

## SEPTEMBER 2017 QUARTERLY REPORT

Sovereign Metals Limited ("the Company" or "Sovereign") is pleased to present its quarterly report for the period ending 30 September 2017.

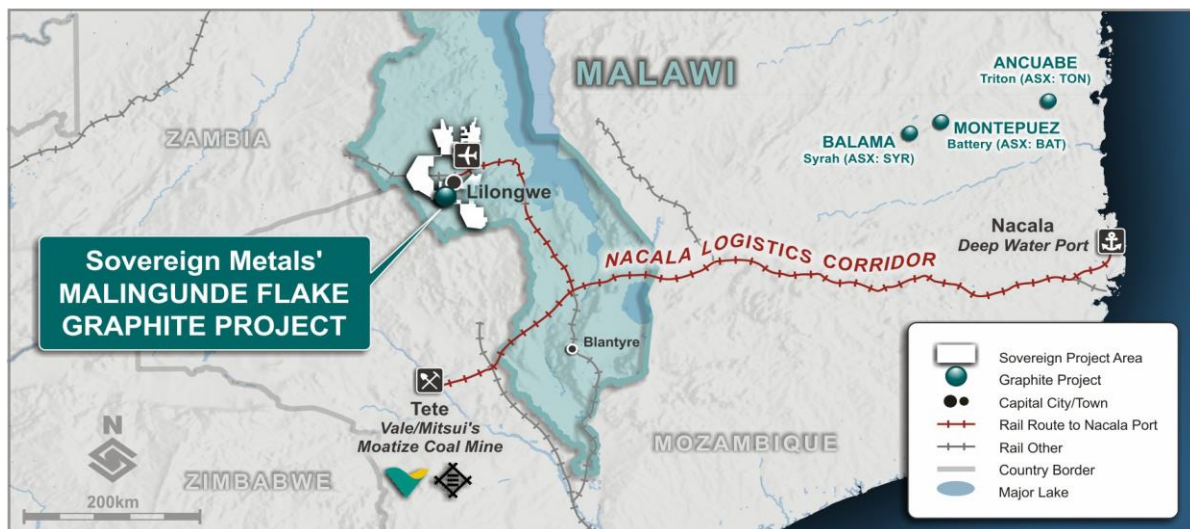
The Company is focused on the **world class Malingunde saprolite hosted graphite project in Malawi**. The results of the Malingunde Scoping Study demonstrate the potential for the project to support a **very low capital and operating cost operation** with annual graphite concentrate production of approximately 44,000 tonnes over an initial mine life of 17 years.

### HIGHLIGHTS:

#### **MoU signed with Vale & Mitsui for Malingunde port & rail access.**

MoU with Central East African Railways ("CEAR"), an infrastructure and logistics consortium which Vale SA and Mitsui & Co. Ltd operate and have significant ownership:

- Provision of transport services for up to a 20-year term and 100,000tpa of concentrates, which provides upside to the Company's initial 44,000tpa target.
- The Malingunde Scoping Study logistics cost estimate of ~US\$65/t free on board (FOB) is based on indicative pricing from CEAR.



#### **Malingunde project receives strong support from Malawi Government.**

Company Executives recently presented the outstanding Malingunde Scoping Study results to various government agencies and stakeholders in Malawi:

- The Malawi Government has offered its support and resources to Sovereign in order to progress the Malingunde project to development.
- Malawi has recently joined the Extractive Industries Transparency Initiative ("EITI"), the global standard for the good governance of oil, gas and mineral resources, providing significant fiscal transparency and accountability.
- Significant new road, rail, port and power infrastructure is currently being developed in Malawi, including the inauguration of the upgraded Nacala Logistics Corridor in August 2017.

***Metallurgy Improvements: exceptional flake size distribution and very high purity concentrates.***

Continued flotation test-work has shown that the process flowsheet, with no primary crush or grind and no chemical or heat purification, can produce both exceptional concentrate purity and outstanding flake distribution from the soft saprolite material at Malingunde.

The results highlight the large degree of product and market diversification available for Malingunde:

- **Traditional markets:** shorter attritioning times produce a coarser flake distribution but slightly lower grade concentrates, suited to existing markets such as refractories and foundries.
- **Emerging markets:** longer attritioning times produce a slightly finer flake distribution with exceptionally high concentrate purity; suitable for Li-ion batteries and other high-end applications.

***Downstream test-work confirms the suitability of Malingunde concentrates for all major end markets, including batteries.***

Spheroidisation test-work highlights a compelling opportunity for entry into developing graphite markets such as the Li-ion battery supply chain, providing attractive value upside for the Company.

***A\$6.5M institutional placement to fund Malingunde Feasibility Studies.***

In October 2017, the Company announced that it would place up to 59.1 million ordinary shares at \$0.110 to raise \$6.5 million from institutional investors in Australia and North America. Proceeds from the placement will be used to expedite the development of Malingunde, including all technical works, enabling completion of the pre-feasibility and definitive feasibility studies.

***Upcoming activity and news flow.***

The Company has commenced long lead activities required to rapidly advance the development of the Malingunde project. Upcoming news flow includes official commencement of the Pre-feasibility Study and associated technical activities, including infill drilling, further metallurgical test work and flowsheet optimisation. Further, Sovereign continues to advance exploration activities along strike from the Malingunde resource, as well as progressing sales and marketing arrangements with potential partners.

**ENQUIRIES**

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***Dr Julian Stephens – Managing Director***

***Dominic Allen – Business Development Manager***

## Malingunde port and rail MoU

Sovereign 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 for graphite concentrates produced from the Malingunde Project along the Nacala Logistics Corridor, 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.

### KEY TERMS:

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

- Provision of services 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.

## Malawi Government support

During the Quarter, Sovereign Executives presented the outstanding Malingunde Scoping Study results to various government agencies and stakeholders in Malawi. The Company is pleased to report that strong support was received from the Malawi Government to progress the Malingunde saprolite-hosted graphite project to production.

Malawi has also recently joined the Extractive Industries Transparency Initiative which will provide accountability and transparency around mining and petroleum revenues.

## Metallurgical results

Test-work undertaken during the Quarter has identified the opportunity for Malingunde concentrates to be sold into all major graphite end markets. The project is at the bottom of the capital and operating cost curves, allowing Sovereign to compete with traditional graphite supply and enter existing industrial markets at a competitive price point. Significant upside is retained to the future growth in energy storage, and specifically the ability of Malingunde flake to be sold to the emerging Li-ion battery market.

### FLAKE SIZE AND PURITY

Recent test-work has highlighted that Sovereign's process flowsheet, with no primary crush or grind and no chemical or heat purification, can produce **both exceptional concentrate purity and outstanding flake distribution** from the soft, saprolite material at Malingunde.

Sovereign has demonstrated unique optionality to produce a range of high-quality products from a simple flotation flowsheet, giving the Company the potential to generate revenues from sales of premium products into existing traditional markets as well as emerging markets.

**MALINGUNDE 2017 FLOTATION RESULTS**

		TEST F13 (previously reported)		TEST F23 (new results)			
PARTICLE SIZE		C LECO <sup>1</sup> (%)	Distribution (wt. %)	C LECO <sup>1</sup> (%)	C (%) Double LOI <sup>2</sup>	Distribution (wt. %)	Flake category
Tyler mesh	(µm)						
+ 32	+ 500	97.1	14.2	99.5	98.5	3.8	Super Jumbo
+ 48	+ 297	96.1	32.7	100.0	98.4	15.6	Jumbo
- 48 + 80	- 297 + 177	96.7	25.4	98.4	98.1	22.8	Large
- 80 + 100	- 177 + 149	97.1	6.3	98.8	98.4	8.2	Medium
- 100 + 200	- 149 + 74	97.0	16.7	99.0	98.4	33.1	Small
- 200	- 74	95.4	4.7	97.3	97.7	16.4	Amorphous
<b>TOTAL</b>		<b>96.6</b>	<b>100</b>	<b>98.7</b>	<b>98.2</b>	<b>100</b>	

**Footnote to Table.**

- (1) The chemical analysis used to determine the total carbon content employs combustion of a sample followed by infrared detection on a LECO SC-632 instrument. Values at 100% should not be treated as pure products without additional impurity testing.
- (2) The chemical analysis used to determine the total carbon content employs a double Loss on Ignition (LOI) method. Sample is placed in a TGA furnace for one hour at 500°C and weight loss recorded. Sample is then returned to furnace and temperature increased to 1,000°C until constant weight is achieved and weight loss is again recorded

Both analytical methods have an associated measurement uncertainty based on the expected precision and accuracy relating to the method and graphite concentration. No carbonate minerals or organic carbon have been detected in mineralogical test-work, hence all carbon units are considered to be graphite.

**LI-ION BATTERY TEST-WORK**

Spheroidisation test-work results released during the Quarter highlight a compelling opportunity for entry into developing graphite markets such as the Li-ion battery supply chain, providing attractive future value upside for the Company.

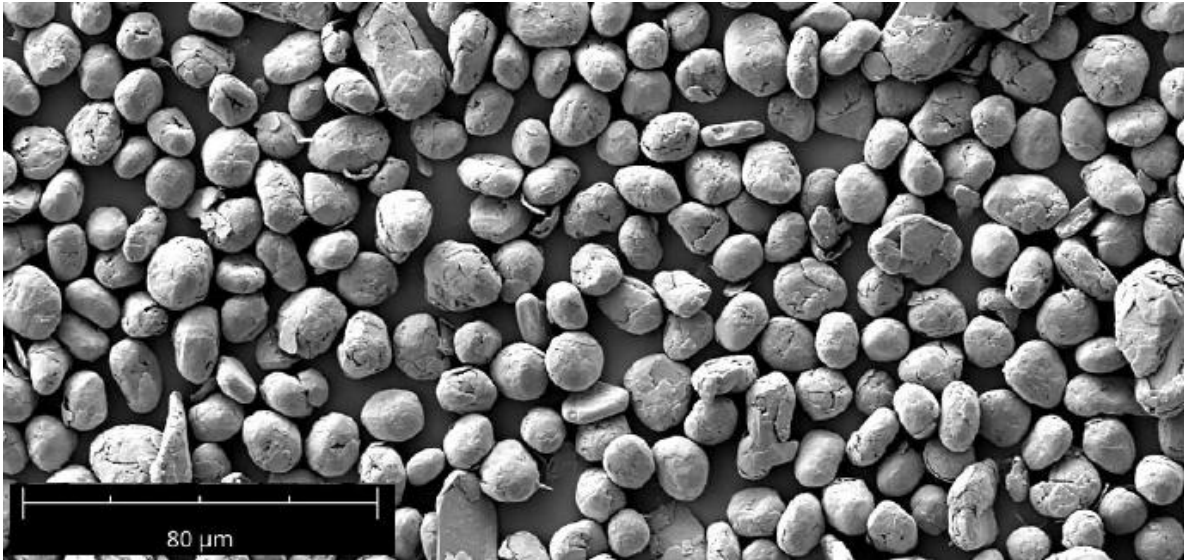
An initial laboratory test-work program conducted by an independent German industrial minerals specialist demonstrated that spherical graphite with suitable benchmark specifications for lithium-ion battery anodes can be produced from Malingunde concentrates. Highlights of results achieved across the program include:

Parameter	SVM result	Benchmark value <sup>1</sup>	Measure
BET (m <sup>2</sup> /g)	6.6	4 – 8	Surface area of the particles
Tap Density (g/cm <sup>3</sup> )	0.90 – 0.93	> 0.90	Ability for the particles to compact
D <sub>50</sub> (µm)	13.4 – 21.8	10 – 25	Size of particles
D <sub>90</sub> : D <sub>10</sub> ratio	2.1 – 4.0	< 3	Distribution of particle size
Purity	>99.95%	>99.95%	Total graphitic carbon content
Yield	21% – 51%	> 30%	Yield of particles produced

1. Per test work provider



These promising results are based upon Sovereign's first spheroidisation tests on Malingunde concentrates, and warrant significant further development test work which is planned to commence shortly.



*Electron micrograph of Malingunde spherical graphite. Magnification 1,000x*

## Corporate

In October 2017, the Company announced that it would place up to 59.1 million ordinary shares at \$0.110 each to investors in two tranches, to raise \$6.5 million before costs, including prominent institutional investors in Australia and North America.

Proceeds from the placement will be used to expedite development of the Malingunde project, including all technical works, enabling completion of the pre-feasibility and definitive feasibility studies.

The placement will be completed in two tranches:

- a. **Tranche 1 Placement Shares:** 38,956,189 new ordinary shares at \$0.11 each to raise approximately \$4.3 million before costs under the Company's capacity under Listing Rules 7.1 and 7.1A; and
- b. **Tranche 2 Placement Shares:** 20,134,720 new ordinary shares at \$0.11 each to raise approximately \$2.2 million before costs. Tranche 2 is subject to shareholder approval at a general meeting of Shareholders to be held on or around 8 December 2017.

The Company expects to complete Tranche 1 of the placement on or about 2 November 2017.

## Moving forward

Sovereign is funded to advance the Malingunde saprolite-hosted graphite project through full feasibility studies with the following forward plan:

- Parameters of feasibility and other technical studies are being finalised, with long lead time activities already underway.
- The Company is in the process of appointing key consultants to the feasibility study team.
- Environmental baseline studies are continuing.

30 October 2017

- A metallurgical program to produce large quantities of concentrate for assessment by potential customers is continuing.
- Discussions with potential off-take partners are well advanced.
- Exploration with hand auger along strike from the Malingunde resource continues.
- Progression of port and rail MoU to a binding agreement.

## Carpentaria Joint Venture

Mount Isa Mines (MIM), a Glencore Company, continues to manage and sole fund exploration on all tenements comprising the Carpentaria Joint Venture ("CJV"). Sovereign currently holds a 27.88% diluting interest in the tenements.

### Competent Person Statements

*The information in this report that relates to Metallurgical Test-work Results, is extracted from an announcement dated 30 August 2017. This announcement is available to view on [www.sovereignmetals.com.au](http://www.sovereignmetals.com.au). The information in the original ASX Announcement that related to Metallurgical Test-work Results was based on, and fairly represents, information compiled by Mr Oliver Peters, M.Sc., P.Eng., MBA, who is a Member of the Professional Engineers of Ontario (PEO), a 'Recognised Professional Organisation' (RPO) included in a list promulgated by the ASX from time to time. Mr Peters is a consultant of SGS Canada Inc. ("SGS"). SGS is engaged as a consultant by Sovereign Metals Limited. Mr Peters has sufficient experience, which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking, to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. The Company confirms that it is not aware of any new information or data that materially affects the information included in the original market announcement. The Company confirms that the form and context in which the Competent Person's findings are presented have not been materially modified from the original market announcement.*

*The information in this announcement that relates to Mining, Processing, Infrastructure, Production Targets, and Capital and Operating Costs is extracted from an announcement dated 20 June 2017. This announcement is available to view on [www.sovereignmetals.com.au](http://www.sovereignmetals.com.au). The information in the original ASX Announcement that related to Mining, Processing, Infrastructure, Production Targets, and Capital and Operating Costs was based on and fairly represent information compiled or reviewed by Mr David Dodd, who is a Fellow of the Southern Africa Institute of Mining and Metallurgy. Mr Dodd is a consultant to Amec Foster Wheeler. 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. The Company confirms that the form and context in which the findings are presented have not been materially modified from the original market announcement.*

### Production Target

*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.*

## Appendix 1: Summary of Mining Tenements

As at 30 September 2017, the Company had an interest in the following tenements:

Project Name	Permit Number	Percentage Interest	Joint Venture Partner	Status
<b><u>Malawi</u></b>				
Central Malawi Graphite Project	EPL 0413	100%	-	Granted
	EPL 0372	100%	-	Granted
	EPL 0355	100%	-	Granted
<b><u>Queensland, Australia:</u></b>				
Mt Marathon	EPM 8586	28.77%	Mount Isa Mines	Granted
Mt Avarice	EPM 8588	28.77%	Mount Isa Mines	Granted
Fountain Range	EPM 12561	28.77%	Mount Isa Mines	Granted
Corella River	EPM 12597	28.77%	Mount Isa Mines	Granted
Saint Andrews Extended	EPM 12180	28.77%	Mount Isa Mines	Granted

Beneficial percentage interests in Farm-out agreements disposed during the quarter ending 30 September 2017:

Project Name	Permit Number	Type of change	Interest at beginning of quarter	Interest disposed of during quarter	Interest at end of quarter
<b><u>Carpentaria JV:</u></b>					
Mt Marathon	EPM 8586	Farm out	29.45%	0.68%	28.77%
Mt Avarice	EPM 8588	Farm out	29.45%	0.68%	28.77%
Fountain Range	EPM 12561	Farm out	29.45%	0.68%	28.77%
Corella River	EPM 12597	Farm out	29.45%	0.68%	28.77%
Saint Andrews Ext.	EPM 12180	Farm out	29.45%	0.68%	28.77%

## Appendix 5B

### Mining exploration entity and oil and gas exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10, 01/05/13, 01/09/16

**Name of entity**

SOVEREIGN METALS LIMITED

**ABN**

71 120 833 427

**Quarter ended ("current quarter")**

30 SEPTEMBER 2017

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	-	-
1.2 Payments for		
(a) exploration & evaluation	(404)	(404)
(b) development	-	-
(c) production	-	-
(d) staff costs	(112)	(112)
(e) administration and corporate costs	(168)	(168)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	9	9
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Research and development refunds	-	-
1.8 Other (provide details if material):		
- Business development	(3)	(3)
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(678)</b>	<b>(678)</b>
<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire:		
(a) property, plant and equipment	(19)	(19)
(b) tenements (see item 10)	-	-
(c) investments	-	-
(d) other non-current assets	-	-

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Appendix 5B  
Mining exploration entity and oil and gas exploration entity quarterly report

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
2.2	Proceeds from the disposal of:		
	(a) property, plant and equipment	-	-
	(b) tenements (see item 10)	-	-
	(c) investments	-	-
	(d) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
<b>2.6</b>	<b>Net cash from / (used in) investing activities</b>	<b>(19)</b>	<b>(19)</b>
<b>3. Cash flows from financing activities</b>			
3.1	Proceeds from issues of shares	-	-
3.2	Proceeds from issue of convertible notes	-	-
3.3	Proceeds from exercise of share options	-	-
3.4	Transaction costs related to issues of shares, convertible notes or options	(2)	(2)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
<b>3.10</b>	<b>Net cash from / (used in) financing activities</b>	<b>(2)</b>	<b>(2)</b>
<b>4. Net increase / (decrease) in cash and cash equivalents for the period</b>			
4.1	Cash and cash equivalents at beginning of period	<b>2,251</b>	<b>2,251</b>
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(678)	(678)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(19)	(19)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(2)	(2)
4.5	Effect of movement in exchange rates on cash held	-	-
<b>4.6</b>	<b>Cash and cash equivalents at end of period</b>	<b>1,552</b>	<b>1,552</b>

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## Mining exploration entity and oil and gas exploration entity quarterly report

5. <b>Reconciliation of cash and cash equivalents</b> at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1 Bank balances	47	36
5.2 Call deposits	1,505	2,215
5.3 Bank overdrafts	-	-
5.4 Other (provide details)	-	-
<b>5.5 Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>1,552</b>	<b>2,251</b>

6. <b>Payments to directors of the entity and their associates</b>	Current quarter \$A'000
6.1 Aggregate amount of payments to these parties included in item 1.2	115
6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3	-
6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2	

Payments include director fees and salaries, superannuation and provision of a fully serviced office.

7. <b>Payments to related entities of the entity and their associates</b>	Current quarter \$A'000
7.1 Aggregate amount of payments to these parties included in item 1.2	-
7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3	-
7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2	

Not applicable

8. <b>Financing facilities available</b> <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities	-	-
8.2 Credit standby arrangements	-	-
8.3 Other (please specify)	-	-
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

Not applicable

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9. Estimated cash outflows for next quarter		\$A'000
9.1	Exploration and evaluation	550
9.2	Development	-
9.3	Production	-
9.4	Staff costs	90
9.5	Administration and corporate costs	120
9.6	Other (provide details if material)	-
<b>9.7</b>	<b>Total estimated cash outflows</b>	<b>760</b>

10.	Changes in tenements (items 2.1(b) and 2.2(b) above)	Tenement reference and location	Nature of interest	Interest at beginning of quarter	Interest at end of quarter
10.1	Interests in mining tenements and petroleum tenements lapsed, relinquished or reduced	EPM 8586 EPM 8588 EPM 12561 EPM 12597 EPM 12180	Reduction of interest in accordance with terms of joint venture agreement.	29.45%	28.77%
10.2	Interests in mining tenements and petroleum tenements acquired or increased				

### Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Sign here: .....  
(Company secretary)

Date: 30 October 2017

Print name: .Clint McGhie.....

### Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, AASB 6: Exploration for and Evaluation of Mineral Resources and AASB 107: Statement of Cash Flows apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standards apply to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.