,630**	**40,083**	**(34,107,972)**	**10,144,026**
Net loss for the year	-	-	-	(3,050,844)	(3,050,844)
Other comprehensive income/(loss)	-	-	9,104	-	9,104
Total comprehensive income/(loss) for the year	**-**	**-**	**9,104**	**(3,050,844)**	**(3,041,740)**
Transactions with owners recorded directly in equity					
Placement of Ordinary Shares	2,000,000	-	-	-	**2,000,000**
Issue of Ordinary Shares upon conversion of options	405,000				**405,000**
Issue of Ordinary Shares to consultants	109,125	-	-	-	**109,125**
Share issue costs	(142,522)	-	-	-	**(142,522)**
Transfer from SBP Reserve	146,889	(146,889)			**-**
Share based payments expense	-	(175,751)	-	-	**(175,751)**
Expired Options	-	(250,027)	-	250,027	-
Balance at 30 June 2020	**44,883,777**	**1,273,963**	**49,187**	**(36,908,789)**	**9,298,138**
Balance at 1 July 2018	**37,139,632**	**929,017**	**38,722**	**(27,823,094)**	**10,284,277**
Net loss for the year	-	-	-	(6,434,541)	**(6,434,541)**
Other comprehensive income/(loss)	-	-	1,361	-	**1,361**
Total comprehensive income/(loss) for the year	**-**	**-**	**1,361**	**(6,434,541)**	**(6,433,180)**
Transactions with owners recorded directly in equity					
Placement of Ordinary Shares	5,335,044	-	-	-	**5,335,044**
Issue of Ordinary Shares to a consultant	22,200	-	-	-	**22,200**
Share issue costs	(131,591)	-	-	-	**(131,591)**
Share based payments expense	-	1,067,276	-	-	**1,067,276**
Expired Options	-	(149,663)	-	149,663	-
Balance at 30 June 2019	**42,365,285**	**1,846,630**	**40,083**	**(34,107,972)**	**10,144,026**

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 2020 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.

The financial report of the Group for the year ended 30 June 2020 was authorised for issue in accordance with a resolution of the Directors on 23 September 2020.

(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, except for other financial assets at fair value through profit or loss and available-for-sale investments, which have been measured at fair value. 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.

New and amended standards adopted by the Group

In the current 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. New and revised standards and amendments thereof and interpretations effective for the current reporting period that are relevant to the Group include:

- AASB 16 *Leases*
- *Interpretation 23 Uncertainty over Income Tax Treatments*
- AASB 2017-7 *Amendments – Long-term Interests in Associates and Joint Venture Amendments to IAS 28 and Illustrative Example – Long-term Interests in Associates and Joint Ventures*
- AASB 2018-1 *Amendments – Annual Improvements 2015-2017 Cycle*

The adoption of the aforementioned standards have resulted in no impact on the financial statements of the Group for the financial year ended 30 June 2020. A discussion on the adoption of AASB 16 is included in note 1(c).

(c) Changes in Accounting Policies

AASB 16 Leases

AASB 16 Leases has replaced the previous accounting requirements for leases under AASB 117 Leases. Under the previous requirements, leases were classified based on their nature as either finance leases which were recognised on the Statement of Financial Position, or operating leases, which were not recognised on the Statement of Financial Position.

Under AASB 16 Leases, the Group's accounting for operating leases as a lessee will result in the recognition of a right-of-use (ROU) asset and an associated lease liability on the Statement of Financial Position. The lease liability represents the present value of future lease payments, with the exception of short-term and low value leases. An interest expense will be recognised on the lease liabilities and a depreciation charge will be recognised for the ROU assets. There will also be additional disclosure requirements under the new standard.

The Group's adoption of AASB 16 has resulted in no impact to the financial statements of the Company due to the fact that the Group has not entered into any transactions or arrangements that would be accounted for as a lease under the new standard that do not fall under a recognition exemption i.e 12 month or low value leases.

(d) 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 2020. 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 2018-6 *Amendments to Australian Accounting Standards – Definition of a Business*	1 January 2020	1 July 2020
AASB 2018-7 *Amendments to Australian Accounting Standards – Definition of Material*	1 January 2020	1 July 2020
Conceptual Framework	1 January 2020	1 July 2020
2019-1 *Amendments to Australian Accounting Standards – References to the Conceptual Framework*	1 January 2020	1 July 2020
AASB 2020-1 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-Current	1 January 2022	1 July 2022

(e) Principles of Consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Company as at 30 June 2020 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.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) 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.

(g) Trade and Other Receivables

Trade receivables are recognised and carried at original invoice 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.

(h) 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 reducing balance or straight line basis at rates based upon their expected useful lives as follows:

	Life
Plant and equipment	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 Comprehensive Income.

(i) 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.

(j) 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 fair value through other comprehensive income (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 entities business model for managing the financial asset; and
- The contractual cash flow characteristics of the financial assets.

(ii) Loans and receivables

Loans and receivables are measured at amortised cost using the effective interest method less impairment. Interest is recognised by applying the effective interest rate.

Trade receivables are due for settlement no more than 30 days from the date of recognition unless previously authorised. Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. An allowance for expected credit loss is established when there is historical evidence that the Company will not be able to collect all amounts due according to the original terms of receivables.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Investments and Other Financial Assets (Continued)

(iii) Effective Interest Method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

(iv) Fair Value Estimation

The fair value of financial assets must be estimated for recognition and measurement or for disclosure purposes. The nominal value less estimated credit adjustments of receivables and payables are assumed to approximate their fair values. 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.

(v) Impairment of Financial Assets

Financial assets other than those at FVPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

(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.

(k) Payables

Liabilities are recognised for amounts to be paid in the future for goods and services received. Trade accounts payable are normally settled within 60 days.

(l) 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.

(m) 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 options are shown in equity as a deduction, net of tax, from the proceeds.

(n) Revenue Recognition

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

Grants are recognised at fair value where there is reasonable assurance that the grant will be received and all grant conditions will be met. Grants relating to expense items are recognised as income over the periods necessary to match the grant to the costs they are compensating. Grants relating to assets are credited to deferred income at fair value and are credited to income over the expected useful life of the asset on a straight-line basis.

(o) 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.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) 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.

(q) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of the expense. Receivables and payables in the Statement of Financial Position are shown inclusive of GST. Cash flows are presented in the Statement of Cash Flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(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 to sell 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) 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.

(t) Comparative Figures

When required by Accounting Standards or where management has decided to provide greater disclosure, comparative figures have been adjusted to conform to changes in presentation for the current financial period.

(u) Joint Ventures

Interests in joint venture operations are reported in the financial statements by including the Group's share of assets employed in the joint ventures, the share of liabilities incurred in relation to joint ventures and the share of any expenses incurred in relation to joint ventures in their respective classification categories.

(v) 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 active markets (such as publicly traded derivatives and traded equity securities) 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.

The fair value of financial instruments that are not traded in an active market (for example, over the counter derivatives) 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 fair value of interest-rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the reporting date.

The nominal value less estimated credit adjustments of trade 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.

(w) 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. Where options are granted, fair value is determined using the Black Scholes option pricing 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.

(x) 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. The group aggregates two or more operating segments when they have similar economic characteristics, and the segments are similar in each of the following respects:

- Nature of the products and services,
- Nature of the production processes,
- Type or class of customer for the products and services,
- Methods used to distribute the products or provide the services, and if applicable,
- Nature of the regulatory environment.

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

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

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(y) 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(i). 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 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.

- COVID-19

The outbreak of the 2019 novel strain of coronavirus causing a contagious respiratory disease known as COVID-19, and the subsequent quarantine measures imposed by the Australian, Malawian and other governments, and related travel and trade restrictions have caused disruption to businesses and resulted in significant global economic impacts. As at 30 June 2020, these impacts have not had a significant effect on the Group’s financial results or operations. However, as the impact of COVID-19 continues to evolve, including changes in government policy and business reactions thereto, if our staff are unable to work or travel due to illness or government restrictions, we may be forced to reduce or suspend our exploration and development activities. In addition, as the COVID-19 pandemic and mitigation measures have also negatively impacted global economic conditions, this, in turn, could adversely affect our business in the future. Due to the continually evolving nature of COVID-19 the Directors cannot reasonably estimate the effects that the COVID-19 pandemic could have on future periods. There is uncertainty about the length and potential impact of any resultant disturbance and therefore, the Directors are unable to estimate the potential impact on the Group’s future operations as at the date of these Financial Statements.

	2020 $	2019 $
2. LOSS FROM OPERATIONS		
(a) Other Income/(Expense)		
COVID-19 cash flow boost	62,500	-
Research and development rebate	-	359,745
	62,500	**359,745**
(b) Depreciation		
Depreciation of plant and equipment	62,734	53,410
(c) Employee Benefits Expense		
Salaries and wages	807,944	691,562
Defined contribution plan	66,169	64,214
Annual leave provision	6,455	3,905
Non-cash benefits	5,001	3,386
Share based payments expense	79,077	336,211
	964,646	**1,099,278**

	2020 $	2019 $
3. INCOME TAX		
(a) Recognised in the Statement of Comprehensive Income		
Current income tax		
Current income tax benefit	-	-
Adjustments in respect of current income tax of previous years	-	23,817
Deferred income tax		
Origination and reversal of temporary differences	(451,127)	(711,313)
Deferred tax assets not brought to account	451,127	687,496
Income tax expense reported in the Statement of Comprehensive Income	**-**	**-**

3. INCOME TAX (Continued)

(b) Reconciliation Between Tax Expense and Accounting Loss Before Income Tax

	2020 $	2019 $
Accounting loss before income tax	(3,050,844)	(6,434,541)
At the income rate of 30%	(915,253)	(1,930,362)
Expenditure not allowable for income tax purposes	487,828	1,594,069
Effect of changes in income tax rates	-	(259,201)
Capital allowances	(4,952)	(7,895)
Income not assessable for income tax purposes	(18,750)	(107,924)
Adjustments in respect of current income tax of previous years	-	23,817
Deferred tax assets not brought to account	451,127	687,496
Income tax expense reported in the Statement of Comprehensive Income	-	-

(c) Deferred Income Tax

Deferred income tax at 30 June relates to the following:

	2020 $	2019 $
Deferred Tax Liabilities		
Accrued interest	261	2,965
Deferred tax assets used to offset deferred tax liabilities	(261)	(2,965)
	-	-
Deferred Tax Assets		
Other financial assets	1,711	1,711
Accruals	13,652	10,496
Provisions	11,741	9,804
Capital allowances	22,213	28,529
Tax losses available to offset against future taxable income	4,710,595	4,260,949
Deferred tax assets used to offset deferred tax liabilities	(261)	(2,965)
Deferred tax assets not brought to account	(4,759,651)	(4,308,524)
	-	-

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 Company 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.

	2020 $	2019 $
4. CURRENT ASSETS – TRADE AND OTHER RECEIVABLES		
Accrued interest	871	9,883
GST receivable	21,369	80,283
VAT receivable	67,841	39,080
Other	12,500	-
	102,581	**129,246**

	2020 $	2019 $
5. NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT		
(a) Office Furniture and Equipment		
Cost	22,150	45,047
Accumulated depreciation and impairment	(17,685)	(43,222)
	4,465	**1,825**
(b) Computer Equipment		
Cost	122,668	94,508
Accumulated depreciation and impairment	(118,708)	(84,549)
	3,960	**9,959**
(c) Plant & Equipment		
Cost	465,720	412,411
Accumulated depreciation and impairment	(351,532)	(306,193)
	114,188	**106,218**
Net carrying amount	**122,613**	**118,002**

	2020 $	2019 $
5. NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT (Continued)		
(d) Reconciliation		
Carrying amount at beginning of year, net of accumulated depreciation and impairment	**118,002**	138,402
Additions	64,454	27,017
Depreciation charge	(62,734)	(53,410)
Foreign exchange differences	2,891	5,993
Carrying amount at end of year, net of accumulated depreciation and impairment	**122,613**	**118,002**

	2020 $	2019 $
6. NON-CURRENT ASSETS – EXPLORATION AND EVALUATION ASSETS		
Movement in Exploration and Evaluation Assets		
Malawi Project		
Carrying amount at beginning of year	7,170,282	7,170,282
- Additions	-	-
Carrying amount at end of year(i)(ii)	**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.

(ii) The Group's tenement EPL0372 in Malawi which includes the Malingunde Graphite deposit is under renewal application as at 30 June 2020.

	2020 $	2019 $
7. CURRENT LIABILITIES – TRADE AND OTHER PAYABLES		
Trade creditors	377,217	1,368,624
Accrued expenses	45,508	50,519
	422,725	**1,419,143**

	2020 $	2019 $
8. CURRENT LIABILITIES – PROVISIONS		
Annual leave provisions	39,138	32,681
	39,138	**32,681**

	2020 $	2019 $
9. CONTRIBUTED EQUITY		
(a) Issued and Paid Up Capital		
385,087,561 fully paid ordinary shares (2019: 359,273,673)	44,883,777	42,365,285
	44,883,777	**42,365,285**

(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 19	**Opening Balance**	**359,273,673**		**42,365,285**
8 Nov 19	Issue of shares to a consultant	125,000	0.105	13,125
11 Feb 20	Share placement	22,222,222	0.09	2,000,000
11 Feb 20	Issue of shares to a consultant	666,666	0.09	60,000
24 Apr 20	Issue of shares to a consultant	300,000	0.12	36,000
22 Jun 20	Exercise of $0.12 incentive options	750,000	0.12	90,000
26-30 Jun 20	Exercise of $0.18 incentive options	1,750,000	0.18	315,000
30 Jun 20	Transfer from SBP reserve upon conversion of options	-	-	146,889
30 Jun 20	Share issue costs	-	-	(142,522)
30 Jun 20	**Closing Balance**	**385,087,561**		**44,883,777**
1 Jul 18	**Opening Balance**	**276,896,073**		**37,139,632**
12 Feb 19	Share placement (Tranche 1)	59,700,000	0.065	3,880,500
12 Feb 19	Issue of shares to a consultant	300,000	0.074	22,200
26 Feb 19	Share purchase plan	15,377,600	0.065	999,544
20 Mar 19	Share placement (Tranche 2)	7,000,000	0.065	455,000
30 Jun 19	Share issue costs	-	-	(131,591)
30 Jun 19	**Closing Balance**	**359,273,673**		**42,365,285**

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.

	2020 $	2019 $
10. (a) RESERVES		
Share Based Payments Reserve		
Nil (30 June 2019: 4,025,000) unlisted $0.15 options	-	202,245
14,300,000 (30 June 2019: 16,050,000) unlisted $0.18 options	429,940	784,963
850,000 (30 June 2019: 1,600,000) unlisted $0.12 options	23,320	48,424
Nil (30 June 2019: 6,000,000) unlisted $0.15 options	-	132,335
2,150,000 (30 June 2019: 2,150,000) unlisted $0.15 options	83,640	50,235
2,500,000 (30 June 2019: 2,500,000) unlisted $0.18 options	105,862	47,025
6,000,000 (30 June 2019: 6,000,000) unlisted $0.10 options	237,967	237,967
7,375,000 (30 June 2019: 6,375,000) unlisted $0.14 options	308,428	281,736
2,000,000 (30 June 2019: 850,000) unlisted $0.18 options	84,806	61,700
Sub-total options (note 10(b))	*1,273,963*	*1,846,630*
Total Share Based Payments Reserve	**1,273,963**	**1,846,630**
Foreign Currency Translation Reserve		
Exchange differences	49,187	40,083
Total Foreign Currency Translation Reserve	**49,187**	**40,083**
Total Reserves	**1,323,150**	**1,886,713**

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.

10. RESERVES (Continued)

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

Date	Details	Number of Unlisted Incentive Options	$ (i)
1 Jul 19	**Opening Balance**	**45,550,000**	**1,846,630**
31 Jul – 30 Sep 19	Expiration of $0.15 options	(10,025,000)	(250,027)
5 Nov 19	Grant of $0.14 options	1,000,000	26,692
5 Nov 19	Grant of $0.18 options	1,000,000	10,998
22 Jun 20	Grant of $0.18 options	150,000	12,107
Various	Exercise of $0.12 and $0.18 options	(2,500,000)	(146,889)
30 Jun 20	Share based payment expense	-	(225,548)
30 Jun 20	**Closing Balance**	**35,175,000**	**1,273,963**
1 Jul 18	**Opening Balance**	**23,841,667**	**929,017**
24 Jul 18	Grant of $0.15 options	6,000,000	132,335
31 Jul 18	Expiration of $0.12 options	(2,350,000)	(99,505)
27 Aug 18	Grant of $0.12 options	850,000	21,446
	Grant of $0.15 options	1,150,000	24,447
	Grant of $0.18 options	1,250,000	20,823
30 Sep 18	Expiration of $0.15 options	(1,416,667)	(50,158)
4 Oct 18	Grant of $0.12 options	750,000	26,978
	Grant of $0.15 options	1,000,000	25,788
	Grant of $0.18 options	1,250,000	26,196
31 Jan 19	Grant of $0.10 options	3,750,000	148,500
	Grant of $0.14 options	3,750,000	157,125
20 Feb 19	Grant of $0.10 options	250,000	9,775
	Grant of $0.14 options	250,000	10,375
20 Mar 19	Grant of $0.10 options	2,000,000	79,691
	Grant of $0.14 options	2,000,000	84,602
18 Jun 19	Grant of $0.14 options	375,000	29,635
	Grant of $0.18 options	850,000	61,700
30 Jun 19	Share based payment expense	-	207,860
30 Jun 19	**Closing Balance**	**45,550,000**	**1,846,630**

Note:

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

(c) Terms and Conditions of unlisted Incentive Options

The unlisted Incentive Options are granted based upon the following terms and conditions:

- each Incentive Option entitles the holder to subscribe for one Share upon exercise of each Incentive Option;
- the 35,175,000 Unlisted Incentive Options on issue as at 30 June 2020 have exercise prices and expiry dates as follows:
  - $0.12 Incentive Options expire 31 July 2020, 750,000 vested on 31 July 2019 and 100,000 vested 31 December 2018;
  - $0.15 Incentive Options expire 31 July 2021, 2,000,000 vested on 31 January 2020 and 150,000 vested 30 June 2019.
  - $0.18 Incentive Options expire 31 July 2022, 2,500,000 vest on 31 July 2020.
  - $0.18 Incentive Options expire 31 July 2020, 2,500,000 vested on 31 July 2019, 6,000,000 vest upon the achievement of non-market vesting conditions (including binding off-take and/or EPC/M agreement prior to 31 July 2020) and 5,800,000 vested on issue and achievement of non-market vesting conditions (including equity raising);
  - $0.10 Incentive Options (6,000,000) expire on 30 June 2021 and vested on issue;
  - $0.14 Incentive Options expire on 30 June 2022, 6,375,000 vested on issue and 1,000,000 vest 31 October 2020; and
  - $0.18 Incentive Options expire on 30 June 2022, 1,000,000 vested on issue and 1,000,000 vest 31 October 2021.
- the Incentive Options are exercisable at any time after the Vesting Date and on or prior to the Expiry Date;
- Shares issued on exercise of the Incentive Options rank equally with the then shares of the Company;
- application will be made by the Company to ASX for official quotation of the Shares issued upon the exercise of the Incentive Options;
- if there is any reconstruction of the issued share capital of the Company, the rights of the Option holders will 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 Incentive Options will be made by the Company; and
- the Incentive Options are transferable provided that the transfer of Incentive Options complies with section 707(3) of the Corporations Act.

	2020 $	2019 $
11. ACCUMULATED LOSSES		
Balance at the beginning of year	**(34,107,972)**	**(27,823,094)**
Transfer to accumulated losses for expired options	250,027	149,663
Net loss for the year	(3,050,844)	(6,434,541)
Balance at end of year	**(36,908,789)**	**(34,107,972)**

(a) Franking Account

In respect to the payment of dividends (if any) by Sovereign in subsequent financial years, no franking credits are currently available, or are likely to become available in the next 12 months.

	2020 $	2019 $
12. STATEMENT OF CASH FLOWS		
(a) Reconciliation of Loss for the Year to Net Cash Flows from Operating Activities		
Loss for the year	(3,050,844)	(6,434,541)
Adjustment for non-cash income and expense items		
Depreciation	62,734	53,410
Share based payment expense	(126,626)	1,089,476
Foreign currency differences	9,104	(4,632)
Changes in operating assets and liabilities		
Decrease/(Increase) in trade and other receivables	26,665	(37,122)
(Decrease)/Increase in trade and other payables and provisions	(989,961)	390,748
Net cash outflow from operating activities	**(4,068,928)**	**(4,942,661)**
(b) Reconciliation of Cash Assets		
Cash at bank and on hand	2,364,525	4,178,320
	2,364,525	**4,178,320**

(c) Credit Standby Arrangements with Banks

At balance date, the Company had no used or unused financing facilities.

(d) Non-cash Financing and Investing Activities

30 June 2020

During the year ended 30 June 2020, 1,091,666 shares were issued to consultants in lieu of payment.

30 June 2019

During the year ended 30 June 2019, 300,000 shares were issued to a consultant in lieu of payment.

	2020 Cents per Share	2019 Cents per Share
13. LOSS PER SHARE		
Basic loss per share		
From continuing operations	(0.83)	(2.10)
Total basic loss per share	**(0.83)**	**(2.10)**
Diluted loss per share		
From continuing operations	(0.83)	(2.10)
Total diluted loss per share	**(0.83)**	**(2.10)**

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

	2020 $	2019 $
Net loss used in calculating basic and diluted earnings per share	**(3,050,844)**	(6,434,541)

	2020 Number of Shares	2019 Number of Shares
Weighted average number of ordinary shares used in calculating basic earnings per share	368,210,438	306,761,340
Effect of dilutive securities*	-	-
Adjusted weighted average number of ordinary shares and potential ordinary shares used in calculating basic and diluted earnings per share	**368,210,438**	**306,761,340**

***Non-dilutive securities**

As at 30 June 2020, 35,175,000 unlisted Incentive Options (which represent 35,175,000 potential Ordinary Shares) were non-dilutive as they would decrease the loss per share. As at 30 June 2019, 45,550,000 unlisted Incentive Options (which represent 45,550,000 potential Ordinary Shares) were non-dilutive as they would decrease the loss per share.

Conversions, calls, subscriptions or issues after 30 June 2020

Since 30 June 2020, 9,150,000 Ordinary Shares were issued upon the exercise of unlisted incentive options. 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.

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 2020 %	Equity Interest 2019 %
Sovereign Cloncurry Pty Ltd [(i)]	Australia	100	100
Sovereign Mozambique Pty Ltd [(i)]	Australia	100	100
Sovereign Moçambique Limitada	Mozambique	100	100
Sovereign Zambia Pty Ltd [(i)]	Australia	100	100
Sovereign Metals (Zambia) Ltd	Zambia	100	100
Sovereign Coal Pty Ltd [(i)]	Australia	100	100
McCourt Mining Pty Ltd [(i)]	Australia	100	100
McCourt Mining Limited	Malawi	100	100
Sovereign Services Limited	Malawi	100	100
McCourt Mining (UK) Limited	United Kingdom	100	100
McCourt Holdings (UK) Limited	United Kingdom	100	100

Note:
(i) Member of the tax consolidated group.

(c) Transactions with Related Parties in the Consolidated Group

There were no transactions with related parties during the 2020 financial year (2019: Nil) other than as noted below.

(d) Key Management Personnel

Details relating to Key Management Personnel, including remuneration paid, are included at Note 17.

(e) Other Transactions

Apollo Group Pty Ltd, a company of which Mr Mark Pearce is a Director and beneficial shareholder, was paid, or is payable, $225,000 (2019: $240,000) 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. This item has been recognised as an expense in the Statement of Comprehensive Income. The monthly fee of $20,000 was reduced to $15,000 for the 3 months to 30 June 2020. At 30 June 2020, $16,500 inclusive of GST (2019: $22,000) was included as a current liability in the Statement of Financial Position.

	2020 $	2019 $
15. PARENT ENTITY DISCLOSURES		
(a) Financial Position		
Assets		
Current Assets	2,384,724	4,251,254
Non-Current Assets	6,919,860	6,151,135
Total Assets	**9,304,584**	**10,402,389**
Liabilities		
Current Liabilities	138,295	258,363
Total Liabilities	**138,295**	**258,363**
Equity		
Issued capital	44,883,777	42,365,285
Accumulated losses	(36,991,451)	(34,067,889)
Share based payments reserve	1,273,963	1,846,630
Total Equity	**9,166,289**	**10,144,026**
(b) Financial Performance		
Loss for the year	(3,174,382)	(6,433,180)
Other comprehensive income	-	-
Total comprehensive income	**(3,174,382)**	**(6,433,180)**

	2020 $	2019 $
16. COMMITMENTS AND CONTINGENCIES		
(a) Commitments		
Exploration Commitments - Malawi:		
Within one year	237,507	528,192
After one year but not more than five years	151,519	646,096
	389,026	**1,174,288**

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 2020 (2019: nil).

17. KEY MANAGEMENT PERSONNEL

(a) Details of Key Management Personnel

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

Directors

Mr Ian Middlemas	Chairman
Dr Julian Stephens	Managing Director
Mr Mark Pearce	Non-Executive Director

Other KMP

Mr Sam Cordin	Business Development Manager

Unless otherwise disclosed, the KMP held their position from 1 July 2019 until the date of this report.

(b) Key Management Personnel Compensation

	2020 $	2019 $
Short-term benefits	417,834	419,289
Post-employment benefits	39,690	39,832
Share based payments	41,387	315,460
	498,911	**774,581**

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.

	2020 $	2019 $
Expense arising from equity-settled share-based payment transactions (option issues)	231,299	1,067,276
Expense arising from equity-settled share-based payment transactions (share issues)	49,125	22,200
Reversal of incentive options expense due to the probability of meeting non-market vesting conditions reducing to nil	(407,050)	-
	(126,626)	**1,089,476**

(b) Summary of Options and Rights Granted

The following share-based payment arrangements were granted during the last two years:

	Security Type	Number	Grant Date	Vesting Date	Expiry Date	Exercise Price $	Fair Value $
Series							
Series 1	Option	750,000	27 Aug 18	31 Jul 19	31 Jul 20	0.12	0.0273
Series 2	Option	100,000	27 Aug 18	31 Dec 18	31 Jul 20	0.12	0.0273
Series 3	Option	1,000,000	27 Aug 18	31 Jan 20	31 Jul 21	0.15	0.0325
Series 4	Option	150,000	27 Aug 18	30 Jun 19	31 Jul 21	0.15	0.0325
Series 5	Option	1,250,000	27 Aug 18	31 Jul 20	31 Jul 22	0.18	0.0370
Series 6	Option	750,000	4 Oct 18	31 Jul 19	31 Jul 20	0.12	0.0401
Series 7	Option	1,000,000	4 Oct 18	31 Jan 20	31 Jul 21	0.15	0.0462
Series 8	Option	1,250,000	4 Oct 18	31 Jul 20	31 Jul 22	0.18	0.0517
Series 9	Option	2,000,000	24 Jul 18	On Issue	30 Sep 19	0.15	0.0239
Series 10	Option	4,000,000	24 Jul 18	30 Sep 19	30 Sep 19	0.15	0.0239
Series 11	Option	3,750,000	31 Jan 19	On Issue	30 Jun 21	0.10	0.0396
Series 12	Option	3,750,000	31 Jan 19	On Issue	30 Jun 22	0.14	0.0419
Series 13	Option	250,000	20 Feb 19	On Issue	30 Jun 21	0.10	0.0391
Series 14	Option	250,000	20 Feb 19	On Issue	30 Jun 22	0.14	0.0415
Series 15	Option	2,000,000	20 Mar 19	On Issue	30 Jun 21	0.10	0.0398
Series 16	Option	2,000,000	20 Mar 19	On Issue	30 Jun 22	0.14	0.0423
Series 17	Option	375,000	18 Jun 19	On Issue	30 Jun 22	0.14	0.0790
Series 18	Option	850,000	18 Jun 19	On Issue	30 Jun 22	0.18	0.0726
Series 19	Option	1,000,000	8 Nov 19	31 Oct 20	30 Jun 22	0.14	0.0406
Series 20	Option	1,000,000	8 Nov 19	31 Oct 21	30 Jun 22	0.18	0.0337
Series 21	Option	150,000	18 Jun 20	On Issue	30 Jun 22	0.18	0.0807

18. SHARE-BASED PAYMENTS (Continued)

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

	2020 Number	2020 WAEP	2019 Number	2019 WAEP
Outstanding at beginning of year	45,550,000	$0.15	23,841,667	$0.17
Granted by the Company during the year	2,150,000	$0.16	25,475,000	$0.14
Exercised during the year	(2,500,000)	$0.16	-	-
Expired during the year	(10,025,000)	$0.15	(3,766,667)	$0.13
Outstanding at end of year	**35,175,000**	**$0.15**	45,550,000	$0.15

The outstanding balance of options granted as share based payments on issue as at 30 June 2020 is represented by:

- 850,000 $0.12 Incentive Options that expire on 31 July 2020;
- 14,300,000 $0.18 Incentive Options that expire on 31 July 2020;
- 2,150,000 $0.15 Incentive Options that expire on 31 July 2021;
- 2,500,000 $0.18 Incentive Options that expire on 31 July 2022;
- 6,000,000 $0.10 Incentive Options that expire on 30 June 2021;
- 7,375,000 $0.14 Incentive Options that expire on 30 June 2022; and
- 2,000,000 $0.18 Incentive Options that expire on 30 June 2022.

(c) Weighted Average Remaining Contractual Life

The weighted average remaining contractual life for share options outstanding as at 30 June 2020 was 0.95 years (2019: 1.47 years).

(d) Range of Exercise Prices

The range of exercise prices for share options outstanding as at 30 June 2020 was $0.10 to $0.18 (2019: $0.10 to $0.18).

(e) Weighted Average Fair Value

The weighted average fair value of share options granted during the year was $0.056 (2019: $0.038).

(f) Option and Performance Right 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 valuation 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 seven day volume weighted average share price prior to issuance.

30 June 2020 and 30 June 2019

The following table lists the inputs to the valuation model used for share options and performance rights granted by the Group during the years ended 30 June 2020 and 30 June 2019:

(f) Option and Performance Right Pricing Models

	Incentive Options									
Inputs	**Series 1**	**Series 2**	**Series 3**	**Series 4**	**Series 5**	**Series 6**	**Series 7**	**Series 8**	**Series 9**	**Series 10**
Exercise Price	0.12	0.12	0.15	0.15	0.18	0.12	0.15	0.18	0.15	0.15
Grant date share price	0.070	0.070	0.070	0.070	0.070	0.091	0.091	0.091	0.088	0.088
Share price barrier	-	-	-	-	-	-	-	-	-	-
Dividend yield(i)	-	-	-	-	-	-	-	-	-	-
Volatility(ii)	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Risk free interest rate	2.01%	2.01%	2.03%	2.03%	2.11%	2.01%	2.05%	2.14%	2.01%	2.01%
Grant date	27-Aug-18	27-Aug-18	27-Aug-18	27-Aug-18	27-Aug-18	4-Oct-18	4-Oct-18	4-Oct-18	24-Jul-18	24-Jul-18
Expiry date	31-Jul-20	31-Jul-20	31-Jul-21	31-Jul-21	31-Jul-22	31-Jul-20	31-Jul-21	31-Jul-22	30-Sep-19	30-Sep-19
Expected life of option(iii)	2.0 years	2.0 years	3.0 years	3.0 years	4.0 years	1.8 years	2.8 years	3.8 years	1.2 years	1.2 years
Fair value at grant date	0.0273	0.0273	0.0325	0.0325	0.0370	0.0401	0.0462	0.0517	0.0239	0.0239

	Incentive Options										
Inputs	**Series 11**	**Series 12**	**Series 13**	**Series 14**	**Series 15**	**Series 16**	**Series 17**	**Series 18**	**Series 19**	**Series 20**	**Series 21**
Exercise Price	0.10	0.14	0.10	0.14	0.10	0.14	0.14	0.18	0.14	0.18	0.18
Grant date share price	0.077	0.077	0.077	0.077	0.079	0.079	0.13	0.13	0.105	0.105	0.19
Share price barrier	-	-	-	-	-	-	-	-	-	-	-
Dividend yield(i)	-	-	-	-	-	-	-	-	-	-	-
Volatility(ii)	100%	100%	100%	100%	100%	100%	100%	100%	75%	75%	75%
Risk free interest rate	1.75%	1.67%	1.74%	1.66%	1.54%	1.49%	1.00%	1.00%	0.87%	0.87%	0.27%
Grant date	31-Jan-19	31-Jan-19	20-Feb-19	20-Feb-19	20-Mar-19	20-Mar-19	18-Jun-19	18-Jun-19	8-Nov-19	8-Nov-19	18-Jun-20
Expiry date	30-Jun-21	30-Jun-22	30-Jun-21	30-Jun-22	30-Jun-21	30-Jun-22	30-Jun-22	30-Jun-22	30-Jun-22	30-Jun-22	30-Jun-22
Expected life of option(iii)	2.4 years	3.4 years	2.4 years	3.4 years	2.3 years	3.3 years	3.0 years	3.0 years	2.6 years	2.6 years	2.0 years
Fair value at grant date	0.0396	0.0419	0.0391	0.0415	0.0398	0.0423	0.0790	0.0726	0.0406	0.0337	0.0807

Notes:

(i) The dividend yield reflects the assumption that the current dividend payout will remain unchanged.
(ii) The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome.
(iii) The expected life of the options is based on the expiry date of the options as there is limited track record of the early exercise of options.

	2020 $	2019 $
19. REMUNERATION OF AUDITORS		
Amounts received or due and receivable by Deloitte Touche Tohmatsu for an audit or review of the financial report of the Company	31,209	27,500
Total Auditors' Remuneration	**31,209**	**27,500**

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

	2020 $	2019 $
Malawi	7,292,895	7,277,042
Unallocated	-	11,242
	7,292,895	**7,288,284**

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, commodity price 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, trade and 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	2020 $	2019 $
Cash and cash equivalents		2,364,525	4,178,320
Trade and other receivables		102,581	129,246
		2,467,106	**4,307,566**

The Group does not have any significant customers and accordingly does not have any significant exposure to bad or doubtful debts.

Trade and other receivables comprise GST receivable, accrued interest and other miscellaneous receivables. Where possible the Group trades only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. 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 trade and other receivables that were past due at 30 June 2020 (2019: 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.

(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 2020 and 2019, 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.

2020 Group	≤6 Months $	6-12 Months $	1-5 Years $	≥5 Years $	Total $
Financial Liabilities					
Trade and other payables	422,725	-	-	-	422,725
	422,725	**-**	**-**	**-**	**422,725**

2019 Group	≤6 Months $	6-12 Months $	1-5 Years $	≥5 Years $	Total $
Financial Liabilities					
Trade and other payables	1,419,143	-	-	-	1,419,143
	1,419,143	**-**	**-**	**-**	**1,419,143**

21. FINANCIAL INSTRUMENTS (Continued)

(d) Interest Rate Risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the cash and short-term deposits 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:

	2020 $	2019 $
Interest-bearing financial instruments		
Cash at bank and on hand	2,364,525	1,678,320
Short-term deposits	-	2,500,000
	2,364,525	**4,178,320**

The Group's cash at bank and on hand and short term deposits had a weighted average floating interest rate at year end of 0.45% (2019: 1.94%). The Group currently does not engage in any hedging or derivative transactions to manage interest rate risk.

Interest rate sensitivity

A sensitivity of 20% per cent has been selected as this is considered reasonable given the current level of both short term and long term interest rates. A 20% movement in interest rates at the reporting date would have increased (decreased) equity and 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 2019.

	Profit or Loss		Equity	
	20% Increase	20% Decrease	20% Increase	20% Decrease
2020				
Cash and cash equivalents	2,141	(2,141)	2,141	(2,141)
2019				
Cash and cash equivalents	16,208	(16,208)	16,208	(16,208)

(e) 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.

(f) 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.

(g) 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.

22. INTERESTS IN JOINT VENTURES

The Company has an interest in the following joint venture asset:

Joint Venture	Project	Activity	2020 Interest	2019 Interest
Carpentaria Joint Venture	Mt Isa Project, Queensland	Mineral Exploration	23.37%	24.67%

There were no net assets employed in the joint venture included as exploration and evaluation assets in the Statement of Financial Position as at 30 June 2020 (2019: $nil).

Carpentaria Joint Venture

Pursuant to the joint venture agreement assigned to the Company by Fusion Resources Limited ("Fusion"), Mount Isa Mines Limited ("MIM") agreed to farm-in to various tenements owned by the Company.

Under the terms of the joint venture:

- MIM has earned a 76.63% interest in the tenements; and
- Sovereign has elected to cease contributing to the joint venture expenditure on the tenements. As a result, Sovereign's original interest in the joint venture will dilute by 1.5% for every $200,000 of expenditure by MIM. As at 30 June 2020 Sovereign's interest has reduced to 23.37%.

If the Company's participating interest in the joint venture is diluted to less than 10% the Company has the election to withdraw from the joint venture in which case MIM shall be obligated to pay to the Company a royalty of 1.5% of the net profits derived from production.

No material assets of the Group were employed in the joint venture during the period.

23. SUBSEQUENT EVENTS

Subsequent to 30 June 2020, the Company issued 9,150,000 ordinary shares upon the conversion of options, raising $1,596,000.

There are no matters or circumstances which have arisen since 30 June 2020 that have significantly affected or may significantly affect:

- the operations, in financial years subsequent to 30 June 2020 of the Group;
- the results of those operations, in financial years subsequent to 30 June 2020 of the Group; or
- the state of affairs, in financial years subsequent to 30 June 2020 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 2020 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 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 2020.

On behalf of the Board.

JULIAN STEPHENS
Managing Director

30 September 2020

Deloitte.

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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 (the "Group") which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the directors' declaration.

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

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

(ii) 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 & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Deloitte.

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
Carrying value of Exploration and Evaluation Assets As at 30 June 2020 the Group has $7,170,282 of capitalised exploration and evaluation expenditure as disclosed in Note 6. In addition, in accordance with the Group's accounting policy for exploration and evaluation expenditure, $2,330,875 was expensed during the year ended 30 June 2020. Assessment of the carrying value of exploration and evaluation assets requires significant judgement, including the Group's intention and ability to proceed with a future work programme to realise value from the prospective resource, the likelihood of licence renewal or extension, and the expected or actual success of resource evaluation and analysis.	Our procedures included, but were not limited to: • Obtaining an understanding of management's process for assessing the recoverability of exploration and evaluation assets; • Obtaining a scheduled of the areas of interest held by the Group and assessing whether the rights to tenure of those areas of interest remained current at balance date; • Obtaining the applications to convert the existing exclusive prospecting licences to exploration licences, and assessing whether the applications were submitted within the timelines required from a local regulatory perspective; • Holding discussions with management as to the status of ongoing exploration programmes in the respective areas of interest; • Evaluating whether any such areas of interest had reached a stage where a reasonable assessment of economically recoverable reserves existed; and • Assessing whether any facts or circumstances existed to suggest impairment testing was required. We also assessed the appropriateness of the related disclosures in note 6 of the financial statements.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2020, 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 we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

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

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement 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's 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.

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From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period 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 Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 9 to 13 of the Directors' Report for the year ended 30 June 2020.

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

Responsibilities

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

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

David Newman
Partner
Chartered Accountants
Perth, 30 September 2020

ASX ADDITIONAL INFORMATION

The shareholder information set out below was applicable as at 31 August 2020.

1. TWENTY LARGEST HOLDERS OF LISTED SECURITIES

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

Ordinary Shares

Name	No of Ordinary Shares Held	Percentage of Issued Shares
J P Morgan Nominees Australia Limited	102,814,263	26.08
Citicorp Nominees Pty Limited	20,383,189	5.17
HSBC Custody Nominees (Australia) Limited	19,570,002	4.96
Arredo Pty Ltd	16,100,000	4.08
Mr Mark Stuart Savage	14,781,118	3.75
BNP Paribas Nominees Pty Ltd <IB AU NOMS RETAILCLIENT DRP>	13,593,590	3.45
BNP Paribas Noms Pty Ltd <DRP>	12,962,595	3.29
Mr Julian Rodney Stephens <One Way A/C>	11,317,518	2.87
Brown Bricks Pty Ltd <HM A/C>	10,571,672	2.68
Mr Terry Patrick Coffey + Hawkes Bay Nominees Limited <Williams Family No 2 A/C>	7,150,000	1.81
Jackhamish Pty Ltd	6,500,000	1.65
Mota-Engil Minerals & Mining Investments BV	6,000,000	1.52
CPO Superannuation Fund Pty Ltd <C & P O'Connor S/F A/C>	5,728,255	1.45
Calama Holdings Pty Ltd <Mambat Super Fund A/C>	4,689,211	1.19
Mikado Corporation Pty Ltd <JFC Superannuation A/C>	4,503,040	1.14
Neweconomy Com Au Nominees Pty Limited <900 Account>	4,400,000	1.12
Union Square Capital Advisors LLC	4,200,000	1.07
Mrs Pennee Ruth Osmond <The Blue Sky A/C>	3,867,654	0.98
Mr Collin Francis Davy <The Bush Rat A/C>	3,479,166	0.88
Mr Angus William Johnson + Mrs Lindy Johnson <Dena Super Fund A/C>	3,467,992	0.88
Total Top 20	**276,079,265**	**70.03**
Others	118,158,296	29.97
Total Ordinary Shares on Issue	**394,237,561**	**100.00**

2. DISTRIBUTION OF EQUITY SECURITIES

Analysis of number of shareholders by size of holding:

Distribution	Ordinary Shares	
	Number of Shareholders	Number of Shares
1 – 1,000	69	13,916
1,001 – 5,000	88	280,432
5,001 – 10,000	80	651,829
10,001 – 100,000	302	13,078,596
More than 100,000	210	380,212,788
Totals	**749**	**394,237,561**

There were 81 holders of less than a marketable parcel of ordinary shares.

ASX ADDITIONAL INFORMATION (Continued)

3. VOTING RIGHTS

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

4. SUBSTANTIAL SHAREHOLDERS

As at 31 August 2020, there were no Substantial Shareholder Notices received by the Company.

5. UNQUOTED SECURITIES

The names of the security holders holding more than 20% of an unlisted class of security at 31 August 2020 other than those securities issued or acquired under an employee incentive scheme are listed below:

	31-Jul-21 Unlisted Options exercisable at $0.15	31-Jul-22 Unlisted Options exercisable at $0.18	30-Jun-21 Unlisted Options exercisable at $0.10	30-Jun-22 Unlisted Options exercisable at $0.14	30-Jun-22 Unlisted Options exercisable at $0.18
Julian Stephens <One Way A/C>	-	-	2,000,000	2,000,000	-
Mr Sam Cordin	1,000,000	1,250,000	625,000	625,000	-
Mr Andries Kruger	1,000,000	1,250,000	500,000	500,000	-
Mr Sam Moyle	-	-	-	1,000,000	1,000,000
Suren Capital Limited	-	-	250,000	250,000	600,000
Selwyn Capital Limited	-	-	1,500,000	1,500,000	-
Others (holding less than 20%)	150,000	-	1,375,000	1,750,000	400,000
Total	**2,150,000**	**2,500,000**	**6,000,000**	**7,375,000**	**2,000,000**
Total number of holders	**3**	**2**	**9**	**11**	**4**

6. ON-MARKET BUY BACK

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

7. MINERAL RESOURCES AND ORE RESERVES STATEMENT

MINERAL RESOURCES

Sovereign's Mineral Resources (inclusive of Ore Reserves) relating to graphite as at 30 June 2020 and 30 June 2019 are grouped by deposit, all of which are located in Malawi. The resources are reported in accordance with the 2012 Edition of the JORC Code as follows:

Deposit Name	Resource Category	2019 Tonnes (Mt)	2019 Grade (% TGC)	2019 Contained Graphite (MT)	2020 Tonnes (Mt)	2020 Grade (% TGC)	2020 Contained Graphite (MT)
Malingunde	***Measured***	*4.8*	*8.5*	*0.41*	*4.8*	*8.5*	*0.41*
	Indicated	*32.3*	*7.2*	*2.32*	*32.3*	*7.2*	*2.32*
	Inferred	*27.9*	*7.0*	*1.95*	*27.9*	*7.0*	*1.95*
Malingunde Project	***Total***	***65.0***	***7.2***	***4.68***	***65.0***	***7.2***	***4.68***
Duwi Main	Indicated	35.2	7.2	2.52	35.2	7.2	2.52
	Inferred	34.3	7.3	2.49	34.3	7.3	2.49
	Total	***69.5***	***7.2***	***5.01***	***69.5***	***7.2***	***5.01***
Duwi Bend	***Inferred***	***7.8***	***7.2***	***0.56***	***7.8***	***7.2***	***0.56***
Nyama	***Inferred***	***8.6***	***6.5***	***0.56***	***8.6***	***6.5***	***0.56***
Duwi Project	***Indicated***	***35.2***	***7.2***	***2.52***	***35.2***	***7.2***	***2.52***
	Inferred	***50.7***	***7.1***	***3.61***	***50.7***	***7.1***	***3.61***
	Total	***85.9***	***7.1***	***6.13***	***85.9***	***7.1***	***6.13***
TOTAL	***Measured***	***4.8***	***8.5***	***0.41***	***4.8***	***8.5***	***0.41***
	Indicated	**67.5**	**7.2**	**4.84**	**67.5**	**7.2**	**4.84**
	Inferred	**78.6**	**7.1**	**5.56**	**78.6**	**7.1**	**5.56**
		150.9	**7.2**	**10.81**	**150.9**	**7.2**	**10.81**

Note:

(i) Malingunde mineral resource is reported at a 4% total graphitic carbon ('TGC') lower cut-off grade whilst Duwi is reported at a 5% TGC lower cut-off.

As a result of the annual review of the Sovereign's Mineral Resources, there has been no change to the Mineral Resources reported.

ASX ADDITIONAL INFORMATION (Continued)

ORE RESERVES

Sovereign's Ore Reserves relating to graphite as at 30 June 2020 and 30 June 2019 are grouped by deposit, all of which are located in Malawi. The reserves are reported in accordance with the 2012 Edition of the JORC Code as follows:

Deposit Name	Reserve Category	2019			2020		
		Tonnes (Mt)	Grade (% TGC)	Contained Graphite (MT)	Tonnes (Mt)	Grade (% TGC)	Contained Graphite (MT)
Malingunde Project	***Proved***	*3.1*	*9.5*	*0.30*	*3.1*	*9.5*	*0.30*
	Probable	*6.4*	*9.5*	*0.60*	*6.4*	*9.5*	*0.60*
		9.5	**9.5**	**0.90**	**9.5**	**9.5**	**0.90**

Note:

(i) Malingunde mineral reserve is reported at a 6.75% total graphitic carbon ('TGC') lower cut-off grade for saprolite and between 9.5% and 11.0% for saprock.

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.

Competent Person Statement

The information in this Mineral Resources and Ore Reserves Statement that relates to Mineral Resources is based on, and fairly represents, information compiled by Mr David Williams, a Competent Person, who is a Member of The Australian Institute of Geoscientists. Mr Williams is employed by CSA Global Pty Ltd, an independent consulting company. Mr Williams 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 Williams consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

The information in this Mineral Resources and Ore Reserves Statement that relates to Ore Reserves is based on, and fairly represents, information compiled by Mr Ryan Locke, a Competent Person, who is a Member of The Australasian Institute of Mining and Metallurgy. Mr Locke is employed by Orelogy Group Pty Ltd, an independent consulting company. Mr Locke 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 Locke consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

Mr Williams and Mr Locke have approved the Mineral Resources and Ore Reserves Statement as a whole and consents to its inclusion in the form and context in which it appears.

8. EXPLORATION INTERESTS

The Company has an interest in the following projects:

Location/ Tenement	Permit Number	Percentage Interest	Joint Venture Partner	Status
Malawi				
Central Malawi Graphite Project	EL 0413	100%	-	Granted
	EPL 0372	100%	-	Granted
	EPL 0355	100%	-	Granted
	EPL 0492	100%	-	Granted
	EPL 0537	100%	-	Granted
	EPL 0528	100%	-	Granted
	EPL 0545	100%	-	Granted
	EL 0561	100%	-	Granted
Queensland, Australia:				
Mt Marathon	EPM 8586	23.37%	Mt Isa Mines	Granted
Mt Avarice	EPM 8588	23.37%	Mt Isa Mines	Granted
Fountain Range	EPM 12561	23.37%	Mt Isa Mines	Granted
Corella River	EPM 12597	23.37%	Mt Isa Mines	Granted
Saint Andrews Extended	EPM 12180	23.37%	Mt Isa Mines	Granted

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 2020 Corporate Governance Statement, which is current as at 30 June 2020 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 – 3rd Edition' in relation to the year ended 30 June 2020. 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 – 3rd 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.

10. FORWARD LOOKING STATEMENT

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.

11. COMPETENT PERSON STATEMENTS

The information in this report that relates to Rutile Exploration Results is extracted from announcements dated 26 May 2020, 22 June 2020, 13 July 2020, 4 August 2020, 9 September 2020 and 21 September 2020. These announcements are available to view on www.sovereignmetals.com.au. The information in the original ASX Announcements that related to Rutile Exploration Results was based on and fairly represents information compiled or reviewed by Dr Julian Stephens, a Competent Person who is a member of the Australian Institute of Geoscientists (AIG). Dr Stephens is the Managing Director of Sovereign Metals Limited and a holder of ordinary shares and unlisted options in Sovereign Metals Limited. Dr Stephens has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity being undertaken, 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'. The Company confirms that it is not aware of any new information or data that materially affects the information included in the original market announcement. The Company confirms that the form and context in which the Competent Person's findings are presented have not materially modified from the original market announcement.

The information in this report that relates to Rutile Metallurgical Results is extracted from announcement dated 9 September 2020. This announcement is available to view on www.sovereignmetals.com.au. The information in the original announcement that related to Metallurgical Results was based on, and fairly represents, information compiled by Mr Gavin Diener, a Competent Person who is a member of the AusIMM. Mr Diener is a Director of Allied Mineral Laboratories (AML), an independent mineral sands laboratory and is not a holder of any equity type in Sovereign Metals Limited. Mr Diener has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity being undertaken, 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'. The Company confirms that it is not aware of any new information or data that materially affects the information included in the original market announcement. The Company confirms that the form and context in which the Competent Person's findings are presented have not been materially modified from the original market announcement.

The information in this report that relates to Production Targets and Ore Reserves is extracted from an announcement dated 7 November 2018. This announcement is available to view on www.sovereignmetals.com.au. The information in the original ASX Announcement that related to Production Targets and Ore Reserves was based on and fairly represents information compiled or reviewed by Mr Ryan Locke, a Competent Person, who is a Member of The Australasian Institute of Mining and Metallurgy. Mr Locke is employed by Orelogy Group Pty Ltd, an independent consulting company. Mr Locke 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'. The Company confirms that it is not aware of any new information or data that materially affects the information included in the original market announcement and, in the case of estimates of Ore Reserves, that all material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed. The Company confirms that the form and context in which the Competent Person's findings are presented have not been materially modified from the original market announcement.

The information in this report that relates to Mineral Resources is extracted from an announcement dated 7 November 2018. This announcement is available to view on www.sovereignmetals.com.au. The information in the original ASX Announcement that related to Mineral Resources was based on, and fairly represents, information compiled by Mr David Williams, a Competent Person, who is a Member of The Australian Institute of Geoscientists. Mr Williams is employed by CSA Global Pty Ltd, an independent consulting company. Mr Williams 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'. The Company confirms that it is not aware of any new information or data that materially affects the information included in the original market announcement and, in the case of estimates of Mineral Resources that all material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed. The Company confirms that the form and context in which the Competent Person's findings are presented have not been materially modified from the original market announcement.

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