

RIO TINTO TO INVEST \$40.4 MILLION AND BECOME A 15% STRATEGIC INVESTOR IN SOVEREIGN

- Rio Tinto to make an investment of A\$40.4 million in Sovereign resulting in an initial 15% shareholding
- Investment proceeds will be used to advance the Kasiya Rutile-Graphite Project in Malawi
- Rio Tinto's investment represents a significant step towards unlocking a major new supply of low-CO₂-footprint natural rutile and flake graphite
- Under the Investment Agreement, Rio Tinto will provide assistance and advice on technical and marketing aspects of Kasiya including with respect to Sovereign's graphite co-product, with a primary focus on spherical purified graphite for the lithium-ion battery anode market
- Issue of 83,095,592 new Shares of Sovereign to Rio Tinto at a price of A\$0.486 per share represents a 10% premium to the 45-day volume weighted average price on the ASX as at close 14th July 2023
- Rio Tinto also issued with 34,549,598 options to increase its shareholding by an additional 4.99% to potentially 19.99% of Sovereign within 12 months
- Rio Tinto's 34.5 million options have an exercise price of A\$0.535 per Share, representing a 21% premium to the 45-day volume weighted average price on the ASX as at close 14th July 2023, for additional proceeds of up to \$18.5 million (if all options are exercised)

Sovereign's Chairman Ben Stoikovich commented: "This landmark agreement with Rio Tinto, one of the world's largest and most accomplished global mining companies, is confirmation of Kasiya's place as one of the most significant critical mineral discoveries in recent times. The experience and expertise that Rio Tinto brings will truly set Kasiya apart as a potentially globally significant supply of two critical minerals and take us all a step closer to supply chain decarbonisation and achieving net-zero. Furthermore, this is yet another step towards unlocking significant benefits from development of the Kasiya project for Malawi. We welcome Rio Tinto as a major shareholder of Sovereign and look forward to working with Rio Tinto as our strategic partner in the development of Kasiya."

ENQUIRIES

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Sovereign Metals Limited (ASX:SVM ; AIM:SVML) (**Sovereign or the Company**) is delighted to announce a A\$40.4 million strategic investment by Rio Tinto Mining and Exploration Limited (**Rio Tinto**) to advance Sovereign's world-class Kasiya Rutile-Graphite Project (**Kasiya or the Project**) in Malawi.

Rio Tinto has agreed to initially subscribe for and purchase 83,095,592 new fully paid ordinary shares (**Shares**) in Sovereign at a price of A\$0.486 per Share for aggregate proceeds of A\$40.4 million. Rio Tinto's subscription price reflects a 10% premium to the 45-day volume weighted average price on the ASX as at close 14th July 2023 and will result in Rio Tinto holding approximately 15% of the ordinary shares of the Company.

The subscription also involves Rio Tinto being granted options to acquire 34,549,598 further Shares in Sovereign within 12 months of the initial subscription which could result in Rio Tinto's shareholding in the Company to potentially increase up to 19.99% (based on the number of shares in issue in the Company as at the date of this announcement).

The Company will use the proceeds from Rio Tinto's strategic investment to fund the advancement of Kasiya, including progressing a Definitive Feasibility Study (**DFS**) focused on the development of a world-class, low-CO₂-footprint mine capable of supplying to the titanium pigment, titanium metal and lithium-ion battery industries.

In addition to the subscription for Shares and options, Sovereign and Rio Tinto have also entered into an Investment Agreement pursuant to which, subject to certain conditions, including the initial issuance of Shares to Rio Tinto under the Subscription Agreement, time and ownership thresholds, the following has been agreed:

- If Sovereign is raising debt finance for the development of the Project, Sovereign and Rio Tinto will negotiate, in good faith, financing arrangements in order to put in place an acceptable mine construction funding package.
- Sovereign and Rio Tinto will work together to qualify Kasiya's graphite product with a particular focus on supplying the spherical purified graphite segment of the lithium-ion battery anode market.
- Rio Tinto shall have the option to become the operator of Kasiya on commercial arm's-length terms.
- For so long as Rio Tinto is the operator of the Project, Rio Tinto shall also have exclusive marketing rights to market 40% of the annual production of all products from the Project as identified in the DFS on arm's-length terms.
- Rio Tinto's option over operatorship and 40% marketing rights lapse if not exercised by the Investor End Date.
- The "**Investor End Date**" means the earlier of (i) 90 days after the Company announces its DFS results or 180 days after the announcement of the DFS if Rio Tinto's advises it needs additional time to consider the exercise of the Rio Tinto's Option or (ii) Rio Tinto ceasing to hold voting power in the Company of at least 10%.
- Rio Tinto shall be entitled to appoint (i) a director to the board of the Company or an observer to the Board where it has not appointed a director, (ii) one of its General Managers with access to

the Project and (iii) three members to the Project's Technical Committee (one of which is Rio Tinto's appointed General Manager).

- Rio Tinto will have the right of first refusal over any future capital raisings that are not pro rata entitlement offers as long as it holds a minimum of 10% of the issued share capital of the Company and subject to Rio Tinto's aggregate holding not exceeding 19.99%.
- As long as it holds a minimum of 10% of the issued share capital of the Company and until the Investor End Date, Rio Tinto will have a pre-emptive right over any offer from a third party to acquire any of the shares in, or the assets held by, any of Sovereign's subsidiaries with interests in the Project.

SUBSCRIPTION AND INVESTMENT AGREEMENT PARTICULARS

Advisors

SCP Resource Finance (SCP), formerly Sprott Capital Partners, is acting as financial advisor and Thomson Geer (Australia) and Simmons & Simmons (UK) are acting as legal counsel to Sovereign in connection with the strategic investment by Rio Tinto.

Subscription Agreement

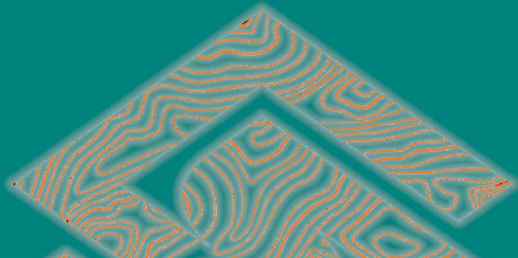
- Rio Tinto has agreed to subscribe for 83,095,592 shares and will be granted 34,549,598 options (exercise price \$0.535, expiry date 12 months from the date of issue) in the Company for \$40,384,458. Initial completion is expected to occur on or around 21 July 2023. Completion of the issue of a further 439,918 Shares to Rio Tinto will, subject to shareholder approval and shareholder approval of the issuance of Shares to SCP, occur shortly after the general meeting (see below for further details).
- Rio Tinto and the Company have provided representations and warranties considered standard for an agreement of this nature.

The 83,535,510 shares and 34,549,598 options (exercise price \$0.535, expiry date 12 months from the date of issue) are being issued to Rio Tinto pursuant to the Company's existing placement capacity under ASX Listing Rules 7.1 and 7.1A, with the 83,095,592 shares and 34,549,598 options being issued pursuant to ASX Listing Rule 7.1 and 439,918 shares being issued pursuant to ASX Listing Rule 7.1A.

Investment Agreement

Following the issue of the Shares to Rio Tinto under the Subscription Agreement, the Company has agreed to provide Rio Tinto with certain rights pursuant to the Investment Agreement between the parties.

- **(Use of funds)** The Company will use the proceeds from Rio Tinto's strategic investment to fund the advancement of its Project, including the completion of a DFS, product qualification and other expenditures agreed with Rio Tinto such as permitting costs.
- **(Board nominee/observer)** Subject to Rio Tinto's voting power in the Company not falling below 15% for a continuous 3 month period, Rio Tinto will have the right to nominate one director or one observer to the board of the Company where it has not nominated a director.

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- **(Right of first refusal – equity raisings)** Subject to Rio Tinto's voting power in the Company not falling below 10%, if the Company undertakes equity raisings (other than pursuant to a pro rata entitlement offer), Rio Tinto has a right to be consulted and a right of first refusal to participate in the equity raisings up to a level where Rio Tinto's aggregate voting power does not exceed 19.99%. This right is subject to any approvals required by law (including any securities exchange) and/or governmental or other regulatory approvals.
 - **(Right of first refusal – Project interests)** Subject to Rio Tinto's voting power in the Company not falling below 10% and until the Investor End Date, if the Company receives an offer to dispose of any shares in or the assets held by any of its subsidiaries with interests in Kasiya (**Project Interest**) from a third party, then Rio Tinto has a pre-emptive right to acquire the Project Interest in priority to the third party. This right is subject to any approvals required by law (including any securities exchange) and/or governmental or other regulatory approvals.
 - **(Governance)**
 - **(Technical Committee & Access to Information)** Until the Investor End Date, Rio Tinto and the Company will establish a technical committee comprising of 3 members appointed by each to provide recommendations, advice and reports to the Company's Board on technical matters relating to the Project. Until the Investor End Date, the Company will also provide Rio Tinto's General Manager to the Project and the members of the Technical Committee with access and inspection rights to information relating to the Project.
 - **(Restricted matters)** Until the Investor End Date, the Company is restricted from entering into any offtake, marketing or sales agreement (including pre-pay agreements or streaming and similar agreements), royalty agreements and granting any encumbrance over the Project or shares in any of the Company's subsidiaries with interests in Kasiya without Rio Tinto's consent.
 - **(Project debt funding)** Until the Investor End Date, if the Company is considering any debt financing for the development and operation of Kasiya, it must consult and negotiate with Rio Tinto's to seek to put in place an acceptable mine construction funding package, with any legally binding commitments relating to such funding package not to be entered into until after the Investor End Date.
 - **(Graphite co-product)** Until the Investor End Date, Sovereign and Rio Tinto's will work together to qualify the Project's graphite co-product with a particular focus on supplying the spherical purified graphite segment of the lithium-ion battery anode market.
 - **(Operatorship of Project and marketing)** Following the Company announcing a DFS for the Project until the Investor End Date, Rio Tinto has the option (**Rio Tinto Option**) to be appointed as the operator of the Project on arm's length terms and subject to Rio Tinto becoming the operator of the Project, be granted the exclusive right to 40% of the annual production of all products produced from the Project as identified in the DFS for so long as Rio Tinto remains the operator of the Project. This right is subject to any approvals required by law (including any securities exchange) and/or government or other regulatory approvals.

The Company has also provided undertakings to Rio Tinto to comply with various corporate governance and administrative matters.

Further issuance of Shares

An advisory fee of 3% is payable to SCP on the amount of Rio Tinto's investment and, subject to shareholder approval, can be paid by way of the issue of ordinary shares to SCP, with 2,492,868 shares being issuable to SCP based on Rio Tinto's initial subscription. The Company has agreed, subject to Shareholder approval, to issue a further 439,918 Shares to Rio Tinto at the subscription price of A\$0.486 per Share upon the issue of shares to SCP. The Company will call a general meeting, to be held in late August/early September 2023 to obtain these shareholder approvals. A notice of meeting (and explanatory statement) will be sent out to shareholders in early August 2023.

ABOUT KASIYA

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

An Expanded Scoping Study (ESS) released in June 2022 by the Company confirmed Kasiya as potentially one of the world's largest and lowest cost producers of natural rutile and natural graphite with a global warming potential substantially lower than other existing and planned operations.

The Company is in the advanced stages of a Pre-feasibility Study (PFS) for Kasiya which will build on the on the ESS. The Company expects to announce the outcomes of the PFS in the coming months.

Forward Looking Statement

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

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