

MOU SIGNED FOR MALINGUNDE RAIL AND PORT SERVICES – A KEY PROJECT MILESTONE

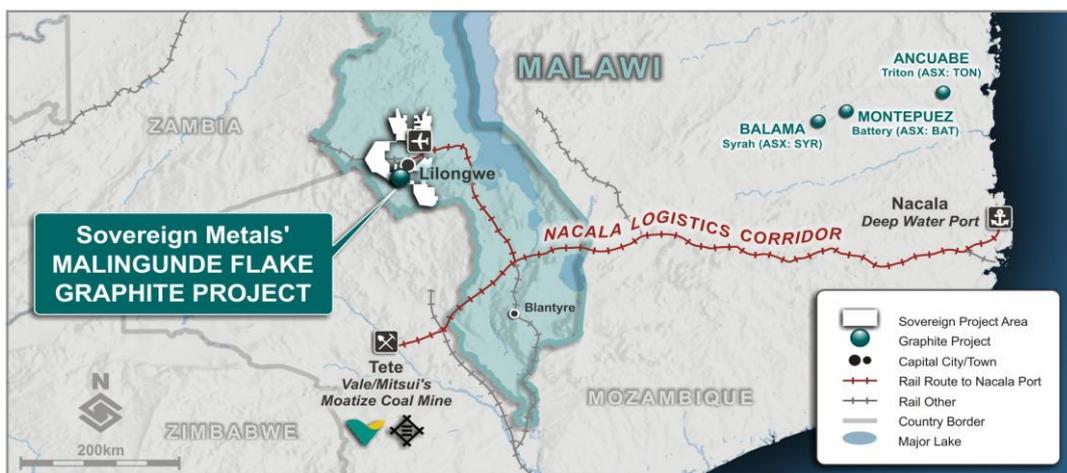
Sovereign Metals Limited (“the Company” or “Sovereign”) is pleased to report that it has signed a transport logistics MoU with Central East African Railways (“CEAR”), an infrastructure and logistics consortium which **Vale SA and Mitsui & Co. Ltd** operate and have significant ownership.

The MoU (“Agreement”) covers the provision of **rail freight, port access & port handling services** (“the Services”) by CEAR to Sovereign for graphite concentrates produced from the Malingunde Project, subject to the parties entering into a binding agreement.

Sovereign has now identified a **secure and efficient pathway for the transport of its graphite concentrates** in partnership with two world class organisations. This is a significant milestone in advancing the development of the exceptionally low-cost, high-quality natural flake graphite project at Malingunde.

HIGHLIGHTS:

- ◆ Provision of the Services for up to a 20-year term and 100,000tpa of concentrates, which provides upside to the Company’s initial 44,000tpa target.
- ◆ CEAR to supply and maintain all infrastructure, equipment and personnel required to provide the Services.
- ◆ CEAR is a consortium managed by Vale and Mitsui, global leaders in mining and trading natural resources, and associated provision of infrastructure services.
- ◆ The Malingunde Scoping Study logistics cost estimate of ~US\$65/t free on board (FOB) is based on indicative pricing for the Services.



Dr Julian Stephens, Sovereign’s Managing Director commented, “The signing of the Agreement with such reputable multinational partners is a very important step for Sovereign, and we are delighted to have such experienced operators assisting us in advancing the Malingunde Project. The provision of port and rail services provides a clear pathway for the reliable and efficient transport of the high quality Malingunde concentrates for sale into global graphite markets.”

ENQUIRIES:

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Dr Julian Stephens – Managing Director

Dominic Allen – Business Development Manager

ABOUT CEAR

CEAR, together with its Mozambican sister company, Corridor Desenvolvimento Do Norte (CDN), operates the Nacala Railway Corridor concession.

The Nacala Corridor spans a length of 988 kilometres from Kanengo (Lilongwe) to Nacala. The concession is jointly operated by Brazilian mining and logistics giant, Vale, together with Mitsui of Japan and the Mozambican Railway & Port services company, Caminhos de Ferro de Mozambique (CFM) as major shareholders.

CEAR and CDN are the only railway transport service provider on the Nacala Railway Corridor.

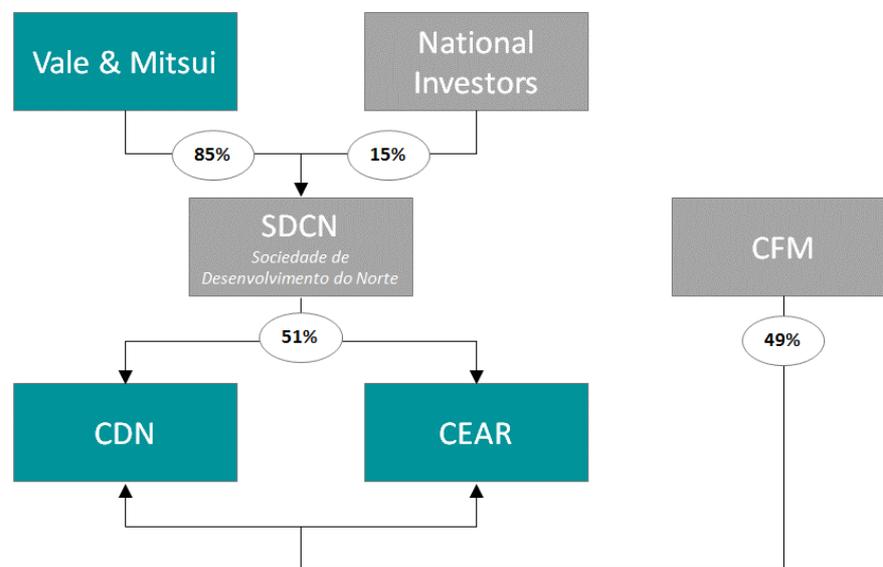


Figure 1: CEAR and CDN ownership structure.

KEY TERMS

The Agreement provides, subject to the parties entering into a binding agreement, for:

- Provision of the Services by CEAR for up to 100,000 tonnes per annum of natural flake graphite concentrates. Initial tonnages are anticipated to be in the order of 40,000 – 50,000 tonnes per annum.
- 20 year term from the commencement of mining at Malingunde, covering the initial 17 year mine life of the Malingunde Project, subject to CEAR & CDN continuing to hold the rail and port concessions.
- Rail freight to be provided from the Kanengo rail head in Lilongwe to the deep water port of Nacala.
- Port services to be provided at the port of Nacala at Sovereign’s election.
- CEAR to supply and maintain all infrastructure, equipment and personnel required to provide the Services.
- The parties targeting execution of a formal binding agreement prior to 30 June 2018.

ASX RELEASE

3 October 2017

THE SIGNIFICANT BENEFITS OF RAIL

Sovereign's Scoping Study considers production of approximately 44,000tpa of graphite concentrates, equating to the movement of approximately 2,000 twenty foot shipping containers per year from Malingunde to the deep water port of Nacala.

A single train can transport up to 84 containers at one time, meaning that Sovereign will only require approximately one train movement every two weeks.

THE NACALA LOGISTICS CORRIDOR

The development of the Nacala logistics corridor was essential for the expansion of Vale & Mitsui's coal extraction activities in the Tete region of Mozambique, with US\$4.4B having been invested to date and a further US\$460M planned investment in port and rail facilities to increase general cargo throughput capacity (incorporating funds from Vale, Mitsui and others, including the Japanese International Cooperation Agency.)

The Nacala logistics corridor connects Tete to Nacala, but importantly for Sovereign, the railway travels through Malawi, and includes an operating rail line north to Lilongwe, passing within 25km's of Sovereign's Malingunde project.

KEY INFRASTRUCTURE



Figure 2: Container storage and loading facilities at the port of Nacala



Figures 3 and 4: Container storage, loading and operating rail facilities at Kanengo (Lilongwe)

Competent Person Statements

The information in this Announcement that relates to Production Targets is extracted from an announcement entitled "Malingunde Scoping Study Delivers Rare Combination of Exceptionally Low Capex & Opex" dated 20 June 2017. This announcement is available to view on www.sovereignmetals.com.au. The information in the original announcement that related to Production Targets is based on and fairly represents information compiled or reviewed by Mr David Dodd, who is a Fellow of the Southern Africa Institute of Mining and Metallurgy. Mr Dodd has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activities undertaken. The Company confirms that it is not aware of any new information or data that materially affects the information included in the original market announcement and that all material assumptions underpinning the Production Target included in the original announcement continue to apply and have not materially changed. The Company confirms that the form and context in which the Competent Person's findings are presented have not been materially modified from the original market announcement.

The Production Target referred to in this announcement is based on Sovereign Metals Limited's Scoping Study for the Malingunde Project released to the ASX on 20 June 2017. The information in relation to the Production Target that the Company is required to include in a public report in accordance with ASX Listing Rules 5.16 and 5.17 was included in SVM's ASX Announcement released on 20 June 2017. The Company confirms that the material assumptions underpinning the Production Target referenced in the 20 June 2017 release continue to apply and have not materially changed.

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.