2015 ANNUAL REPORT

SOVEREIGN
METALS LIMITED
ABN 71 120 833 427

CORPORATE DIRECTORY

DIRECTORS

Mr Ian Middlemas – Chairman
Mr Matthew Syme – Managing Director
Mr Peter Woodman – Technical Director
Mr Mark Pearce – Non-Executive Director

COMPANY SECRETARY

Mr Clint McGhie

REGISTERED AND PRINCIPAL OFFICE

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STOCK EXCHANGE LISTING

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Home Branch – Perth
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152-158 St Georges Terrace
Perth WA 6000

ASX CODE

SVM – Fully paid ordinary shares

SOLICITORS

DLA Piper (formerly Hardy Bowen Lawyers)

AUDITOR

Deloitte Touche Tohmatsu

BANKERS

Australia and New Zealand Banking Group Limited

CONTENTS

DIRECTORS' REPORT
30 June 2015

The Directors of Sovereign Metals Limited present their report on the Consolidated Entity 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 2015 ("Consolidated Entity" or "Group").

OPERATING AND FINANCIAL REVIEW

Operations

Sovereign is focussed on exploration and development of the large and highly prospective, 100% owned Central Malawi Graphite Project located in Malawi, near the capital city, Lilongwe.

Highlights during, and subsequent to, the financial year end include:

- ***Maiden Mineral Resource Estimate for the Duwi Project.***
  - *Total Indicated and Inferred Mineral Resource estimate at Duwi of **86Mt at 7.1% TGC** (total graphitic carbon), containing **6.13Mt of graphite** (5% TGC cut-off).*
- ***Independent metallurgical testwork program confirms high grade concentrate and substantial large flake properties.***
  - *Results from a bench-scale testwork program conducted by SGS Canada Inc. confirmed the outstanding large flake characteristics of Duwi fresh rock concentrates.*
  - *Further metallurgical development work on samples of graphite ore from Duwi demonstrated that high-grade flake graphite concentrates can be produced through conventional mineral processing techniques (combination of comminution and flotation techniques) without chemical or thermal purification:*
    - *Jumbo flake concentrates grading up to **99.2% C(t)** with combined coarse and jumbo flake categories (+150μm) averaging **97.5% C(t).***
    - *Combined concentrates across all flake size fractions grading up to **96.6% C(t)**.*
- ***Completion of Scoping Study confirming Duwi as a potential world class, high margin flake graphite project***
  - *The Study confirmed Duwi can support a Base Case scenario with graphite concentrate production of ~110,000 tonnes per annum over an initial mine life of 20 years.*
  - *Life of mine operating cost estimate of US$498 per tonne of concentrate (including transport costs FOB Nacala Port) mean excellent operating margins.*
  - *Initial capital investment of US$112m (before contingency) with a 1.7 year payback.*
  - *Very low life of mine strip ratio of 0.67:1.00 waste:ore.*
  - *Concentrate flake size and purity 'footprint' indicates suitability for use in a wide range of traditional and emerging end-use applications.*
  - *Significant infrastructure advantages including proximity to existing rail, grid power, labour and fresh water supplies.*
- ***Encouraging Results from Saprolite Hosted Graphite Work:***
  - *Ground EM surveys highlight 43 priority conductors at Lifidzi Prospect and 20 at Malingunde Prospect, where bedrock geology and a deep, preserved weathering profile favour the formation of saprolitic flake graphite deposits.*
  - *Hand augering shows 19 of 43 (44%) conductors at Lifidzi are saprolitic graphite gneiss.*
  - *Significant assays of saprolite mineralisation received to date from Lifidzi average 6.5% and peak at 12.0% TGC (4% TGC lower cut-off).*
- ***Ongoing discussions with potential Offtake and Financing Partners in South East Asia.***

OPERATING AND FINANCIAL REVIEW (continued)

Duwi Flake Graphite Project

The Duwi Flake Graphite Project ("Duwi") is located within Sovereign's 100%-owned Exclusive Prospecting License EPL0372 in Malawi, near the capital city of Lilongwe.

In central Malawi, mineralised graphitic gneisses occur in numerous bands ranging from a few metres to up to one hundred metres thick over many hundreds of kilometres of cumulative strike length. These occur within a thick package of garnet-biotite paragneisses that underlay much of central Malawi.

At the Duwi trend, high-grade, coarse flake graphite mineralisation has been identified over a cumulative ~24km strike length. Just ~2km of this trend has been drilled by Sovereign, resulting in the definition of the Duwi Main, Duwi Bend and Nyama graphite deposits.

Regional geological, magnetic, Heli-VTEM and Sovereign mapping to date show that substantial potential exists for the discovery of additional large graphite deposits within Sovereign's tenements.

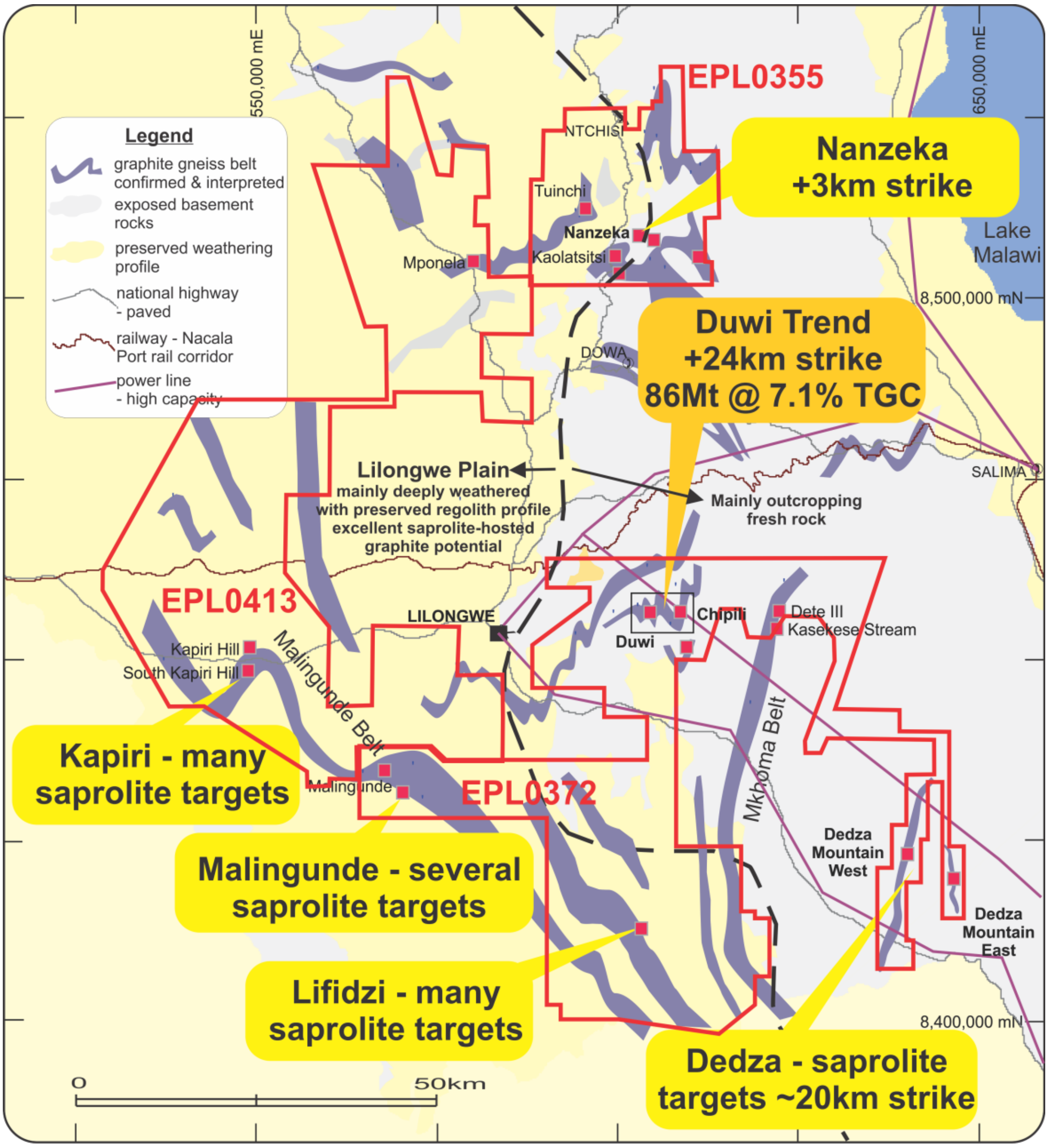

Figure 1. Simplified map showing major flake graphite prospects.

Drilling

The 2014 drilling program at the Duwi Project was completed in September 2014. A total of 5,285 metres of combined RC and diamond drilling was undertaken in 48 drill-holes.

The Duwi Main, Duwi Bend and Nyama prospects have thick zones of graphite mineralisation over a cumulative drilled strike length of ~2.2km. In particular, the Duwi Main zone has shown a number of thick, high grade graphite intercepts that begin at surface. This area was drilled at a higher density, nominally 50m by 100m, in order to provide more comprehensive data for the likely initial area of focus for a mining study.

Results from the 2014 drilling program included:

DWRC0013: ***84m @ 9.8 %TGC*** *(from 24m)*

inc. 20m @ 12.8% TGC & 16m @11.0% TGC

DWRC0002: ***74m @ 9.4 % TGC*** *(from 8m)*

inc. 10m @ 12.0% TGC & 14m @ 11.1% TGC

DWRC0036: ***76m @ 9.3%TGC*** *(from 138m)*

inc. 20m @ 11.7% TGC

DWRC0025: ***52m @ 9.5% TGC*** *(from 2m)*

inc. 22m @ 11.9% TGC

DWRD0009: ***47m @ 8.8% TGC*** *(from 66m)*

inc. 14m @ 10.1% TGC

DWDD0011: ***74m @ 9.7% TGC*** *(from 6m)*

inc. 54m @ 10.1% TGC

All three deposits drilled within the Duwi trend remain open down dip and along strike, suggesting that further drilling should be able to substantially expand the Mineral Resource.

Mineral Resource Estimate

Following completion of the 2014 resource drilling program, CSA Global Pty Ltd was engaged to complete the maiden Mineral Resource Estimate (“MRE”) for Duwi. MRE’s were determined for three zones of mineralisation, being Duwi Main, Duwi Bend and Nyama. The MRE’s were reported in accordance with the JORC Code (2012 Edition) (refer ASX Announcement dated 17 October 2014).

The MRE’s show a large body of flake graphite mineralisation at the Duwi Main Deposit, with smaller deposits at Duwi Bend and Nyama, all totalling 86Mt at 7.1% TGC (Indicated + Inferred), using a 5% TGC lower cut-off grade, as presented in Table 1.

Greater than 40% of the total MRE is in the Indicated category (above a 5% TGC cut-off grade). All of the Indicated material occurs in a coherent zone within 150m of surface in the central and eastern parts of the Duwi Main deposit, where drilling is generally on 100m x 50m spacing. At a 5% TGC lower cut-off the Indicated portion of the resource is 35Mt at 7.2% TGC. Using a higher cut-off grade at 7% TGC, the Indicated Resource component is 17Mt at 8.1% TGC.

OPERATING AND FINANCIAL REVIEW (continued)

Table 1. Duwi Main, Duwi Bend and Nyama Resources at 5% TGC lower cut-off grade.

Deposit	Category	Tonnage (MT)	Grade (% TGC)	Contained Graphite (MT)
Duwi Main	Indicated	35.2	7.2	2.52
	Inferred	34.3	7.3	2.49
	Total	**69.5**	**7.2**	**5.01**
Duwi Bend	Indicated	-	-	-
	Inferred	7.8	7.2	0.56
	Total	**7.8**	**7.2**	**0.56**
Nyama	Indicated	-	-	-
	Inferred	8.6	6.5	0.56
	Total	**8.6**	**6.5**	**0.56**
Total	Indicated	35.2	7.2	2.52
	Inferred	50.7	7.1	3.61
	Total	**85.9**	**7.1**	**6.13**

Metallurgy

During the year, an independent bench-scale metallurgical testwork program for Duwi was conducted by SGS Canada Inc. The primary objective of the testwork was to independently verify the results from 2013 testwork at MINTEK Johannesburg by employing similar test work equipment and conditions, prior to proceeding to the next phase of testwork.

The overall size distribution and grade of the MINTEK and SGS test were very similar. Concentrate grades of the three coarsest size fractions were all within 0.7% carbon content between the two laboratories, indicating excellent concentrate grade repeatability.

SGS also completed a number of additional batch flotation tests on the master composite sample to assess the impact of a range of processing alternatives, principally grinding and polishing times and reagent variations. These tests provided further information on the effect of different potential process flowsheets on concentrate grade, flake size distribution and recovery.

Follow up test-work undertaken at SGS in 2015 has demonstrated that very high grade concentrates, with a substantial portion of Large and Jumbo flake, can be produced with a combination of comminution and flotation techniques only.

The major difference in this metallurgical program was the addition of an attrition scrubbing stage to upgrade the concentrates to >95% C(t), as opposed to the circa 91% to 92% C(t) concentrates previously produced at Mintek and SGS. A total of six separate attrition tests were carried out under slightly differing conditions for each. An example of results for one of these is shown in Table 2.

Overall, the attrition tests produced excellent upgrading results with concentrates averaging 96.2% C(t) with some of the jumbo flake portions grading as high as 99.2% C(t). Importantly, these results show that Duwi flake graphite can consistently be upgraded to >95% C(t) and hence has the flake size and grade characteristics pre-requisite for producing Li-ion battery grade spherical graphite. Additionally, this test-work showed that slightly altering the grinding and attritioning conditions can produce higher grades (i.e. >95% C(t)) and slightly finer flake distribution OR can be set to produce lower grades (i.e. ~92% C(t)) with excellent coarse flake distribution. This will provide the Company maximum flexibility to produce flake graphite concentrates to order for specific applications.

Table 2. Results of attrition scrubbing tests on B2 concentrate Test # U-15.

		U-15	
Mesh	**Micron**	**Assays % [1]C (t)**	**Distribution % C (t)**
+48 mesh	+300 µm	*97.6*	20.6
-48/+100 mesh	-300/+150 µm	*97.1*	28.9
-100/+200 mesh	-150/+75 µm	*96.8*	22.8
-200 mesh	-75 µm	*95.1*	27.7
Avg. ->	Total ->	*96.6*	100.0

[1] The chemical analysis used to determine the total carbon content employs combustion of a sample followed by infrared detection on a LECO SC-632 instrument. All reported analytical results have an associated measurement uncertainty based on the expected precision and accuracy relating to the method and sample concentration. Values at 100% should not be treated as pure products without additional impurity testing. The estimated measurement uncertainty for total carbon values greater than 90% C is 1.7% (relative) with a resolution of 1 significant figure.

Overall carbon recoveries ranged between 83% and 89% across tests B2 (U13-U18). However, as the test-work was not closed circuit, it is expected that the actual recoveries will be higher.

This latest phase of metallurgical test-work has shown that Duwi can consistently produce graphite concentrates with an excellent coarse and jumbo flake size distribution and very high grade concentrates using only simple physical comminution (crushing, grinding, and scrubbing) and flotation. This means that the Company is in a position to potentially produce a large range of different graphite concentrates possibly suited to variety of downstream application including refractories and products for emerging markets such as Li-ion battery anodes.

Summary of Scoping Study

Sovereign engaged Nova Projects Pty Ltd ("Nova"), a specialist engineering and metallurgical consultancy with considerable expertise in Malawi, to prepare a Scoping Study ("Study") evaluating the production and export of flake graphite products from Duwi. The focus of the Study was the Duwi Main and Duwi Bend deposits which collectively total 77.3 Mt at 7.2% total graphitic carbon ("TGC") (Indicated and Inferred) for 5.57 Mt contained graphite (5% TGC cut-off).

Results of the Study were reported in September 2015 and confirmed Duwi as a potential world class, high margin flake graphite project (refer ASX Announcement 1 September 2015).

The Study considered two production scenarios:

- **The 1.5 Mtpa Base Case ("Base Case")**: Processing 30 Mt of Indicated and Inferred material from Duwi Main and Duwi Bend at a rate of 1.5 Mtpa over a 20-year life to produce approximately 110,000 tpa of flake graphite concentrate (>95% TGC). The life of mine ("LOM") throughput of 30 Mt comprises 77% in the Indicated mineral resource category and 23% in the Inferred category.
- **The 0.55 Mtpa Low Tonnage Case ("Low Tonnage Case")**: Mining and processing of 11 Mt of Indicated Duwi Main ore at a mining and processing rate of 0.55 Mtpa over a 20-year life to produce approximately 40,000 tpa of flake graphite concentrate. The 11 Mt is comprised entirely of material in the Indicated mineral resource category.

OPERATING AND FINANCIAL REVIEW (Continued)

The Study adopted the Base Case for the project assessment, focussing on the development of a 1.5 Mtpa mining and processing project. Cost estimates and production parameters for the Low Tonnage Case were extrapolated from the Base Case. The study highlights included:

- Simple open pit mining, amenable to a contract mining operation with a very low strip ratio of 0.67 for the Base Case and 0.51 for the Low Tonnage Case.
- High graphite recoveries (93.7%) using a simple flotation-based flowsheet to achieve high grade (>95% TGC) products, without further chemical processing.
- Ongoing test-work has confirmed the world class, large flake characteristics of Duwi concentrates with 63% > 150 µm including 33.5% in the highest value extra-large / jumbo (+300 µm) flake fraction. The proportion of jumbo and large flake is among the highest reported flake distributions of graphite projects worldwide and significantly enhances the Project's commercial appeal.
- A long life of mine (LOM) over 20 years with an opportunity to use flexible production configurations. Both production cases suggested very profitable operations allowing a flexible approach to staging processing capacity and product composition to generate optimum cashflow outcomes.
- Low operating costs of $36.90 per tonne ore processed or $498 per tonne concentrate loaded (FOB) at the Mozambique port of Nacala.
- Initial capital investment of US$112m (excluding a US$26m contingency, sustaining/deferred, working and owner's costs) for the Base Case and US$55m for the Low Tonnage Case.
- The Project's location only 15 km from Lilongwe provides excellent access to services and infrastructure, including 25km haul to existing railway infrastructure, access to power and water capable of being sourced within the Project area.

The positive outcomes of the Scoping Study support the ongoing development of Duwi. The Company will continue with ongoing metallurgical testwork, including an assessment of end use application suitability, and will now look to proceed to the next stage of development with a pre-feasibility study.

Saprolite Targets at Lifidzi and Malingunde

Sovereign initially discovered widespread saprolite hosted graphite mineralisation at the Dedza Prospect and metallurgical test-work on samples from Dedza subsequently indicated very favourable large flake characteristics (ASX Announcement 17 June 2014).

After assessing the potential cost advantages and high value flake characteristics of saprolite-hosted graphite, Sovereign's attention turned to its permits at Lifidzi, Malingunde and Kapiri. These three new areas occur on the Lilongwe Plain, which has a largely preserved, deep tropical weathering profile and therefore potentially significant thicknesses of saprolite. Overall, the Company controls a vast area prospective for saprolitic graphite deposits with Lifidzi ~ 900km^2, Malingunde ~140km^2 and Kapiri ~ 2,165km^2.

During the year, the Company completed a program of ground electromagnetic (EM) surveys at Dedza, Lifidzi and Malingunde and hand auger drilling at Lifidzi and Malingunde.

Collectively four major saprolite-hosted graphite prospects have been identified by hand auger drilling (Ndumila II at Malingunde and Thete, Chiziro and Junction at Lifidzi). These prospects have been shown to be very substantial with widths ranging from 20m to over 100m across strike and strike lengths of generally 1 to 2km, open in both directions. All mineralised auger holes ended in saprolite at depths between 6m and 12m due to the presence of water (and hence the limit of hand auger drilling). This indicates a deep saprolite profile is potentially present.

Less than 10% of the combined area at Malingunde and Lifidzi has been explored with ground EM and hand auger drilling. At Kapiri, to the north of Malingunde, a large area underlain by conductive rocks shows a number of sub-cropping graphite occurrences, and importantly has a mostly preserved, deep weathering profile, suggesting additional significant potential for saprolite-hosted flake graphite mineralisation.

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 2015, Sovereign's interest in the CJV has reduced to 34.40% (30 June 2014: 37.48%).

Corporate

Offtake and Financing

During the year, the Company commenced discussions with potential offtake and financing partners in South East Asia. In April 2015, Sovereign appointed Shanghai Bewin Corporation Management Consulting Co as an agent in China to assist in the identification of potential partners.

The Company also engaged Empire Capital Partners in August 2015 to advise and represent the Company in ongoing discussions with potential offtake and financing partners in the graphite sector in South East Asia. As part of Sovereign's engagement with Empire, the Company undertook a placement of $0.5 million at $0.06 per share to sophisticated investors introduced by Empire.

Entitlements Issue

In February 2015, the Company advised that it would undertake a non-renounceable entitlements issue ("Entitlements Issue"). Under the Entitlements Issue, Shareholders were entitled to acquire one new share for every five shares held at the record date (18 March 2015) at an issue price of $0.06 per new share.

As at the closing date, the Company had received applications for 14,829,812 new shares raising $0.89 million before costs and the new shares were issued on 17 April 2015. 5,916,666 Shares of the shortfall were issued on 9 July 2015, with the Entitlements Issue raising a total of $1.24 million before costs.

Results of Operations

The net loss of the Consolidated Entity for the year ended 30 June 2015 was $4,089,290 (2014: $2,256,694). This loss is partly attributable to:

- The Consolidated Entity's accounting policy of expensing exploration and evaluation expenditure incurred by the Consolidated Entity subsequent to acquisition of the rights to explore and up to the completion of feasibility studies. During the year, exploration expenditure totalled $2,879,840 (2014: $1,688,996).
- Business development activities conducted by the Consolidated Entity during the year. Business development expenditure totalled $461,258 for the year (2014: $39,957).
- Share based payment expenses totalling $827,143 (2014: $38,661) relating to the grant of performance rights and incentive options. The fair value of the incentive options and performance rights is recognised over the vesting period of the option or right.

Financial Position

The Company had cash reserves of $1,065,789 as at 30 June 2015. The Company completed an Entitlement Issue during the year raising $889,789 million (before costs) which was primarily used to accelerate Sovereign's exploration and testwork programs for the Central Malawi Graphite Project.

The Consolidated Entity had net assets of $7,619,834 at 30 June 2015 (2014: $9,976,110), a decrease of $2,356,276 or approximately 24% compared with the previous year. This decrease is consistent with the net loss for the year of $4.1 million, offset by non-cash expenses of $0.8 million and the increase in cash reserves following the funds raised as part of the Entitlement Issue of $0.9 million.

OPERATING AND FINANCIAL REVIEW (Continued)

Business Strategies and Prospects for Future Financial Years

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

To date, the Consolidated Entity has not commenced production of any minerals, nor has it identified a Mineral Resource in accordance with the JORC Code. To achieve its objective, the Company currently has the following business strategies and prospects over the medium to long term:

- Secure a strategic partner and/or offtake agreement for the Central Malawi Graphite Project.
- Continue metallurgical and mineralogical test work on core samples from the drilling program completed at the Central Malawi Graphite Project.
- Complete a Pre-Feasibility Study ("PFS") on the Duwi Project.
- Conduct further field work to follow up the large number of saprolite targets identified at Lifidzi and Malingunde.
- 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 Consolidated Entity's future prospects, and how the Consolidated Entity 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 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 activates 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 of the current financial market turmoil 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. If these increased levels of volatility and market turmoil continue, the Company's activities could be adversely impacted and the trading price of the Company's shares could be adversely affected.

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
Mr Matthew Syme	Managing Director
Mr Peter Woodman	Technical Director
Mr Mark Pearce	Non-Executive Director

Unless otherwise disclosed, Directors held their office from 1 July 2014 until the date of this report.

CURRENT DIRECTORS AND OFFICERS

Ian Middlemas
Chairman
Qualifications – B.Com, CA

Mr Middlemas is a Chartered Accountant, a member of the Financial Services Institute of Australasia 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 with 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 Paringa Resources Limited (October 2013 – present), Berkeley Resources Limited (April 2012 – present), Prairie Mining Limited (August 2011 – present), Pacific Ore Limited (April 2010 – present), Wildhorse Energy Limited (January 2010 – present), Equatorial Resources Limited (November 2009 – present), WCP Resources Limited (September 2009 – present), Odyssey Energy Limited (September 2005 – present), Papillon Resources Limited (May 2011 – October 2014), Sierra Mining Limited (January 2006 – June 2014) and Decimal Software Limited (July 2013 – April 2014).

Matthew Syme
Managing Director
Qualifications – B.Com, CA

Mr Syme is a Chartered Accountant and an accomplished mining executive with over 26 years' experience in senior management roles in Australia and overseas. He was a Manager in a major international Chartered Accounting firm before spending 3 years as an equities analyst in a large stockbroking firm. He was then Chief Financial Officer of Pacmin Mining Limited, a successful Australian gold mining company.

Mr Syme has considerable experience in managing mining projects in a wide range of commodities and countries. He most recently held the position of Managing Director of copper-gold developer Sierra Mining Limited, which merged with RTG Mining Inc in early June 2014. Mr Syme was responsible for the acquisition of Sierra's key Mabilo Project in late 2011.

Prior to joining Sierra in 2010 he was Managing Director of Berkeley Resources Limited where he successfully guided the acquisition and scoping studies of Berkeley's Salamanca Uranium Project in Spain.

Mr Syme was appointed a director of Sovereign Metals Limited on 5 June 2014. During the three year period to the end of the financial year, Mr Syme has held directorships in Wildhorse Energy Limited (April 2015 – present), RTG Mining Inc. (June 2014 – September 2014), Sierra Mining Limited (July 2010 – June 2014) and Berkeley Resources Limited (August 2004 – August 2012).

CURRENT DIRECTORS AND OFFICERS (Continued)

Peter Woodman
Technical Director
Qualifications – B.Sc. (Geology), MAusIMM

Mr Woodman is a Geologist with over 25 years' experience in exploration, development and operations in the resources sector. He is a graduate of the Australian National University and is a corporate member of the Australian Institute of Mining and Metallurgy.

Mr Woodman has worked for a number of mining companies during his extensive career in the resources sector and most recently held the position of Chief Executive Officer of Wedgetail Mining Limited where he oversaw the successful completion of the bankable feasibility study for the Nullagine Gold Project. Prior to his role with Wedgetail Mining Ltd, he held positions with Samantha Gold NL, Ranger Minerals NL, Hellman & Schofield Pty Ltd, Centamin Egypt Ltd and Kingsgate Consolidated Ltd. His background is in management, exploration planning and execution, resource development and mining operations both in Australia and overseas.

Mr Woodman was appointed a Director of Sovereign Metals Limited on 10 May 2007. During the three year period to the end of the financial year, Mr Woodman has held directorships in WCP Resources Limited (August 2010 – present), Equatorial Resources Limited (April 2010 – present) and Papillon Resources Limited (May 2011 – June 2014).

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 Wildhorse Energy Limited (August 2014 – present), Prairie Mining Limited (August 2011 – present), Pacific Ore Limited (April 2010 – present), Equatorial Resources Limited (November 2009 – present), WCP Resources Limited (September 2009 – present), Odyssey Energy Limited (September 2005 – present) and Decimal Software Limited (July 2013 – April 2014).

Mr Clint McGhie
Company Secretary
Qualifications – B.Com, CA, ACIS, FFin

Mr McGhie is a Chartered Accountant and Chartered Secretary. He commenced his career at a large international Chartered Accounting firm, before moving to commerce in the role of financial controller and company secretary. Mr McGhie now works in the corporate office of a number of public listed companies focussed on the resources sector.

Mr McGhie was appointed Company Secretary of Sovereign Metals Limited on 20 July 2006.

PRINCIPAL ACTIVITIES

The principal activities of the Consolidated Entity 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.

EMPLOYEES

	2015	2014
The number of full time equivalent people employed by the Consolidated Entity at balance date	8	11

DIVIDENDS

No dividends have been declared, provided for or paid in respect of the financial year ended 30 June 2015.

EARNINGS PER SHARE

	2015 Cents	2014 Cents
Basic loss per share	(3.98)	(2.80)
Diluted loss per share	(3.98)	(2.80)

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

	2015 $	2014 $
Loss of the Consolidated Entity before income tax expense	(4,089,290)	(2,256,694)
Income tax expense	-	-
Net loss	**(4,089,290)**	(2,256,694)

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) On 29 August 2014, Shareholders approved Sovereign's Performance Rights Plan. Following the approval of the plan, 3.7 million Performance Rights were issued on 5 September 2014. The Performance Rights issued have expiry dates ranging from 31 December 2015 to 31 December 2018.

(ii) On 17 October 2014, the Company announced an Indicated and Inferred Mineral Resource estimate at the Company's Duwi Project of 86Mt at 7.1% TGC (total graphitic carbon), containing 6.13Mt of graphite (5% TGC cut-off).

(iii) On 9 December 2014, the Company issued 9,500,000 Ordinary Shares upon the conversion of 8,750,000 Performance Shares and 750,000 Performance Rights following the achievement of Resource milestone.

(iv) On 24 February 2015, the Company announced that it would undertake a 1 for 5 Entitlement Issue to raise $1.25 million (before costs). The Entitlements Issue closed on 10 April 2015, with applications for 14,829,812 Ordinary Shares to raise $0.89 million before costs, and the new Shares were issued on 17 April 2015.

SIGNIFICANT POST BALANCE DATE EVENTS

(i) On 9 July 2015, the Company has completed the placement of 5,916,666 Shares of the shortfall at an issue price of $0.06 each under the one for five non-renounceable entitlements issue raising an additional $355,000 (before costs).

(ii) On 13 August 2015, the Company engaged Empire Capital Partners ("Empire") to advise and represent the Company in ongoing discussions with potential offtake and financing partners in the graphite sector in South East Asia.

As part of Empire's engagement, the Company undertook an immediate placement of 8,333,333 Shares at $0.06 per share to sophisticated investors introduced by Empire raising $0.5 million (before costs). In addition, the Company issued 1,416,667 unlisted options exercisable at $0.15 each on or before 30 September 2018 ("$0.15 Options") and 1,000,000 unlisted options exercisable at $0.10 each on or before 30 June 2018 ("$0.10 Options") to Empire.

(iii) On 1 September 2015, the Company released the results of a Scoping Study on the Duwi Flake Graphite Project. The Study confirmed that Duwi can support a base case scenario with graphite concentrate production of approximately 110,000 tonnes per annum over an initial mine life of 20 years.

(iv) On 16 September 2015, the Company announced the results of further metallurgical development work on samples from the Duwi. The testwork demonstrates that very high grade concentrates, with a substantial portion of Large and Jumbo flake, can be produced with a combination of comminution and flotation techniques only.

Other than the above, there are no matters or circumstances which have arisen since 30 June 2015 that have significantly affected or may significantly affect:

- the operations, in financial years subsequent to 30 June 2015 of the Consolidated Entity;
- the results of those operations, in financials years subsequent to 30 June 2015 of the Consolidated Entity; or
- the state of affairs, in financial years subsequent to 30 June 2015 of the Consolidated Entity.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The Consolidated Entity'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 Consolidated Entity during the financial year.

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)]	$0.33 Incentive Options[(ii)]	$0.40 Incentive Options[(iii)]	$0.47 Incentive Options[(iv)]	Performance Rights[(v)]
Ian Middlemas	4,060,000	-	-	-	-
Matthew Syme	252,000	1,500,000	1,500,000	1,500,000	300,000
Peter Woodman	360,000	-	-	-	900,000
Mark Pearce	459,691	-	-	-	300,000

Notes:
(i) "Ordinary Shares" means fully paid ordinary shares in the capital of the Company;
(ii) "$0.33 Incentive Options" means an option to subscribe for 1 ordinary Share in the capital of the Company at an exercise price of $0.33 on or before 15 May 2016;
(iii) "$0.40 Incentive Options" means an option to subscribe for 1 ordinary Share in the capital of the Company at an exercise price of $0.40 on or before 15 May 2017;
(iv) "$0.47 Incentive Options" means an option to subscribe for 1 ordinary Share in the capital of the Company at an exercise price of $0.47 on or before 15 May 2018; and
(v) "Performance Rights" means the right to subscribe for 1 ordinary Share in the capital of the Company upon the completion of specific performance milestones by the Company.

SHARE OPTIONS AND PERFORMANCE RIGHTS

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

- 250,000 $0.22 incentive options expiring 30 September 2015;
- 1,500,000 $0.33 incentive options expiring 15 May 2016;
- 1,500,000 $0.40 incentive options expiring 15 May 2017;
- 1,500,000 $0.47 incentive options expiring 15 May 2018;
- 750,000 Performance Rights at no exercise price that expire on 31 December 2016;
- 1,100,000 Performance Rights at no exercise price that expire on 31 December 2017;
- 1,100,000 Performance Rights at no exercise price that expire on 31 December 2018;
- 1,000,000 $0.10 unlisted options expiring 30 June 2018; and
- 1,416,667 $0.15 unlisted options expiring 30 June 2018.

During the year ended 30 June 2015 and up to the date of this report, 750,000 ordinary shares have been issued as a result of the exercise of performance rights. No ordinary shares have been issued as a result of the exercise 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 2015, and the number of meetings attended by each Director.

Current Directors	Board Meetings Eligible to Attend	Board Meetings Attended
Ian Middlemas	4	4
Matthew Syme	4	4
Peter Woodman	4	3
Mark Pearce	4	4

The Board currently does not have any committees, however this will be reviewed should the size and nature of the Company's activities change.

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 $7,982 in respect of Directors' and Officers' Liability Insurance and Company Reimbursement policies for the 12 months ended 30 June 2016 (2015: $9,083), 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.

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 were as follows:

Directors	
Mr Ian Middlemas	Chairman
Mr Matthew Syme	Managing Director
Mr Peter Woodman	Technical Director
Mr Mark Pearce	Non-Executive Director
Other KMP	
Mr Clint McGhie	Company Secretary

Unless otherwise disclosed, the KMP held their position from 1 July 2014 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. Non-cash benefits may include provision of working directors insurance and life insurance premiums.

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.

No bonuses were paid, payable or forfeited during the current financial year.

Performance Based Remuneration – Long Term Incentive

In July 2014, the Company adopted a long-term incentive plan ("LTIP") comprising the "Sovereign Performance Rights Plan" (the "Plan") to reward KMP and key employees and contractors for long-term performance. Shareholders approved the Plan in August 2014 at a General Meeting of Shareholders and Performance Rights were issued under the Plan in September 2014.

The Plan provides for the issuance of unlisted performance share rights ("Performance Rights") which, upon satisfaction of the relevant performance conditions attached to the Performance Rights, will result in the issue of an Ordinary Share for each Performance Right. Performance Rights are issued for no consideration and no amount is payable upon conversion thereof.

To achieve its corporate objectives, the Company needs to attract and retain its key staff, whether employees or contractors. The Board believes that grants made to eligible participants under the Plan will provide a powerful tool to underpin the Company's employment and engagement strategy, and that the implementation of the Plan will:

(a) enable the Company to incentivise and retain existing key management personnel and other eligible employees and contractors needed to achieve the Company's business objectives;

(b) enable the Company to recruit, incentivise and retain additional key management personnel and other eligible employees and contractors needed to achieve the Company's business objectives;

(c) link the reward of key staff with the achievements of strategic goals and the long term performance of the Company;

(d) align the financial interest of participants of the Plan with those of Shareholders; and

(e) provide incentives to participants of the Plan to focus on superior performance that creates Shareholder value.

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

Prior to the adoption of the Plan, the Board has 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.

REMUNERATION REPORT (AUDITED) (Continued)

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 (2014: $36,000) and fees for Non-Executive Directors' are $20,000 per annum (2014: $20,000). 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.

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.

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 bonus was paid 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 Binomial 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 Director and KMP of the Company for the year ended 30 June 2015 and 30 June 2014 are as follows:

2015	Short-Term Benefits Salary & Fees $	Cash Bonus $	Post Employment Superann-uation $	Equity Options $	Other Non-Cash Benefits(iii) $	Total $	Percentage Performance Related %
Directors							
Ian Middlemas (i)	24,000	-	-	-	-	24,000	-
Matthew Syme(ii)	159,167	-	11,083	382,708	9,971	562,929	67%
Peter Woodman	20,000	-	1,900	181,139	-	203,039	89%
Mark Pearce	20,000	-	1,900	60,380	-	82,280	73%
Other KMP							
Clint McGhie(iv)	-	-	-	90,569	-	90,569	100%
	223,167	**-**	**14,883**	**714,796**	**9,971**	**962,817**	

Notes:

(i) Mr Middlemas elected to receive a reduced fee of $24,000 for the 2105 Financial year;

(ii) Effective 1 March 2015, Mr Syme will be employed as a consultant with a fixed fee of $1,000 per day;

(iii) Non-cash benefits include life insurance premiums paid for Mr Syme; and

(iv) Mr McGhie provides services as the Company Secretary through a services agreement with Apollo Group Pty Ltd. Apollo Group Pty Ltd, a company of which Mr Pearce is a Director and beneficial shareholder, was paid, or is payable $272,000 (2014: $288,000) for the provision of serviced office facilities and administration services during the year. With effect from 1 July 2015, the retainer payable to Apollo Group Pty Ltd for the provision of these services has reduced to $15,000 per month.

2014	Short-Term Benefits Salary & Fees $	Cash Bonus $	Post Employment Superann-uation $	Equity Options $	Other Non-Cash Benefits(ii) $	Total $	Percentage Performance Related %
Directors							
Ian Middlemas	36,000	-	-	-	-	36,000	-
Matthew Syme(i)	19,435	-	1,798	38,661	831	60,725	64%
Peter Woodman	20,000	-	1,850	-	-	21,850	-
Mark Pearce	20,000	-	1,850	-	-	21,850	-
Other KMP							
Clint McGhie(iii)	-	-	-	-	-	-	-
	95,435	**-**	**5,498**	**38,661**	**831**	**140,425**	

Notes:

(i) Mr Syme was appointed Managing Director of the Company on 5 June 2014. Mr Syme was paid $5,150 for provision of services prior to his commencement as Managing Director;

(ii) Non-cash benefits include life insurance premiums paid for Mr Syme; and

(iii) Mr McGhie provides services as the Company Secretary through a services agreement with Apollo Group Pty Ltd. Apollo Group Pty Ltd, a company of which Mr Pearce is a Director and beneficial shareholder, was paid $288,000 (2013: $284,000) for the provision of serviced office facilities and administration services during the year.

REMUNERATION REPORT (AUDITED) (Continued)

Options and Performance Rights Granted to Key Management Personnel

Details of unlisted Incentive Options granted by the Company to each KMP of the Group during the financial year are as follows:

2015	Options/ Rights(i)	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 2015
Directors								
Peter Woodman	Rights	29-Aug-14	31-Dec-15	-	0.336	300,000	100,680	300,000
Peter Woodman	Rights	29-Aug-14	31-Dec-16	-	0.336	300,000	100,680	-
Peter Woodman	Rights	29-Aug-14	31-Dec-17	-	0.336	300,000	100,680	-
Peter Woodman	Rights	29-Aug-14	31-Dec-18	-	0.336	300,000	100,680	-
Matthew Syme	Rights	29-Aug-14	31-Dec-15	-	0.336	100,000	33,560	100,000
Matthew Syme	Rights	29-Aug-14	31-Dec-16	-	0.336	100,000	33,560	-
Matthew Syme	Rights	29-Aug-14	31-Dec-17	-	0.336	100,000	33,560	-
Matthew Syme	Rights	29-Aug-14	31-Dec-18	-	0.336	100,000	33,560	-
Mark Pearce	Rights	29-Aug-14	31-Dec-15	-	0.336	100,000	33,560	100,000
Mark Pearce	Rights	29-Aug-14	31-Dec-16	-	0.336	100,000	33,560	-
Mark Pearce	Rights	29-Aug-14	31-Dec-17	-	0.336	100,000	33,560	-
Mark Pearce	Rights	29-Aug-14	31-Dec-18	-	0.336	100,000	33,560	-
Other KMP								
Clint McGhie	Rights	29-Aug-14	31-Dec-15	-	0.336	150,000	50,340	150,000
Clint McGhie	Rights	29-Aug-14	31-Dec-16	-	0.336	150,000	50,340	-
Clint McGhie	Rights	29-Aug-14	31-Dec-17	-	0.336	150,000	50,340	-
Clint McGhie	Rights	29-Aug-14	31-Dec-18	-	0.336	150,000	50,340	-

Notes:

(i) For details on the valuation of the Performance Rights, including models and assumptions used, please refer to Note 18 to the financial statements;

(ii) Each Performance Right converts into one Ordinary Share of Sovereign Metals Limited; and

(iii) The Performance Rights vest upon satisfaction of milestones. The Performance Rights will also immediately vest if a change of control event or financing event occurs in respect of the shares and/or assets of the Company.

2014	Options/ Rights(i)	Grant Date	Vesting Date(iii)	Expiry Date	Exercise Price $	Grant Date Fair Value(i) $	No. Granted(ii)	No. Vested At 30 June 2014	No. Vested At 30 June 2015
Director									
Matthew Syme	Options	20 May 14	15 May 15	15 May 16	$0.33	$0.114	1,500,000	-	1,500,000
Matthew Syme	Options	20 May 14	15 May 16	15 May 17	$0.40	$0.13	1,500,000	-	-
Matthew Syme	Options	20 May 14	15 May 17	15 May 18	$0.47	$0.145	1,500,000	-	-

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 and performance rights granted, exercised or lapsed for each Key Management Person of the Company or Group during the financial year are as follows:

2015	Options/ Rights Granted Value at Grant Date $	Options/ Rights Exercised/ Converted Value at Exercise Date $	Options/ Rights Lapsed Value at Time of Lapse $	Total Value of Options/ Rights Granted, Exercised and Lapsed $	Value of Options/ Rights included in Remuneration for the Period $	Percentage of Remuneration for the Period that Consists of Options/ Rights %
Directors						
Matthew Syme	134,240	33,560	-	134,240	382,708	67%
Peter Woodman	402,720	100,680	-(i)(ii)	402,720	181,139	89%
Mark Pearce	134,240	33,560	-(i)	134,240	60,380	73%
Other KMP						
Clint McGhie	201,360	50,340	-(i)	201,360	90,569	100%

Notes:
(i) 1,000,000 Unlisted Options exercisable at $0.30 expired on 30 September 2014.
(ii) 500,000 Unlisted Options exercisable at $0.35 expired on 31 March 2015.

2014	Options Granted Value at Grant Date $	Options Exercised Value at Exercise Date $	Options Lapsed Value at Time of Lapse $	Total Value of Options Granted, Exercised and Lapsed $	Value of Options included in Remuneration for the Period $	Percentage of Remuneration for the Period that Consists of Options %
Directors						
Matthew Syme	583,500	-	-	583,500	38,661	64%
Peter Woodman	-	-	-(i)	-	-	-
Mark Pearce	-	-	-(i)	-	-	-
Other KMP						
Clint McGhie	-	-	-(i)	-	-	-

Notes:
(i) 1,000,000 Unlisted Options exercisable at $0.25 expired on 31 March 2014.

REMUNERATION REPORT (AUDITED) (Continued)

Option and Performance Right Holdings of Key Management Personnel

2015	Held at 1 July 2014 (#)	Granted as Compen-sation (iii) (#)	Options/ Rights Exercised (#)	Options Expired (#)	Net Change Other (#)	Held at 30 June 2015 (#)	Vested and Exercisable at 30 June 2015 (#)
Directors							
Ian Middlemas	-	-	-	-	-	-	-
Matthew Syme	4,500,000	400,000	(100,000)	-	-	4,800,000	-
Peter Woodman	1,000,000	1,200,000	(300,000)	(1,000,000)	-	900,000	-
Mark Pearce	250,000	400,000	(100,000)	(250,000)	-	300,000	-
Other KMP							
Clint McGhie	250,000	600,000	(150,000)	(250,000)	-	450,000	-

Note:
(ii) 1,000,000 Unlisted Options exercisable at $0.30 expired on 30 September 2014.
(ii) 500,000 Unlisted Options exercisable at $0.35 expired on 31 March 2015.
(iii) Refer to note 18 for further details regarding the Performance Rights granted during the year.

Shareholdings of Key Management Personnel

2015	Held at 1 July 2014 (#)	Granted as compensation (#)	On Exercise of Options/ Rights (#)	Purchases (#)	Held at 30 June 2015 (#)
Directors					
Ian Middlemas	3,385,000	-	-	675,000(i)	4,060,000
Matthew Syme	110,000	-	100,000	42,000(i)	252,000
Peter Woodman	-	-	300,000	60,000(i)	360,000
Mark Pearce	283,076	-	100,000	76,615(i)	459,691
Other KMP					
Clint McGhie	189,465	-	150,000	67,892(i)	407,357

Note:
(i) Acceptance of pro-rata entitlements issue at an issue price of $0.06.

Loans to/from Key Management Personnel

No loans were provided to or received from KMP during the year ended 30 June 2015 (2014: Nil).

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, $272,000 (2014: $288,000) 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 arrears, with no fixed term. Effective 1 July 2015 the monthly retainer is $15,000. This item has been recognised as an expense in the Statement of Comprehensive Income. At 30 June 2015, $130,000 (2014: $48,000) was included as a current liability in the Statement of Financial Position.

Employment Contracts with Key Management Personnel

Mr Matthew Syme, Managing Director, had a letter of appointment with the Company dated 20 May 2014. 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. The contract provided for an annual salary of $200,000 plus superannuation and insurance benefits.

In February 2015, the Company and Mr Syme, agreed to amend the terms of his employment. Effective 1 March 2015, Mr Matthew Syme was employed under a consulting agreement with the Company, which provides for a consultancy fee at the rate of $1,000 per day for business development services provided by Mr Syme. Either party may terminate with three months written notice.

Mr Ian Middlemas, Non-Executive Chairman, has a letter of appointment confirming the terms and conditions of his appointment as a non-executive director and chairman of the Company dated 30 June 2015. Effective from 20 July 2006, Mr Middlemas has received a fee of $36,000 per annum plus superannuation.

Mr Peter Woodman, Technical Director (Non-Executive), has a letter of appointment confirming the terms and conditions of his appointment as a non-executive director of the Company dated 30 June 2015. Effective from 4 June 2014, Mr Woodman has received a fee of $20,000 per annum plus superannuation.

Mr Mark Pearce, Non-Executive Director, has a letter of appointment confirming the terms and conditions of his appointment as a non-executive director of the Company dated 30 June 2015. Effective from 20 July 2006, Mr Pearce has received a fee of $20,000 per annum plus superannuation.

End of Remuneration Report

DIRECTORS' REPORT (Continued)
30 June 2015

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 auditor's independence declaration is on page 25.

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

MATTHEW SYME
Managing Director

29 September 2015

Competent Person Statement

The information in this report that relates to Exploration Results for Duwi is extracted from the report entitled 'Maiden JORC Resource Confirms Duwi as one the World's Largest Graphite Deposits' dated 17 October 2014. The announcement is available to view on www.sovereignmetals.com.au. The information in the original ASX Announcement that related to Exploration Results was based on, and fairly represents, information compiled by Mr Peter Woodman, a Competent Person who is a Member of The Australasian Institute of Mining and Metallurgy. Mr Woodman is a director of Sovereign Metals Limited. Mr Woodman 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 including 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 Mineral Resources is extracted from the report entitled 'Maiden JORC Resource Confirms Duwi as one the World's Largest Graphite Deposits' dated 17 October 2014. The 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 Australasian Institute of Mining and Metallurgy. 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.

The information in this report that relates to the Scoping Study is extracted form the report entitled 'Scoping Study Confirms Potential For World Class, High Margin Flake Graphite Project at Duwi' dated 1 September 2015. The announcement is available to view on www.sovereignmetals.com.au.

- *The information in the original ASX Announcement that relates to metallurgy, processing and infrastructure is based on, and fairly represents, information compiled by Mr Les Middleditch, a Competent Person, who is a Member of The Australasian Institute of Mining and Metallurgy. Mr Middleditch is an employee of Nova Projects, an independent consulting engineering company. Mr Middleditch has sufficient experience which is relevant to the metallurgy under consideration and to the activity which 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 information in the original ASX Announcement that relates to Whittle optimisation is based on, and fairly represents, information compiled by Mr Sean Richardson, a Competent Person, who is a Member of The Australasian Institute of Mining and Metallurgy. Mr Richardson is an employee of Scindian Resource Consultants, an independent consulting mining engineering company. Mr Richardson has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which 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 including 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 Company advises that the information relating to the Scoping Study referred to in this report is based on lower-level technical and preliminary economic assessments, and is insufficient to support estimation of Ore Reserves or to provide assurance of an economic development case at this stage, or to provide certainty that the conclusions of the Scoping Study will be realised.

The information in this report that relates to Metallurgical Testwork Results is extracted from reports entitled 'Excellent High Grade Metallurgical Results from Duwi' dated 16 September 2015 and 'Further Metallurgical Testwork Confirms Exceptional Large Flake Characteristics' dated 21 October 2014. These reports are available to view on www.sovereignmetals.com.au. The information in the original ASX Announcement that related to Metallurgical Testwork Results were based on, and fairly represents, information compiled by Mr Oliver Peters, M.Sc., P.Eng., MBA, who is a Member of the Professional Engineers of Ontrario ('PEO'), a 'Recognised Professional Organisation' ('RPO'). Mr Peters is a consultant of SGS. SGS is engaged as a consultant by Sovereign Metals Limited. Mr Peters has sufficient experience, which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which 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 including 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.

Competent Person Statement (continued)

The information in this report that relates to Exploration Results, not including Geophysical Results, for Lifidzi is extracted for the report entitled 'June 2015 Quarterly Report' dated 31 July 2015. The announcement is available to view on www.sovereignmetals.com.au. The information in the original ASX Announcement that related to Exploration Results, not including Geophysical Results, for Lifidzi is based on information compiled by Dr Julian Stephens, a Competent Person who is a member of the Australasian Institute of Geoscientists (AIG). Dr Stephens is a consultant to Sovereign Metals Limited and is also a substantial holder of shares, and a holder of convertible performance shares and performance rights 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 including 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.

Production Target

The Production Target stated in this Report is based on the Company's Scoping Study for the Duwi Project as released to the ASX on 1 September 2015. The information in relation to the Production Target that the Company is required to include in a public report in accordance with ASX Listing Rule 5.16 was included in the Company's ASX Announcement released on 1 September 2015.

The Company confirms that the material assumptions underpinning the Production Target referenced in the 1 September 2015 release continue to apply and have not materially changed.

Forward Looking Statement

Statements regarding plans with respect to the Company's mineral properties are forward-looking statements. There can be no assurance that the Company's plans for development of its mineral properties will proceed as currently expected. There can also be no assurance that the Company will be able to confirm the presence of additional mineral deposits, that any mineralisation will prove to be economic or that a mine will successfully be developed on any of the Company's mineral properties.

Deloitte.

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

29 September 2015

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 2015, 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

Neil Smith
Partner
Chartered Accountants

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2015

	Notes	2015 $	2014 $
Continuing Operations			
Revenue	2(a)	**38,972**	**31,805**
Other income/ (expense)	2(b)	4,810	(1,565)
Exploration and evaluation expenses		(2,879,840)	(1,688,996)
Corporate and administrative expenses		(791,974)	(557,981)
Business development expenses		(461,258)	(39,957)
Loss before income tax		**(4,089,290)**	**(2,256,694)**
Income tax expense	3	-	-
Loss for the year		**(4,089,290)**	**(2,256,694)**
Loss attributable to members of the parent		**(4,089,290)**	**(2,256,694)**
Other Comprehensive Income, net of income tax:			
Items that will not be reclassified subsequently to profit or loss		**-**	**-**
Items that may be reclassified subsequently to profit or loss			
Exchange differences on Foreign entities		34,026	(3,503)
Other comprehensive loss for the year, net of income tax		**34,026**	**(3,503)**
Total comprehensive loss for the year		**(4,055,264)**	**(2,260,197)**
Loss attributable to members of Sovereign Metals Limited		**(4,089,290)**	**(2,256,694)**
Total comprehensive loss attributable to members of Sovereign Metals Limited		**(4,055,264)**	**(2,260,197)**
Basic loss per share from continuing operations (cents per share)	13	(3.98)	(2.80)
Diluted loss per share from continuing operations (cents per share)	13	(3.98)	(2.80)

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
FOR THE YEAR ENDED 30 JUNE 2015

SOVEREIGN METALS LIMITED

	Notes	2015 $	2014 $
Current Assets			
Cash and cash equivalents	12(b)	1,065,789	3,030,676
Trade and other receivables	4	34,311	50,818
Total Current Assets		**1,100,100**	**3,081,494**
Non-current Assets			
Property, plant and equipment	5	170,426	201,408
Exploration and evaluation assets	6	7,170,282	7,170,282
Total Non-current Assets		**7,340,708**	**7,371,690**
TOTAL ASSETS		**8,440,808**	**10,453,184**
Current Liabilities			
Trade and other payables	7	815,251	468,892
Provisions	8	5,723	8,182
Total Current Liabilities		**820,974**	**477,074**
TOTAL LIABILITIES		**820,974**	**477,074**
NET ASSETS		**7,619,834**	**9,976,110**
EQUITY			
Contributed Equity	9	23,950,304	21,999,884
Reserves	10	1,050,621	1,484,027
Accumulated losses	11	(17,381,091)	(13,507,801)
TOTAL EQUITY		**7,619,834**	**9,976,110**

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 2015

	Notes	2015 $	2014 $
Cash flows from operating activities			
Interest received		44,087	29,552
Payments to suppliers and employees		(2,948,684)	(2,340,999)
GST refunds		90,449	140,991
Net cash used in operating activities	12(a)	**(2,814,148)**	**(2,170,456)**
Cash flows from investing activities			
Payments for purchase of plant and equipment		(22,584)	(68,014)
Net cash used in investing activities		**(22,584)**	**(68,014)**
Cash flows from financing activities			
Proceeds from issue of shares		889,789	3,355,000
Transaction costs from issue of shares		(17,944)	(168,516)
Net cash from financing activities		**871,845**	**3,186,484**
Net increase / (decrease) in cash held		**(1,964,887)**	**948,014**
Cash and cash equivalents at the beginning of the financial year		**3,030,676**	**2,082,662**
Cash and cash equivalents at the end of the financial year	12(b)	**1,065,789**	**3,030,676**

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 2015

	Issued Capital $	Share Based Payments Reserve $	Foreign Currency Translation Reserve $	Accumulated Losses $	Total Equity $
Balance at 1 July 2014	**21,999,884**	**1,472,036**	**11,991**	**(13,507,801)**	**9,976,110**
Net loss for the year	-	-	-	(4,089,290)	(4,089,290)
Other comprehensive income/(loss)	-	-	34,026	-	34,026
Total comprehensive loss for the year	**-**	**-**	**34,026**	**(4,089,290)**	**(4,055,264)**
Transactions with owners recorded directly in equity					
Placement of Ordinary Shares	889,789	-	-	-	889,789
Share Issue Costs	(17,944)	-	-	-	(17,944)
Share based payments expense	-	827,143	-	-	827,143
Conversion of Performance Shares	826,875	(826,875)	-	-	-
Conversion of Performance Rights	251,700	(251,700)	-	-	-
Expired Options	-	(216,000)	-	216,000	-
Total transactions with owners recorded directly in equity	**1,950,420**	**(467,432)**	**-**	**216,000**	**1,698,988**
Balance at 30 June 2015	**23,950,304**	**1,004,604**	**46,017**	**(17,381,091)**	**7,619,834**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)
FOR THE YEAR ENDED 30 JUNE 2015

	Issued Capital	Share Based Payments Reserve	Foreign Currency Translation Reserve	Accumulated Losses	Total Equity
	$	$	$	$	$
Balance at 1 July 2013	**18,813,400**	**1,574,375**	**15,494**	**(11,392,107)**	**9,011,162**
Net loss for the year	-	-	-	(2,256,694)	(2,256,694)
Other comprehensive income/(loss)	-	-	(3,503)	-	(3,503)
Total comprehensive loss for the year	**-**	**-**	**(3,503)**	**(2,256,694)**	**(2,260,197)**
Transactions with owners recorded directly in equity					
Placement of Ordinary Shares	3,355,000	-	-	-	3,355,000
Share based payments expense	-	38,661	-	-	38,661
Expired Options	-	(141,000)	-	141,000	-
Share Issue Costs	(168,516)	-	-	-	(168,516)
Total transactions with owners recorded directly in equity	**3,186,484**	**(102,339)**	**-**	**141,000**	**3,225,145**
Balance at 30 June 2014	**21,999,884**	**1,472,036**	**11,991**	**(13,507,801)**	**9,976,110**

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 the Sovereign Metals Limited ("Sovereign" or "Company") and its consolidated entities ("Consolidated Entity" or "Group") for the year ended 30 June 2015 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 2015 was authorised for issue in accordance with a resolution of the Directors on 22 September 2015.

(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. Compliance with Australian Accounting Standards ensures the consolidated financial report also complies with International Financial Reporting Standards (IFRS).

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:

(i) AASB 132 Financial Instruments and AASB2012-3 Amendments to Australian Accounting Standards arising from AASB 132;
(ii) AASB 136 Impairment of Assets and AASB2013-3 Amendments to Australian Accounting Standards arising from AASB 136; and
(iii) AASB 1031 Materiality and AASB 2013-9 (Part B) Amendments to Australian Accounting Standards to delete references to AASB 1031.

The adoption of these new and revised standards has not resulted in any significant changes to the Group's accounting policies or to the amounts reported for the current or prior periods. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

At the date of authorising the financial report, 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 2015. These are outlined in the table overleaf:

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2015

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 2015-3	Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality	The Standard completes the AASB's project to remove Australian guidance on materiality from Australian Accounting Standards.	1 July 2015	These amendments are not expected to have any significant impact on the Group's financial report.	1 July 2015
AASB 2015-4	Amendments to Australian Accounting Standards – Financial Reporting Requirements for Australian Groups with a Foreign Parent	The amendment aligns the relief available in AASB 10 Consolidated Financial Statements and AASB 128 Investments in Associates and Joint Ventures in respect of the financial reporting requirement s for Australian groups with a foreign parent	1 July 2015	These amendments are not expected to have any significant impact on the Group's financial report.	1 July 2015
AASB 2015-5	Amendments to Australian Accounting Standards – Investment Entities: Applying the Consolidation Exception	This makes amendments to AASB 10, AASB 12 Disclosure of Interests in Other Entities and AASB 128 arising from the IASB's narrow scope amendments associated with Investment Entities.	1 July 2015	These amendments are not expected to have any significant impact on the Group's financial report.	1 July 2015
AASB 2014-3	Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations [AASB 1 & AASB 11]	AASB 2014-3 amends AASB 11 Joint Arrangement s to provide guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business. The amendments require: (a) the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in AASB 3 Business Combinations, to apply all of the principles on business combinations accounting in AASB 3 and other Australian Accounting Standards except for those principles that conflict with the guidance in AASB 11; and (b) the acquirer to disclose the information required by AASB 3 and other Australian Accounting Standards for business combinations. This Standard also makes an editorial correction to AASB 11	1 January 2016	These amendments are not expected to have any significant impact on the Group's financial report.	1 July 2016
AASB 2014-4	Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to AASB 116 and AASB 138)	AASB 116 Property Plant and Equipment and AASB 138 Intangible Assets both establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset. The IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The amendment also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances.	1 January 2016	These amendments are not expected to have any significant impact on the Group's financial report.	1 July 2016
AASB 2014-9	Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements	AASB 2014-9 amends AASB 127 Separate Financial Statements, and consequentially amends AASB 1 First-time Adoption of Australian Accounting Standards and AASB 128 Investments in Associates and Joint Ventures, to allow entities to use the equity method of accounting for investments in subsidiaries, joint ventures and associates in their separate financial statements. AASB 2014-9 also makes editorial corrections to AASB 127. AASB 2014-9 applies to annual reporting periods beginning on or after 1 January 2016. Early adoption permitted.	1 January 2016	These amendments are not expected to have any significant impact on the Group's financial report.	1 July 2016

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 2014-10	Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	AASB 2014-10 amends AASB 10 Consolidated Financial Statement s and AASB 128 to address an inconsistency between the requirement s in AASB 10 and those in AASB 128 (August 2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require: (a) a full gain or loss to be recognised when a transact ion involves a business (whether it is housed in a subsidiary or not); and (b) a partial gain or loss to be recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. AASB 2014-10 also makes an editorial correction to AASB 10. AASB 2014-10 applies to annual reporting periods beginning on or after 1 January 2016. Early adoption permitted.	1 January 2016	These amendments are not expected to have any significant impact on the Group's financial report.	1 July 2016
AASB 15	Revenue from Contracts with Customers	In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers, which replaces IAS 11 Construct ion Contracts, IAS 18 Revenue and related Interpretations (IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC-31 Revenue— Barter Transactions Involving Advertising Services). The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange f or those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps: (a) Step 1: Identify the contract(s) with a customer (b) Step 2: Identify the performance obligations in the contract (c) Step 3: Determine the transact ion price (d) Step 4: Allocate the transaction price to the performance obligations in the contract (e) Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation The AASB issued the Australian equivalent of IFRS 15, being AASB 15, in December 2014. Currently, these standards are effective for annual reporting periods commencing on or after 1 January 2017. Early application is permitted. (Note A) AASB 2 014-5 incorporates the consequential amendments to a number Australian Accounting Standards (including Interpretations) arising from the issuance of AASB 15.	1 January 2017	These amendments are not expected to have any significant impact on the Group's financial report.	1 July 2017
AASB 2015-2	Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101	The Standard makes amendments to AASB 101 Presentation of Financial Statements arising from the IASB's Disclosure Initiative project. The amendments are designed to further encourage companies to apply professional judgment in determining what information to disclose in the financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. The amendments also clarify that companies should use professional judgment in deter mining where and in what order information is presented in the financial disclosures.	1 January 2016	These amendments are not expected to have any significant impact on the Group's financial report.	1 July 2016

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 2015-1	Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012– 2014 Cycle	The subjects of the principal amendments to the Standards are set out below: AASB 5 Non-current Assets Held for Sale and Discontinued Operations: • Changes in methods of disposal – where an entity reclassifies an asset (or disposal group) directly from being held for distribution to being held for sale (or visa versa), an entity shall not follow the guidance in paragraphs 27–29 to account f or this change. AASB 7 Financial Instruments: Disclosures: • Servicing contracts - clarifies how an entity should apply the guidance in paragraph 42C of AASB 7 to a servicing contract to decide whether a servicing contract is 'continuing involvement ' for the purposes of applying the disclosure requirements in paragraphs 42E–42H of AASB 7. • Applicability of the amendments to AASB 7 to condensed interim financial statements - clarify that the additional disclosure required by the amendments to AASB 7 Disclosure–Off setting Financial Assets and Financial Liabilities is not specifically required for all interim periods. However, the additional disclosure is required to be given in condensed interim financial statements that are prepared in accordance with AASB 134 Interim Financial Reporting when its inclusion would be required by the requirements of AASB 134. AASB 119 Employee Benefits: • Discount rate: regional market issue - clarifies that the high quality corporate bonds used to estimate the discount rate for post-employment benefit obligations should be denominated in the same currency as the liability. Further it clarifies that the depth of the market for high quality corporate bonds should be assessed at the currency level. AASB 134 Interim Financial Reporting: • Disclosure of information 'elsewhere in the interim financial report' - amends AASB 1 34 to clarify the meaning of disclosure of information 'elsewhere in the interim financial report' and to require the inclusion of a cross-reference from the interim financial statements to the location of this information.	1 January 2016	These amendments are not expected to have any significant impact on the Group's financial report.	1 July 2016

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 9	Financial Instruments	AASB 9 (December 2014) is a new standard which replaces AASB 139. This new version supersedes AASB 9 issued in December 2009 (as amended) and AASB 9 (issued in December 2010) and includes a model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. AASB 9 is effective for annual periods beginning on or after 1 January 2018. However, the Standard is available for early adoption. The own credit changes can be early adopted in isolation without otherwise changing the accounting for financial instruments. AASB 9 includes requirements for a simpler approach for classification and measurement of financial assets compared with the requirements of AASB 139. There are also some changes made in relation to financial liabilities. The main changes are described below. Financial assets a. Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows. b. Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument. c. Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases. Financial liabilities Changes introduced by AASB 9 in respect of financial liabilities are limited to the measurement of liabilities designated at fair value through profit or loss (FVPL) using the fair value option. Where the fair value option is used for financial liabilities, the change in fair value is to be accounted for as follows: ► The change attributable to changes in credit risk are presented in other comprehensive income (OCI) ► The remaining change is presented in profit or loss AASB 9 also removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. This change in accounting means that gains or losses attributable to changes in the entity's own credit risk would be recognised in OCI. These amounts recognised in OCI are not recycled to profit or loss if the liability is ever repurchased at a discount. Impairment The final version of AASB 9 introduces a new expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis. Hedge accounting Amendments to AASB 9 (December 2009 & 2010 editions and AASB 2013-9) issued in December 2013 included the new hedge accounting requirements, including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures. Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11 and superseded by AASB 2010-7, AASB 2010-10 and AASB 2014-1 – Part E. AASB 2014-7 incorporates the consequential amendments arising from the issuance of AASB 9 in Dec 2014. AASB 2014-8 limits the application of the existing versions of AASB 9 (AASB 9 (December 2009) and AASB 9 (December 2010)) from 1 February 2015 and applies to annual reporting periods beginning on after 1 January 2015.	1 January 2018	These amendments are not expected to have any significant impact on the Group's financial report.	1 July 2018

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Principles of Consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Company as at 30 June 2015 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.

(d) 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 original maturities of 2 months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the Statement of Financial Position.

(e) Trade and Other Receivables

Trade receivables are recognised and carried at original invoice amount less a provision for any uncollectable debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off as incurred.

Receivables from related parties are recognised and carried at the nominal amount due and are interest free.

(f) 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.

(f) 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 to costs associated with the preparation of a 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.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) 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 company commits itself to either the purchase or sale of the asset.

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at each reporting date.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than twelve months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in “trade and other receivables” and “other financial assets” in the Statement of Financial Position.

(iii) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in profit or loss when the investments are derecognised or impaired, as well as through the amortisation process.

(iv) Available-for-sale financial assets

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within twelve months of the balance sheet date.

Purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest rate method. Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the Statement of Comprehensive Income in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity in the available-for-sale investments revaluation reserve. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in profit or loss as gains and losses from investment securities.

The Group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered in determining whether the security is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit and loss. Impairment losses recognised in the profit or loss on equity instruments are not reversed through the profit or loss.

(h) 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.

(j) 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.

(k) 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.

(l) Revenue Recognition

Revenues are recognised at the fair value of the consideration received net of the amount of goods and services tax (GST) payable to the taxation authority.

(i) Sale of Non-current Assets

Proceeds from the sale of non-current assets are recognised as revenue at the date control of the asset passes to the buyer, usually when an unconditional contract of sale is signed. The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal (including incidental costs).

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Revenue Recognition (Continued)

(ii) Interest

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

(iii) Grant Revenue

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.

(m) 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.

(n) 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.

(o) 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.

(p) Business Combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments (see below). All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant Standards. Changes in the fair value of contingent consideration classified as equity are not recognised.

Where a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to fair value at the acquisition date (i.e. the date the Group attains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under AASB 3(2008) are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with AASB 112 Income Taxes and AASB 119 Employee Benefits respectively;

- liabilities or equity instruments related to the replacement by the Group of an acquiree's share based payment awards are measured in accordance with AASB 2 Share-based Payment; and

- assets (or disposal groups) that are classified as held for sale in accordance with AASB 5 Noncurrent Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Business Combinations (Continued)

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date – and is subject to a maximum of one year.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the Statement of Comprehensive Income, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

(q) 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.

(r) 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 trading and available-for-sale 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.

(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) 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. Fair value is determined using the Binomial option pricing model. 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, 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 option premium reserve.

(u) Joint Ventures

Interests in joint venture operations are reported in the financial statements by including the Consolidated Entity'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.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) 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”.

(w) Use and Revision of Accounting Estimates

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 note:

- Note 18 – Share-Based Payments.

Impairment of exploration and evaluation assets

The group's accounting policy for exploration and evaluation assets is set out at Note 1(g). 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.

(w) Going Concern

The Annual Financial Report has been prepared on the going concern basis which assumes the continuity of normal business activities and the realisation of assets and extinguishment of liabilities in the ordinary course of business.

For the year ended 30 June 2015, the Consolidated Entity has incurred a net loss of $4,089,290 (2014: $2,256,694) and had net cash outflows from operating and investing activities of $2,836,732 (2014: $2,238,470). As at 30 June 2015, the Consolidated Entity had cash assets of $1,065,789 (30 June 2014: $3,030,676) and net current assets of $274,126 (30 June 2014: $2,604,420).

The Company has raised $855,000 (before costs) since 1 July 2015, and subject to results of ongoing exploration programs at the Central Malawi Graphite Project, the Company plans to raise additional capital within the next 6 months to meet minimum legal and contractual obligations. In addition, the company is in ongoing discussions with potential offtake and financing partners to assist in financing the development of the Consolidated Entity's graphite project. In addition to successfully raising funds for the Company, the Directors have been involved in a number of recent successful capital raisings for other listed resource companies, and accordingly, they are satisfied that they will be able to raise additional capital when required to enable the Company and the Consolidated Entity to meet their obligations as and when they fall due, and accordingly, consider that it is appropriate to prepare the financial statements on a going concern basis.

The Consolidated Entity has undertaken measures to reduce expenditure in order to meet minimum legal and contractual obligations to match current cash levels prior to raising additional capital, and continues to closely manage its expenditure.

Should the Company and Consolidated Entity be unable to achieve the matters referred to above, there is material uncertainty whether the Company and the Consolidated Entity could continue as going concerns and therefore, whether they will be able to realise their assets and extinguish their liabilities in the normal course of business.

These consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, or to the amounts and classification of liabilities that might be necessary should the Company and Consolidated Entity be unable to continue as going concerns.

	Notes	2015 $	2014 $
2. LOSS FROM OPERATIONS			
(a) Revenue			
Interest revenue		38,972	31,805
(b) Other Income/(Expense)			
Foreign exchange gain/(loss)		4,810	(1,565)
(c) Depreciation			
Depreciation of plant and equipment		(49,431)	(38,895)
(d) Share Based Payments Expense			
Share based payment expense		(827,143)	(38,661)
(e) Employee Benefits Expense			
Salaries and wages		(377,249)	(234,304)
Defined contribution plan		(23,283)	(20,495)
Annual leave provision		3,714	(4,281)
Non-cash benefits		(18,574)	(831)
Share based payment expense		(827,143)	(38,661)
		(1,242,535)	**(298,572)**

	2015 $	2014 $
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	(2,579)	92,201
Deferred income tax		
Origination and reversal of temporary differences	(327,144)	(286,498)
Deferred tax assets not brought to account	329,723	194,297
Income tax expense reported in the Statement of Comprehensive Income	-	-
(b) Reconciliation Between Tax Expense and Accounting Loss Before Income Tax		
Accounting loss before income tax	(4,089,290)	(2,256,692)
At the domestic income rate of 30% (2014: 30%)	(1,226,787)	(677,008)
Expenditure not allowable for income tax purposes	900,467	390,510
Income not assessable for income tax purposes	(824)	-
Adjustments in respect of current income tax of previous years	(2,579)	92,201
Deferred tax assets not brought to account	329,723	194,297
Income tax expense reported in the Statement of Comprehensive Income	-	-
(c) Deferred Income Tax		
Deferred income tax at 30 June 2015 relates to the following:		
Deferred Tax Liabilities		
Accrued interest	658	2,192
Property, Plant and Equipment	64	-
Deferred tax assets used to offset deferred tax liabilities	(722)	(2,192)
	-	-
Deferred Tax Assets		
Other financial assets	1,711	1,711
Accruals	8,580	11,100
Provisions	1,717	2,455
Property, Plant and Equipment	-	1,470
Capital allowances	-	2,719
Tax losses available to offset against future taxable income	3,039,204	2,705,695
Deferred tax assets used to offset deferred tax liabilities	(722)	(2,192)
Deferred tax assets not brought to account	(3,050,490)	(2,722,958)
	-	-

3. INCOME TAX (Continued)

(c) Deferred Income Tax (continued)

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.

	2015 $	2014 $
4. CURRENT ASSETS – TRADE AND OTHER RECEIVABLES		
Accrued interest	2,193	7,308
GST receivable	31,425	20,293
Other receivable	693	23,217
	34,311	**50,818**

	2015 $	2014 $
5. NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT		
(a) Office Furniture and Equipment		
Cost	37,202	12,095
Accumulated depreciation and impairment	(29,407)	(3,143)
	7,795	**8,952**
(b) Computer Equipment		
Cost	73,624	28,153
Accumulated depreciation and impairment	(71,934)	(22,362)
	1,690	**5,791**
(c) Plant & Equipment		
Cost	257,748	257,488
Accumulated depreciation and impairment	(96,807)	(74,686)
	160,941	**182,802**
(d) Furniture & Fittings		
Cost	24,375	24,375
Accumulated depreciation and impairment	(24,375)	(20,512)
	-	**3,863**
Net carrying amount	**170,426**	**201,408**
(e) Reconciliation		
Carrying amount at beginning of year, net of accumulated depreciation and impairment	201,408	172,289
Additions	22,584	71,326
Depreciation charge	(49,431)	(38,895)
Foreign exchange differences	(4,135)	(3,312)
Carrying amount at end of year, net of accumulated depreciation and impairment	**170,426**	**201,408**

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 30 JUNE 2015

	2015 $	2014 $
6. NON-CURRENT ASSETS – EXPLORATION AND EVALUATION ASSETS		
(a) Movement in Exploration and Evaluation Assets		
Central Malawi Graphite Project		
Carrying amount at beginning of year	7,170,282	7,170,282
- Additions	-	-
Carrying amount at end of year (1)	**7,170,282**	**7,170,282**

Note:
(1) 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.

	2015 $	2014 $
7. CURRENT LIABILITIES – TRADE AND OTHER PAYABLES		
Trade creditors	786,651	431,892
Accrued expenses	28,600	37,000
	815,251	**468,892**
8. CURRENT LIABILITIES – PROVISIONS		
Annual leave provisions	5,723	8,182
	5,723	**8,182**
9. CONTRIBUTED EQUITY		
(a) Issued and Paid Up Capital		
118,670,140 fully paid ordinary shares (2014: 94,340,328)	23,950,304	21,999,884
	23,950,304	**21,999,884**

(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 14	**Opening Balance**	**94,340,328**		**21,999,884**
9 Dec 2014	Conversion of 8,750,000 Performance Shares 'Class A'	8,750,000	0.095	826,875
9 Dec 2014	Conversion of 750,000 Performance Rights	750,000	0.336	251,700
15 Apr 15	Share Placement	14,829,812	0.06	889,789
	Share Issue Costs	-	-	(17,944)
30 Jun 15	**Closing Balance**	**118,670,140**		**23,950,304**
1 Jul 13	**Opening Balance**	**79,090,328**		**18,813,400**
26 May 14	Share Placement	15,250,000	0.22	3,355,000
	Share issue costs	-	-	(168,516)
30 Jun 14	**Closing Balance**	**94,340,328**		**21,999,884**

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

(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 5 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.

9. CONTRIBUTED EQUITY (Continued)

(c) Terms and Conditions of Ordinary Shares (continued)

(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.

	2015 $	2014 $
10. RESERVES		
(a) Reserves		
Share based payments reserve		
Nil (30 June 2014: 1,000,000) unlisted $0.30 options	-	143,000
Nil (30 June 2014: 500,000) unlisted $0.35 options	-	73,000
250,000 (30 June 2014: 250,000) unlisted $0.22 options	59,750	59,750
1,500,000 (30 June 2014: 1,500,000) unlisted $0.33 options	171,000	19,475
1,500,000 (30 June 2014: 1,500,000) unlisted $0.40 options	109,050	11,012
1,500,000 (30 June 2014: 1,500,000) unlisted $0.47 options	80,940	8,174
Sub-total options (note 10(b))	*420,740*	*314,411*
Nil (30 June 2014: 8,750,000) Performance Shares ‘Class A’	-	826,875
8,750,000 (30 June 2014: 8,750,000) Performance Shares ‘Class B’	330,750	330,750
Sub-total Performance Shares (note 10(d))	*330,750*	*1,157,625*
2,950,000 (30 June 2014: Nil) Performance Rights (note 10(f))	253,114	-
Total Share Based Payments Reserve	**1,004,604**	**1,472,036**
Foreign Currency Translation Reserve (FCTR)		
Exchange differences	46,017	11,991
Total Foreign Currency Translation Reserve (FCTR)	**46,017**	**11,991**
Total Reserves	**1,050,621**	**1,484,027**

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

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

Date	Details	Number of Unlisted Incentive Options	$
1 Jul 14	**Opening Balance**	**6,250,000**	**314,411**
30 Sep 14	Expiry of Options	(1,000,000)	(143,000)
31 Mar 15	Expiry of Options	(500,000)	(73,000)
30 Jun 15	Share Based Payments	-	322,329
30 Jun 15	**Closing Balance**	**4,750,000**	**420,740**
1 Jul 13	**Opening Balance**	**2,750,000**	**416,750**
31 Mar 14	Expiry of Options	(1,000,000)	(141,000)
20 May 14	Grant of $0.33 Options[1]	1,500,000	19,475
20 May 14	Grant of $0.40 Options[1]	1,500,000	11,012
20 May 14	Grant of $0.47 Options[1]	1,500,000	8,174
30 Jun 14	**Closing Balance**	**6,250,000**	**314,411**

Note
[1] 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; plaque
- the unlisted Incentive Options have exercise prices, vesting dates and expiry dates as follows:
  - $0.22 Incentive Options vested on 23 August 2012 and expire 30 September 2015;
  - $0.33 Incentive Options vested on 15 May 2015 and expire 15 May 2016;
  - $0.40 Incentive Options will vest on 15 May 2016 and expire 15 May 2017; and
  - $0.47 Incentive Options will vest on 15 May 2017 and expire 15 May 2018.
- 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.

10. RESERVES (continued)

(d) Movements in Performance Shares During the Current and Prior Financial Periods were as follows:

Date	Details	Number of 'Class A' Performance Shares	Number of 'Class B' Performance Shares	Fair Value $	$
1 Jul 14	**Opening Balance**	**8,750,000**	**8,750,000**	**-**	**1,157,625**
9 Dec 14	Conversion of Performance Shares 'Class A'	(8,750,000)	-	0.0945	(826,875)
30 Jun 15	**Closing Balance**	**-**	**8,750,000**		**330,750**
1 Jul 13	**Opening Balance**	**8,750,000**	**8,750,000**	**-**	**1,157,625**
30 Jun 14	**Closing Balance**	**8,750,000**	**8,750,000**	**-**	**1,157,625**

Notes:

(1) The fair value of the milestone shares at the acquisition date has been determined to be $826,875, based on Management's assessment of the probability that the milestone for the Class A shares will be met.

(2) The fair value of the milestone shares at the acquisition date has been determined to be $330,750, based on Management's assessment of the probability that the milestone for the Class B shares will be met.

(e) Terms and Conditions of Performance Shares

The Convertible Performance Shares are granted on the following terms and conditions:

- Each Convertible Performance Share will convert into one Share upon the satisfaction, prior to the Expiry Date, of the respective Milestone;
- **Class A Milestone:** The announcement by the Company to ASX of the delineation of at least an Inferred Mineral Resource of at least 25Mt at an average grade of not less than 10% total graphitic carbon (or the equivalent in contained tonnes of total graphitic carbon provided the average grade is not below 7.5% total graphitic carbon) using a cut-off grade of not less than 5% total graphitic carbon globally on the Project Licences and which is determined in accordance with the provisions of the JORC Code, within three years from the date of issue;
- **Class B Milestone**: The announcement by the Company to ASX of the results of a positive Scoping Study, within four years from the date of issue;
- Expiry Date means:

  (a) in relation to the Class A Convertible Performance Shares, 3 years from the date of issue;

  (b) in relation to the Class B Convertible Performance Share, 4 years from the date of issue;

  If the Milestone for a Performance Share is not met by the Expiry Date, the total number of the relevant class of Performance Shares will convert into one Share per holder;
- The Company shall allot and issue Shares immediately upon conversion of the Performance Shares for no consideration;
- Shares issued on conversion of the Performance Share rank equally with the then shares of the Company;
- In the event of any reconstruction, consolidation or division into (respectively) a lesser or greater number of securities of the Shares, the Performance Shares shall be reconstructed, consolidated or divided in the same proportion as the Shares are reconstructed, consolidated or divided and, in any event, in a manner which will not result in any additional benefits being conferred on the Performance Shareholders which are not conferred on the Shareholders;
- The Performance Shareholders shall have no right to vote, subject to the Corporations Act;
- No application for quotation of the Performance Share will be made by the Company; and
- The Performance Share are not transferable.

(f) Movements in Performance Rights Were as Follows:

Date	Details	Notes	Number of Performance Rights	Fair Value $	$
1 Jul 14	**Opening balance**		**-**		**-**
5 Sep 14	Grant of Performance Rights		3,700,000		-
9 Dec 14	Conversion of Performance Rights		(750,000)	0.3356	(251,700)
30 Jun 15	Share based payment expense		-	-	504,814
30 Jun 15	**Closing balance**		**2,950,000**		**253,114**
1 Jul 13	**Opening balance**		**-**		**-**
30 Jun 14	**Closing balance**		**-**		**-**

Notes

The value of performance rights granted during the period is recognised over the vesting period (if applicable) of the grant in accordance with Australian Accounting Standards.

(g) Terms and Conditions of Performance Rights

The unlisted performance share rights ("Performance Rights") are granted based upon the following terms and conditions:

- Each Performance Right automatically converts into one Ordinary Share upon vesting of the Performance Right;
- Each Performance Right is subject to performance conditions (as determined by the Board from time to time) which must be satisfied in order for the Performance Right to vest;
- The Performance Rights outstanding at the end of the financial year have the following expiry dates:
  - 750,000 Performance Rights at no exercise price that expire on 31 December 2016;
  - 1,100,000 Performance Rights at no exercise price that expire on 31 December 2017; and
  - 1,100,000 Performance Rights at no exercise price that expire on 31 December 2018.
- The Performance Rights outstanding at the end of the financial year, vest upon the following performance conditions:
  - Achievement of Scoping Study Milestone on or before 31 December 2016;
  - Achievement of Pre-Feasibility Study Milestone on or before 31 December 2017; and
  - Achievement of Feasibility Study Milestone on or before 31 December 2018.
- Ordinary Shares issued on conversion of the Performance Rights rank equally with the then Ordinary Shares of the Company;
- Application will be made by the Company to ASX for official quotation of the Ordinary Shares issued upon conversion of the Performance Rights;
- If there is any reconstruction of the issued share capital of the Company, the rights of the Performance Right holders may be varied to comply with the ASX Listing Rules which apply to the reconstruction at the time of the reconstruction;
- No application for quotation of the Performance Rights will be made by the Company; and
- Without approval of the Board, Performance Rights may not be transferred, assigned or novated, except, upon death, a participant's legal personal representative may elect to be registered as the new holder of such Performance Rights and exercise any rights in respect of them.

	2015 $	2014 $
11. ACCUMULATED LOSSES		
Balance at the beginning of year	**(13,507,801)**	(11,392,107)
Adjustment to retained losses for expired options	216,000	141,000
Net loss for the year	(4,089,290)	(2,256,694)
Balance at end of year	**(17,381,091)**	**(13,507,801)**

(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.

	2015 $	2014 $
12. STATEMENT OF CASH FLOWS		
(a) Reconciliation of Loss for the Year to Net Cash Flows from Operating Activities		
Loss for the year	(4,089,290)	(2,256,694)
Adjustment for non-cash income and expense items		
Depreciation	49,431	38,895
Share based payment expense	827,143	38,661
Foreign currency differences	38,161	(3,503)
Changes in assets and liabilities		
Decrease/(Increase) in trade and other receivables	16,507	64,969
(Decrease)/Increase in trade and other payables and provisions	343,900	(52,784)
Net cash outflow from operating activities	**(2,814,148)**	**(2,170,456)**
(b) Reconciliation of Cash Assets		
Cash at bank and on hand	1,065,789	3,030,676
Bank short term deposits	-	-
	1,065,789	**3,030,676**

(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 2015

During the year ended 30 June 2015, there were no non-cash financing or investing activities.

30 June 2014

During the year ended 30 June 2014, there were no non-cash financing or investing activities.

	2015 Cents per Share	2014 Cents per Share
13. EARNINGS PER SHARE		
Basic loss per share		
From continuing operations	3.98	2.80
From discontinued operations	-	-
Total basic loss per share	**3.98**	**2.80**
Diluted loss per share		
From continuing operations	3.98	2.80
From discontinued operations	-	-
Total diluted loss per share	**3.98**	**2.80**

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

	2015 $	2014 $
Net loss used in calculating basic and diluted earnings per share	4,089,290	2,256,694

	2015 Number of Shares	2014 Number of Shares
Weighted average number of ordinary shares used in calculating basic earnings per share	102,778,398	80,594,438
Effect of dilutive securities*	-	-
Adjusted weighted average number of ordinary shares and potential ordinary shares used in calculating basic and diluted earnings per share	**102,778,398**	**80,594,438**

***Non-dilutive securities**

As at balance date, 4,750,000 unlisted Incentive Options and 2,950,000 Performance Rights (which represent 7,700,000 potential Ordinary Shares) and 8,750,000 Performance Shares (which represent 8,750,000 potential Ordinary Shares) were not dilutive as they would decrease the loss per share.

Conversions, calls, subscriptions or issues after 30 June 2015

Since 30 June 2015, 14,249,999 Ordinary Shares have been issued (refer to Note 23).

Other than as noted 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		Investment Cost		Investment Carrying Value	
		2015 %	2014 %	2015 $	2014 $	2015 $	2014 $
Sovereign Cloncurry Pty Ltd (i)	Australia	100	100	1,273,002	1,273,002	2	2
Sovereign Mozambique Pty Ltd (i)	Australia	100	100	3,161	3,161	-	-
Sovereign Zambia Pty Ltd (i)	Australia	100	100	2,541	2,541	-	-
Sovereign Metals (Zambia) Ltd	Zambia	100	100	-	-	-	-
Sovereign Coal Pty Ltd (i)	Australia	100	100	612	612	612	612
McCourt Mining Pty Ltd (i)	Australia	100	100	6,919,246	6,919,246	6,919,246	6,919,246
McCourt Mining Limited	Malawi	100	100	-	-	-	-
Sovereign Services Limited	Malawi	100	100	49,163	49,163	49,163	49,163
McCourt Mining (UK) Limited	United Kingdom	100	100	-	-	-	-
McCourt Holdings (UK) Limited	United Kingdom	100	100	-	-	-	-
				8,247,725	8,247,725	6,969,023	6,969,023

Notes:
(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 2015 financial year (2014: Nil).

(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, $272,000 (2014: $288,000) for the provision of serviced office facilities, administration services and additional consulting services provided during the year. Effective 1 July 2015 the monthly retainer has been reduced to $15,000. The amount is based on a monthly retainer due and payable in arrears, with no fixed term. This item has been recognised as an expense in the Statement of Comprehensive Income. At 30 June 2015, $90,000 (2014: $48,000) was included as a current liability in the Statement of Financial Position.

	2015 $	2014 $
15. PARENT ENTITY DISCLOSURES		
(a) Financial Position		
Assets		
Current Assets	1,081,483	3,037,482
Non-Current Assets	6,935,684	6,944,305
Total Assets	8,017,167	9,981,787
Liabilities		
Current Liabilities	192,059	126,279
Total Liabilities	192,059	126,279
Equity		
Issued Capital	23,950,304	21,999,884
Accumulated losses	(17,129,800)	(13,616,413)
Share based payments reserve	1,004,604	1,472,037
Total Equity	7,825,108	9,855,508
(b) Financial Performance		
Loss for the year	(3,729,387)	(4,337,196)
Other comprehensive income	-	-
Total comprehensive income	(3,729,387)	(4,337,196)

16. COMMITMENTS AND CONTINGENCIES

(a) Commitments

	2015 $	2014 $
Exploration Commitments - Central Malawi Graphite Project:		
Within one year	200,000	500,000
After one year but not more than five years	-	-
More than five years	-	-
	200,000	**500,000**

(b) Contingencies

At the last annual reporting date, the Consolidated Entity did not have any contingent liabilities. There has been no material change in contingent assets and liabilities of the Consolidated Entity during the year (2014: Nil).

17. KEY MANAGEMENT PERSONNEL

(a) Details of Key Management Personnel

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

Directors	
Mr Ian Middlemas	Chairman
Mr Matthew Syme	Managing Director
Mr Peter Woodman	Technical Director
Mr Mark Pearce	Non-Executive Director
Other KMP	
Mr Clint McGhie	Company Secretary

Unless otherwise disclosed, the KMP held their position from 1 July 2014 until the date of this report.

(b) Key Management Personnel Compensation

	Notes	2015 $	2014 $
Short-term benefits		223,167	95,435
Post-employment benefits		14,883	5,498
Other non cash benefits		9,971	831
Share based payments		714,796	38,661
		962,817	**140,425**

Key Management Personnel disclosures previously required by AASB 124 *Related Party Disclosures* paragraphs Aus25.2 to Aus25.6 and Aus25.7.1 and Aus25.7.2 are included the Remuneration Report section of the Directors' Report.

18. SHARE-BASED PAYMENTS

(a) Recognised Share-based Payment Expense

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

During the past two years, the following equity-settled share-based payments have been made:

	2015 $	2014 $
Expense arising from equity-settled share-based payment transactions	827,143	38,661

(b) Summary of Options and Rights Granted

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

2015	Security Type	Number	Grant Date	Note	Expiry Date	Exercise Price $	Fair Value $
Series							
Series 1	Right	750,000	29-Aug-14	(1)	31-Dec-15	-	0.336
Series 2	Right	750,000	29-Aug-14	(2)	31-Dec-16	-	0.336
Series 3	Right	1,100,000	29-Aug-14	(3)	31-Dec-17	-	0.336
Series 4	Right	1,100,000	29-Aug-14	(4)	31-Dec-18	-	0.336

Notes

(1) Tranche 1 Performance Share Rights convertible into one ordinary Share each upon the announcement of a 25Mt Resource for the Project in accordance with the provisions of the JORC Code and the Company making a decision to proceed to a Feasibility Study for the Project. The Tranche 1 Performance Share Rights converted into ordinary Shares on 9 December 2014;

(2) Tranche 2 Performance Share Rights convertible into one ordinary Share each upon the announcement of a positive Scoping Study for the Project in accordance with the provisions of the JORC Code and the Company making a decision to proceed to a Feasibility Study for the Project. The Tranche 2 Performance Share Rights expire 31 December 2016;

(3) Tranche 3 Performance Share Rights convertible into one ordinary Share each upon the announcement of a positive PFS or DFS for the Project in accordance with the provisions of the JORC Code. The Tranche 3 Performance Share Rights expire 31 December 2017; and

(4) Tranche 4 Performance Share Rights convertible into one ordinary Share each in the event any of the following:

- the occurrence of:
- financing the development to production of the Project; or
- achievement of a binding off-take agreement for the sale of 10,000 tonne of flake graphite concentrate per year, for at least a 5 year period; or
- subject to the satisfaction of the Feasibility Study Milestone, the occurrence of:
- sale of greater than 20% of the Project (at the Project or Corporate Entity level) to a strategic partner; or
- sale of at least 30% of one of the Prospects forming part of the Project (including farm-out or joint venture).

The Tranche 4 Performance Share Rights expire on 31 December 2018.

2014	Security Type	Number	Grant Date	Vesting Date	Note	Expiry Date	Exercise Price $	Fair Value $
Series								
Series 1	Option	1,500,000	20-May-14	15-May-15	(1)	15-May-16	$0.33	$0.114
Series 2	Option	1,500,000	20-May-14	15-May-16	(2)	15-May-17	$0.40	$0.130
Series 3	Option	1,500,000	20-May-14	15-May-17	(3)	15-May-18	$0.47	$0.145

Notes

(1) "$0.33 Incentive Options" means an option to subscribe for 1 ordinary Share in the capital of the Company at an exercise price of $0.33 on or before 15 May 2016;

(2) "$0.40 Incentive Options" means an option to subscribe for 1 ordinary Share in the capital of the Company at an exercise price of $0.40 on or before 15 May 2017; and

(3) "$0.47 Incentive Options" means an option to subscribe for 1 ordinary Share in the capital of the Company at an exercise price of $0.47 on or before 15 May 2018.

18. SHARE-BASED PAYMENTS (continued)

(b) Summary of Options and Rights Granted (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:

	2015 Number	2015 WAEP	2014 Number	2014 WAEP
Outstanding at beginning of year	6,250,000	$0.38	2,750,000	$0.28
Granted by the Company during the year	-	-	4,500,000	$0.40
Expired during the year	(1,500,000)	$0.32	(1,000,000)	$0.25
Outstanding at end of year	4,750,000	$0.40	6,250,000	$0.38

The outstanding balance of options and rights granted as share based payments on issue as at 30 June 2015 is represented by:

- 250,000 $0.22 Incentive Options;
- 1,500,000 $0.33 Incentive Options;
- 1,500,000 $0.40 Incentive Options;
- 1,500,000 $0.47 Incentive Options;
- 750,000 Performance Rights at no exercise price that expire on 31 December 2016;
- 1,100,000 Performance Rights at no exercise price that expire on 31 December 2017; and
- 1,100,000 Performance Rights at no exercise price that expire on 31 December 2018.

(c) Weighted Average Remaining Contractual Life

The weighted average remaining contractual life for share options outstanding as at 30 June 2015 was 1.79 years (2014: 1.54 years).

(d) Range of Exercise Prices

The range of exercise prices for share options outstanding as at 30 June 2015 was $0.22 to $0.47 (2014: $0.22 to $0.47).

(e) Weighted Average Fair Value

The weighted average fair value of share options outstanding as at 30 June 2015 was $0.40 (2014: $0.38).

(f) Option and Performance Right Pricing Model

The fair value of the equity-settled share options granted is estimated as at the date of grant using the Binomial 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 2015 and 30 June 2014

The following table lists the inputs to the valuation model used for share options granted by the Group during the years ended 30 June 2015 and 30 June 2014:

2015 Inputs	Performance Rights Tranche 1	Performance Rights Tranche 2	Performance Rights Tranche 3	Performance Rights Tranche 4
Exercise Price	-	-	-	-
Grant date share price	$0.336	$0.336	$0.336	$0.336
Dividend yield(1)	-	-	-	-
Volatility(2)	-	-	-	-
Risk free interest rate	-	-	-	-
Grant date	29-Aug-14	29-Aug-14	29-Aug-14	29-Aug-14
Expiry date	31-Dec-15	31-Dec-16	31-Dec-17	31-Dec-18
Expected life of performance right(3)	1.31 years	2.31 years	3.31 years	4.31 years
Fair value at grant date	$0.336	$0.336	$0.336	$0.336

Notes:
(1) The dividend yield reflects the assumption that the current dividend payout will remain unchanged.
(2) The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome.
(3) 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.

2014 Inputs	Incentive Options Tranche 1	Incentive Options Tranche 2	Incentive Options Tranche 3
Exercise Price	$0.33	$0.40	$0.47
Grant date share price	$0.255	$0.255	$0.255
Dividend yield(1)	-	-	-
Volatility(2)	95%	95%	95%
Risk free interest rate	2.67%	2.86%	3.17%
Grant date	20-May-14	20-May-14	20-May-14
Expiry date	15-May-16	15-May-17	15-May-18
Expected life of option(3)	1.99 years	2.99 years	3.99 years
Fair value at grant date	$0.114	$0.130	$0.145

Notes:
(1) The dividend yield reflects the assumption that the current dividend payout will remain unchanged.
(2) The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome.
(3) 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.

	Notes	2015 $	2014 $
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		24,000	22,000
Total Auditors' Remuneration		**24,000**	**22,000**

20. SEGMENT INFORMATION

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

The Consolidated Entity has two operating segments, being exploration in Queensland, Australia (Tate River Project and the Carpentaria Joint Venture) and Malawi (Central Malawi Graphite Project). Information regarding these segments is reported below.

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

	Notes	2015 $	2014 $
Australia		15,824	24,444
Malawi		7,324,884	7,347,246
		7,340,708	**7,371,690**

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, 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.

SOVEREIGN METALS LIMITED

(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 and trade and other receivables.

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	2015 $	2014 $
Cash and cash equivalents		1,065,789	3,030,676
Trade and other receivables		34,311	50,818
		1,100,100	**3,081,494**

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 2015 (2014: 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 2015 and 2014, 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.

2015 Group	≤6 Months $	6-12 Months $	1-5 Years $	≥5 Years $	Total $
Financial Liabilities					
Trade and other payables	815,251	-	-	-	815,251
	815,251	**-**	**-**	**-**	**815,251**

21. FINANCIAL INSTRUMENTS (Continued)

(c) Liquidity Risk (Continued)

2014 Group	≤6 Months $	6-12 Months $	1-5 Years $	≥5 Years $	Total $
Financial Liabilities					
Trade and other payables	477,074	-	-	-	477,074
	477,074	**-**	**-**	**-**	**477,074**

(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:

	2015 $	2014 $
Interest-bearing financial instruments		
Cash at bank and on hand	1,065,789	3,030,676
	1,065,789	**3,030,676**

The Group's cash at bank and on hand and short term deposits had a weighted average floating interest rate at year end of 2.24% (2014: 2.92%).

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 2014.

	Profit or Loss		Equity	
	20% Increase	20% Decrease	20% Increase	20% Decrease
2015				
Cash and cash equivalents	4,592	(4,592)	4,592	(4,592)
2014				
Cash and cash equivalents	14,956	(14,956)	14,956	(14,956)

(e) 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 subsidiary's entity balances are in Australian dollars. The Group does not have any material exposure to foreign currency risk relating to MWK.

(i) Sensitivity Analysis for Currency Risk – United States dollar (USD)

The year end USD:AUD exchange rate was 1.3063. Had the value of the USD increased by 10% against the AUD to 1.4369 the net assets of the Consolidated Entity would have increased by $82,805 (2014: $46,388). Had the value of the USD decreased by 10% against the AUD to 1.1757 the net assets of the Consolidated Entity would have decreased by $82,805 (2014: $46,388).

This analysis assumes that all other variables, in particular interest rates, remain constant. The Group did not have any exposure to foreign currency prior to the current financial year.

There would be no impact on profit or loss arising from changes in the currency risk variables relating to the Group's activities overseas as all changes in value are taken to a reserve.

(f) Commodity Price Risk

The Group is exposed to graphite, copper, gold and other base metal commodity price risk. These commodity prices can be volatile and are influenced by factors beyond the Group's control. However, as the Group is currently engaged in exploration and business development activities, no sales of commodities are forecast for the next 12 months, and accordingly, no hedging or derivative transactions have been used to manage commodity price risk.

(g) 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.

(h) Fair Value

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

22. INTERESTS IN JOINT VENTURES

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

Joint Venture	Project	Activity	2015 Interest	2014 Interest
Carpenteria Joint Venture	Mt Isa Project, Queensland	Mineral Exploration	34.40%	37.48%
Tate River Project	Queensland	Mineral Exploration	-	100%

There were no net assets employed in the joint ventures included as exploration and evaluation assets in the Statement of Financial Position as at 30 June 2015 (2014: $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 62.52% 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 2015 Sovereign's interest has reduced to 34.40%.

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 Consolidated Entity were employed in the joint venture during the period.

Tate River Joint Venture

Pursuant to a farm-in agreement with Fusion Resources Pty Ltd ("Fusion") (a wholly owned subsidiary of Paladin Energy Limited), Sovereign had earned a 50% interest in the Project by spending $1.45M over a two year period from the commencement date. In November 2010, Sovereign reached agreement with Fusion to acquire the remaining 50% interest in the Project.

EPM 17103 was relinquished during the year.

23. SUBSEQUENT EVENTS

(i) On 9 July 2015, the Company has completed the placement of 5,916,666 Shares of the shortfall at an issue price of $0.06 each under the one for five non-renounceable entitlements issue raising an additional $355,000 (before costs).

(ii) On 13 August 2015, the Company engaged Empire Capital Partners ("Empire") to advise and represent the Company in ongoing discussions with potential offtake and financing partners in the graphite sector in South East Asia.

As part of Empire's engagement, the Company undertook an immediate placement of 8,333,333 Shares at $0.06 per share to sophisticated investors introduced by Empire raising $0.5 million (before costs). In addition, the Company issued 1,416,667 unlisted options exercisable at $0.15 each on or before 30 September 2018 ("$0.15 Options") and 1,000,000 unlisted options exercisable at $0.10 each on or before 30 June 2018 ("$0.10 Options") to Empire.

(iii) On 1 September 2015, the Company released the results of a Scoping Study on the Duwi Flake Graphite Project. The Study confirmed that Duwi can support a base case scenario with graphite concentrate production of approximately 110,000 tonnes per annum over an initial mine life of 20 years.

(iv) On 16 September 2015, the Company announced the results of further metallurgical development work on samples from the Duwi. The testwork demonstrates that very high grade concentrates, with a substantial portion of Large and Jumbo flake, can be produced with a combination of comminution and flotation techniques only.

There are no matters or circumstances which have arisen since 30 June 2015 that have significantly affected or may significantly affect:

- the operations, in financial years subsequent to 30 June 2015 of the Consolidated Entity;
- the results of those operations, in financials years subsequent to 30 June 2015 of the Consolidated Entity; or
- the state of affairs, in financial years subsequent to 30 June 2015 of the Consolidated Entity.

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 2015 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 2015.

On behalf of the Board.

MATTHEW SYME
Managing Director

29 September 2015

Deloitte.

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Independent Auditor's Report to the members of Sovereign Metals Limited

Report on the Financial Report

We have audited the accompanying financial report of Sovereign Metals Limited, which comprises the statement of financial position as at 30 June 2015, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity, comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 26 to 70.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the consolidated financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the company's preparation of the financial report that gives a true and fair view, 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 company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Sovereign Metals Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Deloitte.

Opinion

In our opinion:

(a) the financial report of Sovereign Metals Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the consolidated entity’s financial position as at 30 June 2015 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 1 in the financial report, which indicates that the Consolidated Entity incurred a net loss of $4,089,290 and had net cash outflows from operating, and investing activities of $2,836,732 during the year ended 30 June 2015. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty which may cast significant doubt about the ability of the Company and the Consolidated Entity to continue as going concerns and therefore the Company and Consolidated Entity may be unable to realise their assets and discharge their liabilities in the normal course of business.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 14 to 21 of the directors’ report for the year ended 30 June 2015. 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.

Opinion

In our opinion the Remuneration Report of Sovereign Metals Limited for the year ended 30 June 2015, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Neil Smith

Neil Smith
Partner
Chartered Accountants
Perth, 29 September 2015

ASX ADDITIONAL INFORMATION

The shareholder information set out below was applicable as at 5 October 2015.

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	12,319,243	8.65
NEFCO NOMINEES PTY LTD	10,058,989	7.06
MR GRANT THOMAS PATERSON <GTP FAMILY A/C>	8,562,500	6.01
MRS PENNEE RUTH OSMOND <THE BLUE SKY A/C>	7,500,000	5.27
MR JULIAN RODNEY STEPHENS <ONE WAY A/C>	6,375,000	4.48
SUSETTA HOLDINGS PTY LTD <WHEELER FAMILY A/C>	4,659,375	3.27
BNP PARIBAS NOMINEES PTY LTD <BNP PARIBAS LDN UK BCH DRP>	4,166,667	2.93
ARREDO PTY LTD	4,060,000	2.85
MR ANGUS WILLIAM JOHNSON + MRS LINDY JOHNSON <DENA SUPER FUND A/C>	3,467,992	2.44
GREENSLADE HOLDINGS PTY LTD	3,262,999	2.29
MR COLLIN FRANCIS DAVY <THE BUSH RAT A/C>	3,212,500	2.26
MR MATTHEW JAMES RIMES + MRS ROBIN LYN RIMES <THE REVOLVER SUPER FUND>	2,195,910	1.54
MR JULIAN RODNEY STEPHENS <ONE WAY A/C>	2,187,500	1.54
CALAMA HOLDINGS PTY LTD <MAMBAT SUPER FUND A/C>	2,104,335	1.48
DRFT MANAGEMENT PTY LTD <D ROBERTS INVEST NO2 A/C>	2,000,000	1.40
BNP PARIBAS NOMS PTY LTD <DRP>	1,961,506	1.38
MR TERRY PATRICK COFFEY + HAWKES BAY NOMINEES LIMITED <WILLIAMS FAMILY NO 2 A/C>	1,872,000	1.31
MIKADO CORPORATION PTY LTD <JFC SUPERANNUATION A/C>	1,599,999	1.12
C W JOHNSTON PTY LTD <C W JOHNSTON SUPER FUND A/C>	1,500,000	1.05
D GRAY & CO PTY LTD	1,485,703	1.04
Total Top 20	**84,552,218**	**59.37**
Others	57,867,921	40.63
Total Ordinary Shares on Issue	**142,420,139**	**100.00%**

2. DISTRIBUTION OF EQUITY SECURITIES

Analysis of numbers of shareholders by size of holding:

	Ordinary Shares	
Distribution	Number of Shareholders	Number of Shares
1 – 1,000	56	13,958
1,001 – 5,000	60	173,925
5,001 – 10,000	63	505,556
10,001 – 100,000	261	9,781,458
More than 100,000	144	131,945,242
Totals	**584**	**142,420,139**

There were 125 holders of less than a marketable parcel of ordinary shares.

ASX ADDITIONAL INFORMATION (Continued)

3. VOTING RIGHTS

See Note 9 of the Notes to the Financial Statements.

4. SUBSTANTIAL SHAREHOLDERS

As at 5 October 2015, Substantial Shareholder notices have been received from the following:

Substantial Shareholder	Number of Shares
Aterra Investments Limited	9,683,334
GTP Family Trust	8,562,500
One Way Trust	8,562,500
The Blue Sky Trust	7,500,000

5. UNQUOTED SECURITIES

The names of the security holders holding more than 20% of an unlisted class of security are listed below:

	15-May-16 Unlisted Options exercisable at $0.33	15-May-17 Unlisted Options exercisable at $0.40	15-May-18 Unlisted Options exercisable at $0.47	30-Jun-18 Unlisted Options exercisable at $0.10	30-Sep-18 Unlisted Options exercisable at $0.15
Hopetoun Consulting Pty Ltd	1,500,000	1,500,000	1,500,000	-	-
Empire Capital Partners Pty Ltd	-	-	-	1,000,000	1,416,667
Total	**1,500,000**	**1,500,000**	**1,500,000**	**1,000,000**	**1,416,667**
Total Number of Holders	**1**	**1**	**1**	**1**	**1**

	31-Dec-17 Performance Rights 'Feasibility milestone'	31-Dec-18 Performance Rights 'Commercial milestone'
Mr Peter Woodman	300,000	300,000
Other holders (each holding less than 20% holding)	800,000	800,000
Total	**1,100,000**	**1,100,000**
Total Number of Holders	**8**	**8**

6. ON-MARKET BUY BACK

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

7. 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	EPL 0413	100%	-	Granted
	EPL 0372	100%	-	Granted
	EPL 0355	100%	-	Granted
Queensland, Australia:				
Mt Marathon	EPM 8586	34.17%	Mt Isa Mines	Granted
Mt Avarice	EPM 8588	34.17%	Mt Isa Mines	Granted
Fountain Range	EPM 12561	34.17%	Mt Isa Mines	Granted
Corella River	EPM 12597	34.17%	Mt Isa Mines	Granted
Saint Andrews Extended	EPM 12180	34.17%	Mt Isa Mines	Granted

8. MINERAL RESOURCE STATEMENT

Sovereign's Mineral Resource Statement as at 30 June 2015 is grouped by deposit, all of which form part of the Duwi Flake Graphite Project in Malawi. To date, no Ore Reserves have been reported for these deposits.

Governance

The Company engages external consultants and Competent Persons (as determined pursuant to the JORC Code 2012) to prepare and estimate the Mineral Resources. Management and the Board review these estimates and underlying assumptions for reasonableness and accuracy. The results of the Mineral Resource 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 resource estimates and market disclosures are reviewed for completeness.

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

Results of Annual Review

During the year, the Company reported its maiden Mineral Resource Estimate ('MRE') for the Duwi Flake Graphite Project located in the Malawi (refer ASX announcement dated 17 October 2014). MRE's were reported for three deposits, being Duwi Main, Duwi Bend and Nyama, following the completion of a drilling campaign including 11 diamond core drill holes (1,251m) and 42 reverse circulation ("RC") holes (4,822m) drilled across the three deposits. The MRE's show a large body of flake graphite mineralisation at the Duwi Main Deposit, with smaller deposits at Duwi Bend and Nyama, all totalling 86Mt at 7.1% TGC (Indicated + Inferred), using a 5% TGC lower cut-off grade.

As a result of the annual review of the Company's Mineral Resources, there has been no change to the Mineral Resources reported for the Duwi Project in October 2014.

8. MINERAL RESOURCE STATEMENT (Continued)

Summary of Mineral Resources

Deposit Name	Resource Category	2014 Tonnes (Mt)	2014 Grade (% TGC)	2014 Contained Graphite (MT)	2015 Tonnes (Mt)	2015 Grade (% TGC)	2015 Contained Graphite (MT)
Duwi Main	Indicated	-	-	-	35.2	7.2	2.52
	Inferred	-	-	-	34.3	7.3	2.49
	Total	**-**	**-**	**-**	***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	***Indicated***	**-**	**-**	**-**	***35.2***	***7.2***	***2.52***
	Inferred	**-**	**-**	**-**	***50.7***	***7.1***	***3.61***
	Total	**-**	**-**	**-**	***85.9***	***7.1***	***6.13***

Note: Mineral resources are reported at a 5% total graphitic carbon ('TGC') lower cut-off grade.

Competent Person Statement – Mineral Resource Statement

The information in this Mineral Resource 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 Australasian Institute of Mining and Metallurgy. 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.

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

9. CORPORATE GOVERNANCE

Sovereign Metals Limited (Sovereign or Company) and the entities it controls believe corporate governance is a critical pillar on which business objectives and, in turn, shareholder value must be built.

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 2015 Corporate Governance Statement, which is current as at 30 June 2015 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 2015. 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.

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