

SOVEREIGN TO DEMERGE STANDALONE GRAPHITE PROJECTS

- Sovereign to demerge standalone Graphite Projects (being the Nanzeka, Malingunde, Duwi and Mabuwa Projects) into a wholly owned subsidiary, NGX Limited
- The Demerger seeks to unlock the value of the Graphite Projects for Sovereign shareholders and separate its Kasiya Rutile Project and its standalone Graphite Projects into two distinct companies
- The demerger of the Graphite Projects will be subject to shareholder approval and will involve an in-specie distribution to Sovereign shareholders on the basis of one (1) NGX Share for every eleven (11) Sovereign Shares
- NGX is proposing to pursue an ASX listing through an initial public offering of NGX Shares (IPO) pursuant to a prospectus following the completion of the Demerger
- Sovereign shareholders to retain further exposure to the value and upside of the Graphite Projects as the NGX IPO is expected to comprise a priority offer to existing shareholders on the basis of one (1) new NGX Share for every one (1) NGX Share received pursuant to the Demerger to raise approximately \$8,600,000 and a general offer of \$1,000,000 to assist with satisfying ASX spread requirements. This will ensure there is no cash outflow from Sovereign to NGX as part of the Demerger, other than applicable Sovereign expenses to affect the Demerger. However, terms of the NGX IPO are yet to be finalised
- A Notice of Meeting for the Demerger and Distribution will be sent to shareholders with the meeting planned to take place early in 2023
- The Demerger allows Sovereign and the existing management team to focus on its flagship Kasiya Rutile Project, the largest natural rutile deposit in the world
- Sovereign will retain all graphite co-product from the Kasiya Rutile Project
- Kasiya Pre-Feasibility Study currently advancing and on track for completion in H1 2023

Sovereign Metals Limited (ASX:SVM; AIM:SVML) (the Company or Sovereign) is pleased to announce that it intends to undertake a demerger (Demerger) whereby Sovereign's Malawian graphite projects being the Nanzeka Project, Malingunde Project, Duwi Project and Mabuwa Project (Graphite Projects) are to be demerged through NGX Limited (NGX), a wholly owned subsidiary of the Company, allowing Sovereign to focus on the development of the Kasiya Rutile Project (Kasiya) while unlocking value in its Graphite Projects for shareholders.

Sovereign proposes, subject to shareholder approval, to demerge the Graphite Projects via a spin-out of NGX and in-specie distribution of NGX fully paid ordinary shares (NGX Shares) to Sovereign shareholders by issuing one (1) NGX Share for every eleven (11) Sovereign shares (SVM Shares) held (Distribution), allowing Sovereign shareholders to retain exposure to the value and upside of the Graphite Projects.

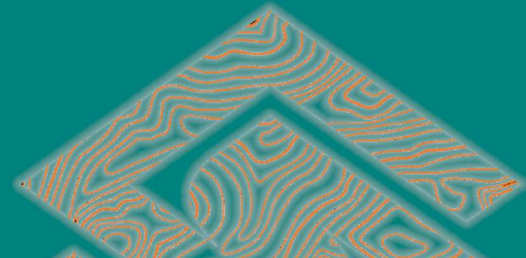
Upon completion of the Demerger, NGX intends to seek admission to the official list of the ASX. NGX will undertake a capital raising to satisfy the ASX admission requirements.

ENQUIRIES

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NGX will be the offeror of the NGX Shares under the IPO. A prospectus will be issued by NGX for the IPO capital raising which will be made available when the NGX Shares are offered. Anyone wishing to acquire NGX Shares as part of the IPO offer will need to complete the application form that will accompany the prospectus.

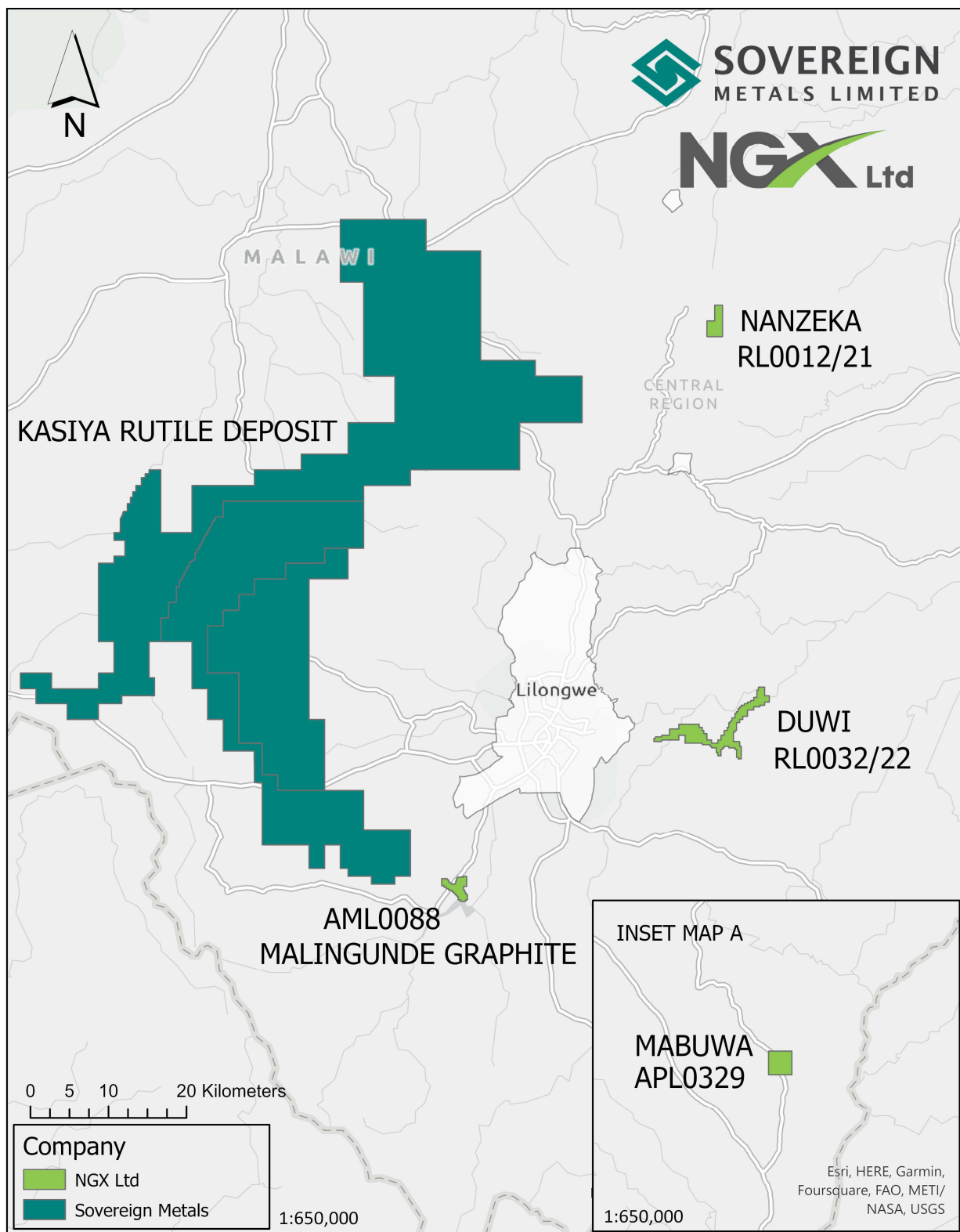


Figure 1: Proposed Sovereign and NGX tenement holding post Demerger
Map A: Mabuwa Project tenement application located approximately 250km south of Lilongwe



Demerger and Capital Reduction

Sovereign will seek shareholder approval to enable the Company to demerge its Graphite Projects to NGX. In consideration for the Demerger, NGX will issue 42,807,000 NGX Shares at a deemed issue price of \$0.20 per NGX Share. Sovereign will then reduce its capital by an amount equal to the value of the approximately 42.8 million NGX Shares to be returned to Sovereign shareholders on a pro rata basis through an equal capital reduction (**Capital Reduction**) to be effected through the Distribution. Eligible Shareholders¹ will receive a pro rata distribution of one (1) NGX Share for every eleven (11) SVM Shares held at the Record Date.

If the Capital Reduction is approved, the share capital of the Company will be reduced by approximately \$8,561,400.

The terms of the Capital Reduction are the same for each Eligible Shareholder. At the date of this announcement, the Company has 470,875,023 Shares on issue. No additional Shares will be issued as a result of the Capital Reduction. On the basis that no further Shares are issued, no Options are exercised and no Performance Rights are converted, the Company will have 470,875,023 Shares on issue at the Record Date.

The number of SVM Shares held by Shareholders will not change, and Shareholders will retain their SVM Shares in the Company following the Capital Reduction. However, if the Capital Reduction is implemented, the value of the SVM Shares may be less than the value of the SVM Shares held prior to the Capital Reduction because, after the Capital Reduction, the Company will not retain an interest in NGX and the Graphite Projects. The rights attaching to SVM Shares will not be altered by the Capital Reduction.

Given the Capital Reduction is an equal reduction and the Company will still have positive net assets following the Capital Reduction, the Directors consider the Capital Reduction is fair and reasonable to Sovereign shareholders as a whole.

Fractional entitlements will be rounded down to the nearest whole number. Based on there being 470,825,023 SVM Shares on issue on the record date, approximately 42,807,000 NGX Shares would be distributed to Eligible Shareholders.

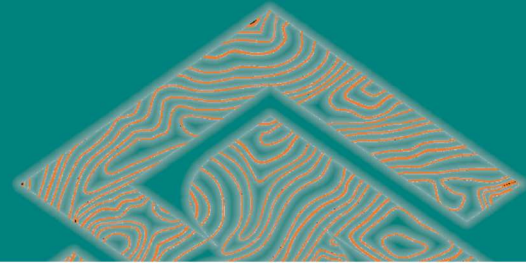
Each Eligible Shareholder's name will be entered on the register of members of NGX with each Eligible Shareholder being deemed to have consented to becoming a NGX shareholder and being bound by its constitution. Eligible Shareholders will not be required to pay any consideration for the NGX Shares distributed to them under the Distribution.

An Eligible Shareholder's entitlement to NGX Shares will be based on the number of SVM Shares held at the record date. Eligible Shareholders will thereby retain direct ownership of the Company and will also receive direct ownership of NGX. NGX will demerge from Sovereign and seek a listing on ASX.

The Distribution will only proceed if the Company obtains shareholder approval under the Corporations Act for the Capital Reduction.

No cash outflow from Sovereign to NGX is expected as part of the Demerger, other than applicable Sovereign expenses to affect the Demerger.

¹ An "Eligible Shareholder" for the purposes of the Capital Reduction will be a Sovereign shareholder that, as at the record date, has a registered address in Australia, New Zealand, Germany, the United Kingdom, the United States of America, Singapore, Canada, Hong Kong, Luxembourg and any jurisdiction determined by the Company which is not prohibited and unduly onerous or impractical to distribute Distribution Shares.



Rationale for Demerger

- The Demerger allows the Company to better focus its efforts and resources on Kasiya and other primary rutile discoveries.
- The Demerger will provide shareholders with an interest in two companies – Sovereign and NGX. The Board believes a separate entity with a separate management team focused on the Graphite Projects presents a better prospect of delivering value to Sovereign shareholders.
- Shareholders may elect to retain exposure to either one or both companies as dictated by their investment preferences and objectives:
 - Shareholders will retain an interest in NGX through the Distribution and thereby have an opportunity to benefit from the potential development of the Graphite Projects; and
 - all Shareholders will retain their interest in the capital of Sovereign and exposure to Kasiya.
- The Board sees considerable potential in the Graphite Projects that is not recognised by the market and, therefore, a dedicated, separately funded vehicle may realise appropriate value for shareholders.
- Future capital raisings are expected to be more readily achieved by each individual entity as the focus of the funding will be on their specific projects. In addition, it is expected to provide greater flexibility to both Sovereign and NGX to attract strategic investors.
- NGX will have a dedicated board and management team to focus on the development of the Graphite Projects.
- After a full and proper assessment of all available information, the Directors believe that the Demerger is in the best interests of Sovereign shareholders.

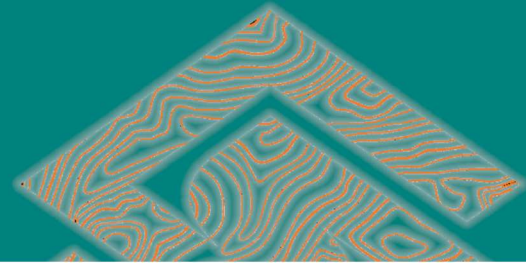
Capital Structure

The indicative capital structure of NGX post-completion of the Demerger will be:

	NGX Shares
Existing securities at the date of this announcement ¹	2
NGX Shares transferred to Shareholders ²	42,807,000
Total	42,807,002

Notes:

- ¹ Held by Sovereign.
- ² Transfer to be made pursuant to the terms of the Distribution.



Initial Public Offering

NGX will be a public unlisted company immediately following the Demerger and will not be listed on ASX. However, NGX is proposing to pursue an ASX listing through an initial public offering of NGX Shares (IPO) pursuant to a prospectus following the completion of the Demerger.

To satisfy ASX listing requirements, NGX will need to raise capital at the minimum issue price of \$0.20 per NGX Share. The terms of the IPO are yet to be finalised. However, it is expected that the NGX IPO will comprise a priority offer to existing Eligible Shareholders on the basis of one (1) new NGX Share for every one (1) NGX Share received pursuant to the Distribution to raise approximately \$8,600,000 and a general offer of \$1,000,000 to assist with satisfying ASX spread requirements to raise in total up to approximately \$9,600,000 (before costs).

NGX will be the offeror of fully paid ordinary shares under the IPO. A prospectus will be issued by NGX for the IPO capital raising which will be made available when the NGX Shares are offered. Anyone wishing to acquire NGX Shares as part of the IPO offer will need to complete the application form that will accompany the prospectus.

NGX Board and Management

The Board will be comprised of a combination of existing Sovereign directors and new appointments, including a non-executive director with suitable technical expertise. Initially NGX will be led by Mr Matthew Syme who will be appointed as an Executive Director of NGX:

Mr Matthew Syme – Executive Director

B.Com, CA

Mr Syme is a Chartered Accountant and an accomplished mining executive with over 30 years' experience in senior management roles in Australia and overseas. He was a Manager in a major international Chartered Accounting firm before spending three years as an equities analyst in a large stockbroking firm. Mr Syme then continued a successful career as CFO, CEO or a director of a number of listed mining and exploration companies operating in a wide range of commodities and jurisdictions.

Mr Syme was a previous Director of Sovereign (2014-2016) and is familiar with the Graphite Projects.

Other Key Management Personnel

Ms Elizabeth (Lib) Matthews – Company Secretary

B.Com, CA, GIACD, GIA(Affiliated)

Ms Matthews is a Chartered Accountant and graduate of the Australian Institute of Directors Director Course who commenced her career at a large international accounting firm and has since been involved with exploration and development companies operating in the resources sector, including serving as Company Secretary of ASX listed Peregrine Gold Limited.



The Graphite Projects

The Nanzeka Project

The Nanzeka Project is located approximately 60km north of Malawi's capital Lilongwe. Mapping, rock chip sampling, trenching and limited drilling in 2013 identified high-grade flake graphite mineralisation over a strike length of 3.0km with a true width of about 10m, though some surface exposures show up to 150m of graphite mineralisation widths. NGX Exploration Limited (a wholly owned Malawian subsidiary of NGX) is the holder of Retention Licence RL 0012/21, granted on 27 July 2021, which comprises the Nanzeka Project (RL 0012/21).

The Duwi Project

The Duwi Project is located approximately 15km east of Malawi's capital, Lilongwe, which has a Mineral Resource estimate of 85.9Mt at 7.1% total graphitic carbon (TGC) for contained graphite of 6.13Mt. Sovereign Services Limited (SSL), a wholly owned subsidiary of the Company, is the holder under the retention licence RTL 0032/22 which was granted on 4 October 2022. On 18 October 2022, SSL applied for the transfer of the Duwi Project to NGX Exploration Limited. The transfer is pending approval.

The Malingunde Project

The Malingunde Project is located in the Central Region of the Lilongwe District of Malawi, approximately 20km southwest of Malawi's capital, Lilongwe.

The Malingunde Project has a Mineral Resource estimate of 65Mt at 7.2% TGC for contained graphite of 4.68Mt. In November 2018, the Company completed a pre-feasibility study (PFS) for the Malingunde Project which was updated in November 2021. The PFS has confirmed the low operating costs, low technical risk, high-quality concentrates and substantial upside of the Malingunde Project.

In February 2022, the Company applied for the grant of a mining licence (ML) at the Malingunde Project which covers 5.7km². Conditional approval for the ML was provided in April 2022 with conditions to be addressed including submission of an environmental and social impact assessment approval certificate under the Malawian environmental management law.

The Mabuwa Project

The Mabuwa project is located approximately 60km south of Malawi's major commercial city of Blantyre. The project covers a mafic-ultramafic intrusive body potentially favourable for nickel and PGE sulphide mineralisation. No previous exploration work is known. However, historical reconnaissance drilling has been undertaken on nearby targets hosted in similar rock types with low grade nickel and PGE sulphide mineralisation having been discovered. An application for an exploration licence over 9km² was lodged by NGX Exploration Limited in March 2022.

Demerger

It is expected that the terms of the Demerger will be documented in a Demerger Deed (**Demerger Deed**) between Sovereign, SSL, NGX and NGX Mining Limited and NGX Exploration Limited (entities owned by NGX).

The effect of the Demerger Deed will be that NGX acquires the Graphite Projects from the Sovereign Group and in return NGX will issue 42,807,000 NGX Shares at a deemed issue price of \$0.20 per NGX Share to Sovereign, for the Distribution to Shareholders.



Indicative Timetable

Demerger

The indicative timetable for the Demerger is provided below.

Event	Indicative Date
General Meeting	January 2023
Effective date of Distribution	February 2023
Record Date	TBA - February 2023
Date for Distribution to Shareholders	TBA - February 2023

Note: The dates shown in the table above are indicative only and may vary subject to the Corporations Act, the ASX Listing Rules, and other applicable laws.

TBA: To be announced

Forward Looking Statement

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

Competent Persons Statement

The information in this announcement that relates to the Mineral Resource Estimate is extracted from the announcement dated 30 September 2022. The announcement is available to view on www.sovereignmetals.com.au. Sovereign confirms that a) it is not aware of any new information or data that materially affects the information included in the announcement; b) all material assumptions included in the announcement continue to apply and have not materially changed; and c) the form and context in which the relevant Competent Persons' findings are presented in this report have not been materially changed from the announcement.

This ASX Announcement has been approved and authorised for release by the Company's Board of Directors.



APPENDIX 1 – TABLE OF TENEMENTS

Details of the Graphite Projects licences are set out in the table below:

Tenement	Type	Status	Expiry	Area (km ²)
RL0012/21 (Nanzeka)	Retention Licence	Granted	26-07-2026	6
APL0329 (Mabuwa)	Application - Exploration Licence	Pending	N/A	9
RL0032/22 (Duwi)	Retention Licence	Granted	4-10-2027	24
AML0088 (Malingunde)	Application - Mining Licence	Pending	N/A	6
Total				45

APPENDIX 2 – MINERAL RESOURCES

Malingunde Project Mineral Resource Estimate ¹			
Mineral Resource Category	Tonnes (Mt)	Grade (% TGC)	Contained Graphite (MT)
Measured	4.8	8.5%	0.41
Indicated	32.3	7.2%	2.32
Inferred	27.9	7.0%	1.95
Total²	65.0	7.2%	4.68

Notes:

1. Malingunde Project Mineral Resource estimate is reported at a 6.75% TGC lower cut-off grade for saprolite and between 9.5% and 11.0% for saprock.
2. Any minor summation inconsistencies are due to rounding.



Duwi Project Mineral Resource Estimate

Deposit ¹	Mineral Resource Category	Tonnes (Mt)	Grade (% TGC)	Contained Graphite (MT)
Duwi Main	Indicated	35.2	7.2%	2.52
	Inferred	34.3	7.3%	2.49
	Total²	69.5	7.2%	5.01
Duwi Bend	Inferred	7.8	7.2%	0.56
Nyama	Inferred	8.6	6.5%	0.56
Duwi Project	Indicated²	35.2	7.2%	2.52
	Inferred²	50.7	7.1%	3.61
	Total²	85.9	7.1%	6.13

Notes:

1. Duwi Project Mineral Resource estimate is reported at a 5% TGC lower cut-off grade.
2. Any minor summation inconsistencies are due to rounding.