



DECEMBER 2017 QUARTERLY REPORT

Sovereign Metals Limited (“the Company” or “Sovereign”) is pleased to present its quarterly report for the period ending 31 December 2017.

The Company is focused on the **world-class Malingunde Sapolite Hosted Graphite Project in Malawi**. The results of the 2017 Malingunde Scoping Study demonstrate the potential for the deposit 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:

Commencement of Pre-feasibility Study (“PFS”) at Malingunde.

- ◆ In November 2017, the Company commenced the PFS for the exceptionally low cost Malingunde Sapolite-Hosted Graphite Project. The PFS will build on the outstanding results delivered in the Scoping Study, which highlighted the potential for 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.

MoU with Vale & Mitsui for Malingunde port & rail access.

- ◆ MoU signed 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.

Drilling intersects further high grade sapolite at Malingunde.

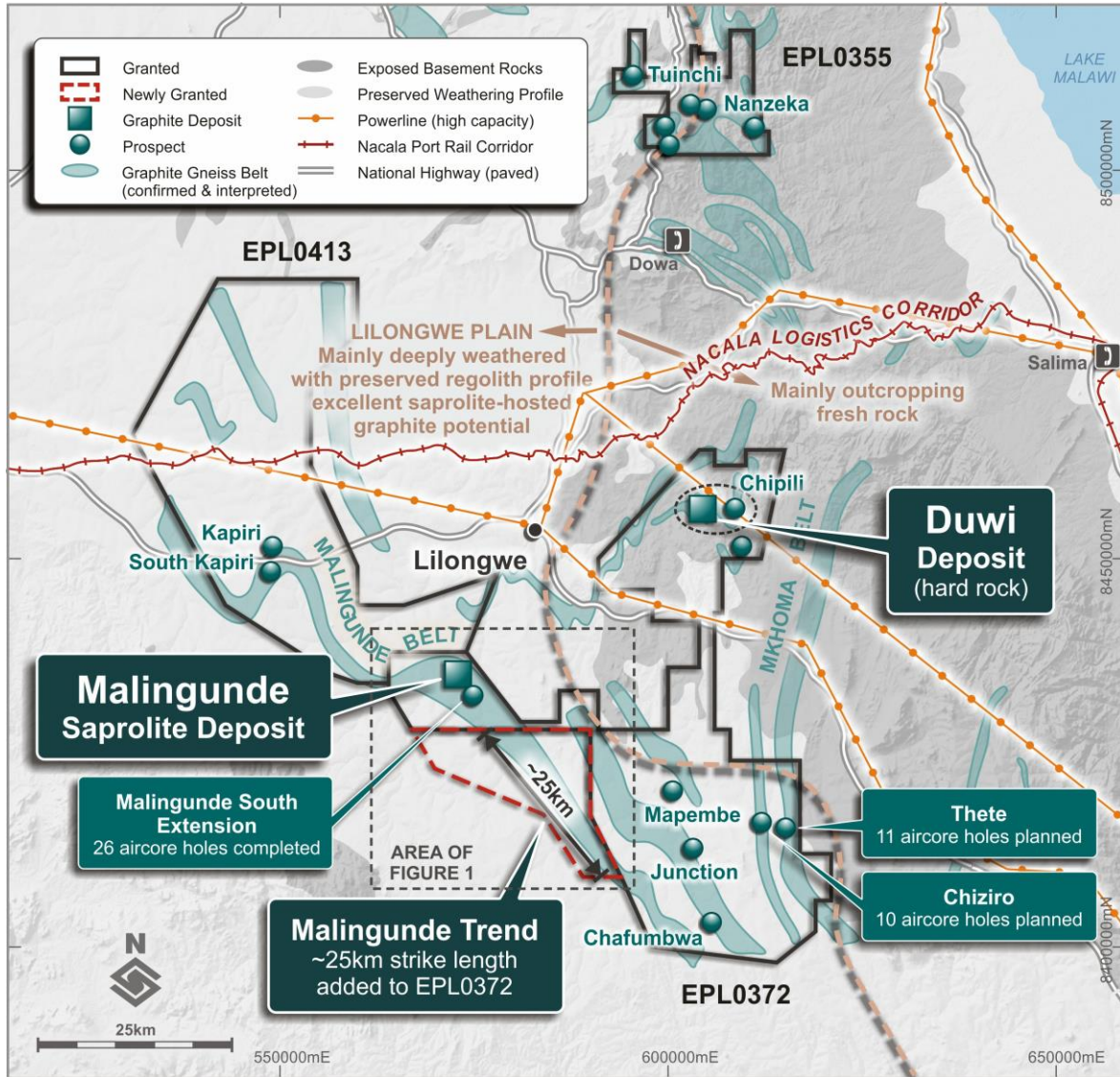
- ◆ Aircore drilling was conducted in late 2017, with 210 holes for 6,212 metres completed. The initial batch of results continue to confirm the excellent consistency of high-grade mineralisation along strike, as well as the substantial vertical thickness of the deposit, and will be incorporated into the updated JORC resource estimate, expected to be delivered in early Q2 2018. Results include:
 - **MGAC0182: 23m @ 21.2% TGC**
 - **MGAC0183: 36m @ 11.1% TGC inc. 8m @ 20.1% TGC**
 - **MGAC0186: 12m @ 14.5% TGC inc. 6m @ 20.0% TGC**
 - **MGAC0190: 21m @ 14.8% TGC inc. 14m @ 17.3% TGC**

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

- ◆ In December 2017, the Company completed a placement of 59.1 million ordinary shares at \$0.11 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.

Additional ground secured along strike from Malingunde.

Highly prospective new ground was secured by the Company and added to EPL0372 directly along strike to the south-east of the Malingunde deposit, extending the strike length of the “Malingunde Trend” by ~25km. Previous exploration is known to have intersected saprolite-hosted graphite mineralisation in this newly granted area. A total area of 229km² has been added to EPL0372.



Upcoming activity and news flow.

The Company is rapidly progressing activities required to develop the Malingunde project. Upcoming news flow includes results associated with the PFS, including further infill drilling, 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
+618 9322 6322

Dr Julian Stephens – Managing Director
Dominic Allen – Business Development Manager

Malingunde Pre-feasibility Study

The Company has commenced the PFS for the Malingunde Saprolite-Hosted Graphite Project. The PFS will build on the outstanding results delivered in the Scoping Study, which highlighted the potential for 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.

A number of opportunities were identified in the Scoping Study to further enhance the project economics. The Company completed a comprehensive review to assess these opportunities and define key work programs for the PFS. Following completion of the review, the scope of work for the PFS was finalised, with key activities including:

- A ~6,212m infill and extensional aircore drilling program, completed in December 2017. The program was designed to increase the resource classification level for the mine plan, as well as test a number of other prospects for high-grade saprolite hosted graphite mineralisation. Initial results have been reported, and the remaining results will be reported when received.
- Mine design, including optimisation of the mining schedule and mine-site layout.
- A substantial metallurgical program, processing multiple samples to optimise the flotation regime, producing concentrates for evaluation by offtake partners and for further downstream test-work.
- Process design and engineering works based on the results of the metallurgy program.
- Ground water assessment, with numerous monitoring bores installed in late 2017.
- On site infrastructure requirements including preliminary design of the tailings storage facility.
- The continuation of the environmental baseline studies which commenced in April 2017. These include terrestrial fauna and flora, aquatic biology, air quality, surface water and groundwater studies.
- Commencement of major stakeholder engagement program with local communities, Government and NGOs.

Sovereign is targeting completion of the PFS in mid-2018, with certain work programs designed to continue directly through into the DFS stage. It is expected that the various work programs forming the PFS will generate significant news flow over the coming 6 months.

The Company expects to be in a position to update the market on all PFS-related activities shortly.

Port and Rail MoU

In October 2017, Sovereign 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.

Malingunde Drilling Results

Aircore drilling was conducted in late 2017, with 210 holes for 6,212 metres completed. The drilling program was designed to further define and upgrade the JORC resource classification levels for inclusion in the Malingunde Pre-feasibility Study, as well as to test graphite mineralisation at Malingunde South Extension and other targets.

The initial results (36 of 210 holes reported) continue to confirm the excellent consistency of high-grade mineralisation along strike, as well as the substantial vertical thickness of the mineralised saprolite and will be incorporated into the updated JORC resource estimate, expected to be delivered in Q2 2018. Initial results include:

- **MGAC0182: 23m @ 21.2% TGC**
- **MGAC0183: 36m @ 11.1% TGC inc. 8m @ 20.1% TGC**
- **MGAC0186: 12m @ 14.5% TGC inc. 6m @ 20.0% TGC**
- **MGAC0190: 21m @ 14.8% TGC inc. 14m @ 17.3% TGC**

Results for the 174 remaining aircore holes, including drilling at Malingunde South Extension, are expected to be delivered over the coming 4 to 6 weeks, and will be provided to the market when received.

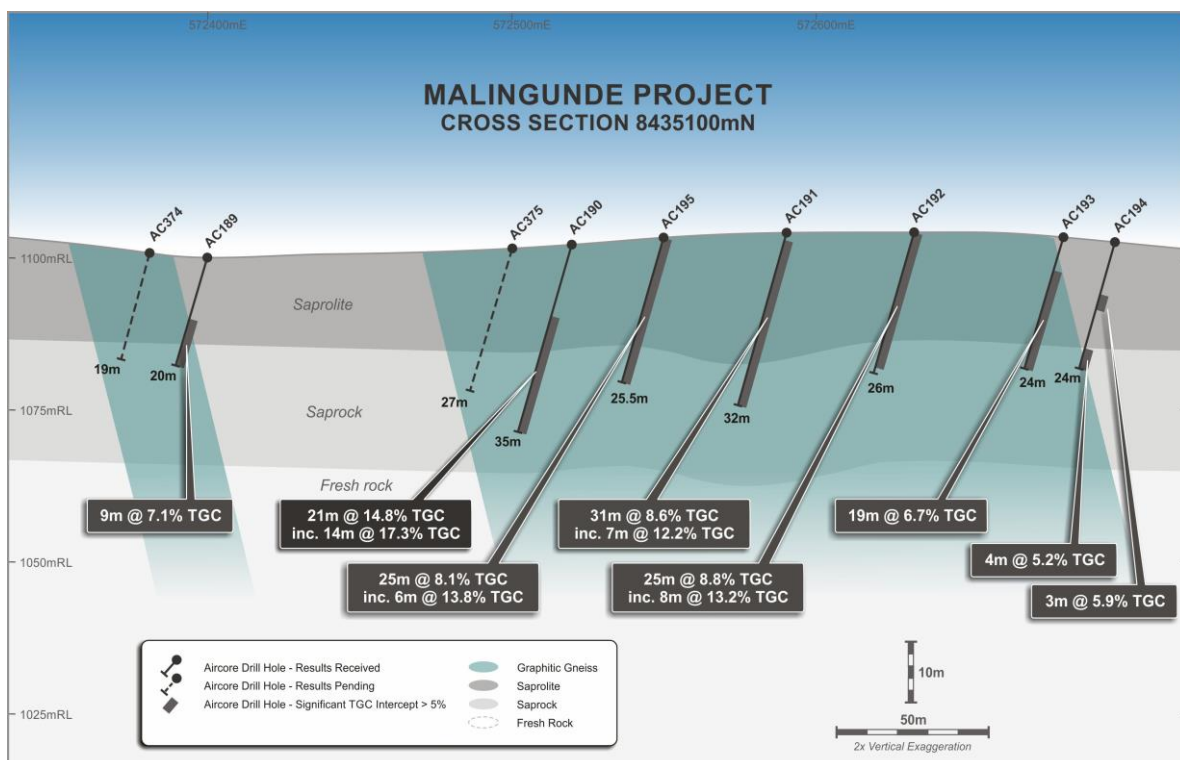


Figure 1. Cross-section showing high-grade, saprolite-hosted graphite mineralisation.

Additional Ground Secured

The Company was granted additional ground directly along strike to the south-east of the world-class Malingunde saprolite-hosted graphite deposit in Malawi. A total area of 229km² has been added to EPL0372, extending the prospective strike length of the “Malingunde Trend” by ~25km. Previous exploration is known to have intersected saprolite-hosted graphite mineralisation in this newly granted area.

Following statutory relinquishments of non-prospective areas of EPL0355 and EPL0413, the Company's total ground package is now 2,740km². Sovereign's first mover advantage means it is the dominant ground holder in the Central Malawi Graphite Province, controlling ~80% of the total area prospective for flake graphite mineralisation.

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 26.51% diluting interest in the tenements.

Corporate

In October 2017, the Company announced that it would place up to 59.1 million ordinary shares at \$0.11 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 was completed in December 2017 following receipt of shareholder approval.

As at 31 December 2017, the Company has \$6.63M cash and no debt.

Competent Person Statements

The information in this announcement that relates to Exploration Results is extracted from an announcement 17 January 2018. This announcement is available to view on www.sovereignmetals.com.au. The information in the original announcement that related to Exploration Results were based on, and fairly represents, information compiled by Dr Julian Stephens, a Competent Person who is a member of the Australasian Institute of Geoscientists (AIG). Dr Stephens has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity being undertaken, to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. The Company confirms that it is not aware of any new information or data that materially affects the information 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 announcements.

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. 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 31 December 2017, the Company had an interest in the following tenements:

Project Name	Permit Number	Percentage Interest	Joint Venture Partner	Status
<u>Malawi</u>				
Central Malawi Graphite Project	EPL 0413	100%	-	Granted
	EPL 0372	100%	-	Granted
	EPL 0355	100%	-	Granted
<u>Queensland, Australia:</u>				
Mt Marathon	EPM 8586	26.51%	Mount Isa Mines	Granted
Mt Avarice	EPM 8588	26.51%	Mount Isa Mines	Granted
Fountain Range	EPM 12561	26.51%	Mount Isa Mines	Granted
Corella River	EPM 12597	26.51%	Mount Isa Mines	Granted
Saint Andrews Extended	EPM 12180	26.51%	Mount Isa Mines	Granted

Beneficial percentage interests in Farm-out agreements disposed during the quarter ending 31 December 2017:

Project Name	Permit Number	Type of change	Interest at beginning of quarter	Interest disposed of during quarter	Interest at end of quarter
<u>Carpentaria JV:</u>					
Mt Marathon	EPM 8586	Farm out	27.88%	1.37%	26.51%
Mt Avarice	EPM 8588	Farm out	27.88%	1.37%	26.51%
Fountain Range	EPM 12561	Farm out	27.88%	1.37%	26.51%
Corella River	EPM 12597	Farm out	27.88%	1.37%	26.51%
Saint Andrews Ext.	EPM 12180	Farm out	27.88%	1.37%	26.51%

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")

31 DECEMBER 2017

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	-	-
1.2 Payments for		
(a) exploration & evaluation	(733)	(1,137)
(b) development	-	-
(c) production	-	-
(d) staff costs	(94)	(205)
(e) administration and corporate costs	(187)	(357)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	12	22
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	(83)	(86)
1.9 Net cash from / (used in) operating activities	(1,085)	(1,763)
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(3)	(22)
(b) tenements (see item 10)	-	-
(c) investments	-	-
(d) other non-current assets	-	-

For personal use only

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 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)	-	-
2.6 Net cash from / (used in) investing activities	(3)	(22)
3. Cash flows from financing activities		
3.1 Proceeds from issues of shares	6,500	6,500
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	(342)	(344)
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)	6	6
3.10 Net cash from / (used in) financing activities	6,164	6,162
4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of period	1,552	2,251
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(1,085)	(1,763)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(3)	(22)
4.4 Net cash from / (used in) financing activities (item 3.10 above)	6,164	6,162
4.5 Effect of movement in exchange rates on cash held	-	-
4.6 Cash and cash equivalents at end of period	6,628	6,628

For personal use only

Mining exploration entity and oil and gas exploration entity quarterly report

5. Reconciliation of cash and cash equivalents 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	51	47
5.2 Call deposits	6,577	1,505
5.3 Bank overdrafts	-	-
5.4 Other (provide details)	-	-
5.5 Cash and cash equivalents at end of quarter (should equal item 4.6 above)	6,628	1,552

6. Payments to directors of the entity and their associates

	Current quarter \$A'000
6.1 Aggregate amount of payments to these parties included in item 1.2	135
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. Payments to related entities of the entity and their associates

	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. Financing facilities available

Add notes as necessary for an understanding of the position

	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

Mining exploration entity and oil and gas exploration entity quarterly report

9. Estimated cash outflows for next quarter		\$A'000
9.1	Exploration and evaluation	1,250
9.2	Development	-
9.3	Production	-
9.4	Staff costs	110
9.5	Administration and corporate costs	120
9.6	Other (provide details if material)	
	- Business development	50
9.7	Total estimated cash outflows	1,530

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.	27.88%	26.51%
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 January 2018

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.

For personal use only