SOVEREIGN METALS LIMITED

ABN 71 120 833 427

ANNUAL REPORT **2009**

CORPORATE DIRECTORY

DIRECTORS:

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

COMPANY SECRETARY

Mr Clint McGhie

REGISTERED AND PRINCIPAL OFFICE

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Perth WA 6000

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STOCK EXCHANGE LISTING

Australian Securities Exchange
Home Branch – Perth
2 The Esplanade
Perth WA 6000

ASX CODE

SVM – Fully paid ordinary shares
SVMO – $0.20 options

SOLICITORS

Hardy Bowen Lawyers

AUDITOR

WHK Horwath

BANKERS

Australia and New Zealand Banking Group Limited

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REVIEW OF OPERATIONS

INTRODUCTION

The past twelve months has seen Sovereign Metals Limited ("Sovereign" or "the Company") complete several drilling programs on a number of attractive copper and gold targets on its north-west Queensland tenements (see Figure 1 for locations) which returned promising results.

Sovereign has also developed some attractive exploration targets at the Tate River Project located in Northern Queensland, and having entered into a farmin agreement with Fusion Resources in September 2007, has now earned a 50% interest in the Project.

Sovereign's north-west Queensland tenements are located in the Mount Isa Block, an area hosting multiple world class copper-gold and lead-zinc deposits which to date has been one of Australia's greatest producers of mineral wealth over the last 80 years.

A number of these projects are held directly by Sovereign with the remainder subject to a joint venture agreement with Mount Isa Mines Limited (now owned by "Xstrata Copper").

The Board will continue to review opportunities for other acquisitions, joint ventures, or investments in the resources sector, which may enhance Shareholder value.

Overview of Projects

The Company holds interests in 4 tenements in the Tate River area and 9 tenements in four project areas in the Cloncurry–Mount Isa area, both in North Queensland. The projects are prospective for major deposits of copper and base metal mineralisation, and cover in excess of 1,000 square kilometres. The project locations are shown on Figure 1. Six of the tenements held by Sovereign comprise the Carpentaria Joint Venture ("CJV"), an exploration joint venture between Mount Isa Mines Limited ("Xstrata Copper") and Sovereign. Sovereign has elected to cease contributing to the tenements managed by Xstrata Copper in the Carpentaria Joint Venture ("CJV"). As a result, Sovereign's original 49% interest in the CJV will be diluted.

This year the Company has completed several exploration programs on its tenements in north-west Queensland covering our 100% holdings and our joint ventures with Fusion Resources Limited and Xstrata Copper.

Figure 1: Sovereign Metals Project Locations

REVIEW OF OPERATIONS
(Continued)

Cloncurry Copper Gold Projects

Carpentaria Joint Venture ("CJV")

Sovereign has elected to cease contributing to the tenements managed by Xstrata Copper in the Carpentaria Joint Venture ("CJV"). As a result, Sovereign's original 49% interest in the CJV will be diluted. The Joint Venture Manager has confirmed that Sovereigns interest will dilute by 1.5% for every $200,000 of expenditure. As at 30 June 2009, Sovereign's interest has reduced to 46.08%.

EPM 8588 Rocklands South East (CJV)

The Rocklands SE Copper Project (EPM 8588, formerly known as Mt Avarice) is located in close proximity to the town of Cloncurry. The project is 5km to the south east from CuDeco's Rocklands Copper Project and contains numerous old workings on parallel structures over a 7km strike. (See Figure 2 for location).

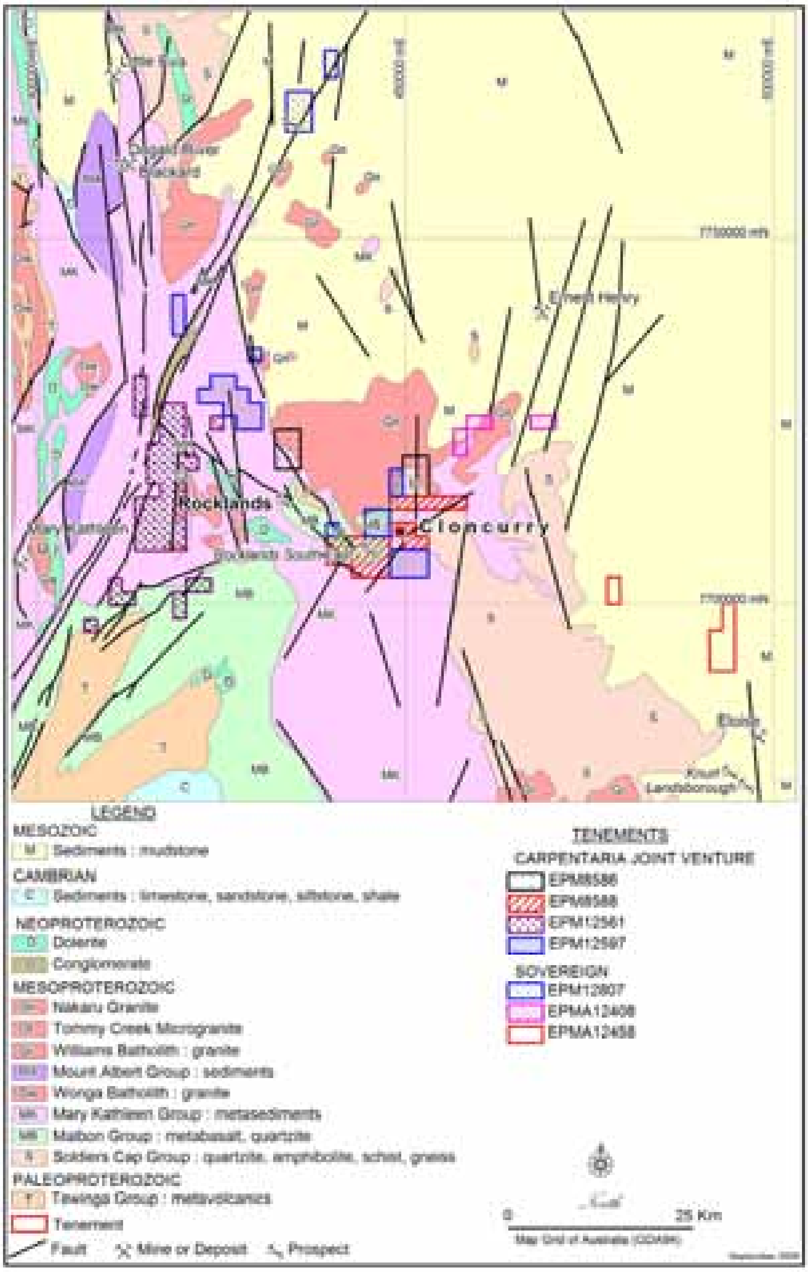

Figure 2 – Location of Sovereign's Cloncurry Projects

Drilling by Xstrata in 2005 recorded a best intercept of 55m @ 0.37% Cu from 70 meters down hole MGP005D. This intercept is open along strike to the north and south.

Sovereign completed a second drill program in January 2008. The results from the drilling program delineated an area hosting a 20m thick zone of oxide copper mineralisation that averages >0.4% copper. This zone of oxide copper mineralisation is approximately 1.5kms to the north west of the 80m thick zone of the oxide copper mineralisation discovered in the first drilling program undertaken by Xstrata Copper. Sovereign completed two RC drilling programs totalling146 holes for 5,775 metres at Rocklands South East.

Highlights from the two programs include:

- Hole MARC021 returned 28 m @ 0.47% Cu from surface;
- Hole MARC023 returned 20 m @ 0.47% Cu from surface;
- Hole MARC131 returned 24 m @ 0.47% Cu from surface;
- Hole MARC132 returned 22 m @ 0.49% Cu from 20m.

EPM 12180 St Andrews Extended (CJV)

The Beauty prospect is located approximately 60km to the south east of Mt Isa and is part of the CJV. Numerous copper and gold occurrences within the tenement are encouraging. Results were received from a drilling program conducted by our joint venture partner Xstrata Copper at the Beauty Prospect. Xstrata Copper drilled three holes for a total of 422m targeting a structurally hosted copper gold mineralisation. One significant intercept was received:

- DU004D 5m @ 0.8% Cu, 0.24g/t Au and 0.06g/t Mo from 289m

Undina South Vanadium-Molybdenum Project

EPM 12458 Undina South (100% SVM)

Sovereign completed an initial air core drilling program at the Undina South Project 35kms to the east of Cloncurry (see Figure 2 for location). The drilling program which consisted of 71 holes for 1,944 meters has demonstrated that the outcropping Toolebuc Limestone on EPM 12458 is host to widespread, shallow vanadium and molybdenum mineralisation. The program returned a best intercepts of:

- URB20 12m @0.28% V_2O_5, 286ppm MoO from 0m
- URB20 24m @0.37% V_2O_5, 351ppm MoO from 0m
- URB20 32m @0.36% V_2O_5, 303ppm MoO from 0m
- URB20 34m @0.37% V_2O_5, 360ppm MoO from 0m

The drilling program demonstrated the potential for a shallow horizon of polymetallic mineralisation averaging approximately 8m in thickness that extends 1.7kms across the tenement's northern boundary and extends up to 600m to the south. There exists potential for large volumes of near surface mineralisation containing significant quantities of Vanadium Pentoxide, Molybdenum Tri-oxide and minor Uranium Oxide.

REVIEW OF OPERATIONS
(Continued)

Tate River Gold Project – Managed by Sovereign

Sovereign has entered into a joint venture with Fusion Resources Limited ("Fusion" – now 100% owned by Paladin Energy Limited) to explore for gold at the Tate River Gold Project. The Tate River Gold Project is centred approximately 200km west of Cairns and 370km northwest of Townsville (See Figure 3).

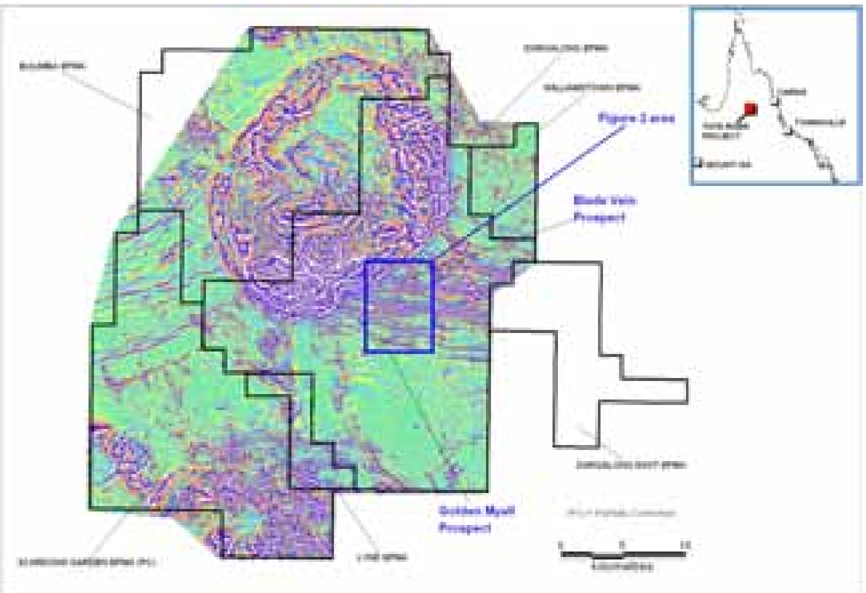

Figure 3: Tate River Gold Project - Location, Tenure & 2VD Magnetic Signature

The Tate River Joint Venture

The terms of the joint venture provide for Sovereign (as operator) to earn an initial 50% interest in the tenements held by Fusion by spending $1.45 M over a two year period. Sovereign completed the initial earn in February 2009. The joint venture agreement also provides for the following:

- Sovereign may earn an additional 15% by spending a further $1 M over 18 months; and
- Sovereign may earn an additional 10% by spending a further $0.5 M over 12 months.

Fusion may elect to maintain its interest at each stage of the farm-in. No election has been made to maintain Fusion's interest after completion of the initial earn-in.

The geology of the Tate River area consists of a diverse range of rocks, including Proterozoic and early Palaeozoic metamorphic rocks and granites and late Palaeozoic volcanic rocks and related granites. In the western and central part of the region, these are overlain by scattered remnants of Mesozoic sedimentary rocks, and in the east by Cainozoic basalt. The Project covers part of the Scardons Igneous Complex, an interpreted caldera of Permo-Carboniferous age which intruded the Palaeoproterozoic McDevitt Metamorphics.

Sovereign has developed exploration models in the region that are focused on both caldera-related epithermal vein deposits and intrusion-related gold deposits (IRGD). Recent aeromagnetic interpretation, mapping, sampling and multi-element geochemistry has provided new data that supports such models. The successful mapping and sampling programs during 2008 led to the discovery of a consistently mineralised quartz vein over 1.5kms in length.

Named the Blade Vein Prospect, the discovery consists of numerous quartz veins with epithermal textures that includes crystalline, comb, banded and brecciated quartz and has outcropping vein widths of <0.5m up to 5m wide. The veins are hosted in altered intermediate to mafic dykes, granite and schist.

The Blade Vein Prospect is a Silver-Lead-Zinc-Gold prospect that covers a mapped area of 1,500m by 800m. Thirty-seven holes totalling 2,662 meters of RC and 676 meters of Diamond were drilled into the Blade Vein prospect during 2008. The results indicate that the vein is host to gold, silver, lead and zinc mineralisation over a 1.6km strike length.

Significant assays received from Blade Vein Prospect returned:

- TRRC006 returned 4 m @ 13g/t. Ag, 1.3% Pb 1.7% Zn & 0.62g/t. Au from 21m
- TRRC017 returned 2m @ 34g/t. Ag, 2.3% Pb, 2.3% Zn & 0.93g/t. Au from 15m
- TRRC020 returned 3m @ 60g/t. Ag, 4.2% Pb, 2.0% Zn & 0.65g/t. Au from 15m
- TRRC034 returned 3m @ 9g/t. Ag, 0.4%Pb, 0.5% Zn & 1.30g/t. Au from 41m
- TRRC035 returned 4m @ 1.99g/t. Au from 9m
- TRRD003 returned 3m @ 51g/t. Ag,2.17% Pb, 2.27% Zn & 0.60g/t. Au from 120m

The mineralisation is open at both the east and west. It is worth noting that the holes drilled at both the eastern and western ends of the Blade Vein host some of the higher gold grades.

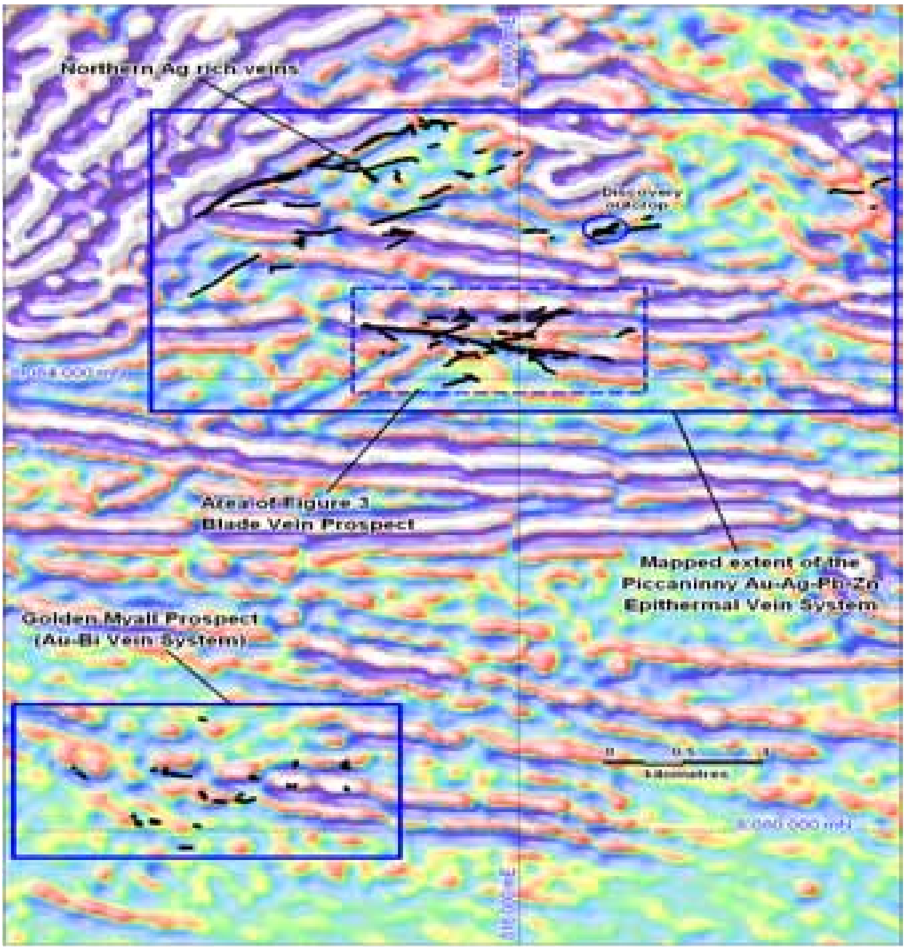

Figure 4: Image illustrating the mapped extent of veins at the Piccaninny Au-Ag-Pb-Zn prospect and the Golden Myall Au-Bi prospect overlain on magnetic (2nd vertical derivative) signature.

The Tate River Joint Venture (Continued)

The recent award of a 3rd round of Collaborative Drilling Initiative ("CDI") Grant of $150,000 will greatly assist in exploring the gold potential of the Epithermal System uncovered so far.

The Company believes it is early days at the Tate River Gold Project and that the ground is highly prospective for large scale precious and base metal discoveries.

During the year Sovereign reduced expenditure in response to the market conditions. As a result of the comprehensive review of its operations, it closed the Townsville Exploration office and consolidated its corporate and operational activities in Perth.

Sovereign will continue to explore and evaluate its existing Queensland copper and gold projects and also monitor and evaluate other advanced resource opportunities.

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 2009 ("Consolidated Entity" or "Group").

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	Non-Executive Chairman
Mr Peter Woodman	Managing Director
Mr Mark Pearce	Non-Executive Director

Former Directors

Mr Daniel Johnson	Executive Director (resigned 30 January 2009)
Mr Matthew Rimes	Non-Executive Director (resigned 17 December 2008)

Unless otherwise disclosed, Directors held their office from 1 July 2008 until the date of this report.

CURRENT DIRECTORS AND OFFICERS

Ian Middlemas
Non-Executive 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 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 Salinas Energy Limited (November 1995 - present), OmegaCorp Ltd (October 2000 – August 2007), Global Petroleum Limited (April 2007 – present), Syngas Limited (May 2007 – February 2008), Indo Mines Limited (December 2006 – present), Mantra Resources Limited (September 2005 – present), Newport Mining Limited (September 2008 – present), Mavuzi Resources Limited (January 2007 – March 2008), Odyssey Energy Limited (September 2005 – present), Pacific Energy Limited (June 2006 – present), QED Occtech Limited (July 2001 – present), Sierra Mining Limited (January 2006 – present), Xenolith Resources Limited (March 2007 – present), Fusion Resources Ltd (May 2002 – March 2009), Berkeley Resources Ltd (July 2003 – November 2006) and WCP Resources Limited (September 2009 – present).

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

Mr Woodman is a Geologist with over 20 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 and then managed a $20 Million equity raising and the awarding of the banking mandate for $40 Million senior debt facility with a major Australian institutional bank.

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.

CURRENT DIRECTORS AND OFFICERS (Continued)

Peter Woodman (Continued)

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 a directorship in Xenolith Resources Limited (November 2008 – August 2009).

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 small cap resource companies and has worked for several large international Chartered Accounting firms. 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 OmegaCorp Limited (October 2000 – August 2007), Salinas Energy Limited (February 2002 - July 2006), Fusion Resources Limited (May 2002 – February 2009), Syngas Limited (May 2007 – January 2008), Mantra Resources Limited (September 2005 – present), Mavuzi Resources Limited (January 2007 – March 2008), Odyssey Energy Limited (September 2005 – present), QED Occtech Limited (November 2004 – present), Xenolith Resources Limited (March 2007 – present), Sierra Mining Limited (January 2006 – August 2006) and WCP Resources Limited (September 2009 – present).

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 following the acquisition of the mining assets and there has been no change in the nature of those activities.

EMPLOYEES

	2009	2008
The number of full time equivalent people employed by the Consolidated Entity at balance date	1	6

DIVIDENDS

No dividends have been declared, provided for or paid in respect of the financial year ended 30 June 2009.

EARNINGS PER SHARE

	2009 Cents	2008 Cents
Basic loss per share	(8.56)	(8.32)
Diluted loss per share	(8.56)	(8.32)

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

	2009 $	2008 $
Loss of the Consolidated Entity before income tax expense	(3,311,544)	(3,217,399)
Income tax expense	-	-
Net loss	(3,311,544)	(3,217,399)

REVIEW AND RESULTS OF OPERATIONS

The loss of the Consolidated Entity for the year ended 30 June 2009 was $3,311,544 (2008: $3,217,399). This loss is largely 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 commencement of feasibility studies. During the year, exploration expenditure totalled $1,743,423 (2008: $3,022,140) and included non-cash share-based payment expenses of $49,364 (2008: $500,532); and

- the Company’s decision to fully impair the value of the Consolidated Entity’s Cloncurry-Mt Isa exploration assets of $1,278,000.

A review of the Group’s operations during the year ended 30 June 2009 is contained in the Review of Operations section (pages 1 to 6).

Corporate and Financial Position

At 30 June 2009, the Company had cash reserves of $1.4 million and net assets of $1.5 million.

At the Tate River Project, the Company has earned a 50% interest in the tenements from Fusion Resources Limited (now 100% owned by Paladin Energy Limited).

During the year, the Company examined a number of new business development opportunities including potential acquisitions, joint ventures or investments. The Board also continues to monitor and assess its current portfolio of exploration assets with a view to enhancing shareholder value through exploration and development of these assets in the most beneficial way.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

The following significant changes in the state of affairs of the Consolidated Entity occurred during the year:

- The Company completed a comprehensive review of its operations which has resulted in the closure of its Townsville Exploration office and the consolidation of its corporate and operational activities in Perth; and

- Mr Daniel Johnson resigned as an Executive Director of the Company on 30 January 2009 and Mr Matthew Rimes resigned as a Non-Executive Director of the Company on 17 December 2008.

SIGNIFICANT POST BALANCE DATE EVENTS

As at the date of this report there are no matters or circumstances which have arisen since 30 June 2009 that have significantly affected or may significantly affect:

- the operations, in financial years subsequent to 30 June 2009 of the Consolidated Entity;
- the results of those operations, in financials years subsequent to 30 June 2009 of the Consolidated Entity; or
- the state of affairs, in financial years subsequent to 30 June 2009 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.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

It is the Board's current intention that the Consolidated Entity will focus on maximising the value of the Company's mining assets in Queensland, by conducting further exploration activities on these projects and continuing to examine new opportunities in mineral exploration. All of these activities are inherently risky and the Board is unable to provide certainty that any or all of these activities will be able to be achieved. In the opinion of the Directors, any further disclosure of information regarding likely developments in the operations of the Consolidated Entity and the expected results of these operations in subsequent financial years may prejudice the interests of the Company and accordingly, has not been disclosed.

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	Shares(i)	$0.20 Listed Options(ii)	$0.20 Unlisted Options(iii)	$0.50 Unlisted Options(iv)	$0.65 Unlisted Options(v)
Ian Middlemas	2,540,000	1,270,000	-	-	-
Peter Woodman	-	-	-	750,000	1,500,000
Mark Pearce	212,308	106,154	250,000	-	-

Notes:

(i) "Shares" means fully paid ordinary shares in the capital of the Company. These Shares were subscribed for by the Directors and not issued in connection with their employment;

(ii) "$0.20 Listed Options" means an option to subscribe for 1 ordinary Share in the capital of the Company at an exercise price of $0.20 on or before 30 June 2010. These $0.20 Listed Options were subscribed for by the Directors and not issued in connection with their employment;

(iii) "$0.20 Unlisted Options" means an option to subscribe for 1 ordinary Share in the capital of the Company at an exercise price of $0.20 on or before 31 May 2010;

(iv) "$0.50 Unlisted Options" means an option to subscribe for 1 ordinary Share in the capital of the Company at an exercise price of $0.50 on or before 31 December 2009; and

(v) "$0.65 Unlisted Options" means an option to subscribe for 1 ordinary Share in the capital of the Company at an exercise price of $0.65 on or before 30 November 2010.

SHARE OPTIONS

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

- 16,709,738 $0.20 listed options expiring 30 June 2010;
- 4,250,000 $0.20 unlisted options expiring 31 May 2010;
- 750,000 $0.25 unlisted options expiring 31 December 2010;
- 1,775,000 $0.50 unlisted options expiring 31 December 2009; and
- 2,000,000 $0.65 unlisted options expiring 30 November 2010.

During the year ended 30 June 2009 and up to the date of this report, no ordinary shares have been issued as a result of the exercise of options.

MEETINGS OF DIRECTORS

The following table sets out the number of meetings of the Company's Directors held during the year ended 30 June 2009, and the number of meetings attended by each Director.

Current Directors	Board Meetings Number Eligible to Attend	Board Meetings Number Attended
Ian Middlemas	3	2
Peter Woodman	3	3
Mark Pearce	3	3
Daniel Johnson[(i)]	1	-
Matthew Rimes[(ii)]	1	1

Notes:
(i) Mr Johnson resigned as Director on 30 January 2009.
(ii) Mr Rimes resigned as Director on 17 December 2008.

INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

The Constitution of the Company requires the Company, to the extent permitted by law, to indemnify any person who is or has been a director or officer of the Company or Group for any liability caused as such a director or officer and any legal costs incurred by a director or officer in defending an action for any liability caused as such a director or officer.

The audit engagement letter signed with the auditor of the Company and Group, WHK Horwath, requires the Company, to the extent permitted by law, to indemnify the auditor for any liability caused as auditor of the Company and any legal costs incurred by the auditor in defending an action for any liability caused as auditor of the Company.

During or since the end of the financial year, no amounts have been paid by the Company or Group in relation to the above indemnities.

During or since the end of the financial year, the Company or Group has not paid, or agreed to pay, a premium in respect of a contract insuring against a liability incurred by a person who is or has been a director, officer or auditor of the Company or Group.

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	Non-Executive Chairman
Mr Peter Woodman	Managing Director
Mr Mark Pearce	Non-Executive Director
Mr Daniel Johnson	Executive Director (resigned 30 January 2009)
Mr Matthew Rimes	Non-Executive Director (resigned 17 December 2008)
Executive	
Mr Clint McGhie	Company Secretary

Unless otherwise disclosed, the KMP held their position from 1 July 2008 until the date of this report.

Remuneration Policy

The remuneration policy for the Group's 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 Company is currently focused on undertaking exploration activities with a view to establishing a resource, and based on the results of these activities may undertake a scoping and/or feasibility study in the future. In line with the Company's accounting policy, all exploration expenditure prior to a feasibility study is expensed;
- risks associated with resource companies whilst exploring and developing projects; and
- other than profit which may be generated from asset sales (if any), the Company does not expect to be undertaking profitable operations until some time after the successful commercialisation, production and sales of commodities from one or more of its current projects, or the acquisition of a profitable mining operation.

Executive Remuneration

The Group's remuneration policy is to provide a fixed remuneration component and a performance based component (options 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 KMP objectives with shareholder and business objectives.

Performance Based Remuneration – Incentive Options

The Board has chosen to issue incentive options to KMP as a key component of the incentive portion of their remuneration, in order to attract and retain the services of the KMP and to provide an incentive linked to the performance of the Company. The Board considers that each KMP'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 KMP is commensurate to their value to the Company.

The Board has a policy of granting options to KMP with exercise prices at and/or above market share price (at time of agreement). As such, incentive options granted to KMP will generally only be of benefit if the KMP 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 KMP, 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 KMP and the performance and value of the Company are closely related.

Performance Based Remuneration – Cash Bonus

In addition, some KMP’s are entitled to an annual cash bonus upon achieving various key performance indicators, as set by the Board. On an annual basis, after consideration of performance against key performance indicators, the Board determines the amount, if any, of the annual cash bonus to be paid to each KMP.

Impact of Shareholder Wealth on KMP Remuneration

The Board does not directly base remuneration levels on the Company's share price or movement in the share price over the financial year. However, as noted above, a number of KMP have received options which generally will only be of value should the value of the Company's shares increase sufficiently to warrant exercising the incentive options granted.

As a result of the Company's exploration and new business activities, the Board anticipates that it will retain future earnings (if any) and other cash resources for the operation and development of its business. Accordingly the Company does not currently have a policy with respect to the payment of dividends, and as a result the remuneration policy does not take into account the level of dividends or other distributions to shareholders (eg return of capital).

Impact of Earnings on KMP Remuneration

As discussed above, the Company is currently undertaking exploration activities, and does not expect to be undertaking profitable operations until some time after the successful commercialisation, production and sales of commodities from one or more of its current projects.

Accordingly the Board does not consider current or prior year earnings when assessing remuneration of KMP.

Remuneration Policy for Non-Executive Directors

The Board policy is to remunerate Non-Executive Directors at market rates for comparable companies for time, commitment and responsibilities. Given the current size, nature and risks of the Company, incentive options 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.

REMUNERATION REPORT (AUDITED) (Continued)

Remuneration Policy for Non-Executive Directors (Continued)

The maximum aggregate amount of fees that can be paid to Non-Executive Directors is subject to approval by shareholders at a General Meeting. Total directors' fees paid to all non-executive directors is not to exceed $250,000 per annum. 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 may in limited circumstances receive incentive options in order to secure their services.

Fees for the Chairman are presently $36,000 (2008: $36,000) and fees for Non-Executive Directors' are presently $15,000 per annum (2008: $15,000). 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.

General

The Board may pay bonuses (in the form of cash or options) to KMP's based on the success in generating suitable new corporate opportunities. A further bonus may also be paid upon the successful completion of a new business acquisition. No bonuses were paid during the current financial year.

Where required, KMP receive superannuation contributions, currently equal to 9% 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.

Key Management Personnel Remuneration

Details of the nature and amount of each element of the remuneration of each KMP of the Company for the financial year are as follows:

	Short-Term Benefits						
Key Management Personnel	Salary & Fees $	Cash Bonus $	Post Employment Superannuation $	Equity Options $	Other Non-Cash Benefits (iii) $	Total $	Percentage Performance Related %
2009							
Directors							
Ian Middlemas	36,000	-	-	-	-	36,000	-
Peter Woodman	229,360	-	20,642	59,311	1,665	310,978	-
Mark Pearce	15,000	-	-	-	-	15,000	-
Daniel Johnson (i)	180,944	-	9,450	20,387	1,665	212,446	-
Matthew Rimes (ii)	6,929	-	-	-	-	6,929	-
Executive							
Clint McGhie (iv)	-	-	-	-	-	-	-

	Short-Term						
Key Management Personnel	Salary & Fees $	Cash Bonus $	Post Employment Superannuation $	Equity Options $	Other Non-Cash Benefits (iii) $	Total $	Percentage Performance Related %
2008							
Directors							
Ian Middlemas	36,000	-	-	-	-	36,000	-
Peter Woodman	229,360	50,000	20,642	324,689	2,236	626,927	8.0
Mark Pearce	15,000	-	-	-	-	15,000	-
Daniel Johnson	180,000	50,000	16,200	169,613	2,236	418,049	12.0
Matthew Rimes	15,000	-	-	-	-	15,000	-
Executive							
Clint McGhie (iv)	-	-	-	-	-	-	-

Notes:

(i) Mr Johnson resigned as Director on 30 January 2009.

(ii) Mr Rimes resigned as Director on 17 December 2008.

(iii) Other Non-Cash Benefits includes a payment made on behalf of the Directors for the insurance premium for Working Directors insurance.

(iv) Mr McGhie provides services as the Company Secretary through a services agreement with Apollo Group Pty Ltd. Under the agreement, Apollo Group Pty Ltd provides administrative, company secretarial and accounting services, and the provision of a fully serviced office to the Company for a monthly retainer of July to October 2008 $16,500 and November 2008 to June 2009 $12,500 (2008: $15,000). The monthly retainer has increased to $15,000 from 1 July 2009. Apollo Group Pty Ltd is a company controlled by Mr Pearce.

Options Granted to Key Management Personnel

Details of options granted to each KMP of the Company or Group during the financial year are as follows:

2009

No options were granted as part of their remuneration to KMP during the 2009 financial year.

2008

	Issuing Entity	Note	Grant Date	Expiry Date	Exercise Price $	Grant Date Fair Value $	No. Granted	No. Vested
Directors								
Peter Woodman	Sovereign Metals Ltd	(iv)	24-Aug-07	30-Jun-09	0.35	0.128	750,000	750,000
				31-Dec-09	0.50	0.120	750,000	750,000
		(iii)		30-Nov-10	0.65	0.132	1,500,000	1,500,000
Daniel Johnson	Sovereign Metals Ltd	(iv)	24-Aug-07	30-Jun-09	0.35	0.128	500,000	500,000
				31-Dec-09	0.50	0.120	500,000	500,000
		(iii)		30-Nov-10	0.65	0.132	500,000	500,000

Notes:

(i) For details on the valuation of the options, including models and assumptions used, please refer to Note 15 to the financial statements.

(ii) Each option converts into one ordinary share of Sovereign on exercise.

(iii) All $0.50 and $0.65 incentive options are vested and exercisable as at 30 June 2009.

(iv) 1,250,000 incentive options exercisable at $0.35 expired on 30 June 2009.

REMUNERATION REPORT (AUDITED) (Continued)

Options Granted to Key Management Personnel (Continued)

Details of the value of options granted, exercised or lapsed for each Key Management Person of the Company or Group during the financial year are as follows:

2009	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						
Peter Woodman(i)	-	-	-	-	59,311	19.1
Daniel Johnson(i)	-	-	-	-	20,387	9.6

Notes:
(i) 1,250,000 incentive options exercisable at $0.35 expired on 30 June 2009.
(ii) For details on the valuation of the options, including models and assumptions used, please refer to Note 15 to the financial statements.

2008	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						
Peter Woodman	384,000	-	-	-	324,689	51.8
Daniel Johnson	190,000	-	-	-	169,613	40.6

Employment Contracts with Key Management Personnel

Mr Peter Woodman, Managing Director, has a contract of employment with Sovereign Metals Limited dated 9 May 2007. 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 2 months notice. No amount is payable in the event of termination for neglect or incompetence in regard to the performance of duties. Mr Woodman receives a fixed remuneration component of $250,000 per annum inclusive of superannuation together with an annual bonus of up to $50,000 per annum to be paid upon Mr Woodman achieving key performance indicators, as agreed with by the Board.

Following shareholder approval at a general meeting held on 24 August 2007, Mr Woodman was granted the following option package in accordance with his employment contract:

- 750,000 Unlisted Options exercisable at $0.35 each on or before 30 June 2009;
- 750,000 Unlisted Options exercisable at $0.50 each on or before 31 December 2009 (vesting after 12 months service); and
- 1,500,000 Unlisted Options exercisable at $0.65 each on or before 30 November 2010 (vesting after 18 months service).

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 18.

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

IAN MIDDLEMAS
Non-Executive Chairman

Perth, 30 September 2009

The information in this report that relates to Exploration Results, Mineral Resources or Ore Reserves is based on information compiled by Mr Peter Woodman, who is a member of the Australian Institute of Mining and Metallurgy. Mr Woodman is an employee of Sovereign Metals Limited. Mr Woodman 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 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Woodman consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

AUDITOR'S INDEPENDENCE DECLARATION

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Sovereign Metals Limited for the year ended 30 June 2009, I declare that, to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

WHK HORWATH PERTH AUDIT PARTNERSHIP

NICHOLAS HOLLENS
Principal

Perth, WA

Dated this 30th day of September 2009

Total Financial Solutions

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A WHK Group firm

INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2009

		Consolidated		Company	
	Note	2009 $	2008 $	2009 $	2008 $
Continuing Operations					
Revenue	2(a)	**235,435**	**355,764**	**235,435**	**355,764**
Corporate and administrative expenses		(339,944)	(489,343)	(338,319)	(489,343)
Exploration and evaluation expenses		(1,743,423)	(3,022,140)	(1,743,423)	(3,022,140)
Business development expenses		(179,910)	(61,680)	(179,910)	(61,680)
Impairment of exploration and evaluation assets	2(d)	(1,278,000)	-	(5,000)	-
Impairment of investment in controlled entities	2(d)	-	-	(1,278,702)	-
Impairment of intercompany loan	2(d)	-	-	(1,625)	-
Impairment of goodwill on acquisition	2(d)	(5,702)	-	-	-
Loss before income tax		**(3,311,544)**	**(3,217,399)**	**(3,311,544)**	**(3,217,399)**
Income tax expense	3	-	-	-	-
Loss after tax from continuing operations		**(3,311,544)**	**(3,217,399)**	**(3,311,544)**	**(3,217,399)**
Loss attributable to members of the parent		**(3,311,544)**	**(3,217,399)**	**(3,311,544)**	**(3,217,399)**
Basic loss per share from continuing operations (cents per share)	20	(8.56)	(8.32)	-	-
Diluted loss per share from continuing operations (cents per share)	20	(8.56)	(8.32)	-	-

The above Income Statements should be read in conjunction with the accompanying notes.

BALANCE SHEET
AS AT 30 JUNE 2009

		Consolidated		Company	
	Note	2009 $	2008 $	2009 $	2008 $
Current Assets					
Cash and cash equivalents	21(b)	1,402,757	3,460,864	1,402,755	3,460,862
Trade and other receivables	4	63,991	75,609	63,991	75,609
Total Current Assets		**1,466,748**	**3,536,473**	**1,466,746**	**3,536,471**
Non-current Assets					
Property, plant and equipment	5	141,071	180,457	141,071	180,457
Exploration and evaluation assets	6	-	1,278,000	-	5,000
Other financial assets	7	-	-	2	1,273,002
Total Non-current Assets		**141,071**	**1,458,457**	**141,073**	**1,458,459**
TOTAL ASSETS		**1,607,819**	**4,994,930**	**1,607,819**	**4,994,930**
Current Liabilities					
Trade and other payables	8	65,334	170,608	65,334	170,608
Provisions	9	24,315	45,649	24,315	45,649
Total Current Liabilities		**89,649**	**216,257**	**89,649**	**216,257**
TOTAL LIABILITIES		**89,649**	**216,257**	**89,649**	**216,257**
NET ASSETS		**1,518,170**	**4,778,673**	**1,518,170**	**4,778,673**
EQUITY					
Issued capital	10	7,553,340	7,557,594	7,553,340	7,557,594
Reserves	11	1,019,750	1,124,455	1,019,750	1,124,455
Accumulated losses	12	(7,054,920)	(3,903,376)	(7,054,920)	(3,903,376)
TOTAL EQUITY		**1,518,170**	**4,778,673**	**1,518,170**	**4,778,673**

The above Balance Sheets should be read in conjunction with the accompanying notes.

CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2009

	Note	Consolidated		Company	
		2009 $	2008 $	2009 $	2008 $
Cash flows from operating activities					
Interest received		137,044	328,459	137,044	328,459
Grant monies received		125,696	-	125,696	-
Payments to suppliers and employees		(2,435,187)	(2,994,838)	(2,433,562)	(2,994,838)
GST refunds		173,954	126,767	173,954	126,767
Net cash used in from operating activities	21(a)	**(1,998,493)**	**(2,539,612)**	**(1,996,868)**	**(2,539,612)**
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		2,600	-	2,600	-
Purchase of property, plant and equipment		(52,258)	(166,335)	(52,258)	(166,335)
Payments for acquisition of mining tenements		-	(5,000)	-	(5,000)
Investment in controlled entities		(5,702)	-	(7,327)	-
Net cash used in from investing activities		**(55,360)**	**(171,335)**	**(56,985)**	**(171,335)**
Cash flows from financing activities					
Proceeds from issue of shares		-	8,746	-	8,746
Transaction costs from issue of shares		(4,254)	-	(4,254)	-
Net cash (used in)/provided by from financing activities		**(4,254)**	**8,746**	**(4,254)**	**8,746**
Net decrease in cash held		**(2,058,107)**	**(2,702,201)**	**(2,058,107)**	**(2,702,201)**
Cash and cash equivalents at the beginning of the financial year		**3,460,864**	**6,163,065**	**3,460,862**	**6,163,063**
Cash and cash equivalents at the end of the financial year	21(b)	**1,402,757**	**3,460,864**	**1,402,755**	**3,460,862**

The above Cash Flow Statements should be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2009

Consolidated	Issued Capital $	Share Based Payments Reserve $	Accumulated Losses $	Total Equity $
Balance at 1 July 2007	**7,548,848**	**542,750**	**(685,977)**	**7,405,621**
Net loss for the year	-	-	(3,217,399)	(3,217,399)
Total recognised income and expense	**-**	**-**	**(3,217,399)**	**(3,217,399)**
Equity Transactions				
Issue of shares	8,746	-	-	8,746
Share-based payments	-	581,705	-	581,705
Balance at 30 June 2008	**7,557,594**	**1,124,455**	**(3,903,376)**	**4,778,673**
Net loss for the year	-	-	(3,311,544)	(3,311,544)
Total recognised income and expense	**-**	**-**	**(3,311,544)**	**(3,311,544)**
Equity Transactions				
Share issue costs	(4,254)	-	-	(4,254)
Share-based payments	-	89,445	-	89,445
Expired options	-	(160,000)	160,000	-
Cancellation of unvested options	-	(34,150)	-	(34,150)
Balance at 30 June 2009	**7,553,340**	**1,019,750**	**(7,054,920)**	**1,518,170**

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

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2009
(Continued)

Company	Issued Capital $	Share Based Payments Reserve $	Accumulated Losses $	Total Equity $
Balance at 1 July 2007	**7,548,848**	**542,750**	**(685,977)**	**7,405,621**
Net loss for the year	-	-	(3,217,399)	(3,217,399)
Total recognised income and expense	**-**	**-**	**(3,217,399)**	**(3,217,399)**
Equity Transactions				
Issue of shares	8,746	-	-	8,746
Share-based payments	-	581,705	-	581,705
Balance at 30 June 2008	**7,557,594**	**1,124,455**	**(3,903,376)**	**4,778,673**
Net loss for the year	-	-	(3,311,544)	(3,311,544)
Total recognised income and expense	**-**	**-**	**(3,311,544)**	**(3,311,544)**
Equity Transactions				
Share issue costs	(4,254)	-	-	(4,254)
Share-based payments	-	89,445	-	89,445
Expired options	-	(160,000)	160,000	-
Cancellation of unvested options	-	(34,150)	-	(34,150)
Balance at 30 June 2009	**7,553,340**	**1,019,750**	**(7,054,920)**	**1,518,170**

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

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in preparing the financial report of the Company, Sovereign Metals Limited and its consolidated entities ("Consolidated Entity" or "Group") for the year ended 30 June 2009 are stated to assist in a general understanding of the financial report.

Sovereign Metals Limited 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 2009 was authorised for issue in accordance with a resolution of the Directors on 25 September 2009.

(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*.

Judgements made by management in the application of A-IFRS that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

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, which include Australian equivalents to International Financial Reporting Standards (AIFRS). The 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. Details of the impact of the adoption of these new accounting standards are set out in the individual accounting policy notes set out below.

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 2009. These are outlined in the table over:

Reference	Title	Summary	Application Date of Standard	Impact on Group Financial Report	Application Date for Group
AASB Int. 16	Hedges of a Net Investment in a Foreign Operation	This Interpretation requires that the hedged risk in a hedge of a net investment in a foreign operation is the foreign currency risk arising between the functional currency of the net investment and the functional currency of any parent entity. This also applies to foreign operations in the form of joint ventures, associates or branches.	1 October 2008	These amendments are not expected to have any impact on the Company's financial report.	1 July 2009
AASB Int. 17 and AASB 2008-13	Distributions of Non-cash Assets to Owners and consequential amendments to Australian Accounting Standards AASB 5 and AASB 110	The Interpretation outlines how an entity should measure distributions of assets, other than cash, as a dividend to its owners acting in their capacity as owners. This applies to transactions commonly referred to as spin-offs, split offs or demergers and in-specie distributions.	1 July 2009	These amendments are not expected to have any impact on the Company's financial report.	1 July 2009
AASB Int. 18	Transfers of Assets from Customers	This Interpretation provides guidance on the transfer of assets such as items of property, plant and equipment or transfers of cash received from customers. The Interpretation provides guidance on when and how an entity should recognise such assets and discusses the timing of revenue recognition for such arrangements and requires that once the asset meets the condition to be recognised at fair value, it is accounted for as an 'exchange transaction'.	Applies prospectively to transfer of assets from customers received on or after 1 July 2009	These amendments are not expected to have any impact on the Company's financial report.	1 July 2009
AASB 8 and AASB 2007-3	Operating Segments and consequential amendments to other Australian Accounting Standards	New Standard replacing AASB114 Segment Reporting, which adopts a management reporting approach to segment reporting.	1 January 2009	AASB 8 is a disclosure standard so will have no direct impact on the amounts included in the Group's financial statements. In addition, the amendments may have an impact on the Group's segment disclosures.	1 July 2009

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009
(Continued)

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Statement of Compliance (Continued)

Reference	Title	Summary	Application Date of Standard	Impact on Group Financial Report	Application Date for Group
AASB 1039 (revised)	Concise Reporting	AASB 1039 was revised in August 2008 to achieve consistency with AASB 8 *Operating Segments*. The revisions include changes to terminology and descriptions to ensure consistency with the revised AASB 101 *Presentation of Financial Statements*.	1 January 2009	These amendments are not expected to have any impact on the Company's financial report.	1 July 2009
AASB 123 (revised) and AASB 2007-6	Borrowing Costs and consequential amendments to other Australian Accounting Standards.	The amendments to AASB 123 require that all borrowing costs associated with a qualifying asset be capitalised.	1 January 2009	The Group has no borrowing costs associated with qualifying assets and as such the amendments are not expected to have any impact on the Group's financial report.	1 July 2009
AASB 101 (revised), AASB 2007-8 and AASB 2007-10	Presentation of Financial Statements and consequential amendments to other Australian Accounting Standards	Introduces a statement of comprehensive income. Other revisions include impacts on the presentation of items in the statement of changes in equity, new presentation requirements for restatements or reclassification of items in the financial statements, changes in the presentation requirements for dividends and changes to the titles of the financial statements.	1 January 2009	These amendments are only expected to affect the presentation of the Group's financial report and will not have a direct impact on the measurement and recognition of amounts disclosed in the financial report. The Group has not determined at this stage whether to present a single statement of comprehensive income or two separate statements.	1 July 2009
AASB 2008-1	Amendments to Australian Accounting Standard – Share-based payments: Vesting Conditions and Cancellations	The amendments clarify the definition of 'vesting conditions', introducing the term 'non-vesting conditions' for conditions other than vesting conditions as specifically defined and prescribe the accounting treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied.	1 January 2009	The Group has share-based payment arrangements that may be affected by these amendments. However, the Group has not yet determined the extent of the impact, if any.	1 July 2009
AASB 2008-2	Amendments to Australian Accounting Standards – Puttable Financial Instruments and Obligations arising on Liquidation	The amendments provide a limited exception to the definition of a liability so as to allow an entity that issues puttable financial instruments with certain specified features, to classify those instruments as equity rather than financial liabilities.	1 January 2009	These amendments are not expected to have any impact on the Group's financial report as the Group does not have on issue or expect to issue any puttable financial instruments as defined by the amendments.	1 July 2009

Reference	Title	Summary	Application Date of Standard	Impact on Group Financial Report	Application Date for Group
AASB 3 (revised)	Business Combinations	The revised Standard introduces a number of changes to the accounting for business combinations, the most significant of which includes the requirement to have to expense transaction costs and a choice (for each business combination entered into) to measure a non-controlling interest (formerly a minority interest) in the acquiree either at its fair value or at its proportionate interest in the acquiree's net assets. This choice will effectively result in recognising goodwill relating to 100% of the business (applying the fair value option) or recognising goodwill relating to the percentage interest acquired. The changes apply prospectively.	1 July 2009	These amendments are not expected to have any impact on the Company's financial report.	1 July 2009
AASB 127 (revised)	Consolidated and Separate Financial Statements	There are a number of changes arising from the revision to AASB 127 relating to changes in ownership interest in a subsidiary without loss of control, allocation of losses of a subsidiary and accounting for the loss of control of a subsidiary. Specifically in relation to a change in the ownership interest of a subsidiary (that does not result in loss of control) – such a transaction will be accounted for as an equity transaction.	1 July 2009	If the Group changes its ownership interest in existing subsidiaries in the future, the change will be accounted for as an equity transaction. This will have no impact on goodwill, nor will it give rise to a gain or a loss in the Group's income statement.	1 July 2009
AASB 2008-3	Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127	Amending standard issued as a consequence of revisions to AASB 3 and AASB 127. Refer above.	1 July 2009	Refer to AASB 3 (revised) and AASB 127 (revised) above.	1 July 2009
AASB 2008-5	Amendments to Australian Accounting Standards arising from the Annual Improvements Project	The improvements project is an annual project that provides a mechanism for making non-urgent, but necessary, amendments to IFRSs.	1 January 2009	These amendments are not expected to have any impact on the Company's financial report.	1 July 2009

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Statement of Compliance (Continued)

Reference	Title	Summary	Application Date of Standard	Impact on Group Financial Report	Application Date for Group
AASB 2008-6	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project	This was the second omnibus of amendments issued by the IASB arising from the Annual Improvements Project. Refer to AASB 2008-5 above for more details.	1 July 2009	These amendments are not expected to have any impact on the Company's financial report.	1 July 2009
AASB 2008-7	Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	The main amendments of relevance to Australian entities are those made to AASB 127 deleting the "cost method" and requiring all dividends from a subsidiary, jointly controlled entity or associate to be recognised in profit or loss in an entity's separate financial statements (i.e., parent company accounts). The distinction between pre- and post-acquisition profits is no longer required. However, the payment of such dividends requires the entity to consider whether there is an indicator of impairment. AASB 127 has also been amended to effectively allow the cost of an investment in a subsidiary, in limited reorganisations, to be based on the previous carrying amount of the subsidiary (that is, share of equity) rather than its fair value.	1 January 2009	These amendments are not expected to have any impact on the Company's financial report.	1 July 2009
AASB 2008-8	Amendments to Australian Accounting Standards – Eligible Hedged Items	The amendment to AASB 139 clarifies how the principles underlying hedge accounting should be applied when (i) a one-sided risk in a hedged item is being hedged and (ii) inflation in a financial hedged item existed or was likely to exist.	1 July 2009	These amendments are not expected to have any impact on the Company's financial report.	1 July 2009
AASB 2009-2	Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments [AASB 4, AASB 7, AASB 1023 & AASB 1038]	The main amendment to AASB 7 requires fair value measurements to be disclosed by the source of inputs, using the following three-level hierarchy: • quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1); • inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and • inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3). These amendments arise from the issuance of Improving Disclosures about Financial Instruments (Amendments to IFRS 7) by the IASB in March 2009. The amendments to AASB 4, AASB 1023 and AASB 1038 comprise editorial changes resulting from the amendments to AASB 7.	Annual reporting periods beginning on or after 1 January 2009 that end on or after 30 April 2009.	These amendments are not expected to have any impact on the Company's financial report.	1 July 2009

Reference	Title	Summary	Application Date of Standard	Impact on Group Financial Report	Application Date for Group
AASB 2009-4	Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 2 and AASB 138 and AASB Interpretations 9 & 16]	The amendments to some Standards result in accounting changes for presentation, recognition or measurement purposes, while some amendments that relate to terminology and editorial changes are expected to have no or minimal effect on accounting.	1 July 2009	These amendments are not expected to have any impact on the Company's financial report.	1 July 2009
AASB 2009-5	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139]	The amendments to some Standards result in accounting changes for presentation, recognition or measurement purposes, while some amendments that relate to terminology and editorial changes are expected to have no or minimal effect on accounting.	1 January 2010	These amendments are not expected to have any impact on the Company's financial report.	1 July 2010
Amendments to International Financial Reporting Standard	Amendments to IFRS 2	The amendments clarify the accounting for group cash-settled share-based payment transactions, in particular: • the scope of AASB 2; and the interaction between IFRS 2 and other standards.	1 January 2010	These amendments are not expected to have any impact on the Company's financial report.	1 July 2010

(c) Principles of Consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Sovereign Metals Limited ("Company" or "Parent Entity") as at 30 June 2009 and the results of all subsidiaries for the year then ended. Sovereign Metals Limited and its subsidiaries together are referred to as the Group or the Consolidated Entity.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to Note 1(g)).

Intercompany transactions and balances, and unrealised gains on transactions between Group companies, are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Exploration and Evaluation Expenditure

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 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/or
  - 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 any 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 area according to the rate of depletion of the existence of the economically recoverable reserves.

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.

(e) Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable. The following specific recognition criteria must also be met before revenue is recognised:

(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).

(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.

(f) Income Tax

The income tax expense or revenue 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 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 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.

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 parent entity 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.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

(g) Acquisition of Assets

The purchase method of accounting is used to account for all acquisitions of assets (including business combinations) regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

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 income statement, 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.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Impairment of Assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

(i) 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 that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(j) Trade and Other Receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost less an allowance for doubtful debts. Trade receivables are due for settlement no more than 30 days from the date of recognition. An estimate of doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

(k) 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 Group 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 balance sheet.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity.

(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.

Subsequent to initial recognition, investments in subsidiaries are measured at cost. Subsequent to initial recognition, investments in associates are accounted for under the equity method in the consolidated financial statements and the cost method in the company financial statements.

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 income statement 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 the income statement as gains and losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include reference to the fair values of recent arm's length transactions, involving the same instruments or other instruments that are substantially the same, discounted cash flow analysis, and option pricing models.

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 and loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

(l) Fair Value Estimation

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 balance sheet 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 balance sheet date.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) 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 income statement 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 income statement.

(n) Payables

Liabilities for trade creditors and other amounts are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the consolidated entity. The amounts are unsecured and are usually paid within 30 days.

Payables to related parties are carried at the cost.

(o) Employee Benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled 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.

(p) 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.

(q) Dividends

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

(r) Earnings per Share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the period, adjusted for bonus elements in ordinary shares issued during the period.

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(s) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

(t) Share-Based Payments

(i) Equity settled transactions:

The Group provides benefits to directors, employees, consultants and other advisors of the Group in the form of share-based payments, whereby the directors, employees, consultants and other advisors render services in exchange for shares or rights over shares (equity-settled transactions).

The cost of these equity-settled transactions is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using a binomial model or Black-Scholes model.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Berkeley (market conditions) if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting period).

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the Group's best estimate of the number of equity instruments that will ultimately vest. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is only conditional upon a market condition.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Share-Based Payments (Continued)

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share (see Note 20).

(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.

(v) Use and Revision of Accounting Estimates

The preparation of the financial report requires the making of estimations and assumptions that affect the recognised amounts of assets, liabilities, revenues and expenses and the disclosure of contingent liabilities. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. 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.

	Note	Consolidated 2009 $	Consolidated 2008 $	Company 2009 $	Company 2008 $
2. LOSS FROM OPERATIONS					
(a) Revenue					
Interest revenue		109,739	355,764	109,739	355,764
Grant revenue		125,696	-	125,696	-
		235,435	**355,764**	**235,435**	**355,764**
(b) Depreciation					
Depreciation of plant and equipment included in administration expenses		(54,023)	(52,392)	(54,023)	(52,392)
(c) Employee Benefits Expense					
Salaries and wages		(595,225)	(659,976)	(595,225)	(659,976)
Net movement in provision for employee entitlements		21,334	(40,643)	21,334	(40,643)
Defined contribution plan		(36,686)	(63,041)	(36,686)	(63,041)
Bonuses		-	(100,000)	-	(100,000)
Share-based payments		(55,295)	(581,705)	(55,295)	(581,705)
		(665,872)	**(1,445,365)**	**(665,872)**	**(1,445,365)**
(d) Diminution of non-current assets					
Impairment of exploration and evaluation assets	6(b)	(1,278,000)	-	(5,000)	-
Impairment of investment in controlled entities	7(a)	-	-	(1,278,702)	-
Impairment of intercompany loan	7(b)	-	-	(1,625)	-
Impairment of goodwill		(5,702)	-	-	-
Impairment loss – Property, plant and equipment	5(g)	(32,598)	-	(32,598)	-
	21(a)	**(1,316,300)**	**-**	**(1,317,925)**	**-**
(e) Loss on sale of non-current assets					
Proceeds received from sale of Property, plant and equipment		2,600	-	2,600	-
Less carrying value		(5,023)	-	(5,023)	-
Loss on sale of non-current assets		**(2,423)**	**-**	**(2,423)**	**-**

	Consolidated		Company	
	2009 $	**2008 $**	**2009 $**	**2008 $**
3. INCOME TAX				
(a) Recognised in the Income Statement				
Current income tax				
Current income tax benefit	(529,621)	(779,850)	(529,133)	(779,850)
Adjustments in respect of current income tax of previous years	(2,866)	(33,876)	(2,866)	(415,776)
Deferred income tax				
Origination and reversal of temporary differences	(382,535)	9,406	(383,023)	9,406
Deferred tax assets not brought to account	915,022	804,320	915,022	1,186,220
Income tax expense reported in the income statement	-	-	-	-
(b) Reconciliation Between Tax Expense and Accounting Loss Before Income Tax				
Accounting loss before income tax	(3,311,544)	(3,217,399)	(3,311,544)	(3,217,399)
At the domestic income rate of 30% (2008: 30%)	(993,463)	(965,219)	(993,463)	(965,219)
Expenditure not allowable for income tax purposes	81,307	194,775	81,307	194,775
Adjustments in respect of current income tax of previous years	(2,866)	(33,876)	(2,866)	(415,776)
Deferred tax assets not brought to account	915,022	804,320	915,022	1,186,220
Income tax expense reported in the income statement	-	-	-	-
(c) Deferred Income Tax				
Deferred income tax at 30 June 2009 relates to the following:				
Deferred Tax Liabilities				
Accrued interest	-	8,192	-	8,192
Exploration and evaluation assets	-	383,400	-	1,500
Deferred tax assets used to offset deferred tax liabilities	-	(391,592)	-	(9,692)
	-	-	-	-

	Consolidated		Company	
	2009 $	2008 $	2009 $	2008 $
Deferred Tax Assets				
Other financial assets	1,710	-	384,098	-
Accruals	8,010	10,950	8,010	10,950
Provisions	7,295	13,695	7,295	13,695
Property, Plant and Equipment	9,779	-	9,779	-
Capital allowances	22,556	32,572	22,556	32,572
Tax losses available to offset against future taxable income	1,794,609	1,263,312	1,794,121	1,263,312
Deferred tax assets used to offset deferred tax liabilities	-	(391,592)	-	(9,692)
Deferred tax assets not brought to account	(1,843,959)	(928,937)	(2,225,859)	(1,310,837)
	-	-	-	-

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 16.

	Consolidated		Company	
	2009 $	2008 $	2009 $	2008 $
4. CURRENT ASSETS – TRADE AND OTHER RECEIVABLES				
Accrued interest	-	27,305	-	27,305
Sundry debtor	48,654	-	48,654	-
GST receivable	15,337	48,304	15,337	48,304
	63,991	**75,609**	**63,991**	**75,609**

	Consolidated		Company	
	2009 $	2008 $	2009 $	2008 $
5. NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT				
(a) Office Furniture and Equipment				
Cost	27,237	31,336	27,237	31,336
Accumulated depreciation and impairment	(20,807)	(8,931)	(20,807)	(8,931)
	6,430	**22,405**	**6,430**	**22,405**
(b) Computer Equipment				
Cost	51,358	51,223	51,358	51,223
Accumulated depreciation and impairment	(37,669)	(22,433)	(37,669)	(22,433)
	13,689	**28,790**	**13,689**	**28,790**
(c) Software				
Cost	18,845	16,672	18,845	16,672
Accumulated depreciation and impairment	(16,636)	(9,175)	(16,636)	(9,175)
	2,209	**7,497**	**2,209**	**7,497**
(d) Plant & Equipment				
Cost	93,994	46,644	93,994	46,644
Accumulated depreciation and impairment	(16,156)	(983)	(16,156)	(983)
	77,838	**45,661**	**77,838**	**45,661**
(e) Furniture & Fittings				
Cost	24,375	24,375	24,375	24,375
Accumulated depreciation and impairment	(15,293)	(2,856)	(15,293)	(2,856)
	9,082	**21,519**	**9,082**	**21,519**
(f) Motor Vehicles				
Cost	65,836	65,836	65,836	65,836
Accumulated depreciation and impairment	(34,013)	(11,251)	(34,013)	(11,251)
	31,823	**54,585**	**31,823**	**54,585**
Net carrying amount	**141,071**	**180,457**	**141,071**	**180,457**
(g) Reconciliation				
Carrying amount at beginning of year, net of accumulated depreciation and impairment	180,457	66,514	180,457	66,514
Additions	52,258	166,335	52,258	166,335
Disposals	(5,023)	-	(5,023)	-
Depreciation charge	(54,023)	(52,392)	(54,023)	(52,392)
Impairment loss	(32,598)	-	(32,598)	-
Carrying amount at end of year, net of accumulated depreciation and impairment	**141,071**	**180,457**	**141,071**	**180,457**

	Note	Consolidated 2009 $	Consolidated 2008 $	Company 2009 $	Company 2008 $
6. NON-CURRENT ASSETS – EXPLORATION AND EVALUATION ASSETS					
The Company has mineral exploration costs carried forward in respect of the following areas of interest:					
(a) Areas of Interest					
Queensland					
Cloncurry – Mt Isa		-	1,273,000	-	-
Magpie ML 2634		-	5,000	-	5,000
		-	**1,278,000**	**-**	**5,000**
(b) Reconciliation					
Carrying amount at beginning of year		**1,278,000**	**1,273,000**	**5,000**	**-**
Acquisition of tenements		-	5,000	-	5,000
Impairment of exploration and evaluation assets		(1,278,000)	-	(5,000)	-
Carrying amount at end of year		**-**	**1,278,000**	**-**	**5,000**
7. NON-CURRENT ASSETS – OTHER FINANCIAL ASSETS					
Investment in controlled entities (a)	16	-	-	2	1,273,002
Intercompany loan (b)		-	-	-	-
		-	-	2	1,273,002
(a) Reconciliation					
Carrying amount at beginning of year		**-**	**-**	**1,273,002**	**1,273,002**
Acquisition during the year	17	-	-	5,702	-
Provision for investment in controlled entities	2(d)	-	-	(1,278,702)	-
Carrying amount at end of year		**-**	**-**	**2**	**1,273,002**
(b) Reconciliation					
Carrying amount at beginning of year		**-**	**-**	**-**	**-**
Intercompany loan		-	-	1,625	-
Impairment of intercompany loan	2(d)	-	-	(1,625)	-
Carrying amount at end of year		**-**	**-**	**-**	**-**

	Consolidated 2009 $	Consolidated 2008 $	Company 2009 $	Company 2008 $
8. CURRENT LIABILITIES – TRADE AND OTHER PAYABLES				
Trade creditors	29,604	134,064	29,604	134,064
Accrued expenses	26,700	36,544	26,700	36,544
GST payable	9,030	-	9,030	-
	65,334	**170,608**	**65,334**	**170,608**
9. CURRENT LIABILITIES – PROVISIONS				
Employee benefits	**24,315**	**45,649**	**24,315**	**45,649**
10. ISSUED CAPITAL				
(a) Issued and Paid Up Capital				
38,690,246 fully paid ordinary shares (2008: 38,690,246)	7,552,840	7,557,094	7,552,840	7,557,094
2,500 Preference Shares (2008: 2,500)	500	500	500	500
	7,553,340	**7,557,594**	**7,553,340**	**7,557,594**

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

Date	Details	Number of Shares	Issue Price $	$
1 July 07	**Opening Balance**	**38,646,517**		**7,548,348**
5 Jul 07	Exercise of Options	440	0.20	88
7 Aug 07	Exercise of Options	4,000	0.20	800
18 Sep 07	Exercise of Options	28,800	0.20	5,760
3 Dec 07	Exercise of Options	480	0.20	96
12 Dec 07	Exercise of Options	10,000	0.20	2,000
23 May 08	Exercise of Options	9	0.20	2
30 Jun 08	**Closing Balance**	**38,690,246**		**7,557,094**
1 July 08	**Opening Balance**	**38,690,246**		**7,557,094**
	Share issue costs	-	-	(4,254)
30 Jun 09	**Closing Balance**	**38,690,246**		**7,552,840**

(c) Movements in Convertible Preference Shares During the Current and Prior Financial Periods Were as Follows:

Year ended 30 June 2008

There was no movement in convertible preference shares during the year ended 30 June 2008.

Year ended 30 June 2009

There was no movement in convertible preference shares during the year ended 30 June 2009.

(d) 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.

(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.

(e) Terms and Conditions of Convertible Preference Shares

2,500 Convertible Preference Shares ("CPS Shares") were issued pursuant to an agreement with Fusion Resources Limited ("Fusion"), to acquire Exploration Assets in North West Queensland. The CPS Shares are issued based upon the following terms and conditions:

- The issue price of each CPS is $0.20.

10. ISSUED CAPITAL (Continued)

(e) Terms and Conditions of Convertible Preference Shares (Continued)

- Each CPS Share is convertible into Ordinary Shares of the Company in accordance with the following formula:

  (i) Each CPS Share converts into 1,000 Sovereign Shares as follows:
    - if the Commercial Milestone is achieved; or
    - if a Takeover Bid is made.

  (ii) Each CPS Share will automatically convert into one (1) Sovereign Share if they do not convert into Sovereign Shares in accordance with (i) above on or before 31 December 2009.

- "Commercial Milestone" is defined to mean ownership attributable to Sovereign in respect of the Exploration Assets of an inferred mineral resource of 10 million tonnes at 1% grade of copper-equivalent (copper and gold only) in accordance with the provision of the JORC Code.

- The CPS Shares are only redeemable at the option of Sovereign on the conversion of the CPS into Sovereign Shares.

- The CPS Shares are entitled to a cumulative dividend of 5% of the Issue Price of each CPS Share.

- The CPS Shares are not transferable.

- The Preference Shareholders shall have no right to vote save for those circumstances listed in Listing Rule 6.3.

	Consolidated		Company	
	2009 $	2008 $	2009 $	2008 $
11. RESERVES				
(a) Reserves				
16,709,738 (30 June 2008: 16,709,738) listed $0.20 options	-	-	-	-
Share based payments reserve				
4,250,000 (30 June 2008: 4,250,000) unlisted $0.20 options	463,250	463,250	463,250	463,250
750,000 (30 June 2008: 750,000) unlisted $0.25 options	79,500	79,500	79,500	79,500
NIL (30 June 2008: 1,250,000) unlisted $0.35 options	-	160,000	-	160,000
1,775,000 (30 June 2008: 1,975,000) unlisted $0.50 options	213,000	204,985	213,000	204,985
2,000,000 (30 June 2008: 2,725,000) unlisted $0.65 options	264,000	216,720	264,000	216,720
Total Reserves	**1,019,750**	**1,124,455**	**1,019,750**	**1,124,455**

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

11. RESERVES (Continued)

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

Date	Details	Notes	Number of $0.20 Listed Options	Number of $0.20 Unlisted Options	Number of $0.25 Unlisted Options	Number of $0.35 Unlisted Options	Number of $0.50 Unlisted Options	Number of $0.65 Unlisted Options	Fair Value $	$
1 Jul 07	**Opening Balance**		**16,753,467**	**4,250,000**	**750,000**	**-**	**-**	**-**		**542,750**
24 Aug 07	Issue of Incentive Options									
	- Peter Woodman		-	-	-	750,000	-	-	0.128	96,000
			-	-	-	-	750,000	-	0.120	90,000
		(i)	-	-	-	-	-	1,500,000	0.132	138,689
	- Daniel Johnson		-	-	-	500,000	-	-	0.128	64,000
			-	-	-	-	500,000	-	0.120	60,000
		(i)	-	-	-	-	-	500,000	0.132	45,613
	- Employees	(i)	-	-	-	-	525,000	-	0.120	53,252
		(i)	-	-	-	-	-	525,000	0.132	29,449
23 May 08	Issue of Incentive Options									
	- Employees	(i)	-	-	-	-	200,000	-	0.075	1,732
		(i)	-	-	-	-	-	200,000	0.093	2,970
Jul 07 to Jun 08	Exercise of Options	10(b)	(43,729)	-	-	-	-	-	-	-
30 Jun 08	**Closing Balance**		**16,709,738**	**4,250,000**	**750,000**	**1,250,000**	**1,975,000**	**2,725,000**		**1,124,455**
1 Jul 08	**Opening Balance**		**16,709,738**	**4,250,000**	**750,000**	**1,250,000**	**1,975,000**	**2,725,000**		**1,124,455**
5 Nov 08	Lapse of Options	(ii)	-	-	-	-	(200,000)	(725,000)		(34,150)
30 Jun 09	Share based payment expense	(i)	-	-	-	-	-	-		89,445
30 Jun 09	Expiry of Options	(iii)	-	-	-	(1,250,000)	-	-		(160,000)
30 Jun 09	**Closing Balance**		**16,709,738**	**4,250,000**	**750,000**	**-**	**1,775,000**	**2,000,0000**		**1,019,750**

Notes:

(i) The value of options granted during the year is recognised over the vesting period of the grant, in accordance with Australian Accountings Standards.

(ii) Following the cessation of eligible employment with the Company, incentive options previously issued to employees which were yet to vest have been cancelled. The fair value of these options recognised in previous periods has been removed from the Share Based Payments Reserve and reversed in the current period.

(iii) Options expired 30 June 2009.

11. RESERVES (Continued)

(c) Terms and Conditions of Listed Options

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

- each Listed Option entitles the holder to subscribe for one Share upon exercise of each Listed Option;
- the exercise price of each Listed Option is $0.20;
- each Listed Option has an expiry date of 30 June 2010;
- the Listed Options are exercisable at any time prior to the Expiry Date;
- Shares issued on exercise of the Listed 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 Listed Options;
- if there is any reconstruction of the issued share capital of the Company, the rights of the Optionholders may be varied to comply with the ASX Listing Rules which apply to the reconstruction at the time of the reconstruction;
- application for quotation of the Listed Options will be made by the Company; and
- the Listed Options are transferable.

(d) Terms and Conditions of Unlisted Options

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

- each Unlisted Option entitles the holder to subscribe for one Share upon exercise of each Unlisted Option;
- the Unlisted Options have exercise prices and expiry dates as follows:
  - $0.20 Unlisted Options expire 31 May 2010;
  - $0.25 Unlisted Options expire 31 December 2010;
  - $0.35 Unlisted Options expire 30 June 2009;
  - $0.50 Unlisted Options expire 31 December 2009; and
  - $0.65 Unlisted Options expire 30 November 2010;
- the Unlisted Options are exercisable at any time prior to the Expiry Date;
- Shares issued on exercise of the Unlisted 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 Unlisted Options;
- if there is any reconstruction of the issued share capital of the Company, the rights of the Optionholders 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 Unlisted Options will be made by the Company; and
- the Unlisted Options are transferable provided that the transfer of Unlisted Options complies with section 707(3) of the Corporations Act.

	Consolidated		Company	
	2009 $	2008 $	2009 $	2008 $
12. ACCUMULATED LOSSES				
Balance at the beginning of year	(3,903,376)	(685,977)	(3,903,376)	(685,977)
Adjustment to retained losses for expired options	160,000	-	160,000	-
Net loss	(3,311,544)	(3,217,399)	(3,311,544)	(3,217,399)
Balance at end of year	**(7,054,920)**	**(3,903,376)**	**(7,054,920)**	**(3,903,376)**

(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.

13. KEY MANAGEMENT PERSONNEL COMPENSATION

(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	Non-Executive Chairman
Mr Peter Woodman	Managing Director
Mr Mark Pearce	Non-Executive Director
Mr Daniel Johnson	Executive Director (resigned 30 January 2009)
Mr Matthew Rimes	Non-Executive Director (resigned 17 December 2008)
Executive	
Mr Clint McGhie	Company Secretary

Unless otherwise disclosed, the KMP held their position from 1 July 2008 until the date of this report.

(b) Key Management Personnel Compensation

	Consolidated		Company	
	2009 $	2008 $	2009 $	2008 $
Short-term benefits	471,563	579,832	471,563	579,832
Post-employment benefits	30,092	36,842	30,092	36,842
Share-based payments	79,698	494,302	79,698	494,302
	581,353	**1,110,976**	**581,353**	**1,110,976**

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.

13. KEY MANAGEMENT PERSONNEL COMPENSATION (Continued)

(c) Option Holdings of Key Management Personnel

2009	Held at 1 July 2008 (#)	Granted as Compen-sation (#)	Options Exercised (#)	Net Change Other (#)	Held at 30 June 2009 (#)	Vested and Exercisable at 30 June 2009 (#)
Directors						
Ian Middlemas	1,270,000	-	-	-	1,270,000	1,270,000
Peter Woodman	3,000,000	-	-	(750,000)(ii)	2,250,000	2,250,000
Mark Pearce	356,154	-	-	-	356,154	356,154
Daniel Johnson	1,500,000	-	-	-	1,500,000(i)	1,500,000(i)
Matthew Rimes	2,420,000	-	-	-	2,420,000(i)	2,420,000(i)
Executive						
Clint McGhie	302,300	-	-	-	302,300	302,300

2008	Held at 1 July 2007 (#)	Granted as Compen-sation (#)	Options Exercised (#)	Net Change Other (#)	Held at 30 June 2008 (#)	Vested and Exercisable at 30 June 2008 (#)
Directors						
Ian Middlemas	1,270,000	-	-	-	1,270,000	1,270,000
Peter Woodman	-	3,000,000	-	-	3,000,000	1,500,000
Mark Pearce	356,154	-	-	-	356,154	356,154
Daniel Johnson	-	1,500,000	-	-	1,500,000	1,000,000
Matthew Rimes	2,420,000	-	-	-	2,420,000	2,420,000
Executive						
Clint McGhie	302,300	-	-	-	302,300	302,300

Notes:
(i) As at date of resignation.
(ii) 750,000 incentive options exercisable at $0.35 expired on 30 June 2009.

(d) Shareholdings of Key Management Personnel

2009	Held at 1 July 2008 (#)	Granted as compensation (#)	On Exercise of Options (#)	Purchases (#)	Held at 30 June 2009 (#)
Directors					
Ian Middlemas	2,540,000	-	-	-	2,540,000
Peter Woodman	-	-	-	-	-
Mark Pearce	212,308	-	-	-	212,308
Daniel Johnson	22,000	-	-	-	22,000(ii)
Matthew Rimes	1,840,000	-	-	-	1,840,000(ii)
Executive					
Clint McGhie	104,600	-	-	-	104,600

2008	Held at 1 July 2007 (#)	Granted as compensation (#)	On Exercise of Options (#)	Purchases (#)	Held at 30 June 2008 (#)
Directors					
Ian Middlemas	2,540,000	-	-	-	2,540,000
Peter Woodman	-	-	-	-	-
Daniel Johnson	-	-	-	22,000(i)	22,000
Matthew Rimes	1,840,000	-	-	-	1,840,000
Mark Pearce	212,308	-	-	-	212,308
Executive					
Clint McGhie	104,600	-	-	-	104,600

Notes:
(i) Mr Johnson acquired these shares on market.
(ii) As at date of resignation.

14. RELATED PARTY DISCLOSURES

(a) Ultimate Parent

Sovereign Metals Limited is the ultimate parent of the Group.

(b) Key Management Personnel

Details relating to Key Management Personnel, including remuneration paid, are included at Note 13.

(c) Transactions with Related Parties in the Consolidated Group

During the financial year ended 30 June 2009, the following transactions occurred between the Company and its related parties (excluding Key Management Personnel):

- Loans were advanced on an intercompany account to Sovereign Mozambique Pty Ltd and Sovereign Zambia Pty Ltd totalling $1,625. This amount was fully provided for by the Company at 30 June 2009.

14. RELATED PARTY DISCLOSURES (Continued)

(c) Transactions with Related Parties in the Consolidated Group (Continued)

These transactions were undertaken on commercial terms and conditions, except that:

(i) There was no fixed repayment of loans between the related parties; and

(ii) No interest was payable on the loans.

There were no additional transactions with related parties during the 2009 financial year.

(d) Other Transactions

Apollo Group Pty Ltd, a company of which Mr Mark Pearce is a Director and beneficial shareholder, was paid $166,000 (2008: $180,000) for the provision of serviced office facilities and administration services during the year. 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 Income Statement.

15. 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:

	Consolidated		Company	
	2009 $	2008 $	2009 $	2008 $
Expense arising from equity-settled share-based payment transactions	55,295	581,705	55,295	581,705

(b) Summary of Options Granted

The following incentive options were granted during the past two years:

Option Series	Issuing Entity	Number	Grant Date	Note	Expiry Date	Exercise Price $	Grant Date Fair Value $
Series 1	Sovereign Metals Limited	1,250,000	24-Aug-07	(i)	30-Jun-09	0.35	0.128
Series 2	Sovereign Metals Limited	1,775,000	24-Aug-07		31-Dec-09	0.50	0.120
Series 3	Sovereign Metals Limited	2,525,000	24-Aug-07	(ii)	30-Nov-10	0.65	0.132
Series 4	Sovereign Metals Limited	200,000	23-May-08	(iii)	31-Dec-09	0.50	0.075
Series 5	Sovereign Metals Limited	200,000	23-May-08	(iv)	30-Nov-10	0.65	0.093

Notes:
(i) Options expired 30 June 2009.
(ii) On 5 November 2008 525,000 options lapsed following the cessation of eligible employment with the Company.
(iii) On 5 November 2008 200,000 options lapsed following the cessation of eligible employment with the Company.
(iv) On 5 November 2008 200,000 options lapsed following the cessation of eligible employment with the Company.

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

	2009 Number	2009 WAEP	2008 Number	2008 WAEP
Outstanding at beginning of year	10,950,000	$0.39	5,000,000	$0.21
Expired during the year	(1,250,000)	$0.04	-	-
Forfeited/lapsed during the year	(925,000)	$0.05	-	-
Granted during the year	-	-	5,950,000	$0.54
Outstanding at end of year	**8,775,000**	**$0.37**	**10,950,000**	**$0.39**

The outstanding balance of options issued as share based payments on issue as at 30 June 2009 is represented by:

- 4,250,000 $0.20 unlisted options expiring 31 May 2010;
- 750,000 $0.25 unlisted options expiring 31 December 2010;
- 1,775,000 $0.50 unlisted options expiring 31 December 2009; and
- 2,000,000 $0.65 unlisted options expiring 30 November 2010.

All options outstanding at 30 June 2009 are exercisable.

(c) Weighted Average Remaining Contractual Life

The weighted average remaining contractual life for share options outstanding as at 30 June 2009 is 1 year (2008: 2.36 years).

(d) Range of Exercise Prices

The range of exercise prices for share options outstanding as at 30 June 2009 was $0.20 to $0.65 (2008: $0.20 to $0.65).

(e) Weighted Average Fair Value

The weighted average fair value of options granted by the Group during the year ended 30 June 2008 was $0.117 No options were granted during the year ended 30 June 2009.

(f) Option 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.

15. SHARE-BASED PAYMENTS (Continued)

(f) Option Pricing Model (Continued)

The following table lists the inputs to the valuation model used for share options granted by the Group during the last two years:

Inputs	Series 1	Series 2	Series 3
Issuing entity	Sovereign Metals Limited	Sovereign Metals Limited	Sovereign Metals Limited
Exercise price	$0.35	$0.50	$0.65
Grant date share price	$0.29	$0.29	$0.29
Dividend yield (i)	-	-	-
Volatility (ii)	90%	90%	90%
Risk-free interest rate	6.25%	6.25%	6.25%
Grant date	24-Aug-07	24-Aug-07	24-Aug-07
Expiry date	30-Jun-09	31-Dec-09	30-Nov-10
Expected life of option (years) (iii)	1.852	2.356	3.271
Fair value at grant date	0.128	0.120	0.132

Inputs	Series 4	Series 5
Issuing entity	Sovereign Metals Limited	Sovereign Metals Limited
Exercise price	$0.50	$0.65
Grant date share price	$0.25	$0.25
Dividend yield (i)	-	-
Volatility (ii)	95%	95%
Risk-free interest rate	6.85%	6.85%
Grant date	23-May-08	23-May-08
Expiry date	31-Dec-09	30-Nov-10
Expected life of option (years) (iii)	1.608	2.523
Fair value at grant date	0.075	0.093

Notes
(i) The dividend yield reflects the assumption that the current dividend payout will remain unchanged.
(ii) The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome.
(iii) The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur.

16. CONTROLLED ENTITIES

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	
		2009 %	2008 %	2009 $	2008 $	2009 $	2008 $
Sovereign Cloncurry Pty Ltd [(ii)]	Australia	**100**	100	**1,273,002**	1,273,002	**2**	1,273,002
Sovereign Mozambique Pty Ltd [(i) (ii)]	Australia	**100**	-	**3,161**	-	**-**	-
Sovereign Moçambique Limitada [(i)]	Mozambique	**100**	-	**-**	-	**-**	-
Sovereign Zambia Pty Ltd [(i) (ii)]	Australia	**100**	-	**2,541**	-	**-**	-
Sovereign Metals (Zambia) Ltd [(i)]	Zambia	**100**	-	**-**	-	**-**	-
				1,278,704	1,273,002	**2**	1,273,002

Notes:
(i) Acquired on 17 April 2009.
(ii) Member of the tax consolidated group.

17. BUSINESS COMBINATION

(a) Acquisition of Sovereign Mozambique Pty Ltd

On 17 April 2009, Sovereign Metals Limited acquired a 100% interest in Sovereign Mozambique Pty Ltd. On acquisition, Sovereign Mozambique Pty Ltd had no assets or liabilities other than a 100% interest in Sovereign Moçambique, Limitada. The pre acquisition carrying value of Sovereign Moçambique, Limitada was nil. Sovereign Metals Limited paid $3,161 for the acquisition of Sovereign Mozambique Pty Ltd which has been treated as goodwill on acquisition and fully provided for as at 30 June 2009.

(b) Acquisition of Sovereign Zambia Pty Ltd

On 17 April 2009, Sovereign Metals Limited acquired a 100% interest in Sovereign Zambia Pty Ltd. On acquisition, Sovereign Zambia Pty Ltd had no assets or liabilities other than a 100% interest in Sovereign Zambia Limited . The pre acquisition carrying value of Sovereign Zambia Limited was nil. Sovereign Metals Limited paid $2,541 for the acquisition of Sovereign Zambia Pty Ltd which has been treated as goodwill on acquisition and fully provided for as at 30 June 2009.

	Consolidated		Company	
	2009 $	2008 $	2009 $	2008 $
18. REMUNERATION OF AUDITORS				
Amounts received or due and receivable for:				
• an audit or review of the financial reports of the Company	17,800	12,200	17,800	12,200
• other services in relation to the Company	-	-	-	-
Total Auditors' Remuneration	**17,800**	**12,200**	**17,800**	**12,200**

19. SEGMENT INFORMATION

The Consolidated Entity operates in one business segment, being the copper/gold exploration industry and in one geographic location, namely Australia.

	Consolidated 2009 Cents per Share	Consolidated 2008 Cents per Share
20. EARNINGS PER SHARE		
Basic loss per share		
From continuing operations	8.56	8.32
From discontinued operations	-	-
Total basic loss per share	**8.56**	**8.32**
Diluted loss per share		
From continuing operations	8.56	8.32
From discontinued operations	-	-
Total diluted loss per share	**8.56**	**8.32**

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

	Consolidated	
	2009 $	2008 $
Net loss used in calculating basic and diluted earnings per share	**3,311,544**	**3,217,399**

	Number of Shares 2009	Number of Shares 2008
Weighted average number of ordinary shares used in calculating basic earnings per share	38,690,246	38,678,928
Effect of dilutive securities*	-	-
Adjusted weighted average number of ordinary shares and potential ordinary shares used in calculating basic and diluted earnings per share	**38,690,246**	**38,678,928**

***Non-dilutive securities**

As at balance date, 16,709,738 listed options (which represent 16,709,738 potential ordinary shares), 8,775,000 unlisted options (which represent 8,775,000 potential ordinary shares) and 2,500 convertible preference shares (which represent 2,500,000 potential ordinary shares) were not dilutive as they would decrease the loss per share.

Conversions, calls, subscriptions or issues after 30 June 2009

Since 30 June 2009, no shares have been issued as a result of the exercise of options.

	Consolidated		Company	
	2009 $	2008 $	2009 $	2008 $
21. NOTES TO THE CASH FLOW STATEMENT				
(a) Reconciliation of Loss for the Year to Net Cash Flows from Operating Activities				
Loss for the year	(3,311,544)	(3,217,399)	(3,311,544)	(3,217,399)
Adjustment for non-cash income and expense items				
Depreciation	54,023	52,392	54,023	52,392
Share-based payments expensed	55,295	581,705	55,295	581,705
Provision for diminution for exploration and evaluation assets	1,278,000	-	5,000	-
Provision for diminution for investment in controlled entities	-	-	1,278,702	-
Provision for goodwill on acquisition	5,702	-	-	-
Provision for intercompany loan	-	-	1,625	-
Impairment loss – Property, Plant and equipment	32,598	-	32,598	-
Provision for employee entitlements	(21,334)	40,643	(21,334)	40,643
Net loss on disposal of non-current assets	2,423	-	2,423	-
Changes in assets and liabilities				
Decrease/(Increase) in trade and other receivables	11,618	(42,273)	11,618	(42,273)
(Decrease)/Increase in trade and other payables	(105,274)	45,320	(105,274)	45,320
Net cash outflow from operating activities	**(1,998,493)**	**(2,539,612)**	**(1,996,868)**	**(2,539,612)**
(b) Reconciliation of Cash Assets				
Cash at bank and on hand	162,757	452,427	162,755	452,425
Bank short term deposits	1,240,000	3,008,437	1,240,000	3,008,437
	1,402,757	**3,460,864**	**1,402,755**	**3,460,862**

(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 2009

During the year ended 30 June 2009, there were no non-cash financing or investing activities.

30 June 2008

During the year ended 30 June 2008, there were no non-cash financing or investing activities.

22. 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 informatin about the Group's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk, and the management of capital. Other than as disclosed, there have been no significant changes since the previous financial year to the exposure or management of these risks.

The Group manages its exposure to key financial risks in accordance with the Group's financial risk management policy. Key risks are monitored and reviewed as circumstances change (e.g. acquisition of a new project) and policies are revised as required. The overall objective of the Group's financial risk management policy is to support the delivery of the Group's financial targets whilst protecting future financial security.

Given the nature and size of the business and uncertainty as to the timing and amount of cash inflows and outflows, the Group does not enter into derivative transactions to mitigate the financial risks. In addition, the Group's policy is that no trading in financial instruments shall be undertaken for the purposes of making speculative gains. As the Group's operations change, the Directors will review this policy periodically going forward.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The Board reviews and agrees policies for managing the Group's financial risks as summarised below.

(b) Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. This risk arises principally from cash and cash equivalents 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:

	Consolidated		Company	
	2009 $	2008 $	2009 $	2008 $
Cash and cash equivalents	1,402,757	3,460,864	1,402,755	3,460,862
Trade and other receivables	63,991	75,609	63,991	75,609
	1,466,748	**3,536,473**	**1,466,746**	**3,536,471**

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 2009 (2008: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 relates to balances with bank 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 2009 and 2008, 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.

2009 Group and Company	≤6 Months $	6-12 Months $	1-5 Years $	≥5 Years $	Total $
Financial Liabilities					
Trade and other payables	65,334	-	-	-	65,334
	65,334	**-**	**-**	**-**	**65,334**

2008 Group and Company	≤6 Months $	6-12 Months $	1-5 Years $	≥5 Years $	Total $
Financial Liabilities					
Trade and other payables	170,608	-	-	-	170,608
	170,608	**-**	**-**	**-**	**170,608**

(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, investments in securities, and payables are non-interest bearing.

At the reporting date, the interest rate profile of the Group's interest-bearing financial instruments was:

	Consolidated		Company	
	2009 $	2008 $	2009 $	2008 $
Interest-bearing financial instruments				
Cash at bank and on hand	162,757	452,427	162,755	452,425
Bank short term deposits	1,240,000	3,008,437	1,240,000	3,008,437
	1,402,757	**3,460,864**	**1,402,755**	**3,460,862**

The Group's cash at bank and on hand and short term deposits had a weighted average floating interest rate at year end of 2.98% (2008: 7.24%).

22. FINANCIAL INSTRUMENTS (Continued)

(d) Interest Rate Risk (Continued)

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 2008.

	Profit or Loss		Equity	
2009	20% Increase	20% Decrease	20% Increase	20% Decrease
Group				
Cash and cash equivalents	14,494	(14,494)	14,494	(14,494)
Company				
Cash and cash equivalents	14,494	(14,494)	14,494	(14,494)

	Profit or Loss		Equity	
2008	20% Increase	20% Decrease	20% Increase	20% Decrease
Group				
Cash and cash equivalents	69,677	(69,677)	69,677	(69,677)
Company				
Cash and cash equivalents	69,677	(69,677)	69,677	(69,677)

(e) Commodity Price Risk

The Group is exposed to 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.

(f) Capital Management

The Board's policy is to maintain a strong 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.

(g) Fair Value

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

23. INTERESTS IN JOINT VENTURES

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

Joint Venture	Project	Activity	2009 Interest	2008 Interest
Carpenteria Joint Venture	Mt Isa Project, Queensland	Mineral Exploration	46.08%	49%
Tate River Project	Queensland	Mineral Exploration	50%	-

There were no net assets employed in the joint ventures included as exploration and evaluation assets in the Balance Sheet as at 30 June 2009 (2008: $990,395).

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 farmin to various tenements owned by the Company.

Under the terms of the joint venture:

- MIM has earned a 53.92% interest in the tenements; and
- During the year 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 2009 Sovereign’s interest has reduced to 46.08%.

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 the joint venture agreement with Fusion Resources Limited (“Fusion”) (now owned 100% by Paladin Energy Limited), Sovereign has earned a 50% interest in the tenements by spending $1.45M over a two year period from the commencement date. Sovereign may:

- Earn an additional 15% by spending a further $1M over 18 months; and
- Earn an additional 10% by spending a further $0.5M over 12 months.

Fusion may elect to maintain its interest after each stage of the farm-in. No election has been made to maintain Fusion’s interest after completion of the initial earn-in.

24. COMMITMENTS

Estimated commitments for which no provisions were included in the financial statements are as follows:

(a) Operating Lease Commitments

	Consolidated 2009 $	Consolidated 2008 $
Non-cancellable operating lease contracted for but not capitalised in the financial statements		
Minimum lease payments payable:		
– not later than one year	-	31,536
– later than one year but not later than 5 years	-	2,628
	-	**34,164**

The operating lease recognised in the 2008 financial year was for the Company's office premises in Townsville, Queensland. This was cancelled on 28 February 2009 following closure of the Queensland office.

25. SUBSEQUENT EVENTS

As at the date of this report there are no matters or circumstances which have arisen since 30 June 2009 that have significantly affected or may significantly affect:

- the operations, in financial years subsequent to 30 June 2009 of the Consolidated Entity;
- the results of those operations, in financials years subsequent to 30 June 2009 of the Consolidated Entity; or
- the state of affairs, in financial years subsequent to 30 June 2009 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 financial statements and notes of the Company and of the Consolidated Entity are in accordance with the Corporations Act 2001 including:

(i) giving a true and fair view of the Company's and Consolidated Entity's financial position as at 30 June 2009 and of their performance for the year ended on that date; and

(ii) complying with accounting standards and the Corporations Act 2001; and

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

(2) The remuneration disclosures included in pages 12 to 16 of the directors' report (as part of the audited Remuneration Report), for the year ended 30 June 2009, comply with section 300A of the Corporations Act 2001.

(3) This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the Corporations Act 2001 for the financial year ended 30 June 2009.

On behalf of the Board.

IAN MIDDLEMAS
Non-Executive Chairman

Perth, 30 September 2009

INDEPENDENT AUDIT REPORT TO MEMBERS OF SOVEREIGN METALS LIMITED AND ITS CONTROLLED ENTITIES

We have audited the accompanying financial report of Sovereign Metals Limited (the company) and Sovereign Metals Limited and its Controlled Entities (the consolidated entity), which comprises the balance sheet as at 30 June 2009, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes 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.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note1, the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards (IFRS) ensures that the financial report, comprising the financial statements and notes, complies with IFRS.

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. These Auditing 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 judgment, 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 entity's preparation and fair presentation of the financial report 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 entity'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.

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A WHK Group firm

Independence
In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

Auditor's Opinion
In our opinion, the financial report of Sovereign Metals Limited and Sovereign Metals Limited and its Controlled Entities is in accordance with the Corporations Act 2001 including:

(a) (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2009 and of their performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including Australian Accounting Interpretations) and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 12 to 16 of the directors' report for the year ended 30 June 2009. 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.

Auditor's Opinion

In our opinion the Remuneration Report of Sovereign Metals Limited for the year ended 30 June 2009, complies with section 300A of the Corporations Act 2001.

WHK HORWATH PERTH AUDIT PARTNERSHIP

Nicholas Hollens

NICHOLAS HOLLENS
Principal

Perth, WA

Dated this 30th day of September 2009

CORPORATE GOVERNANCE STATEMENT

The Board of Directors of Sovereign Metals Limited is responsible for its corporate governance, that is, the system by which the Group is managed.

1. Board of Directors

1.1 Role of the Board and Management

The Board represents shareholders' interests in continuing a successful business, which seeks to optimise medium to long-term financial gains for shareholders. By not focusing on short-term gains for shareholders, the Board believes that this will ultimately result in the interests of all stakeholders being appropriately addressed when making business decisions.

The Board is responsible for ensuring that the Group is managed in such a way to best achieve this desired result. Given the current size and operations of the business, the Board currently undertakes an active, not passive role.

The Board is responsible for evaluating and setting the strategic directions for the Group, establishing goals for management and monitoring the achievement of these goals. The Managing Director is responsible to the Board for the day-to-day management of the Group.

The Board has sole responsibility for the following:

- appointing and removing the Managing Director and any other executives and approving their remuneration;
- appointing and removing the Company Secretary / Chief Financial Officer and approving their remuneration;
- determining the strategic direction of the Group and measuring performance of management against approved strategies;
- review of the adequacy of resources for management to properly carry out approved strategies and business plans;
- adopting operating and capital expenditure budgets at the commencement of each financial year and monitoring the progress by both financial and non-financial key performance indicators;
- monitoring the Group's medium term capital and cash flow requirements;
- approving and monitoring financial and other reporting to regulatory bodies, shareholders and other organisations;
- determining that satisfactory arrangements are in place for auditing the Group's financial affairs;
- review and ratify systems of risk management and internal compliance and control, codes of conduct and compliance with legislative requirements; and
- ensuring that policies and compliance systems consistent with the Group's objectives and best practice are in place and that the Company and its officers act legally, ethically and responsibly on all matters.

The Board's role and the Group's corporate governance practices are being continually reviewed and improved as required.

1.2 Composition of the Board and New Appointments

The Company currently has the following Board members:

• Mr Ian Middlemas	Non-Executive Chairman
• Mr Peter Woodman	Managing Director
• Mr Mark Pearce	Non-Executive Director

Details of the directors, including their qualifications, experience and date of appointment are set out in the Directors' Report.

The Company's Constitution provides that the number of directors shall not be less than three and not more than ten. There is no requirement for any share holding qualification.

The Board has assessed the independence status of the directors and has determined that there is one independent director, being Mr Pearce.

The Board has followed the ASX Corporate Governance Principles and Recommendations when assessing the independence of the directors which define an independent director to be a director who:

- is non-executive;
- is not a substantial shareholder (i.e. greater than 5%) of the Company or an officer of, or otherwise associated, directly or indirectly, with a substantial shareholder of the Company;
- has not within the last three years been employed in an executive capacity by the Company or another Group member, or been a director after ceasing to hold such employment;
- within the last three years has not been a principal or employee of a material professional adviser or a material consultant to the Company or another Group member;
- is not a significant supplier or customer of the Company or another Group member, or an officer of or otherwise associated, directly or indirectly, with a significant supplier or customer;
- has no material contractual relationship with the Company or another Group member other than as a director of the Company; and
- is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Company.

Materiality for these purposes is determined on both quantitative and qualitative bases. An amount which is greater than five percent of either the net assets of the Company or an individual director's net worth is considered material for these purposes.

Apollo Group Pty Ltd, a company associated with Mr Pearce, is paid a monthly retainer to provide administrative services, company secretarial services, accounting services and a fully serviced office to the Company. The Board considers that this relationship is not material or significant enough to impact the independent judgment of Mr Pearce.

The Board considers that the Company is not currently of a size, nor are its affairs of such complexity to justify the appointment and further expense of additional independent Non-Executive Directors. The Board believes that the individuals on the Board can make, and do make, quality and independent judgments in the best interests of the Company on all relevant issues.

If the Group's activities increase in size, nature and scope, the size of the Board will be reviewed periodically to determine the optimum number of directors required for the Board to properly perform its responsibilities and functions.

1. Board of Directors (Continued)

1.2 Composition of the Board and New Appointments (Continued)

The membership of the Board, its activities and composition is subject to periodic review. The criteria for determining the identification and appointment of a suitable candidate for the Board shall include quality of the individual, background of experience and achievement, compatibility with other Board members, credibility within the Group's scope of activities, intellectual ability to contribute to the Board duties and physical ability to undertake the Board duties and responsibilities.

Directors are initially appointed by the full Board subject to election by shareholders at the next annual general meeting. Under the Company's Constitution the tenure of directors (other than managing director, and only one managing director where the position is jointly held) is subject to reappointment by shareholders not later than the third anniversary following his last appointment. Subject to the requirements of the Corporations Act 2001, the Board does not subscribe to the principle of retirement age and there is no maximum period of service as a director. A managing director may be appointed for any period and on any terms the directors think fit and, subject to the terms of any agreement entered into, the Board may revoke any appointment.

1.3 Committees of the Board

The Board considers that the Group is not currently of a size, nor are its affairs of such complexity to justify the formation of separate or special committees at this time. The Board as a whole is able to address the governance aspects of the full scope of the Group's activities and to ensure that it adheres to appropriate ethical standards.

The Board has also established a framework for the management of the Group including a system of internal controls, a business risk management process and the establishment of appropriate ethical standards.

The full Board currently holds meetings at such times as may be necessary to address any general or specific matters as required.

If the Group's activities increase in size, scope and nature, the appointment of separate or special committees will be reviewed by the Board and implemented if appropriate.

1.4 Conflicts of Interest

In accordance with the Corporations Act 2001 and the Company's Constitution, Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Group. Where the Board believes that a significant conflict exists the Director concerned does not receive the relevant board papers and is not present at the meeting whilst the item is considered.

1.5 Independent Professional Advice

The Board has determined that individual Directors have the right in connection with their duties and responsibilities as Directors, to seek independent professional advice at the Group's expense. The engagement of an outside adviser is subject to prior approval of the Chairman and this will not be withheld unreasonably. If appropriate, any advice so received will be made available to all Board members.

2. Ethical Standards

The Board acknowledges the need for continued maintenance of the highest standard of corporate governance practice and ethical conduct by all Directors and employees of the Group.

2.1 Code of Conduct for Directors

The Board has adopted a Code of Conduct for Directors to promote ethical and responsible decision-making by the Directors. The code is based on a code of conduct for Directors prepared by the Australian Institute of Company Directors.

The principles of the code are:

- a director must act honestly, in good faith and in the best interests of the Company as a whole;
- a director has a duty to use due care and diligence in fulfilling the functions of office and exercising the powers attached to that office;
- a director must use the powers of office for a proper purpose, in the best interests of the Company as a whole;
- a director must recognise that the primary responsibility is to the Company's shareholders as a whole but should, where appropriate, have regard for the interest of all stakeholders of the Company;
- a director must not make improper use of information acquired as a director;
- a director must not take improper advantage of the position of director;
- a director must not allow personal interests, or the interests of any associated person, to conflict with the interests of the Company;
- a director has an obligation to be independent in judgment and actions and to take all reasonable steps to be satisfied as to the soundness of all decisions taken as a Board;
- confidential information received by a director in the course of the exercise of directorial duties remains the property of the Company and it is improper to disclose it, or allow it to be disclosed, unless that disclosure has been authorised by the Company, or the person from whom the information is provided, or is required by law;
- a director should not engage in conduct likely to bring discredit upon the Company;
- a director has an obligation at all times, to comply with the spirit, as well as the letter of the law and with the principles of the Code.

The principles are supported by guidelines as set out by the Australian Institute of Company Directors for their interpretation. Directors are also obliged to comply with the Company's Code of Ethics and Conduct, as outlined below.

2.2 Code of Ethics and Conduct

The Group has implemented a Code of Ethics and Conduct, which provides guidelines aimed at maintaining high ethical standards, corporate behaviour and accountability within the Group.

All employees and directors are expected to:

- respect the law and act in accordance with it;
- respect confidentiality and not misuse Group information, assets or facilities;
- value and maintain professionalism;
- avoid real or perceived conflicts of interest;
- act in the best interests of shareholders;
- by their actions contribute to the Group's reputation as a good corporate citizen which seeks the respect of the community and environment in which it operates;
- perform their duties in ways that minimise environmental impacts and maximise workplace safety;

2. Ethical Standards (Continued)

2.2 Code of Ethics and Conduct (Continued)

- exercise fairness, courtesy, respect, consideration and sensitivity in all dealings within their workplace and with customers, suppliers and the public generally; and
- act with honesty, integrity, decency and responsibility at all times.

An employee that breaches the Code of Ethics and Conduct may face disciplinary action. If an employee suspects that a breach of the Code of Ethics and Conduct has occurred or will occur, he or she must report that breach to management. No employee will be disadvantaged or prejudiced if he or she reports in good faith a suspected breach. All reports will be acted upon and kept confidential.

2.3 Dealings in Company Securities

The Group's share trading policy imposes trading restrictions on all employees of the Group with 'inside information', and additional trading restrictions on the directors of the Company.

'Inside information' is information that:

- is not generally available; and
- if it were generally available, it would, or would be likely to influence investors in deciding whether to buy or sell the Company's securities.

If an employee possesses inside information, the person must not:

- trade in the Company's securities;
- advise others or procure others to trade in the Company's securities; or
- pass on the inside information to others – including colleagues, family or friends – knowing (or where the employee or Director should have reasonably known) that the other persons will use that information to trade in, or procure someone else to trade in, the Company's securities.

This prohibition applies regardless of how the employee or Director learns the information (e.g. even if the employee or Director overhears it or is told in a social setting).

In addition to the above, Directors must notify the Company Secretary as soon as practicable, but not later than 5 business days, after they have bought or sold the Company's securities or exercised options. In accordance with the provisions of the Corporations Act 2001 and the Listing Rules of the ASX, the Company on behalf of the Directors must advise the ASX of any transactions conducted by them in the securities of the Company.

Breaches of this policy will be subject to disciplinary action, which may include termination of employment.

These restrictions have been developed having regard to the current nature of the Company's activities, being exploration and development rather than production. Should the Company move into production, then the policy may be amended to restrict trading of securities during certain periods prior to the release of operating results.

2.4 Interests of Other Stakeholders

The Group's objective is to leverage into resource projects to provide a solid base in the future from which the Group can build its resource business and create wealth for shareholders. The Group's operations are subject to various environmental laws and regulations under the relevant government's legislation. Full compliance with these laws and regulations is regarded as a minimum standard for the Group to achieve.

To assist in meeting its objective, the Group conducts its business within the Code of Ethics and Conduct, as outlined in 2.2 above.

3. Disclosure of Information

3.1 Continuous Disclosure to ASX

The continuous disclosure policy requires all executives and Directors to inform the Managing Director or in their absence the Company Secretary of any potentially material information as soon as practicable after they become aware of that information.

Information is material if it is likely that the information would influence investors who commonly acquire securities on ASX in deciding whether to buy, sell or hold the Company's securities.

Information need not be disclosed if:

a) It is not material and a reasonable person would not expect the information to be disclosed, or it is material but due to a specific valid commercial reason is not to be disclosed; and

b) The information is confidential; or

c) One of the following applies:

   i. It would breach a law or regulation to disclose the information;
   ii. The information concerns an incomplete proposal or negotiation;
   iii. The information comprises matters of supposition or is insufficiently definite to warrant disclosure;
   iv. The information is generated for internal management purposes;
   v. The information is a trade secret;
   vi. It would breach a material term of an agreement, to which the Group is a party, to disclose the information;
   vii. The information is scientific data that release of which may benefit the Group's potential competitors.

The Managing Director is responsible for interpreting and monitoring the Group's disclosure policy and where necessary informing the Board. The Company Secretary is responsible for all communications with ASX.

3.2 Communication with Shareholders

The Group places considerable importance on effective communications with shareholders.

The Group's communication strategy requires communication with shareholders and other stakeholders in an open, regular and timely manner so that the market has sufficient information to make informed investment decisions on the operations and results of the Group. The strategy provides for the use of systems that ensure a regular and timely release of information about the Group is provided to shareholders. Mechanisms employed include:

- Announcements lodged with ASX;
- ASX Quarterly Cash Flow Reports;
- Half Yearly Report;
- Presentations at the Annual General Meeting/General Meetings; and
- Annual Report.

The Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and understanding of the Group's strategy and goals.

The Group also posts all reports, ASX and media releases and copies of significant business presentations on the Company's website.

4. Risk Management and Internal Control

4.1 Approach to Risk Management and Internal Control

The identification and effective management of risk, including calculated risk-taking, is viewed as an essential part of the Group's approach to creating long-term shareholder value.

The Group operates a standardised risk management process that provides a consistent framework for the identification, assessment, monitoring and management of material business risks. This process is based on the Australian/New Zealand Standard for Risk Management (AS/NZS 4360 Risk Management) and the Committee of Sponsoring Organisations of the US Treadway Commission (COSO) control framework for enterprise risk management.

Strategic and operational risks are reviewed at least annually as part of the annual strategic planning, business planning, forecasting and budgeting process.

The Group has developed a series of operational risks which the Group believes to be inherent in the industry in which the Group operates having regard to the Group’s circumstances (including financial resources, prospects and size). These include:

- fluctuations in commodity prices and exchange rates;
- accuracy of mineral reserve and resource estimates;
- reliance on licenses, permits and approvals from governmental authorities;
- ability to obtain additional financing;
- acquisition of new business opportunities; and
- changed operating, market or regulatory environments.

These risk areas are provided here to assist investors to understand better the nature of the risks faced by our Group and the industry in which the Group operates. They are not necessarily an exhaustive list.

4.2 Risk Management Roles and Responsibilities

Management is responsible for designing, implementing and reporting on the adequacy of the Group's risk management and internal control system. Management reports to the Board annually, or more frequently as required, on the Group’s key risks and the extent to which it believes these risks are being managed.

The Board is responsible for reviewing and approving the Group’s risk management and internal control system and satisfying itself annually, or more frequently if required, that management has developed and implemented a sound system of risk management and internal control.

In 2009 the Board reviewed the overall risk profile for the Group and received reports from management on the effectiveness of the Group’s management of its material business risks.

4.3 Integrity of Financial Reporting

The Board also receives a written assurance from the Chief Executive Officer or equivalent (CEO) and the Chief Financial Officer or equivalent (CFO) that to the best of their knowledge and belief, the declaration provided by them in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in relation to financial reporting risks.

The Board notes that due to its nature, internal control assurance from the CEO and CFO can only be reasonable rather than absolute. This is due to such factors as the need for judgement, the use of testing on a sample basis, the inherent limitations in internal control and because much of the evidence available is persuasive rather than conclusive and therefore is not and cannot be designed to detect all weaknesses in control procedures.

4.4 Role of External Auditor

The Group's practice is to invite the auditor (who now must attend) to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

5. Performance Review

The Board has adopted a self-evaluation process to measure its own performance and the performance of its committees (if any) during each financial year. Also, an annual review is undertaken in relation to the composition and skills mix of the directors of the Company.

Arrangements put in place by the Board to monitor the performance of the Group's executives include:

- a review by the Board of the Group's financial performance;
- annual performance appraisal meetings incorporating analysis of key performance indicators with each individual to ensure that the level of reward is aligned with respective responsibilities and individual contributions made to the success of the Group;
- an analysis of the Group's prospects and projects; and
- a review of feedback obtained from third parties, including advisors.

The Remuneration Report discloses the process for evaluating the performance of senior executives, including the Managing Director.

In 2009, performance evaluations for senior executives took place in accordance with the process disclosed above and in the Remuneration Report.

6. Remuneration Arrangements

The broad remuneration policy is to ensure that remuneration properly reflects the relevant persons duties and responsibilities, and that the remuneration is competitive in attracting, retaining and motivating people of the highest quality. The Board believes that the best way to achieve this objective is to provide Executive Directors and executives with a remuneration package consisting of fixed components that reflect the person's responsibilities, duties and personal performance.

In addition to the above, the Group has developed a limited equity-based remuneration arrangement for key executives and consultants.

The remuneration of Non-Executive Directors is determined by the Board as a whole having regard to the level of fees paid to non-executive directors by other companies of similar size in the industry.

The aggregate amount payable to the Company's Non-Executive Directors must not exceed the maximum annual amount approved by the Company's shareholders.

COMPLIANCE WITH ASX CORPORATE GOVERNANCE RECOMMENDATIONS

During the 2009 financial year, the Company complied with the ASX Principles and Recommendations other than in relation to the matters specified below.

Recommendation Reference	Notification of Departure	Explanation for Departure
2.1	A majority of the Board are not independent directors.	The Board considers that the Group is not currently of a size to justify the expense of the appointment of additional independent directors. The Board believes that the individuals on the Board can make, and do make, quality and independent judgements in the best interests of the Company on all relevant issues. Directors having a conflict of interest in relation to a particular item of business must absent themselves from the Board meeting before commencement of discussion on the topic.
2.2	No independent Chairman	The Board considers that the Company is not currently of a size, nor are its affairs of such complexity to justify the expense of the appointment of an independent Chairman. The Company's Chairman, Mr Ian Middlemas, is considered by the Board not to be independent in terms of the ASX Corporate Governance Council's definition of independent director. However the Board believes that the Chairman is able to and does bring quality and independent judgment to all relevant issues falling within the scope of the role of a Chairman.
2.4	A separate Nomination Committee has not been formed.	The Board considers that the Company is not currently of a size to justify the formation of a nomination committee. The Board as a whole undertakes the process of reviewing the skill base and experience of existing Directors to enable identification or attributes required in new Directors. Where appropriate independent consultants are engaged to identify possible new candidates for the Board.
4.1, 4.2, 4.3	A separate Audit Committee has not been formed and there is not an Audit Committee operating charter.	The Board considers that the Company is not of a size, nor are its financial affairs of such complexity to justify the formation of an audit committee. The Board as a whole undertakes the selection and proper application of accounting policies, the identification and management of risk and the review of the operation of the internal control systems.
8.1	A separate Remuneration Committee has not been formed.	The Board considers that the Company is not currently of a size, nor are its affairs of such complexity to justify the formation of a remuneration committee. The Board as a whole is responsible for the remuneration arrangements for Directors and executives of the Company.

As the Company's activities increase in size, scope and/or nature, the Company's corporate governance principles will be reviewed by the Board and amended as appropriate.

The shareholder information set out below was applicable as at 30 September 2009.

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
Colbern Fiduciary Nominees Pty Ltd	4,716,312	12.19%
Nefco Nominees Pty Ltd	3,570,000	9.23%
Arredo Pty Ltd	2,540,000	6.56%
Invia Custodian Pty Limited <M3788965B A/C>	2,500,001	6.46%
Greenslade Holdings Pty Ltd	1,976,056	5.11%
Mr Angus William Johnson & Mrs Lindy Johnson <Dena Super Fund A/C>	1,904,996	4.92%
Mr Matthew James Rimes	1,600,000	4.14%
Mr Terry Patrick Coffey + Hawkes Bay Nominees Limited <Williams Family No 2 A/C>	1,450,000	3.75%
Pacific Energy Limited	1,208,000	3.12%
National Nominees Limited	1,110,000	2.87%
Calama Holdings Pty Ltd <Mambat Super Fund A/C>	1,033,960	2.67%
Bouchi Pty Ltd	921,588	2.38%
Octifil Pty Ltd	836,400	2.16%
HSBC Custody Nominees (Australia) Limited	730,585	1.89%
Lagral SCP	600,000	1.55%
HSBC Custody Nominees (Australia) Limited – A/C 2	530,637	1.37%
Mrs Joanna Rachel Wiese	368,815	0.95%
Mr Ernest Saronga Massawe	360,000	0.93%
Mr Robert James Pullar & Mrs Rebecca Anne Pullar <Robert Pullar S/Fund A/C>	335,726	0.87%
Cantori Pty Ltd <Cantori P/L Super Fund A/C>	290,000	0.75%
Total Top 20	**28,583,076**	**73.88%**
Others	10,107,170	26.12%
Total Ordinary Shares on Issue	**38,690,246**	**100.00%**

1. TWENTY LARGEST HOLDERS OF LISTED SECURITIES (Continued)

$0.20 Listed Options

Name	No of $0.20 Listed Options Held	Percentage of $0.20 Listed Options
Arredo Pty Ltd	1,270,000	7.60%
Nefco Nominees Pty Ltd	1,260,000	7.54%
Invia Custodian Pty Limited <M3788965B A/C>	1,000,000	5.98%
Mr Matthew James Rimes	800,000	4.79%
Colbern Fiduciary Nominees Pty Ltd	773,633	4.63%
Lagral SCP	763,700	4.57%
HSBC Custody Nominees (Australia) Limited – A/C 2	734,706	4.40%
Mr Ernest Saronga Massawe	620,000	3.71%
Greenslade Holdings Pty Ltd	607,500	3.64%
Pacific Energy Limited	604,000	3.61%
AWJ Family Pty Ltd <A W Johnson Family A/C>	486,882	2.91%
Bouchi Pty Ltd	460,794	2.76%
RBC Dexia Investor Services Australia Nominees Pty Limited <MLCI A/C>	307,000	1.84%
Ms Elipina Kisamo Mlaki & Ms Joyce Elia Kisamo	289,294	1.73%
Mr Ernest Saronga Massawe <Massawe No 2 A/C>	250,000	1.50%
Foster West Securities Pty Ltd <Spartacus A/C>	233,000	1.39%
Mr Simon Thomas O'Loughlin	220,000	1.32%
Calama Holdings Pty Ltd <Mambat Super Fund A/C>	215,000	1.29%
Mr Luke Charles Anderson <LC & SE Anderson Family A/C>	200,307	1.20%
Mr Robert James Pullar & Mrs Rebecca Anne Pullar <Robert Pullar S/Fund A/C>	167,863	1.00%
Total Top 20	**11,263,679**	**67.41%**
Others	5,446,059	32.59%
Total $0.20 Listed Options on Issue	**16,709,738**	**100.00%**

2. DISTRIBUTION OF EQUITY SECURITIES

Analysis of numbers of shareholders by size of holding:

Distribution	Ordinary Shares		$0.20 Listed Options	
	Number of Shareholders	Number of Shares	Number of Optionholders	Number of Options
1 – 1,000	56	16,266	46	10,651
1,001 – 5,000	61	172,845	136	613,222
5,001 – 10,000	102	940,079	66	468,937
10,001 – 100,000	169	5,204,360	100	3,268,749
More than 100,000	44	32,356,696	29	12,348,179
Totals	**432**	**38,690,246**	**377**	**16,709,738**

There were 107 holders of less than a marketable parcel of ordinary shares.

3. VOTING RIGHTS

See Note 10 of the Notes to the Financial Statements.

4. SUBSTANTIAL SHAREHOLDERS

As at 30 September 2009, Substantial Shareholder notices have been received from the following:

Substantial Shareholder	Number of Shares
Arredo Pty Ltd	2,540,000

5. UNQUOTED SECURITIES

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

Unlisted Options

	31 May 2010 Unlisted Options exercisable at $0.20	31 December 2010 Unlisted Options exercisable at $0.25	31 December 2009 Incentive Options exercisable at $0.50	30 November 2010 Incentive Options exercisable at $0.65
Fusion Resources Limited	2,500,000	-	-	-
Matthew Rimes <as trustee for The Revolver Super Fund>	-	750,000	-	-
Mr Peter Woodman & Ms Denise Elizabeth Pringle	-	-	750,000	1,500,000
Rippon Pty Ltd ITF The Clare Johnson Family Trust	-	-	500,000	500,000
Other (each individually less than 20%)	1,750,000	-	525,000	-
Total	**4,250,000**	**750,000**	**1,775,000**	**2,000,000**

5. UNQUOTED SECURITIES (Continued)

Convertible Preference Shares

	CPS
Fusion Resources Limited	2,500
Total	**2,500**

6. ON-MARKET BUY BACK

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

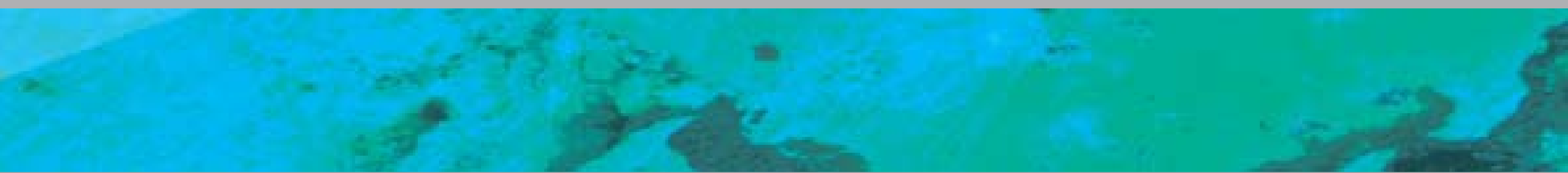
7. EXPLORATION INTERESTS

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

Project Name	Permit Number	Percentage Interest	Joint Venture Partner	Status
Middle Creek	EPM 12807	100%		Granted
Undina South	EPM 12458	100%		Granted
Nine Mile	EPMA 12408	100%		Application
Corner Crk Central	EPMA 17305	100%		Application
Mt Marathon	EPM 8586	46.08%	Xstrata Copper	Granted
Mt Avarice	EPM 8588	46.08%	Xstrata Copper	Granted
Sth Est Isa (1)	EPM 12207	46.08%	Xstrata Copper	Granted
Fountain Range	EPM 12561	46.08%	Xstrata Copper	Granted
Corella River	EPM 12597	46.08%	Xstrata Copper	Granted
Saint Andrews Extended	EPM 12180	46.08%	Xstrata Copper	Granted
Dargalong	EPMA 17103	50%	Fusion	Application
Piccaninny	EPM 11866	50% (1)	Fusion	Granted
Saturday Creek	EPM 12120	50% (1)	Fusion	Granted
Sugar Bag	EPM 14349	50% (1)	Fusion	Granted

Note

(1) Sovereign has earned the initial 50% interest to farmin to these permits and may earn up to 75%. Fusion Resources may also elect to maintain its interest at each stage of the farmin.



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