SOVEREIGN METALS LIMITED

ABN 71 120 833 427

2017 ANNUAL REPORT.

CORPORATE DIRECTORY.

DIRECTORS
Mr Ian Middlemas – Chairman
Dr Julian Stephens – Managing Director
Mr Mark Pearce – Non-Executive Director

COMPANY SECRETARY
Mr Clint McGhie

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ASX CODE
SVM – Fully paid ordinary shares

SOLICITORS
DLA Piper

AUDITOR
Deloitte Touche Tohmatsu

BANKERS
Australia:
Australia and New Zealand Banking Group Ltd
Malawi:
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CONTENTS.

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 2017 ("Consolidated Entity" or "Group").

OPERATING AND FINANCIAL REVIEW

Operations

Sovereign is focussed on exploration and development of the Malingunde Saprolite-hosted Graphite Project located in Malawi, near the capital city, Lilongwe.

During the year, Sovereign announced that it had defined the world's largest reported saprolite-hosted graphite deposit and delivered the Malingunde Scoping Study. Preliminary economics in the Scoping Study highlight Malingunde as a Tier 1 graphite project, with capital and operating costs per unit at the very bottom of the graphite supply cost-curve, at production rates supported by existing market fundamentals.

Highlights during the year and subsequent to year end include:

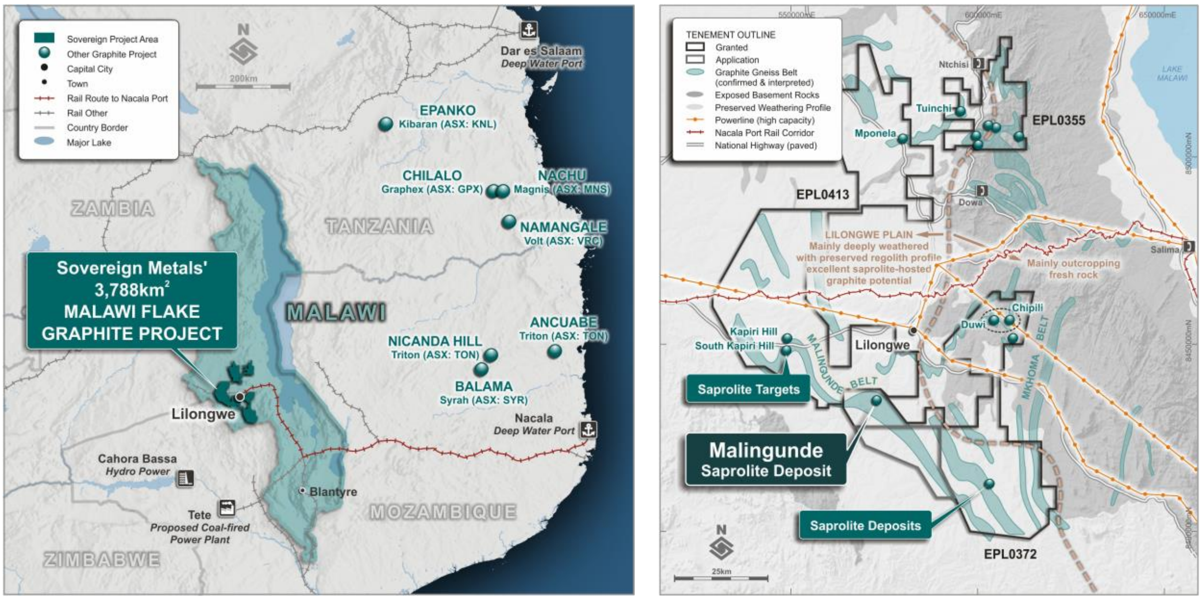
- The Scoping Study demonstrates the potential for the Malingunde Project to support a very low capital and operating cost operation with annual production of 44,000 tonnes over an initial 17 year period:
  - Total operating costs of approximately US$301 per tonne of concentrate (FOB Nacala Port) – at the very bottom of the graphite supply cost curve and the lowest of any reported ASX-listed peer company of scale <300ktpa.
  - Total capital cost of US$29 million, (includes 35% contingency) for production of ~44,000 tonnes of concentrate per annum – lowest capital intensity of all peers.
  - Rare combination of low capital and operating costs at a realistic scale of production, with a payback of under 2 years using conservative graphite pricing assumptions.
  - Very low mining costs, with the soft saprolite being free-dig with a low strip ratio of 0.5:1.
  - Simple process flow sheet and plant design with no primary crush or grind, using "off the shelf equipment" allowing rapid and cost-effective construction with very low processing costs and capital requirements.
  - High quality product with excellent concentrate grades and a very large proportion in the Super-Jumbo and Jumbo categories.
  - Project generates significant cash margins even in severe downside graphite price scenarios.
- Malingunde confirmed as world's largest reported saprolite-hosted flake graphite resource:
  - Total saprolite MRE (Indicated + Inferred): 28.8Mt @ 7.1% TGC (4.0% TGC cut-off).
  - High-grade saprolite component of: 8.9Mt @ 9.9% TGC (7.5% TGC cut-off).
- High-End Downstream Applications:
  - World-class expandability characteristics shown for Malingunde graphite concentrates.
  - Expansion ratios of 480 ml/g for +300µm jumbo flake and 450 ml/g for +500µm super-jumbo flake were achieved, well exceeding those of typical Chinese and Western concentrates currently available on the market.
  - High expansion ratios such as those achieved from the +500µm super-jumbo and +300µm jumbo flake are required for the production of high value graphite foils and paper.

OPERATING AND FINANCIAL REVIEW (Continued)

Malingunde Saprolite-hosted Flake Graphite Deposit

In 2015, Sovereign's in-country geological team made a new and significant graphite discovery at Malingunde using hand auger drilling techniques in an area of no outcrop.

The deposit is located at Malingunde, just 15km south-west of Lilongwe, Malawi's capital city, with access to enviable infrastructure. It is 25km from operating rail, 20km from a major power sub-station and has plentiful fresh water sources nearby.



Figures 1(a) & (b): Maps showing location of the Malingunde Project

In April 2017, Sovereign reported a maiden Mineral Resource Estimate for the Malingunde saprolite-hosted graphite deposit. Saprolite is the very soft, graphite-bearing, clay-rich oxide material that is formed from intense weathering of the original underlying bedrock.

The soft, near surface, coarse flake and high-grade nature of the resource presents the opportunity for low operating and capital costs, whilst producing a premium quality graphite concentrate. The low cost-base will allow Sovereign to target existing traditional industrial markets (refractory, foundry, expandable etc.) whilst retaining potential future upside in demand driven by the emerging lithium ion battery sector.

Key Scoping Study Results

In June 2017, Sovereign reported the results of the Scoping Study ("Study") for the Malingunde Project. The Scoping Study was managed by Amec Foster Wheeler, a global expert in mining and minerals processing, with input from other specialist consultants and local experts.

The Study is based on the maiden Mineral Resource Estimate ("MRE") for the Malingunde deposit reported in April 2017, which comprises 65.1Mt @ 7.1% TGC (saprolite, saprock & fresh rock). The MRE includes a high-grade saprolite component of 8.9Mt @ 9.9% TGC (7.5% TGC cut-off) which was the focus of the Study.

The production target generated by the Study was approximately 8.0Mt @ 10.0% TGC over a ~17 year mine life.

MALINGUNDE PROJECT PARAMETERS	*Unit*	Estimated Value
PHYSICAL		
Average annual concentrate production	*tpa*	44,000
Average annual plant throughput	*tpa*	475,000
LoM average feed grade	*%*	10.0%
LoM average product grade	*% TGC*	97.0%
LoM average recovery	*%*	90%
Mine life	*Years*	17
LoM average strip ratio (ex. capitalised pre-strip)	*waste : ore*	0.5
Average annual material mined	*tpa*	725,000
ECONOMIC		
Average mine gate operating cost (ex. royalties, inc. G&A)	*US$/t conc.*	236
Transport & logistics cost	*US$/t conc*	65
Total LoM average operating cost (FOB Nacala)	*US$/t conc*	**301**
Development capital	*US$m*	19
Indirects & contingency	*US$m*	10
Total development capital	***US$m***	**29**
Sustaining & deferred capital	*US$m*	6

Table 1: Key physical and economic results of the Malingunde Scoping Study

Geology, Mineral Resource Estimate & Production Target

The Malingunde saprolite-hosted graphite deposit is the result of millions of years of tropical weathering of primary graphitic gneisses. Most of the silicate minerals other than quartz have been altered to clay, resulting in a soft, friable saprolite horizon averaging about 25m vertical thickness from surface. Graphite is also unreactive in this weathering environment, with the large graphite flakes preserved in the clay-dominant matrix.

The maiden Mineral Resource Estimate for the Malingunde deposit was undertaken by CSA Global and confirmed it as the world's largest reported soft saprolite-hosted graphite resource. The MRE underpinning the production target, classified as Indicated and Inferred, was prepared by a competent person and was reported in accordance with the JORC Code (2012 Edition) on 18 April 2017.

OPERATING AND FINANCIAL REVIEW (Continued)

MALINGUNDE MINERAL RESOURCE ESTIMATE *(4.0% CUT-OFF GRADE)*						
	Indicated		Inferred		Total	
	Tonnes (Mt)	Grade (% TGC)	Tonnes (Mt)	Grade (% TGC)	Tonnes (Mt)	Grade (% TGC)
Saprolite	23.0	7.1%	5.7	7.3%	28.8	7.1%
Saprock	12.8	7.0%	4.2	7.1%	17.0	7.0%
Fresh Rock	0.0	-	19.3	7.0%	19.3	7.0%
Total	35.9	7.0%	29.2	7.1%	65.1	7.1%

Table 2: Malingunde maiden JORC Mineral Resource Estimate at 4.0% cut-off grade

MALINGUNDE MINERAL RESOURCE ESTIMATE *(7.5% CUT-OFF GRADE)*						
	Indicated		Inferred		Total	
	Tonnes (Mt)	Grade (% TGC)	Tonnes (Mt)	Grade (% TGC)	Tonnes (Mt)	Grade (% TGC)
Saprolite	7.1	9.6%	1.8	10.8%	**8.9**	**9.9%**
Saprock	3.8	9.4%	1.2	10.0%	5.0	9.5%
Fresh Rock	0.0	-	5.7	9.6%	5.7	9.6%
Total	10.9	9.5%	8.6	9.9%	19.5	9.7%

Table 3: Malingunde maiden JORC Mineral Resource Estimate at 7.5% TGC cut-off grade

The geometry of the Malingunde deposit is one of several high-grade, shallow to moderate north-east dipping mineralised zones. Sovereign is targeting the near surface, soft saprolite portion of the resource to a maximum of approximately 25m vertical depth. This results in a number of long, shallow open pits in the mining plan (Figure 2).

Pit optimisations were completed by Amec Foster Wheeler based on maximum production of 45,000 tonnes of concentrate per annum rather than on an optimised throughput analysis. A mining cut-off grade of 7% TGC was selected which results in a production target of approximately 44,000 tonnes of graphite concentrate per annum over 17 years life-of-mine. This equates to an average of approximately 475,000 tonnes of ore processed per year, totalling circa 8.0mt @ 10.0% TGC over the life of mine.

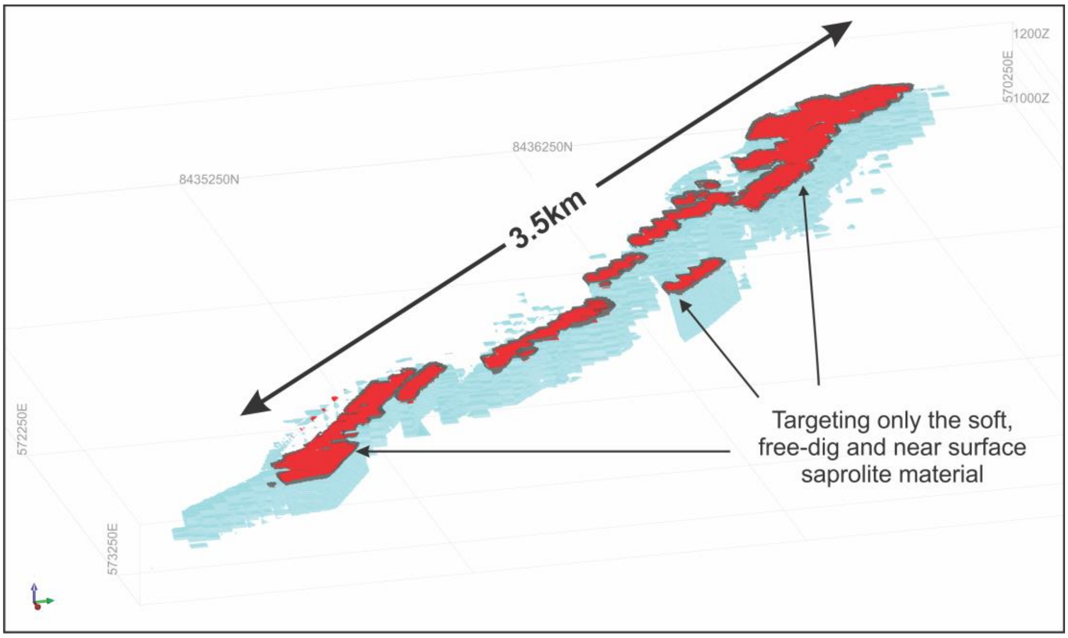


Figure 2: Oblique view looking down and to the west of optimized pit shells containing the production target material (red), and showing the additional resource (blue) that does not fall within the pit shells

Metallurgy Improvements

The Company continued with test-work that focused on understanding variability and optimisation of the flotation process flow-sheet during the year.

A simple process flowsheet with no primary crush or grind was shown to produce both exceptional concentrate purity and outstanding flake distribution from the soft, saprolite-hosted graphite mineralisation. The results highlight the simplicity and flexibility of the Malingunde process flow sheet. This work showed increased grades of final concentrates were achieved with minimal deterioration in flake size.

Flotation test-work on Malingunde saprolite achieved high purity concentrates averaging 98.2% graphite, with ~99.0% grade achieved across a number of size fractions (Table 4) as well as a course flake distribution, with 71% of the final graphite concentrate exceeding 149µm in size, including 33% of +297µm jumbo flake and 14% of +500µm super jumbo flake.

Traditional markets: shorter attritioning times produce a coarser flake distribution but slightly lower grade concentrates, suited to the traditional industrial 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.

OPERATING AND FINANCIAL REVIEW (Continued)

MALINGUNDE 2017 FLOTATION RESULTS							
		Traditional Markets TEST F13 *(shorter attritioning)*		Emerging Markets TEST F23 *(longer attritioning)*			
PARTICLE SIZE							
Tyler mesh	(µm)	C LECO[1] (%)	Distribution (wt. %)	*C LECO[1] (%)*	C (%) Double LOI[2]	Distribution (wt. %)	Flake category
+ 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
TOTAL		**96.6**	**100**	***98.7***	**98.2**	**100**	

Table 4. Results for latest flotation test-work on Malingunde saprolite material

Expandability Test-work

During the year, the Company presented results from recent expandability test-work conducted on Malingunde flake graphite concentrates by a renowned German industrial minerals laboratory. The results show world-class expandability characteristics across a number of different size fractions.

The excellent results enhance Sovereign's ability to target entry into existing, traditional markets for its flake graphite products as the base case to underpin Malingunde development. Markets relying on new and evolving technologies (such as Li-ion batteries) remain as attractive future upside potential.

Expansion ratios of 480 ml/g for +300µm jumbo flake and 450 ml/g for +500µm super-jumbo flake were achieved, well exceeding those of typical Chinese and Western concentrates currently available on the market. High expansion ratios such as those achieved for the Malingunde concentrates are required for the production of high value graphite foils, paper and knitted tape. Concentrates with lower expansion ratios are generally used in fire retardant applications.

Figure 3: Expanded graphite and graphite foils produced from expanded graphite

Natural flake graphite is expanded via intercalation. This is a process whereby an expansion agent is inserted between the graphene layers of a graphite crystal or particle. Application of high temperature causes the expansion agent to gasify, producing enough pressure to push adjacent graphite layers apart. This results in large overall decreases in bulk density and increases in surface area. The resultant material is known as expanded flake graphite.

MALINGUNDE 2017 EXPANDABILITY RESULTS (ml/g)	
PARTICLE SIZE (µm)	**ml/g**
+ 500	450
+ 300	480
+180	340
+106	210
+75	160
- 75	105

Table 5: Malingunde graphite concentrate expandability results

Marketing Strategy

Sovereign has now demonstrated significant market optionality by showing a range of high-quality products can be produced from a simple flotation flowsheet. This gives the Company the potential to generate revenues from sales of premium products into existing traditional markets as well as emerging markets.

Sovereign's primary market focus remains the high-volume, high-value, traditional markets such as refractories, foundries and other industrial applications, enabled by Sovereign's exceptionally low operating cost. Future entry to the Li-ion battery market provides further value upside, with property testing highlighting that Malingunde products have strong potential to be suitable as Li-ion battery feedstock.

Natural graphite application	Malingunde suitability
Refractories & foundries	✓
Recarburiser	✓
Batteries	✓
Industrials (incl. expanded)	✓
Lubricants	✓
Other	TBD

Market share source: Canaccord

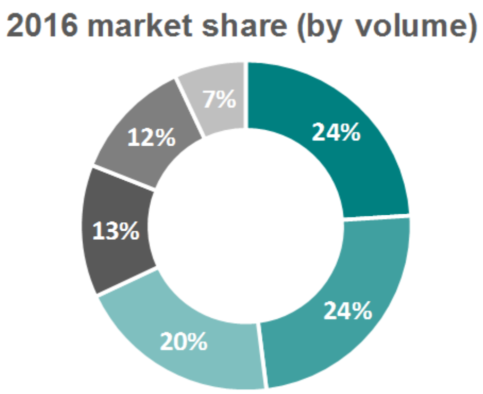


Table 6: Natural graphite applications and percentage of market share

OPERATING AND FINANCIAL REVIEW (Continued)

Duwi Flake Graphite Project

Sovereign's Duwi deposit is large and high grade (86Mt @ 7.2% TGC) with an excellent distribution of jumbo and coarse flake graphite able to be produced in high grade concentrates. Duwi has enviable infrastructure with grid power, rail, road networks and an international airport all easily accessible.

In September 2015, Sovereign completed a successful Scoping Study which confirmed Duwi as having the potential to be a high margin flake graphite project.

Carpentaria Joint Venture

Mount Isa Mines, a Glencore Company, continues to manage and sole fund all tenements comprising the Carpentaria Joint Venture ("CJV"). Under the terms of the CJV, Mount Isa Mines earns 1.5% for every $200,000 of expenditure. As at 30 June 2017, Sovereign's interest in the CJV has reduced to 29.45% (30 June 2016: 32.45%).

Corporate

The focus of corporate and business development activities during the year was to progress the development of the Company's Malingunde Saprolite-hosted Graphite Project.

The unique optionality to produce a range of high-quality products from a simple flotation flowsheet at Malingude provides the Company with the potential to generate revenues from sales of premium products into existing traditional markets as well as emerging markets. Ongoing marketing studies will further define target customer markets, preferred product specifications and supply and demand forecasts.

The Company continues to work with potential Asian and European offtake partners to in order to secure future offtake agreements and partnerships. The Company also commenced discussions with potential logistics partners and providers with the intent of securing an optimal transport solution for graphite concentrates from Malawi.

In August 2016, the Company completed the second tranche of a placement to raise $4.0 million before costs. In October 2016, the Company completed a placement to raise $1.1 million before costs. The funds raised from these placements enabled the Company to fast track the development of the Malingunde Project from early stage exploration to completion of a Scoping Study in June 2017.

Results of Operations

The net loss of the Consolidated Entity for the year ended 30 June 2017 was $3,627,778 (2016: $2,135,194). This loss is partly 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 completion of feasibility studies. During the year, exploration expenditure totalled $2,513,097 (2016: $1,320,517), including $155,086 in share based payments (2016: $143,999).
- Business development activities conducted by the Consolidated Entity during the year. Business development expenditure totalled $430,653 for the year (2016: $331,645), including $129,258 in share based payments (2016: $154,031).
- Share based payment expenses totalling $404,935 (2016: $462,836) relating to the issue of ordinary shares, and the grant of incentive options and performance rights. The fair value of the incentive options and performance rights is recognised over the vesting period of the option or right.

Financial Position

The Company has cash at bank of $2.25 million as at 30 June 2017 (2016: $2.79 million).

The Consolidated Entity had net assets of $9,161,601 at 30 June 2017 (2016: $8,872,497), an increase of $289,104 or approximately 3% compared with the previous year. This increase is consistent with the net decrease in cash reserves of $542,712 (including $3,177,818 net cash used in operating activities and $2,656,779 net cash from capital raisings) offset by the reduction of current liabilities of $867,668 (including $858,421 in debt for equity conversion) during the year.

Business Strategies and Prospects for Future Financial Years

The objective of the Consolidated Entity is to create long-term shareholder value through the discovery, development and acquisition of technically and economically viable mineral deposits.

To date, the Consolidated Entity has not commenced production of any minerals. To achieve its objective, the Company currently has the following business strategies and prospects over the medium to long term:

- Secure a strategic partner and/or offtake agreement for the Malingunde Project.
- Complete a Pre-Feasibility Study ("PFS") followed by a Definitive Feasibility Study ("DFS") on the Malingunde Project.
- Conduct further field work to follow up the large number of saprolite targets identified on the Company's tenements.
- Continue to examine other new business development opportunities in the resources sector, both locally and overseas.

All of these activities are inherently risky and the Board is unable to provide certainty that any or all of these developments will be able to be achieved. The material business risks faced by the Company that are likely to have an effect on the Consolidated Entity's future prospects, and how the Consolidated Entity manages these risks, include:

- **The Company's exploration properties may never be brought into production** – The exploration for, and development of, mineral deposits involves a high degree of risk. Few properties which are explored are ultimately developed into producing mines. To mitigate this risk, the Company will undertake systematic and staged exploration and testing programs on its mineral properties and, subject to the results of these exploration programs, the Company will then progressively undertake a number of technical and economic studies with respect to its projects prior to making a decision to mine. However there can be no guarantee that the studies will confirm the technical and economic viability of the Company's mineral properties or that the properties will be successfully brought into production;
- **The Company's activities will require further capital** – The exploration and any development of the Company's exploration properties will require substantial additional financing. Failure to obtain sufficient financing may result in delaying or indefinite postponement of exploration and any development of the Company's properties or even a loss of property interest. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favourable to the Company;
- **The Company is subject to sovereign risk of the Republic of Malawi –** The Company's operations in the Republic of Malawi are exposed to various levels of political, economic and other risks and uncertainties. The Republic of Malawi is a developing country and there can be no assurances that the risks of operating in the Republic of Malawi will not directly impact the Company's operations;
- **The Company may be adversely affected by fluctuations in commodity prices and/or foreign exchange –** The price of graphite and other commodities fluctuates widely and is affected by numerous factors beyond the control of the Company. Future production, if any, from the Company's mineral properties will be dependent upon the price of graphite and other commodities being adequate to make these properties economic. Current and planned development activities are predominantly denominated in US dollars and the Company's ability to fund these activates may be adversely affected if the Australian dollar continues to fall against the US Dollar. The Company currently does not engage in any hedging or derivative transactions to manage commodity price or foreign exchange risk. As the Company's operations change, this policy will be reviewed periodically going forward; and
- **Global financial conditions may adversely affect the Company's growth and profitability** – Many industries, including the mineral resource industry, are impacted by these market conditions. Some of the key impacts include contraction in credit markets resulting in a widening of credit risk, devaluations and high volatility in global equity, commodity, foreign exchange and precious metal markets, and a lack of market liquidity. Due to the current nature of the Company's activities, a slowdown in the financial markets or other economic conditions may adversely affect the Company's growth and ability to finance its activities.

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	Chairman
Dr Julian Stephens	Managing Director
Mr Mark Pearce	Non-Executive Director

Unless otherwise disclosed, Directors held their office from 1 July 2016 until the date of this report.

CURRENT DIRECTORS AND OFFICERS

Ian Middlemas
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 and Chairman 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 Apollo Minerals Limited (July 2016 – present), Cradle Resources Limited (May 2016 – present), Paringa Resources Limited (October 2013 – present), Berkeley Energia Limited (April 2012 – present), Prairie Mining Limited (August 2011 – present), Salt Lake Potash Limited (January 2010 – present), Equatorial Resources Limited (November 2009 – present), Piedmont Lithium Limited (September 2009 – present), Odyssey Energy Limited (September 2005 – present), Syntonic Limited (April 2010 – June 2017) and Papillon Resources Limited (May 2011 – October 2014).

Julian Stephens
Managing Director
Qualifications – B.Sc (Hons), PhD, MAIG

Dr Stephens originally identified and secured the Malawi graphite assets acquired by Sovereign in 2012. He has since been closely involved with the subsequent exploration and development of these projects, including the discovery of the Duwi and Malingunde graphite deposits.

Dr Stephens has extensive experience in the resources sector having spent in excess of 20 years in board, executive management, senior operational and economic geology research roles for a number of companies. He has spent in 12 of those years working on African projects including 9 years on projects in Malawi. Dr Stephens holds a PhD from James Cook University, Queensland and is a member of the Australian Institute of Geoscientists.

Dr Stephens was appointed a Director of Sovereign Metals Limited on 22 January 2016 and subsequently appointed Managing Director on 27 June 2016. During the three year period to the end of the financial year, Dr Stephens has been a Director of Buxton Resources Limited (September 2011 – August 2015).

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 resource companies. 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 Apollo Minerals Limited (July 2016 – present), Salt Lake Potash Limited (August 2014 – present), Prairie Mining Limited (August 2011 – present), Equatorial Resources Limited (November 2009 – present), Piedmont Lithium Limited (September 2009 – present), Odyssey Energy Limited (September 2005 – present) and Syntonic Limited (April 2010 – October 2016).

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, and has held the position of Company Secretary and/or Chief Financial Officer for a number of listed companies that operate in 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, identification and appraisal of resource projects. No significant change in the nature of these activities occurred during the year.

DIVIDENDS

No dividends have been declared, provided for or paid in respect of the financial year ended 30 June 2017.

LOSS PER SHARE

	2017 Cents	2016 Cents
Basic loss per share	(1.73)	(1.54)
Diluted loss per share	(1.73)	(1.54)

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

	2017 $	2016 $
Loss of the Consolidated Entity before income tax expense	(3,627,778)	(2,135,194)
Income tax expense	-	-
Net loss	**(3,627,778)**	**(2,135,194)**

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the state of affairs of the Group during the year other than the following:

(i) Completion of placements raising a total of $2.85 million which enabled the Company to fast track the development activities for the Malingunde Project.

(ii) On 18 April 2017, the Company reported the maiden saprolite Mineral Resource Estimate for the Malingunde Project of 28.8Mt at 7.1% TGC (4% cut-off) including a high-grade component of 8.9Mt at 9.9% TGC (7.5% cut-off). This confirmed Malingunde as the world's largest reported saprolite-hosted graphite deposit.

(iii) On 26 June 2017, the Company released the results of a Scoping Study on the Malingunde Project that demonstrates the potential for the Malingunde Project to support a very low capital and operating cost operation with annual production of 44,000 tonnes over an initial 17 year period.

SIGNIFICANT POST BALANCE DATE EVENTS

(i) On 11 August 2017, the Company issued 376,081 shares to a key consultant of the Company, as remuneration for their services.

Other than the above, there are no matters or circumstances which have arisen since 30 June 2017 that have significantly affected or may significantly affect:

- the operations, in financial years subsequent to 30 June 2017 of the Consolidated Entity;
- the results of those operations, in financial years subsequent to 30 June 2017 of the Consolidated Entity; or
- the state of affairs, in financial years subsequent to 30 June 2017 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.

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	**Ordinary Shares(i)**	**$0.12 Incentive Options(ii)**	**$0.15 Incentive Options(iii)**	**$0.18 Incentive Options(iv)**	**Performance Rights(v)**
Ian Middlemas	6,060,000	-	-	-	-
Julian Stephens	9,667,518	1,500,000	2,000,000	2,500,000	300,000
Mark Pearce	2,470,842	-	-	-	200,000

Notes:

(i) "Ordinary Shares" means fully paid ordinary shares in the capital of the Company;
(ii) "$0.12 Incentive Options" means an option to subscribe for 1 ordinary Share in the capital of the Company at an exercise price of $0.12 on or before 31 July 2018;
(iii) "$0.15 Incentive Options" means an option to subscribe for 1 ordinary Share in the capital of the Company at an exercise price of $0.15 on or before 31 July 2019;
(iv) "$0.18 Incentive Options" means an option to subscribe for 1 ordinary Share in the capital of the Company at an exercise price of $0.18 on or before 31 July 2020; and
(v) "Performance Rights" means the right to subscribe for 1 ordinary Share in the capital of the Company upon the completion of specific performance milestones by the Company.

SHARE OPTIONS AND PERFORMANCE RIGHTS

At the date of this report the following options and performance rights have been issued by the Company over unissued capital:

- 700,000 Performance Rights at no exercise price that expire on 31 December 2017;
- 700,000 Performance Rights at no exercise price that expire on 31 December 2018;
- 1,075,000 $0.10 unlisted options expiring 30 June 2018;
- 2,350,000 $0.12 unlisted options expiring 31 July 2018;
- 1,416,667 $0.15 unlisted options expiring 30 September 2018;
- 3,525,000 $0.15 unlisted options expiring 31 July 2019; and
- 4,050,000 $0.18 unlisted options expiring 31 July 2020.

During the year ended 30 June 2017 and up to the date of this report, no ordinary shares have been issued as a result of the exercise of options or the conversion of Performance Rights.

MEETINGS OF DIRECTORS

The following table sets out the number of meetings of the Company's Directors held during the year ended 30 June 2017, and the number of meetings attended by each Director.

Current Directors	Board Meetings Eligible to Attend	Board Meetings Attended
Ian Middlemas	3	3
Julian Stephens	3	3
Mark Pearce	3	3

There were no Board committees during the financial year. The Board as a whole currently performs the functions of an Audit Committee, Risk Committee, Nomination Committee, and Remuneration Committee, however this will be reviewed should the size and nature of the Company's activities change.

INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

The Company has entered into Deeds of Indemnity with the Directors indemnifying them against certain liabilities and costs to the extent permitted by law.

The Group has paid, or agreed to pay, premiums totalling $7,296 in respect of Directors' and Officers' Liability Insurance and Company Reimbursement policies for the 12 months ended 30 June 2017 (2016: $7,982), which cover all Directors and officers of the Group against liabilities to the extent permitted by the Corporations Act 2001. The policy conditions preclude the Group from any detailed disclosures.

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	Chairman
Dr Julian Stephens	Managing Director
Mr Mark Pearce	Non-Executive Director

Other KMP

Mr Dominic Allen	Business Development Manager (appointed 3 October 2016)
Mr Clint McGhie	Company Secretary

Unless otherwise disclosed, the KMP held their position from 1 July 2016 until the date of this report.

Remuneration Policy

The Group's remuneration policy for its 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 Group is currently focused on undertaking exploration, appraisal and development activities;
- risks associated with small cap resource companies whilst exploring and developing projects; and
- other than profit which may be generated from asset sales, the Company does not expect to be undertaking profitable operations until sometime after the commencement of commercial production on any of its projects.

Executive Remuneration

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

Fixed Remuneration

Fixed remuneration consists of base salaries, as well as employer contributions to superannuation funds and other non-cash benefits. Non-cash benefits may include provision of working directors insurance and life insurance premiums.

Fixed remuneration is reviewed annually by the Board. The process consists of a review of company and individual performance, relevant comparative remuneration externally and internally and, where appropriate, external advice on policies and practices.

Performance Based Remuneration – Short Term Incentive

Some executives are entitled to an annual cash bonus upon achieving various key performance indicators ("KPI's"), as set by the Board. Having regard to the current size, nature and opportunities of the Company, the Board has determined that these KPI's will include measures such as the successful completion of business development activities (e.g. project acquisition and capital raisings) and exploration activities (e.g. completion of exploration programs within budgeted timeframes and costs). The Board assesses performance against these criteria annually.

During the current financial year, total bonuses of $15,000 were paid or are payable to executives upon determination by the Board that KPI's including management and implementation of the Company's business development program, promotion/marketing and advancement of the Company and its profile, and capital raisings were substantially met.

Performance Based Remuneration – Long Term Incentive

In July 2014, the Company adopted a long-term incentive plan ("LTIP") comprising the "Sovereign Performance Rights Plan" (the "Plan") to reward KMP and key employees and contractors for long-term performance. Shareholders approved the Plan in August 2014 at a General Meeting of Shareholders and Performance Rights were issued under the Plan in September 2014.

The Plan provides for the issuance of unlisted performance share rights ("Performance Rights") which, upon satisfaction of the relevant performance conditions attached to the Performance Rights, will result in the issue of an Ordinary Share for each Performance Right. Performance Rights are issued for no consideration and no amount is payable upon conversion thereof.

To achieve its corporate objectives, the Company needs to attract and retain its key staff, whether employees or contractors. The Board believes that grants made to eligible participants under the Plan will provide a powerful tool to underpin the Company's employment and engagement strategy, and that the implementation of the Plan will:

(a) enable the Company to incentivise and retain existing key management personnel and other eligible employees and contractors needed to achieve the Company's business objectives;

(b) enable the Company to recruit, incentivise and retain additional key management personnel and other eligible employees and contractors needed to achieve the Company's business objectives;

(c) link the reward of key staff with the achievement of strategic goals and the long term performance of the Company;

(d) align the financial interest of participants of the Plan with those of Shareholders; and

(e) provide incentives to participants of the Plan to focus on superior performance that creates Shareholder value.

Performance Rights granted under the Plan to eligible participants will be linked to the achievement by the Company of certain performance conditions as determined by the Board from time to time. These performance conditions must be satisfied in order for the Performance Rights to vest. Upon Performance Rights vesting, Ordinary Shares are automatically issued for no consideration. If a performance condition of a Performance Right is not achieved by the expiry date then the Performance Right will lapse.

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

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

REMUNERATION REPORT (AUDITED) (Continued)

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 and performance rights 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.

The maximum aggregate amount of fees that can be paid to Non-Executive Directors is subject to approval by shareholders at a General Meeting. 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 have received incentive options and performance rights in order to secure their services and as a key component of their remuneration.

Fees for the Chairman are presently $36,000 (2016: $36,000) and fees for Non-Executive Directors' are $20,000 per annum (2016: $20,000). 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. There were no other committees during the year.

Relationship between Remuneration of KMP and Shareholder Wealth

During the Company's project identification, acquisition, exploration and development phases of its business, the Board anticipates that the Company will retain earnings (if any) and other cash resources for the exploration and development of its resource projects. Accordingly the Company does not currently have a policy with respect to the payment of dividends and returns of capital. Therefore there was no relationship between the Board's policy for determining, or in relation to, the nature and amount of remuneration of KMP and dividends paid and returns of capital by the Company during the current and previous four financial years.

The Board did not determine, and in relation to, the nature and amount of remuneration of the KMP by reference to changes in the price at which shares in the Company traded between the beginning and end of the current and the previous four financial years. However, as noted above, a number of KMP have received incentive options which generally will only be of value should the value of the Company's shares increase sufficiently to warrant exercising the Incentive Options, and performance rights which are linked to the achievement of certain performance conditions.

Relationship between Remuneration of KMP and Earnings

As discussed above, the Company is currently undertaking new project acquisition, exploration and development activities, and does not expect to be undertaking profitable operations (other than by way of material asset sales, none of which is currently planned) until sometime after the successful commercialisation, production and sales of commodities from one or more of its projects. Accordingly the Board does not consider earnings during the current and previous four financial years when determining, and in relation to, the nature and amount of remuneration of KMP.

General

In addition to a focus on operating activities, the Board is also focused on finding and completing new business and other corporate opportunities. The Board considers that the prospects of the Company and resulting impact on shareholder wealth will be enhanced by this approach. Accordingly, the Board may pay a bonus or issue securities to KMP (executive or non-executive) based on their success in generating suitable new business or other corporate opportunities. A bonus may be paid or an issue of securities may also be made upon the successful completion of a new business or corporate transaction. No such bonus was paid during the current financial year.

Where required, KMP receive superannuation contributions, equal to 9.5% 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 Black Scholes option valuation methodology. The value of these incentive options is expensed over the vesting period.

The fair value of performance rights granted is estimated as at the date of grant using the seven day volume weighted average share price prior to issuance. The value of the performance right is expensed over the vesting period.

Remuneration of Key Management Personnel

Details of the nature and amount of each element of the remuneration of each Director and KMP of the Company for the year ended 30 June 2017 and 30 June 2016 are as follows:

	Short-Term Benefits						
2017	Salary & Fees $	Cash Bonus $	Post Employment Superannuation $	Equity Options/ Rights $	Other Non-Cash Benefits $	Total $	Percentage Performance Related %
Directors							
Ian Middlemas	36,000	-	-	-	-	36,000	-
Julian Stephens	180,000	-	17,100	145,027	-	342,127	42.39
Mark Pearce	20,000	-	1,900	17,769	-	39,669	44.79
Other KMP							
Dominic Allen(i)	101,250	15,000	11,044	90,147	-	217,441	41.46
Clint McGhie(ii)	-	-	-	26,653	-	26,653	100.00
	337,250	**15,000**	**30,044**	**279,596**	**-**	**661,890**	

Notes:

(i) Mr Allen commenced as Business Development Manager on 3 October 2016.

(ii) Mr McGhie provides services as the Company Secretary through a services agreement with Apollo Group Pty Ltd. Apollo Group Pty Ltd, a company of which Mr Pearce is a Director and beneficial shareholder, was paid, or is payable $240,000 (2016: $180,000) for the provision of serviced office facilities and administration services during the year.

	Short-Term Benefits						
2016	Salary & Fees $	Cash Bonus $	Post Employment Superannuation $	Equity Options/ Rights $	Other Non-Cash Benefits(iii) $	Total $	Percentage Performance Related %
Directors							
Ian Middlemas (i)	-	-	-	-	-	-	-
Julian Stephens(ii)	97,384	-	1,079	26,726	-	125,189	21.35
Mark Pearce	20,000	-	1,900	39,406	-	61,306	64.28
Matthew Syme(iii)	78,280	-	-	107,539	7,478	193,297	55.63
Peter Woodman(iv)	11,333	-	1,077	64,765	-	77,175	83.92
Other KMP							
Clint McGhie(v)	-	-	-	59,109	-	59,109	100.00
	206,997	**-**	**4,056**	**297,545**	**7,478**	**516,076**	

Notes:

(i) Mr Middlemas elected to receive no fee for the 2016 Financial year;

(ii) Dr Stephens was appointed a Non-Executive Director on 22 January 2016 and Managing Director on 27 June 2016. His salary and fees comprised consulting and director fees from the date of his appointment as a Director, and of these fees, $43,831 were settled by the issue of new Shares in August 2016 following Shareholder approval;

(iii) Mr Syme resigned as a Director of the Company on 27 June 2016. His salary and fees comprised consulting and director fees and of these fees, $49,280 were settled by the issue of new Shares in August 2016 following Shareholder approval. Non-cash benefits include life insurance premiums paid for Mr Syme;

(iv) Mr Woodman resigned as a Director of the Company on 22 January 2016; and

(v) Mr McGhie provides services as the Company Secretary through a services agreement with Apollo Group Pty Ltd. Apollo Group Pty Ltd, a company of which Mr Pearce is a Director and beneficial shareholder, was paid $180,000 for the provision of serviced office facilities and administration services during the 2016 Financial Year.

REMUNERATION REPORT (AUDITED) (Continued)

Options and Performance Rights Granted to Key Management Personnel

Details of unlisted Incentive Options or Performance Rights granted by the Company to KMP of the Group during the financial year are as follows:

2017	Options/ Rights	Grant Date	Expiry Date	Exercise Price $	Grant Date Fair Value(i) $	No. Granted(ii)	Total Value of Options/ Rights Granted $	No. Vested at 30 June 2017
Director								
Julian Stephens	Options	5 Aug 16	31 Jul 18	0.12	0.035	1,500,000	52,350	-
	Options	5 Aug 16	31 Jul 19	0.15	0.04	2,000,000	80,600	-
	Options	5 Aug 16	31 Jul 20	0.18	0.045	2,500,000	112,500	-
Other KMP								
Dominic Allen	Options	3 Oct 16	31 Jul 18	0.12	0.059	750,000	44,475	-
	Options	3 Oct 16	31 Jul 19	0.15	0.066	1,000,000	65,900	-
	Options	3 Oct 16	31 Jul 20	0.18	0.072	1,250,000	89,875	-

Notes:
(i) For details on the valuation of the options, including models and assumptions used, please refer to Note 18 to the financial statements;
(ii) Each unlisted Incentive Option converts into one Ordinary Share of Sovereign Metals Limited; and
(iii) The vesting conditions are service conditions. The Incentive Options will also immediately vest if a change of control event or financing event occurs in respect of the shares and/or assets of the Company.

There were no Incentive Options or Performance Rights granted by the Company to KMP of the Group during the 2016 financial year.

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

2017	Options/ Rights Granted Value at Grant Date $	Options/ Rights Exercised/ Converted Value at Exercise Date $	Options/ Rights Lapsed Value at Time of Lapse $	Value of Options/ Rights included in Remuneration for the Period $	Percentage of Remuneration for the Period that Consists of Options/ Rights %
Directors					
Julian Stephens	245,450	-	-	145,027	42.39
Mark Pearce	-	-	-	17,769	44.79
Other KMP					
Dominic Allen	200,250	-	-	90,147	41.46
Clint McGhie	-	-	-	26,653	100.00

Option and Performance Right Holdings of Key Management Personnel

2017	Held at 1 July 2016 (#)	Granted as Compen-sation (#)	Options/ Rights Exercised (#)	Options Expired (#)	Net Change Other (#)	Held at 30 June 2017 (#)	Vested and Exercisable at 30 June 2017 (#)
Directors							
Ian Middlemas	-	-	-	-	-	-	-
Julian Stephens	300,000	6,000,000	-	-	-	6,300,000	-
Mark Pearce	200,000	-	-	-	-	200,000	-
Other KMP							
Dominic Allen	-(i)	3,000,000	-	-	-	3,000,000	-
Clint McGhie	300,000	-	-	-	-	300,000	-

Notes:
(i) As at the date of Mr Allen's appointment on 3 October 2016.

Shareholdings of Key Management Personnel

2017	Held at 1 July 2016 (#)	Granted as compensation (#)	On Exercise of Options/ Rights (#)	Purchases (#)	Net Other Change (#)	Held at 30 June 2017 (#)
Directors						
Ian Middlemas	5,060,000	-	-	1,000,000	-	6,060,000
Julian Stephens	8,562,500	-	-	-	1,105,018(ii)	9,667,518
Mark Pearce	559,691	-	-	-	1,911,151(iii)	2,470,842
Other KMP						
Dominic Allen	-(i)	-	-	-	-	-
Clint McGhie	557,357	-	-	-	-	557,357

Notes:
(i) As at the date of Mr Allen's appointment on 3 October 2016.
(ii) Ordinary Shares issued on 5 August 2016 following Shareholder approval in satisfaction of fees owed by the Company of $82,876.
(iii) Ordinary Shares issued to Apollo Group Pty Ltd, a company of which Mr Mark Pearce is a Director and beneficial shareholder, on 5 August 2016 following Shareholder approval in satisfaction of fees of $143,336 owed by the Company.

Loans to/from Key Management Personnel

No loans were provided to or received from KMP during the year ended 30 June 2017 (2016: Nil).

REMUNERATION REPORT (AUDITED) (Continued)

Other Transactions with Key Management Personnel

Apollo Group Pty Ltd, a company of which Mr Mark Pearce is a Director and beneficial shareholder, was paid, or is payable, $240,000 (2016: $180,000) for the provision of serviced office facilities, administration services and additional consulting services provided 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 Statement of Comprehensive Income. At 30 June 2017, $40,000 (2016: $135,000) was included as a current liability in the Statement of Financial Position.

Employment Contracts with Key Management Personnel

Mr Ian Middlemas, Non-Executive Chairman, has a letter of appointment confirming the terms and conditions of his appointment as a non-executive director and chairman of the Company dated 30 June 2015. Mr Middlemas is entitled to receive a fee of $36,000 per annum plus superannuation.

Dr Julian Stephens, Managing Director, has a letter of appointment confirming the terms and conditions of his appointment as Managing Director of the Company dated 27 June 2016. 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 3 months notice. No amount is payable in the event of termination for neglect or incompetence in regards to the performance of duties. The contract provides for an annual salary of $180,000 plus superannuation and an incentive option package.

Mr Mark Pearce, Non-Executive Director, has a letter of appointment confirming the terms and conditions of his appointment as a non-executive director of the Company dated 30 June 2015. Mr Pearce is entitled to receive a fee of $20,000 per annum plus superannuation.

Mr Dominic Allen, Business Development Manager, has a letter of employment confirming the terms and conditions of his appointment dated 2 September 2016. The contract specifies the duties and obligations to be fulfilled by the Business Development Manager. The letter of employment has no fixed term and may be terminated by either party by giving 2 months notice. No amount is payable in the event of termination for neglect or incompetence in regards to the performance of duties. The contract provides for an annual salary of $130,000 plus superannuation, an annual bonus of up to $30,000 payable in two equal instalments upon the successful completion of KPIs as determined by the Board and an incentive option package.

End of Remuneration Report

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 22.

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

JULIAN STEPHENS
Managing Director

28 September 2017

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The Board of Directors
Sovereign Metals Limited
Level 9, BGC Centre
28 The Esplanade
Perth WA 6000

28 September 2017

Dear Board Members

Sovereign Metals Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Sovereign Metals Limited.

As lead audit partner for the audit of the financial statements of Sovereign Metals Limited for the financial year ended 30 June 2017, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

DELOITTE TOUCHE TOHMATSU

David Newman
Partner
Chartered Accountants

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2017

	Notes	2017 $	2016 $
Continuing Operations			
Revenue	2(a)	**59,199**	**23,320**
Other income / (expense)	2(b)	(1,287)	4,355
Exploration and evaluation expenses		(2,513,097)	(1,320,517)
Corporate and administrative expenses		(741,940)	(510,707)
Business development expenses		(430,653)	(331,645)
Loss before income tax		**(3,627,778)**	**(2,135,194)**
Income tax expense	3	-	-
Loss for the year		**(3,627,778)**	**(2,135,194)**
Loss attributable to members of the parent		**(3,627,778)**	**(2,135,194)**
Other Comprehensive Income, net of income tax:			
Items that will not be reclassified subsequently to profit or loss		**-**	**-**
Items that may be reclassified subsequently to profit or loss			
Exchange differences on foreign entities		(3,253)	3,246
Other comprehensive income/(loss) for the year, net of income tax		**(3,253)**	**3,246**
Total comprehensive loss for the year		**(3,631,031)**	**(2,131,948)**
Total comprehensive loss attributable to members of Sovereign Metals Limited		**(3,631,031)**	**(2,131,948)**
Basic loss per share from continuing operations (cents per share)	13	(1.73)	(1.54)
Diluted loss per share from continuing operations (cents per share)	13	(1.73)	(1.54)

The above Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2017

	Notes	2017 $	2016 $
Current Assets			
Cash and cash equivalents	12(b)	2,251,281	2,793,993
Trade and other receivables	4	38,639	30,668
Total Current Assets		**2,289,920**	**2,824,661**
Non-current Assets			
Property, plant and equipment	5	98,398	129,836
Exploration and evaluation assets	6	7,170,282	7,170,282
Total Non-current Assets		**7,268,680**	**7,300,118**
TOTAL ASSETS		**9,558,600**	**10,124,779**
Current Liabilities			
Trade and other payables	7	376,633	1,244,302
Provisions	8	20,366	7,980
Total Current Liabilities		**396,999**	**1,252,282**
TOTAL LIABILITIES		**396,999**	**1,252,282**
NET ASSETS		**9,161,601**	**8,872,497**
EQUITY			
Contributed equity	9	30,986,603	27,454,529
Reserves	10	752,980	563,172
Accumulated losses	11	(22,577,982)	(19,145,204)
TOTAL EQUITY		**9,161,601**	**8,872,497**

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2017

	Notes	2017 $	2016 $
Cash flows from operating activities			
Interest received		56,616	24,282
Payments to suppliers and employees		(3,356,226)	(1,408,408)
GST refunds		121,792	60,398
Net cash used in operating activities	12(a)	**(3,177,818)**	**(1,323,728)**
Cash flows from investing activities			
Payments for purchase of plant and equipment		(21,673)	-
Net cash used in investing activities		**(21,673)**	**-**
Cash flows from financing activities			
Proceeds from issue of shares		2,850,000	3,105,000
Share issue costs		(193,221)	(53,068)
Net cash from financing activities		**2,656,779**	**3,051,932**
Net (decrease) / increase in cash held		**(542,712)**	**1,728,204**
Cash and cash equivalents at the beginning of the financial year		**2,793,993**	**1,065,789**
Cash and cash equivalents at the end of the financial year	12(b)	**2,251,281**	**2,793,993**

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2017

	Issued Capital $	Share Based Payments Reserve $	Foreign Currency Translation Reserve $	Accumulated Losses $	Total Equity $
Balance at 1 July 2016	**27,454,529**	**513,909**	**49,263**	**(19,145,204)**	**8,872,497**
Net loss for the year	-	-	-	(3,627,778)	(3,627,778)
Other comprehensive income/(loss)	-	-	(3,253)	-	(3,253)
Total comprehensive income/(loss) for the year	**-**	**-**	**(3,253)**	**(3,627,778)**	**(3,631,031)**
Transactions with owners recorded directly in equity					
Placement of Ordinary Shares	2,850,000	-	-	-	2,850,000
Issue of Ordinary Shares in conversion of debt	858,421	-	-	-	858,421
Share issue costs	(193,221)	-	-	-	(193,221)
Share based payments expense	16,874	388,061	-	-	404,935
Expired Options	-	(195,000)	-	195,000	-
Balance at 30 June 2017	**30,986,603**	**706,970**	**46,010**	**(22,577,982)**	**9,161,601**
Balance at 1 July 2015	**23,950,304**	**1,004,604**	**46,017**	**(17,381,091)**	**7,619,834**
Net loss for the year	-	-	-	(2,135,194)	(2,135,194)
Other comprehensive income/(loss)	-	-	3,246	-	3,246
Total comprehensive income/(loss) for the year	**-**	**-**	**3,246**	**(2,135,194)**	**(2,131,948)**
Transactions with owners recorded directly in equity					
Placement of Ordinary Shares	3,105,000	-	-	-	3,105,000
Share issue costs	(183,225)	-	-	-	(183,225)
Share based payments expense	-	462,836	-	-	462,836
Conversion of Performance Shares	330,750	(330,750)	-	-	-
Conversion of Performance Rights	251,700	(251,700)	-	-	-
Expired and cancelled Options and Performance Rights	-	(371,081)	-	371,081	-
Balance at 30 June 2016	**27,454,529**	**513,909**	**49,263**	**(19,145,204)**	**8,872,497**

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

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in preparing the financial report of Sovereign Metals Limited ("Sovereign" or "Company") and its consolidated entities ("Consolidated Entity" or "Group") for the year ended 30 June 2017 are stated to assist in a general understanding of the financial report.

Sovereign 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 2017 was authorised for issue in accordance with a resolution of the Directors on 26 September 2017.

(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*. The financial statements comprise the consolidated financial statements of the Group. For the purposes of preparing the consolidated financial statements, the Company is a for profit entity.

The consolidated financial statements have been prepared on a going concern basis which assumes the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the ordinary course of business.

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 and International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

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. New and revised standards and amendments thereof and interpretations effective for the current reporting period that are relevant to the Group include:

- AASB 2014-4 *Amendments to Australian Accounting Standards - Clarification of Acceptable Methods of Depreciation and Amortisation* which clarify the principle in AASB 116 *Property, Plant and Equipment* and AASB 138 *Intangible Assets* that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset;
- AASB 2015-1 *Amendments to Australian Accounting Standards - Annual Improvements to Australian Accounting Standards 2012–2014 Cycle* which clarify certain requirements in AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*, AASB 7 *Financial Instruments: Disclosures*, AASB 119 Employee Benefits, and AASB 134 *Interim Financial Reporting*; and
- AASB 2015-2 *Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 101* which amends AASB 101 *Presentation of Financial Statements* to clarify existing presentation and disclosure requirements and to ensure entities are able to use judgement when applying the Standard in determining what information to disclose, where and in what order information is presented in their financial statements.

The adoption of these new and revised standards has not resulted in any significant changes to the Group's accounting policies or to the amounts reported for the current or prior periods.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Statement of Compliance (Continued)

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 2017. Those which may be relevant to the Group are set out in the table below, but these are not expected to have any significant impact on the Group's financial statements:

Standard/Interpretation	Application Date of Standard	Application Date for Group
AASB 2016-2 *Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 107*	1 January 2017	1 July 2017
AASB 9 *Financial Instruments*, and relevant amending standards	1 January 2018	1 July 2018
AASB 15 *Revenue from Contracts with Customers*, and relevant amending standards	1 January 2018	1 July 2018
AASB 2016-5 *Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions*	1 January 2018	1 July 2018
AASB Interpretation 22 *Foreign Currency Transactions and Advance Consideration*	1 January 2018	1 July 2018
AASB 16 *Leases*	1 January 2019	1 July 2019

(c) Principles of Consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Company as at 30 June 2017 and the results of all subsidiaries for the year then ended.

Control is achieved when the Company has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to use its power to affect its returns. The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above. When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power.

Subsidiaries are all those entities (including special purpose entities) over which the Company has the power to govern the financial and operating policies, is exposed or has rights to variable returns from its involvement and has the ability to use its power to affect the returns of those entities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Company.

Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases. Intercompany transactions and balances, income and expenses and profits and losses between Group companies, are eliminated.

Non-controlling interests are allocated their share of net profit after tax in the statement of comprehensive income and are presented within equity in the consolidated statement of financial position, separately from the equity of the owners of the parent.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary that does not result in a loss of control, is accounted for as an equity transaction.

(d) 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 original maturities of 2 months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the Statement of Financial Position.

(e) Trade and Other Receivables

Trade receivables are recognised and carried at original invoice amount less a provision for any uncollectable debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off as incurred.

(f) 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 Statement of Comprehensive Income 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 Statement of Comprehensive Income.

(g) Exploration and Evaluation Expenditure

Expenditure on exploration and evaluation is accounted for in accordance with the 'area of interest' method and with AASB 6 *Exploration for and Evaluation of Mineral Resources*, which is the Australian equivalent of IFRS 6.

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 in relation to the acquisition of a project 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
  - 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.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Exploration and Evaluation Expenditure (Continued)

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 until the technical feasibility and commercial viability of the project has been demonstrated with a bankable feasibility study.

Capitalised exploration costs are reviewed each reporting date to establish whether an 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 reserves associated with the area of interest once mining operations have commenced.

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.

(h) 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 Company 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 Statement of Financial Position.

(iii) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in profit or loss when the investments are derecognised or impaired, as well as through the amortisation process.

(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.

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 Statement of Comprehensive Income 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 profit or loss as gains and losses from investment securities.

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

(i) Payables

Liabilities are recognised for amounts to be paid in the future for goods and services received. Trade accounts payable are normally settled within 60 days.

(j) Employee Benefits

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

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) 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.

(l) Revenue Recognition

Revenues are recognised at the fair value of the consideration received net of the amount of goods and services tax (GST) payable to the taxation authority.

(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.

(m) Income Tax

The income tax expense 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 on goodwill or 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 liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the Company 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.

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.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Current and deferred tax balances attributable to amounts recognised directly in other comprehensive income or equity are also recognised directly in equity.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against tax liabilities and the deferred tax liabilities relate to the same taxable entity and the same taxation authority.

(n) Earnings per Share

Basic earnings per share ("EPS") is calculated by dividing the net profit attributable to members of the Company for the reporting period, after excluding any costs of servicing equity, by the weighted average number of ordinary shares of the Company, adjusted for any bonus issue.

Diluted EPS is calculated by dividing the basic EPS earnings, adjusted by the after tax effect of financing costs associated with dilutive potential Ordinary Shares and the effect on revenues and expenses of conversion to Ordinary Shares associated with dilutive potential Ordinary Shares, by the weighted average number of Ordinary Shares and dilutive Ordinary Shares adjusted for any bonus issue.

(o) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of the expense. Receivables and payables in the Statement of Financial Position are shown inclusive of GST.

Cash flows are presented in the Statement of Cash Flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(p) Impairment of Assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Fair Value Estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

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 reporting 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 reporting date.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

(r) 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.

(s) Share-Based Payments

Equity-settled share-based payments are provided to officers, employees, consultants and other advisors. These share-based payments are measured at the fair value of the equity instrument at the grant date. Where options are granted, fair value is determined using the Black Scholes option pricing model. Where ordinary shares are issued, fair value is determined using volume weighted average price for ordinary shares for an appropriate period prior to the issue of the shares. Further details on how the fair value of equity-settled share based payments has been determined can be found in Note 18.

The fair value determined at the grant date is expensed on a straight-line basis over the vesting period (if applicable), based on the Company's estimate of equity instruments that will eventually vest. At each reporting date, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss over the remaining vesting period, with a corresponding adjustment to the option premium reserve.

(t) 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.

(u) Operating Segments

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. This includes start up operations which are yet to earn revenues. Management will also consider other factors in determining operating segments such as the existence of a line manager and the level of segment information presented to the board of directors.

Operating segments have been identified based on the information provided to the chief operating decision makers – being the executive management team.

The group aggregates two or more operating segments when they have similar economic characteristics, and the segments are similar in each of the following respects:

- Nature of the products and services,
- Nature of the production processes,
- Type or class of customer for the products and services,
- Methods used to distribute the products or provide the services, and if applicable,
- Nature of the regulatory environment.

Operating segments that meet the quantitative criteria as prescribed by AASB 8 are reported separately. However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements.

Information about other business activities and operating segments that are below the quantitative criteria are combined and disclosed in a separate category for "all other segments".

(v) Use and Revision of Accounting Estimates, Judgements and Assumptions

The preparation of the financial report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. 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.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- Note 6 – Exploration and Evaluation Assets

  Impairment of exploration and evaluation assets

  The group's accounting policy for exploration and evaluation assets is set out at Note 1(g). The application of this policy requires management to make certain estimates and assumptions as to future events and circumstances, in particular, the assessment of whether economic quantities of reserves have been found.

  Any such estimates and assumptions may change as new information becomes available. If, after having capitalised expenditure under the policy, the Group concludes that it is unlikely to recover the expenditure by future exploitation or sale, then the relevant capitalised amount will be written off to the statement of comprehensive income. Subsequent to the acquisition costs capitalised, no exploration expenditure is currently being capitalised.

- Note 18 – Share-Based Payments.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) Going Concern

The financial report has been prepared on the going concern basis which assumes the continuity of normal business activities and the realisation of assets and extinguishment of liabilities in the ordinary course of business.

For the year ended 30 June 2017, the Consolidated Entity has incurred a net loss of $3,627,778 (2016: $2,135,194) and had net cash outflows from operating and investing activities of $3,199,491 (2016: $1,323,728). As at 30 June 2017, the Consolidated Entity had cash and cash equivalents of $2,251,281 (30 June 2016: $2,793,993) and net current assets of $1,892,921 (30 June 2016: $1,572,379).

The Company has recently completed a successful Scoping Study for the Malingunde Project and is currently in the process of finalising parameters for the next stage of feasibility and other technical studies. Preliminary economics from the Scoping Study show that the Malingunde Project has capital and operating costs per unit at the very bottom of the graphite supply cost-curve, at production rates supported by existing market fundamentals. In order to continue to progress the studies for the Malingunde Project, the Company will be required to raise additional capital during the current financial year.

The Company raised a total of $4 million in June and August 2016 and a further $1.1 million in October 2016 that enabled the Company to fund its ongoing operations in Malawi, including the maiden resource and scoping study for the Malingunde Project.

Based on the successful results of the Scoping Study and having previously raised funds for the Company's projects in Malawi, the Directors are confident that they will be able to raise additional capital as and when required to continue to fund operations. In addition, the Directors have been involved in a number of recent successful capital raisings for other listed resource companies, and accordingly, they are satisfied that they will be able to raise additional capital when required to enable the Consolidated Entity to meet its obligations as and when they fall due, and accordingly, consider that it is appropriate to prepare the financial statements on the going concern basis.

Should the Consolidated Entity be unable to achieve the matters referred to above, the Consolidated Entity would need to reduce operational expenditure and a material uncertainty would exist that may cast significant doubt on the ability of the Consolidated Entity to continue as a going concern and therefore, whether it will be able to realise its assets and extinguish its liabilities in the normal course of business.

These consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, or to the amounts and classification of liabilities that might be necessary should the Consolidated Entity be unable to continue as a going concern.

2. LOSS FROM OPERATIONS

	2017 $	2016 $
(a) Revenue		
Interest revenue	59,199	23,320
(b) Other Income/(Expense)		
Foreign exchange (loss)/gain	(1,287)	4,355
(c) Depreciation		
Depreciation of plant and equipment	(53,111)	(45,911)
(d) Share Based Payments Expense		
Share based payment expense	(404,935)	(462,836)
(e) Employee Benefits Expense		
Salaries and wages	(506,199)	(437,030)
Defined contribution plan	(33,546)	(4,349)
Annual leave provision	(15,976)	(2,139)
Non-cash benefits	(12,128)	(8,325)
Share based payment expense	(279,596)	(462,836)
	(847,445)	**(914,679)**

3. INCOME TAX

	2017 $	2016 $
(a) Recognised in the Statement of Comprehensive Income		
Current income tax		
Current income tax benefit	-	-
Adjustments in respect of current income tax of previous years	33,964	(36,783)
Deferred income tax		
Origination and reversal of temporary differences	(180,348)	(248,435)
Deferred tax assets not brought to account	146,384	285,218
Income tax expense reported in the Statement of Comprehensive Income	**-**	**-**

	2017 $	2016 $
3. INCOME TAX (Continued)		
(b) Reconciliation Between Tax Expense and Accounting Loss Before Income Tax		
Accounting loss before income tax	(3,627,778)	(2,135,194)
At the domestic income rate of 27.5% (2016: 30%)	(997,639)	(640,558)
Expenditure not allowable for income tax purposes	559,773	392,123
Effect of decrease in Australian income tax rate(i)	275,049	-
Effect of different tax rates in different jurisdictions	(17,531)	-
Adjustments in respect of current income tax of previous years	33,964	(36,783)
Deferred tax assets not brought to account	146,384	285,218
Income tax expense reported in the Statement of Comprehensive Income	**-**	**-**
(c) Deferred Income Tax		
Deferred income tax at 30 June relates to the following:		
Deferred Tax Liabilities		
Accrued interest	1,049	370
Property, Plant and Equipment	-	64
Deferred tax assets used to offset deferred tax liabilities	(1,049)	(434)
	-	**-**
Deferred Tax Assets		
Other financial assets	1,568	1,711
Accruals	8,642	8,817
Provisions	2,055	2,184
Tax losses available to offset against future taxable income	3,469,720	3,322,708
Deferred tax assets used to offset deferred tax liabilities	(1,049)	(434)
Deferred tax assets not brought to account	(3,480,936)	(3,334,986)
	-	-

Note:

(i) From the 2016–17 income tax year, the small business company tax rate has been reduced to 27.5% in accordance with enacted tax legislation.

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 14.

	2017 $	2016 $
4. CURRENT ASSETS – TRADE AND OTHER RECEIVABLES		
Accrued interest	3,814	1,231
GST receivable	34,285	29,437
Other receivable	540	-
	38,639	**30,668**

	2017 $	2016 $
5. NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT		
(a) Office Furniture and Equipment		
Cost	40,700	34,841
Accumulated depreciation and impairment	(38,716)	(29,811)
	1,984	**5,030**
(b) Computer Equipment		
Cost	92,041	73,624
Accumulated depreciation and impairment	(80,213)	(73,248)
	11,828	**376**
(c) Plant & Equipment		
Cost	285,446	290,676
Accumulated depreciation and impairment	(200,860)	(166,246)
	84,586	**124,430**
(d) Furniture & Fittings		
Cost	24,375	24,375
Accumulated depreciation and impairment	(24,375)	(24,375)
	-	**-**
Net carrying amount	**98,398**	**129,836**

	2017 $	2016 $
5. NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT (Continued)		
(e) Reconciliation		
Carrying amount at beginning of year, net of accumulated depreciation and impairment	129,836	170,426
Additions	21,290	-
Depreciation charge	(53,111)	(45,911)
Foreign exchange differences	383	5,321
Carrying amount at end of year, net of accumulated depreciation and impairment	**98,398**	**129,836**

	2017 $	2016 $
6. NON-CURRENT ASSETS – EXPLORATION AND EVALUATION ASSETS		
(a) Movement in Exploration and Evaluation Assets		
Central Malawi Graphite Project		
Carrying amount at beginning of year	7,170,282	7,170,282
- Additions	-	-
Carrying amount at end of year(i)	**7,170,282**	**7,170,282**

Note:

(i) The ultimate recoupment of costs carried forward for exploration and evaluation is dependent on the successful development and commercial exploitation or sale of the respective areas of interest.

	2017 $	2016 $
7. CURRENT LIABILITIES – TRADE AND OTHER PAYABLES		
Trade creditors	330,208	1,218,602
Accrued expenses	46,425	25,700
	376,633	**1,244,302**

	2017 $	2016 $
8. CURRENT LIABILITIES – PROVISIONS		
Annual leave provisions	20,366	7,980
	20,366	**7,980**

	2017 $	2016 $
9. CONTRIBUTED EQUITY		
(a) Issued and Paid Up Capital		
217,329,083 fully paid ordinary shares (2016: 172,420,139)	30,986,603	27,454,529
	30,986,603	**27,454,529**

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

Date	Details	Number of Shares	Issue Price $	$
1 Jul 16	**Opening Balance**	**172,420,139**		**27,454,529**
5 Aug 16	Issue of shares in conversion of debt	11,445,610	0.075	858,421
11 Aug 16	Share placement	23,333,333	0.075	1,750,000
20 Oct 16	Share placement	10,000,001	0.11	1,100,000
20 Oct 16	Issue of shares to a consultant	130,000	0.13	16,874
30 Jun 17	Share issue costs	-	-	(193,221)
30 Jun 17	**Closing Balance**	**217,329,083**		**30,986,603**
1 Jul 15	**Opening Balance**	**118,670,140**		**23,950,304**
9 Jul 15	Issue of shortfall shares	5,916,666	0.06	355,000
13 Aug 15	Share placement	8,333,333	0.06	500,000
2 Oct 15	Conversion of 8,750,000 Performance Shares ‘Class B’	8,750,000	0.038	330,750
2 Oct 15	Conversion of 750,000 Performance Rights	750,000	0.336	251,700
30 Jun 16	Share placement	30,000,000	0.075	2,250,000
30 Jun 16	Share issue costs	-	-	(183,225)
30 Jun 16	**Closing Balance**	**172,420,139**		**27,454,529**

Ordinary shares have no par value and the company does not have a limited amount of authorised capital.

9. CONTRIBUTED EQUITY (Continued)

(c) 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.

	2017 $	2016 $
10. RESERVES		
(a) Reserves		
Share Based Payments Reserve		
1,075,000 (30 June 2016: 1,000,000) unlisted $0.10 options	42,300	40,073
1,416,667 (30 June 2016: 1,416,667) unlisted $0.15 options	50,157	50,157
2,350,000 (30 June 2016: Nil) unlisted $0.12 options	90,417	-
3,525,000 (30 June 2016: Nil) unlisted $0.15 options	92,487	-
4,050,000 (30 June 2016: Nil) unlisted $0.18 options	78,569	-
Nil (30 June 2016: 1,500,000) unlisted $0.40 options	-	195,000
Sub-total options (note 10(b))	*353,930*	*285,230*
1,400,000 (30 June 2016: 1,400,000) Performance Rights (note 10(d))	353,040	228,679
Total Share Based Payments Reserve	**706,970**	**513,909**
Foreign Currency Translation Reserve		
Exchange differences	46,010	49,263
Total Foreign Currency Translation Reserve	**46,010**	**49,263**
Total Reserves	**752,980**	**563,172**

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

Foreign Currency Translation Reserve
The Foreign Currency Translation Reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

10. RESERVES (continued)

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

Date	Details	Number of Unlisted Incentive Options	$
1 Jul 16	**Opening Balance**	**3,916,667**	**285,230**
5 Aug 16	Grant of $0.12 Options(i)	1,500,000	-
5 Aug 16	Grant of $0.15 Options(i)	2,000,000	-
5 Aug 16	Grant of $0.18 Options(i)	2,500,000	-
3 Oct 16	Grant of $0.12 Options(i)	750,000	-
3 Oct 16	Grant of $0.15 Options(i)	1,000,000	-
3 Oct 16	Grant of $0.18 Options(i)	1,250,000	-
30 Dec 16	Grant of $0.15 Options	2,000,000	33,000
7 Apr 17	Grant of $0.10 Options	75,000	2,227
7 Apr 17	Grant of $0.12 Options	100,000	2,681
7 Apr 17	Grant of $0.15 Options	125,000	4,275
15 May 17	Expiry of $0.40 Options	(1,500,000)	(195,000)
9 Jun 17	Grant of $0.15 Options	400,000	24,920
9 Jun 17	Grant of $0.18 Options	300,000	21,076
30 Jun 17	Cancellation of $0.15 Options	(2,000,000)	(33,000)
30 Jun 17	Share based payment expense(i)	-	208,521
30 Jun 17	**Closing Balance**	**12,416,667**	**353,930**
1 Jul 15	**Opening Balance**	**4,750,000**	**420,740**
10 Aug 15	Grant of $0.10 Options	1,000,000	40,073
10 Aug 15	Grant of $0.15 Options	1,416,667	50,157
30 Sep 15	Expiry of $0.22 Options	(250,000)	(59,750)
15 May 16	Expiry of $0.33 Options	(1,500,000)	(171,000)
30 Jun 16	Cancellation of $0.47 Options	(1,500,000)	(80,940)
30 Jun 16	Share based payment expense(i)	-	85,950
30 Jun 16	**Closing Balance**	**3,916,667**	**285,230**

Note:
(i) The value of unlisted Incentive Options granted is recognised over the vesting period of the grant, in accordance with Australian Accounting Standards. Refer to Note 18.

(c) Terms and Conditions of unlisted Incentive Options

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

- each Incentive Option entitles the holder to subscribe for one Share upon exercise of each Incentive Option;
- the unlisted Incentive Options have exercise prices and expiry dates as follows:
  - $0.10 Incentive Options vested on issue and expire 30 June 2018;
  - $0.12 Incentive Options expire 31 July 2018 and 2,250,000 vest on 31 July 2017 and 100,000 vested on issue;
  - $0.15 Incentive Options vested on issue and expire 30 September 2018;
  - $0.15 Incentive Options expire 31 July 2019 and 3,000,000 vest on 31 July 2018 and 525,000 vested on issue;
  - $0.18 Incentive Options expire 31 July 2020 and 3,750,000 vest on 31 July 2019 and 300,000 vested on issue; and
  - $0.40 Incentive Options expired 15 May 2017;
- the Incentive Options are exercisable at any time after the Vesting Date and on or prior to the Expiry Date;
- Shares issued on exercise of the Incentive 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 Incentive Options;
- if there is any reconstruction of the issued share capital of the Company, the rights of the Option holders will 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 Incentive Options will be made by the Company; and
- the Incentive Options are transferable provided that the transfer of Incentive Options complies with section 707(3) of the Corporations Act.

(d) Movements in Performance Rights During the Current and Prior Financial Periods Were as Follows:

Date	Details	Notes	Number of Performance Rights	Fair Value $	$
1 Jul 16	**Opening balance**		**1,400,000**		**228,679**
30 Jun 17	Share based payment expense(i)		-	-	124,361
30 Jun 17	**Closing balance**		**1,400,000**		**353,040**
1 Jul 15	**Opening balance**		**2,950,000**		**253,114**
2 Oct 15	Conversion of Performance Rights		(750,000)	0.3356	(251,700)
30 Jun 16	Cancellation of Performance Rights		(800,000)	-	(59,391)
30 Jun 16	Share based payment expense(i)		-	-	286,656
30 Jun 16	**Closing balance**		**1,400,000**		**228,679**

Note:

(i) The value of performance rights granted during the period is recognised over the vesting period (if applicable) of the grant in accordance with Australian Accounting Standards.

(e) Terms and Conditions of Performance Rights

The unlisted performance share rights ("Performance Rights") are granted based upon the following terms and conditions:

- Each Performance Right automatically converts into one Ordinary Share upon vesting of the Performance Right;
- Each Performance Right is subject to performance conditions (as determined by the Board from time to time) which must be satisfied in order for the Performance Right to vest;
- The Performance Rights outstanding at the end of the financial year have the following expiry dates:
  - 700,000 Performance Rights at no exercise price that expire on 31 December 2017; and
  - 700,000 Performance Rights at no exercise price that expire on 31 December 2018;
- The Performance Rights outstanding at the end of the financial year vest upon the following performance conditions:
  - Achievement of Pre-Feasibility Study Milestone on or before 31 December 2017; and
  - Achievement of Feasibility Study Milestone on or before 31 December 2018;
- Ordinary Shares issued on conversion of the Performance Rights rank equally with the then Ordinary Shares of the Company;
- Application will be made by the Company to ASX for official quotation of the Ordinary Shares issued upon conversion of the Performance Rights;
- If there is any reconstruction of the issued share capital of the Company, the rights of the Performance Right holders 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 Performance Rights will be made by the Company; and
- Without approval of the Board, Performance Rights may not be transferred, assigned or novated, except, upon death, a participant's legal personal representative may elect to be registered as the new holder of such Performance Rights and exercise any rights in respect of them.

	2017 $	2016 $
11. ACCUMULATED LOSSES		
Balance at the beginning of year	**(19,145,204)**	**(17,381,091)**
Adjustment to accumulated losses for expired options and cancelled performance rights	195,000	371,081
Net loss for the year	(3,627,778)	(2,135,194)
Balance at end of year	**(22,577,982)**	**(19,145,204)**

(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.

	2017 $	2016 $
12. STATEMENT OF CASH FLOWS		
(a) Reconciliation of Loss for the Year to Net Cash Flows from Operating Activities		
Loss for the year	(3,627,778)	(2,135,194)
Adjustment for non-cash income and expense items		
Depreciation	53,111	45,911
Share based payment expense	404,935	462,836
Foreign currency differences	(3,253)	(2,075)
Changes in operating assets and liabilities		
(Increase)/Decrease in trade and other receivables	(7,971)	3,643
Increase in trade and other payables and provisions	3,138	301,151
Net cash outflow from operating activities	**(3,177,818)**	**(1,323,728)**
(b) Reconciliation of Cash Assets		
Cash at bank and on hand	2,251,281	2,793,993
	2,251,281	**2,793,993**

(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 2017

During the year ended 30 June 2017, there were no non-cash financing or investing activities.

30 June 2016

During the year ended 30 June 2016, there were no non-cash financing or investing activities.

13. LOSS PER SHARE

	2017 Cents per Share	2016 Cents per Share
Basic loss per share		
From continuing operations	(1.73)	(1.54)
Total basic loss per share	**(1.73)**	**(1.54)**
Diluted loss per share		
From continuing operations	(1.73)	(1.54)
Total diluted loss per share	**(1.73)**	**(1.54)**

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

	2017 $	2016 $
Net loss used in calculating basic and diluted earnings per share	(3,627,778)	(2,135,194)

	2017 Number of Shares	2016 Number of Shares
Weighted average number of ordinary shares used in calculating basic earnings per share	209,934,502	138,508,700
Effect of dilutive securities*	-	-
Adjusted weighted average number of ordinary shares and potential ordinary shares used in calculating basic and diluted earnings per share	**209,934,502**	**138,508,700**

***Non-dilutive securities**

As at balance date, 12,416,667 unlisted Incentive Options and 1,400,000 Performance Rights (which represent 13,816,667 potential Ordinary Shares) were not dilutive as they would decrease the loss per share.

Conversions, calls, subscriptions or issues after 30 June 2017

Since 30 June 2017, 376,081 Ordinary Shares and nil unlisted Incentive Options have been issued (refer to Note 23).

Other than as noted above, there have been no conversions to, calls of, or subscriptions for ordinary shares or issues of potential ordinary shares since the reporting date and before the completion of this financial report.

14. RELATED PARTIES

(a) Ultimate Parent

Sovereign Metals Limited is the ultimate parent of the Group.

(b) Subsidiaries

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	
		2017 %	2016 %
Sovereign Cloncurry Pty Ltd (i)	Australia	100	100
Sovereign Mozambique Pty Ltd (i)	Australia	100	100
Sovereign Moçambique Limitada	Mozambique	100	100
Sovereign Zambia Pty Ltd (i)	Australia	100	100
Sovereign Metals (Zambia) Ltd	Zambia	100	100
Sovereign Coal Pty Ltd (i)	Australia	100	100
McCourt Mining Pty Ltd (i)	Australia	100	100
McCourt Mining Limited	Malawi	100	100
Sovereign Services Limited	Malawi	100	100
McCourt Mining (UK) Limited	United Kingdom	100	100
McCourt Holdings (UK) Limited	United Kingdom	100	100

Note:
(i) Member of the tax consolidated group.

(c) Transactions with Related Parties in the Consolidated Group

There were no transactions with related parties during the 2017 financial year (2016: Nil).

(d) Key Management Personnel

Details relating to Key Management Personnel, including remuneration paid, are included at Note 17.

(e) Other Transactions

Apollo Group Pty Ltd, a company of which Mr Mark Pearce is a Director and beneficial shareholder, was paid, or is payable, $240,000 (2016: $180,000) for the provision of serviced office facilities, administration services and additional consulting services provided 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 Statement of Comprehensive Income. At 30 June 2017, $40,000 (2016: $135,000) was included as a current liability in the Statement of Financial Position.

	2017 $	2016 $
15. PARENT ENTITY DISCLOSURES		
(a) Financial Position		
Assets		
Current Assets	2,253,498	2,822,493
Non-Current Assets	6,938,527	6,931,924
Total Assets	9,192,025	9,754,417
Liabilities		
Current Liabilities	169,734	554,555
Total Liabilities	169,734	554,555
Equity		
Issued capital	30,986,603	27,454,529
Accumulated losses	(22,671,282)	(18,768,576)
Share based payments reserve	706,970	513,909
Total Equity	9,022,291	9,199,862
(b) Financial Performance		
Loss for the year	(4,097,706)	(2,009,857)
Other comprehensive income	-	-
Total comprehensive income	(4,097,706)	(2,009,857)

	2017 $	2016 $
16. COMMITMENTS AND CONTINGENCIES		
(a) Commitments		
Exploration Commitments - Central Malawi Graphite Project:		
Within one year	113,201	460,279
After one year but not more than five years	125,331	23,688
More than five years	-	-
	238,532	**483,967**

(b) Contingencies

At the last annual reporting date, the Consolidated Entity did not have any contingent liabilities. There has been no material change in contingent assets and liabilities of the Consolidated Entity during the year (2016: Nil).

17. KEY MANAGEMENT PERSONNEL

(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	Chairman
Dr Julian Stephens	Managing Director
Mr Mark Pearce	Non-Executive Director
Other KMP	
Mr Dominic Allen	Business Development Manager (appointed 3 October 2016)
Mr Clint McGhie	Company Secretary

Unless otherwise disclosed, the KMP held their position from 1 July 2016 until the date of this report.

(b) Key Management Personnel Compensation

	2017 $	2016 $
Short-term benefits	352,250	206,997
Post-employment benefits	30,044	4,056
Other non cash benefits	-	7,478
Share based payments	279,596	297,545
	661,890	**516,076**

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.

18. SHARE-BASED PAYMENTS

(a) Recognised Share-based Payment Expense

Goods or services received or acquired in a share-based payment transaction are recognised as an increase in equity if the goods or services were received in an equity-settled share-based payment transaction or as a liability if the goods and services were acquired in a cash settled share-based payment transaction.

For equity-settled share-based transactions, goods or services received are measured directly at the fair value of the goods or services received provided this can be estimated reliably. If a reliable estimate cannot be made the value of the goods or services is determined indirectly by reference to the fair value of the equity instrument granted.

From time to time, the Group provides incentive options, performance rights and ordinary shares to officers, employees, consultants and other key advisors as part of remuneration and incentive arrangements. The number of options, rights and shares granted/issued, and the terms of the options and rights 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:

	2017 $	2016 $
Expense arising from equity-settled share-based payment transactions	404,935	462,836

Note:

(i) During the year, the Company issued 11,445,610 shares in conversion of debt totalling $858,421. This amount was included in trade creditors as at 30 June 2016, and is not included in the share based payments expense.

(b) Summary of Options and Rights Granted

The following share-based payment arrangements were granted during the last two years:

2017	Security Type	Number	Grant Date	Vesting Date	Note	Expiry Date	Exercise Price $	Fair Value $
Series								
Series 1	Option	1,500,000	5 Aug 16	31 Jul 17	(i)	31 Jul 18	0.12	0.0349
Series 2	Option	2,000,000	5 Aug 16	31 Jul 18	(ii)	31 Jul 19	0.15	0.0403
Series 3	Option	2,500,000	5 Aug 16	31 Jul 19	(iii)	31 Jul 20	0.18	0.0450
Series 4	Option	750,000	3 Oct 16	31 Jul 17	(i)	31 Jul 18	0.12	0.0593
Series 5	Option	1,000,000	3 Oct 16	31 Jul 18	(ii)	31 Jul 19	0.15	0.0659
Series 6	Option	1,250,000	3 Oct 16	31 Jul 19	(iii)	31 Jul 20	0.18	0.0719
Series 7	Option	1,000,000	30 Dec 16	N/A	(iv)	31 Dec 18	0.15	0.0180
Series 8	Option	1,000,000	30 Dec 16	N/A	(iv)	31 Dec 18	0.15	0.0150
Series 9	Option	75,000	5 Apr 17	5 Apr 17	(v)	30 Jun 18	0.10	0.0297
Series 10	Option	100,000	5 Apr 17	5 Apr 17	(i)	31 Jul 18	0.12	0.0268
Series 11	Option	125,000	5 Apr 17	5 Apr 17	(ii)	31 Jul 19	0.15	0.0342
Series 12	Option	400,000	8 Jun 17	8 Jun 17	(ii)	31 Jul 19	0.15	0.0623
Series 13	Option	300,000	8 Jun 17	8 Jun 17	(iii)	31 Jul 20	0.18	0.0703

Notes

(i) An option to subscribe for 1 ordinary Share in the capital of the Company at an exercise price of $0.12 on or before 31 July 2018;

(ii) An option to subscribe for 1 ordinary Share in the capital of the Company at an exercise price of $0.15 on or before 31 July 2019;

(iii) An option to subscribe for 1 ordinary Share in the capital of the Company at an exercise price of $0.18 on or before 31 July 2020;

(iv) An option to subscribe for 1 ordinary Share in the capital of the Company at an exercise price of $0.15 on or before 31 December 2018. These options were to vest on satisfaction of a number of performance conditions which have not been satisfied, and the options have been cancelled; and

(v) An option to subscribe for 1 ordinary Share in the capital of the Company at an exercise price of $0.10 on or before 30 June 2018.

2016	Security Type	Number	Grant Date	Vesting Date	Note	Expiry Date	Exercise Price $	Fair Value $
Series								
Series 1	Option	1,000,000	10 Aug 15	10 Aug 15	(i)	30 Jun 18	0.10	0.0401
Series 2	Option	1,416,667	10 Aug 15	10 Aug 15	(ii)	30 Sep 18	0.15	0.0354

Notes:

(i) An option to subscribe for 1 ordinary Share in the capital of the Company at an exercise price of $0.10 on or before 30 June 2018; and

(ii) An option to subscribe for 1 ordinary Share in the capital of the Company at an exercise price of $0.15 on or before 30 September 2018.

18. SHARE-BASED PAYMENTS (continued)

(b) Summary of Options and Rights Granted (continued)

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

	2017 Number	2017 WAEP	2016 Number	2016 WAEP
Outstanding at beginning of year	3,916,667	$0.23	4,750,000	$0.40
Granted by the Company during the year	12,000,000	$0.15	2,416,667	$0.13
Expired during the year	(1,500,000)	$0.40	(1,750,000)	$0.31
Forfeited during the year	(2,000,000)	$0.15	(1,500,000)	$0.47
Outstanding at end of year	12,416,667	$0.15	3,916,667	$0.23

The outstanding balance of options granted as share based payments on issue as at 30 June 2017 is represented by:

- 1,075,000 $0.10 Incentive Options that expire on 30 June 2018;
- 2,350,000 $0.12 Incentive Options that expire on 31 July 2018;
- 1,416,667 $0.15 Incentive Options that expire on 30 September 2018;
- 3,525,000 $0.15 Incentive Options that expire on 31 July 2019; and
- 4,050,000 $0.18 Incentive Options that expire on 31 July 2020.

The outstanding balance of performance rights granted as share based payments on issue as at 30 June 2017 is represented by:

- 700,000 Performance Rights at no exercise price that expire on 31 December 2017; and
- 700,000 Performance Rights at no exercise price that expire on 31 December 2018.

(c) Weighted Average Remaining Contractual Life

The weighted average remaining contractual life for share options outstanding as at 30 June 2017 was 2.03 years (2016: 1.22 years).

(d) Range of Exercise Prices

The range of exercise prices for share options outstanding as at 30 June 2017 was $0.10 to $0.18 (2016: $0.10 to $0.40).

(e) Weighted Average Fair Value

The weighted average fair value of share options granted during the year was $0.045 (2016: $0.037).

(f) Option and Performance Right Pricing Models

The fair value of the equity-settled share options granted is estimated as at the date of grant using the Black Scholes option valuation model taking into account the terms and conditions upon which the options were granted. The fair value of the performance rights granted is estimated as at the date of grant using the seven day volume weighted average share price prior to issuance.

30 June 2017 and 30 June 2016

The following table lists the inputs to the valuation model used for share options and performance rights granted by the Group during the years ended 30 June 2017 and 30 June 2016:

18. SHARE-BASED PAYMENTS (continued)

(f) Option and Performance Right Pricing Models (continued)

2017	Incentive Options												
Inputs	Series 1	Series 2	Series 3	Series 4	Series 5	Series 6	Series 7	Series 8	Series 9	Series 10	Series 11	Series 12	Series 13
Exercise Price	0.12	0.15	0.18	0.12	0.15	0.18	0.15	0.15	0.10	0.12	0.15	0.15	0.18
Grant date share price	0.081	0.081	0.081	0.118	0.118	0.118	0.092	0.094	0.081	0.081	0.081	0.124	0.124
Share price barrier	-	-	-	-	-	-	-	0.30	-	-	-	-	-
Dividend yield(i)	-	-	-	-	-	-	-	-	-	-	-	-	-
Volatility(ii)	100%	100%	100%	100%	100%	100%	100%	60%	100%	100%	100%	100%	100%
Risk free interest rate	1.46%	1.42%	1.43%	1.67%	1.66%	1.71%	1.86%	1.86%	1.56%	1.56%	1.65%	1.63%	1.72%
Grant date	5-Aug-16	5-Aug-16	5-Aug-16	3-Oct-16	3-Oct-16	3-Oct-16	30-Dec-16	30-Dec-16	5-Apr-17	5-Apr-17	5-Apr-17	8-Jun-17	8-Jun-17
Expiry date	31-Jul-18	31-Jul-19	31-Jul-20	31-Jul-18	31-Jul-19	31-Jul-20	31-Dec-18	31-Dec-18	30-Jun-18	31-Jul-18	31-Jul-19	31-Jul-19	31-Jul-20
Expected life of option(iii)	2.0 years	3.0 years	4.0 years	1.8 years	2.8 years	3.8 years	2.0 years	2.0 years	1.2 years	1.3 years	2.3 years	2.1 years	3.1 years
Fair value at grant date	0.0349	0.0403	0.0450	0.0593	0.0659	0.0719	0.0180	0.0150	0.0297	0.0268	0.0342	0.0623	0.0703

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.
(ii) The expected life of the options is based on the expiry date of the options as there is limited track record of the early exercise of options.

18. SHARE-BASED PAYMENTS (continued)

(f) Option and Performance Right Pricing Models (continued)

2016 Inputs	Incentive Options Tranche 1	Incentive Options Tranche 2
Exercise Price	0.10	0.15
Grant date share price	0.075	0.075
Dividend yield(i)	-	-
Volatility(ii)	95%	95%
Risk free interest rate	1.97%	1.97%
Grant date	10-Aug-15	10-Aug-15
Expiry date	30-Jun-18	30-Sep-18
Expected life of option(iii)	2.9 years	3.1 years
Fair value at grant date	0.0401	0.0354

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 the expiry date of the options as there is limited track record of the early exercise of options.

	2017 $	2016 $
19. REMUNERATION OF AUDITORS		
Amounts received or due and receivable by Deloitte Touche Tohmatsu for an audit or review of the financial report of the Company	26,000	24,900
Total Auditors' Remuneration	**26,000**	**24,900**

20. SEGMENT INFORMATION

AASB 8 requires operating segments to be identified on the basis of internal reports about components of the Consolidated Entity that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

The Consolidated Entity has two operating segments, being exploration in Malawi (Central Malawi Graphite Project) and Queensland, Australia (the Carpentaria Joint Venture) . Information regarding these segments is reported below.

(a) Reconciliation of Non-current Assets by geographical location

	2017 $	2016 $
Australia	18,666	12,064
Malawi	7,250,014	7,288,054
	7,268,680	**7,300,118**

21. 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, foreign currency risk, commodity price risk, credit risk and liquidity risk.

This Note presents information 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:

	Notes	2017 $	2016 $
Cash and cash equivalents		2,251,281	2,793,993
Trade and other receivables		38,639	30,668
		2,289,920	**2,824,661**

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 2017 (2016: 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 related to balances with banks is considered low as the Group banks with a financial institution which is considered to have a high credit rating.

21. FINANCIAL INSTRUMENTS (Continued)

(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 2017 and 2016, 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.

2017 Group	≤6 Months $	6-12 Months $	1-5 Years $	≥5 Years $	Total $
Financial Liabilities					
Trade and other payables	376,633	-	-	-	376,633
	376,633	**-**	**-**	**-**	**376,633**

2016 Group	≤6 Months $	6-12 Months $	1-5 Years $	≥5 Years $	Total $
Financial Liabilities					
Trade and other payables	1,244,302	-	-	-	1,244,302
	1,244,302	**-**	**-**	**-**	**1,244,302**

(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 and payables are non-interest bearing.

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

	2017 $	2016 $
Interest-bearing financial instruments		
Cash at bank and on hand	2,251,281	2,793,993
	2,251,281	**2,793,993**

The Group's cash at bank and on hand and short term deposits had a weighted average floating interest rate at year end of 1.73% (2016: 0.43%).

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 2016.

	Profit or Loss		Equity	
	20% Increase	20% Decrease	20% Increase	20% Decrease
2017				
Cash and cash equivalents	7,812	(7,812)	7,812	(7,812)
2016				
Cash and cash equivalents	2,426	(2,426)	2,426	(2,426)

(e) Foreign Currency Risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the United States dollar (USD) and the Malawian Kwacha (MWK).

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency and net investments in foreign operations. The Group has not formalised a foreign currency risk management policy however it monitors its foreign currency expenditure in light of exchange rate movements.

The functional currency of the subsidiary companies incorporated in Malawi is USD. All parent and remaining subsidiaries balances are in Australian dollars. The Group does not have any material exposure to foreign currency risk relating to MWK.

(i) Sensitivity Analysis for Currency Risk – United States dollar (USD)

The year end USD:AUD exchange rate was 1.3009 (2016: 1.344). Had the value of the USD increased by 10% against the AUD to 1.445 the net assets of the Consolidated Entity would have increased by $168,149 (2016: $110,347). Had the value of the USD decreased by 10% against the AUD to 1.183 the net assets of the Consolidated Entity would have decreased by $168,149 (2016: $110,347).

This analysis assumes that all other variables, in particular interest rates, remain constant.

There would be no impact on profit or loss arising from changes in the currency risk variables relating to the Group's activities overseas as all changes in value are taken to a reserve.

(f) Commodity Price Risk

The Group is exposed to graphite, 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.

21. FINANCIAL INSTRUMENTS (Continued)

(g) Capital Management

The Board's policy is to maintain an adequate 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.

(h) 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.

22. INTERESTS IN JOINT VENTURES

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

Joint Venture	Project	Activity	2017 Interest	2016 Interest
Carpentaria Joint Venture	Mt Isa Project, Queensland	Mineral Exploration	29.45%	32.45%

There were no net assets employed in the joint ventures included as exploration and evaluation assets in the Statement of Financial Position as at 30 June 2017 (2016: $nil).

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 farm-in to various tenements owned by the Company.

Under the terms of the joint venture:

- MIM has earned a 70.55% interest in the tenements; and
- 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 2017 Sovereign's interest has reduced to 29.45%.

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.

23. SUBSEQUENT EVENTS

(i) On 11 August 2017, the Company issued 376,081 shares to a key consultant of the Company, as remuneration for their services.

There are no other matters or circumstances which have arisen since 30 June 2017 that have significantly affected or may significantly affect:

- the operations, in financial years subsequent to 30 June 2017 of the Consolidated Entity;
- the results of those operations, in financial years subsequent to 30 June 2017 of the Consolidated Entity; or
- the state of affairs, in financial years subsequent to 30 June 2017 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 attached financial statements, notes and the additional disclosures included in the directors' report designated as audited, are in accordance with the Corporations Act 2001 including:

(i) section 296 (compliance with accounting standards and Corporations Regulations 2001); and

(ii) section 297 (gives a true and fair view of the financial position as at 30 June 2017 and of the performance for the year ended on that date of the Group); and

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

(2) The attached financial statements are in compliance with International Financial Reporting Standards, as stated in note 1 to the financial statements.

(3) The Directors have been given a declaration required by section 295A of the Corporations Act 2001 for the financial year ended 30 June 2017.

On behalf of the Board.

JULIAN STEPHENS
Managing Director

28 September 2017

Deloitte.

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Independent Auditor's Report to the members of Sovereign Metals Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Sovereign Metals Limited (the "Company") and its subsidiaries (the "Group") which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year then ended; and

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

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the financial report, which indicates that the Group incurred a net loss of $3,627,778, and experienced net cash outflows from operating and investing activities of $3,199,491 during the year ended 30 June 2017 and, as of that date, the Group's current assets exceeded its current liabilities by $1,892,921. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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Our procedures in relation to going concern included, but were not limited to:

- inquiring of management and the directors in relation to events and conditions that may impact the assessment on the Group's ability to continue as a going concern;
- challenging the assumptions contained in management's cash flow forecast in relation to the Group's ability to continue as a going concern;
- comparing the cash flow forecast with the Board approved budget, and
- assessing the adequacy of the disclosures related to going concern in Note 1.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
Carrying value of Exploration and Evaluation Assets	
As at 30 June 2017 the Group has $7,170,282 of capitalised exploration and evaluation expenditure as disclosed in Note 6. Assessment of the carrying value of exploration and evaluation assets requires significant judgement, including the Group's intention and ability to proceed with a future work programme to realise value from the prospective resource, the likelihood of licence renewal or extension, and the expected or actual success of resource evaluation and analysis.	Our procedures included, but were not limited to: • Obtaining a scheduled of the areas of interest held by the Group and assessing whether the rights to tenure of those areas of interest remained current at balance date; • Holding discussions with management as to the status of ongoing exploration programmes in the respective areas of interest; • Evaluating whether any such areas of interest had reached a stage where a reasonable assessment of economically recoverable reserves existed; and • Assessing whether any facts or circumstances existed to suggest impairment testing was required. We also assessed the appropriateness of the related disclosures to the financial statements.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2017, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 14 to 20 of the Directors' Report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of Sovereign Metals Limited, for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

David Newman
Partner
Chartered Accountants
Perth, 28 September 2017

ASX ADDITIONAL INFORMATION

The shareholder information set out below was applicable as at 31 August 2017 .

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
J P Morgan Nominees Australia Limited	30,324,279	13.93
Mr Julian Rodney Stephens <One Way A/C>	9,667,518	4.44
BNP Paribas Noms Pty Ltd <DRP>	9,401,868	4.32
Brown Bricks Pty Ltd <HM A/C>	9,268,632	4.26
Mrs Pennee Ruth Osmond <The Blue Sky A/C>	7,500,000	3.45
Arredo Pty Ltd	6,060,000	2.78
Mota-Engil Minerals & Mining Investments BV	6,000,000	2.76
Susetta Holdings Pty Ltd	4,550,000	2.09
HSBC Custody Nominees (Australia) Limited	4,282,623	1.97
BNP Paribas Nominees Pty Ltd <IB AU NOMS RETAILCLIENT DRP>	4,101,341	1.88
Pershing Australia Nominees Pty Ltd <Patersons Securities A/C>	3,900,000	1.79
Castle Bailey Pty Ltd <D & S Bailey Family A/C>	3,694,091	1.70
Mr Collin Francis Davy <The Bush Rat A/C>	3,479,166	1.60
Mr Angus William Johnson + Mrs Lindy Johnson <Dena Super Fund A/C>	3,467,992	1.59
Mr Terry Patrick Coffey + Hawkes Bay Nominees Limited <Williams Family No 2 A/C>	3,372,000	1.55
DRFT Management Pty Ltd <D Roberts Invest No2 A/C>	3,299,803	1.52
Greenslade Holdings Pty Ltd	3,262,999	1.50
Citicorp Nominees Pty Limited	3,252,126	1.49
Mikado Corporation Pty Ltd <JFC Superannuation A/C>	3,000,000	1.38
CPO Superannuation Fund Pty Ltd <C & P O'Connor S/F A/C>	2,978,255	1.37
Total Top 20	**124,862,693**	**57.35**
Others	92,842,471	42.65
Total Ordinary Shares on Issue	**217,705,164**	**100.00**

ASX ADDITIONAL INFORMATION (Continued)

2. DISTRIBUTION OF EQUITY SECURITIES

Analysis of number of shareholders by size of holding:

	Ordinary Shares	
Distribution	**Number of Shareholders**	**Number of Shares**
1 – 1,000	58	13,734
1,001 – 5,000	58	178,180
5,001 – 10,000	68	576,794
10,001 – 100,000	260	10,574,213
More than 100,000	186	206,362,243
Totals	**630**	**217,705,164**

There were 101 holders of less than a marketable parcel of ordinary shares.

3. VOTING RIGHTS

See Note 9(c) of the Notes to the Financial Statements.

4. SUBSTANTIAL SHAREHOLDERS

As at 31 August 2017, there were no substantial shareholders.

5. UNQUOTED SECURITIES

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

	30-Jun-18 Unlisted Options exercisable at $0.10	31-Jul-18 Unlisted Options exercisable at $0.12	30-Sep-18 Unlisted Options exercisable at $0.15	31-Jul-19 Unlisted Options exercisable at $0.15	31-Jul-20 Unlisted Options exercisable at $0.18
Empire Capital Partners Pty Ltd	1,000,000	-	1,416,667	-	-
Julian Stephens <One Way A/C>	-	1,500,000	-	2,000,000	2,500,000
Mr Dominic Allen	-	750,000	-	1,000,000	1,250,000
Others (holding less than 20%)	75,000	100,000	-	525,000	300,000
Total	**1,075,000**	**2,350,000**	**1,416,667**	**3,525,000**	**4,050,000**
Total number of holders	**2**	**3**	**1**	**3**	**3**

	31-Dec-17 Performance Rights 'Feasibility milestone'	31-Dec-18 Performance Rights 'Commercial milestone'
Performance Rights issued under an employee incentive scheme	700,000	700,000
Total Number of Holders	**6**	**6**

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:

Location/ Tenement	Permit Number	Percentage Interest	Joint Venture Partner	Status
Malawi				
Central Malawi Graphite Project	EPL 0413	100%	-	Granted
	EPL 0372	100%	-	Granted
	EPL 0355	100%	-	Granted
Queensland, Australia:				
Mt Marathon	EPM 8586	29.45%	Mt Isa Mines	Granted
Mt Avarice	EPM 8588	29.45%	Mt Isa Mines	Granted
Fountain Range	EPM 12561	29.45%	Mt Isa Mines	Granted
Corella River	EPM 12597	29.45%	Mt Isa Mines	Granted
Saint Andrews Extended	EPM 12180	29.45%	Mt Isa Mines	Granted

8. MINERAL RESOURCE STATEMENT

Sovereign's Mineral Resource Statement as at 30 June 2017 is grouped by deposit, all of which are located in Malawi. To date, no Ore Reserves have been reported for these deposits.

Governance

The Company engages external consultants and Competent Persons (as determined pursuant to the JORC Code 2012) to prepare and estimate the Mineral Resources. Management and the Board review these estimates and underlying assumptions for reasonableness and accuracy. The results of the Mineral Resource estimates are then reported in accordance with the requirements of the JORC Code 2012 and other applicable rules (including ASX Listing Rules).

Where material changes occur during the year to the project, including the project's size, title, exploration results or other technical information, previous resource estimates and market disclosures are reviewed for completeness.

The Company reviews its Mineral Resources as at 30 June each year. A revised Mineral Resource estimate will be prepared as part of the annual review process where a material change has occurred in the assumptions or data used in previously reported Mineral Resources. However, there are circumstances where this may not be possible (e.g. an ongoing drilling programme), in which case a revised Mineral Resource estimate will be prepared and reported as soon as practicable.

Results of Annual Review

The Company reported its maiden Mineral Resource Estimate ('MRE') for the Malingunde deposit in April 2017 (refer ASX Announcement 18 April 2017) totalling 65.1Mt at 7.1% TGC, using a 4% lower cut-off grade. The MRE includes a saprolite component of 28.8Mt at 7.1% TGC that occurs within 30m of the natural ground surface. At an increased 7.5% TGC lower cut-off grade, the saprolite-only resource is 8.9Mt at 9.9% TGC.

The Scoping Study for the Malingunde deposit demonstrated the potential to support a very low capital and operating cost operation with annual production of 44,000 tonnes over an initial 17 year period.

There were no changes to the Mineral Resource for the Malingunde deposit as a result of the annual review.
The Company has previously reported MRE's for three deposits at the Duwi Project, being Duwi Main, Duwi Bend and Nyama. The MRE's show a large body of flake graphite mineralisation at the Duwi Main Deposit, with smaller deposits at Duwi Bend and Nyama, all totalling 86Mt at 7.1% TGC (Indicated + Inferred), using a 5% TGC lower cut-off grade.

ASX ADDITIONAL INFORMATION (Continued)

8. MINERAL RESOURCE STATEMENT (Continued)

During the year ended 30 June 2017, there was no further work carried out on the Duwi deposits as the Company focussed activities on the Malingunde Project. As a result of the annual review of the Company's Mineral Resources, there has been no change to the Mineral Resources reported for the Duwi Project in October 2014.

Summary of Mineral Resources

Deposit Name	Resource Category	2016 Tonnes (Mt)	2016 Grade (% TGC)	2016 Contained Graphite (MT)	2017 Tonnes (Mt)	2017 Grade (% TGC)	2017 Contained Graphite (MT)
Malingunde	***Indicated***	-	-	-	***35.9***	***7.0%***	***2.51***
	Inferred	-	-	-	***29.2***	***7.1%***	***2.07***
Malingunde Project	***Total***	-	-	-	***65.1***	***7.1%***	***4.62***
Duwi Main	Indicated	35.2	7.2	2.52	35.2	7.2	2.52
	Inferred	34.3	7.3	2.49	34.3	7.3	2.49
	Total	***69.5***	***7.2***	***5.01***	***69.5***	***7.2***	***5.01***
Duwi Bend	***Inferred***	***7.8***	***7.2***	***0.56***	***7.8***	***7.2***	***0.56***
Nyama	***Inferred***	***8.6***	***6.5***	***0.56***	***8.6***	***6.5***	***0.56***
Duwi Project	***Indicated***	***35.2***	***7.2***	***2.52***	***35.2***	***7.2***	***2.52***
	Inferred	***50.7***	***7.1***	***3.61***	***50.7***	***7.1***	***3.61***
	Total	***85.9***	***7.1***	***6.13***	***85.9***	***7.1***	***6.13***
TOTAL	**Indicated**	**35.2**	**7.2**	**2.52**	**71.1**	**7.1**	**5.03**
	Inferred	**50.7**	**7.1**	**3.61**	**79.9**	**7.1**	**5.68**
		85.9	**7.1**	**6.13**	**151.0**	**7.1**	**10.71**

Note:

(i) Malingunde mineral resource is reported at a 4% total graphitic carbon ('TGC') lower cut-off grade whilst Duwi is reported at a 5% TGC lower cut-off.

Competent Person Statement – Mineral Resource Statement

The information in this Mineral Resource Statement that relates to Mineral Resources is based on, and fairly represents, information compiled by Mr David Williams, a Competent Person, who is a Member of The Australasian Institute of Mining and Metallurgy. Mr Williams is employed by CSA Global Pty Ltd, an independent consulting company. Mr Williams has sufficient experience, which is relevant to the style of mineralisation and type of deposit under consideration, and to the activity 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'. Mr Williams consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

Mr Williams has approved the Mineral Resource Statement as a whole and consents to its inclusion in the form and context in which it appears.

9. CORPORATE GOVERNANCE

Sovereign Metals Limited (Sovereign or Company) and the entities it controls believe corporate governance is important for the Company in conducting its business activities.

The Board of Sovereign has adopted a suite of charters and key corporate governance documents which articulate the policies and procedures followed by the Company.

These documents are available in the Corporate Governance section of the Company's website, www.sovereignmetals.com.au. These documents are reviewed at least annually to address any changes in governance practices and the law.

The Company's 2017 Corporate Governance Statement, which is current as at 30 June 2017 and has been approved by the Company's Board, explains how Sovereign complies with the ASX Corporate Governance Council's 'Corporate Governance Principles and Recommendations – 3rd Edition' in relation to the year ended 30 June 2017. The Corporate Governance Statement is available in the Corporate Governance section of the Company's website, www.sovereignmetals.com.au/corporate/corporate-governance and will be lodged with ASX together with an Appendix 4G at the same time that this Annual Report is lodged with ASX.

In addition to the ASX Corporate Governance Council's 'Corporate Governance Principles and Recommendations – 3rd Edition' the Board has taken into account a number of important factors in determining its corporate governance policies and procedures; including the:

- relatively simple operations of the Company, which currently only undertakes mineral exploration and development activities;
- cost verses benefit of additional corporate governance requirements or processes;
- size of the Board;
- Board's experience in the resources sector;
- organisational reporting structure and number of reporting functions, operational divisions and employees;
- relatively simple financial affairs with limited complexity and quantum;
- relatively small market capitalisation and economic value of the entity; and
- direct shareholder feedback.

10. 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.

11. CAUTIONARY STATEMENTS

The Scoping Study referred to in this announcement was undertaken to determine the potential viability of an open pit mine and graphite processing plant constructed onsite at the Malingunde Project ("Project") and to reach a decision to proceed with more definitive studies. The Scoping Study has been prepared to an accuracy level of ±35%. The results should not be considered a profit forecast or production forecast. The Scoping Study is a preliminary technical and economic study of the potential viability of the Project and is based on low-level technical and economic assessments that are not sufficient to support the estimation of ore reserves. Further evaluation work including infill drilling and appropriate studies are required before Sovereign will be able to estimate any ore reserves or to provide any assurance of an economic development case.

ASX ADDITIONAL INFORMATION (Continued)

11. CAUTIONARY STATEMENTS (Continued)

Approximately 83% of the total production target is in the Indicated resource category with 17% in the Inferred resource category. Approximately 96% of the scheduled throughput over the first four years (the estimated maximum payback period based on downside pricing) of production is in the Indicated category, with 4% in the Inferred category. Sovereign has concluded that it has reasonable grounds for disclosing a production target which includes a modest amount of Inferred material. However, there is a low level of geological confidence associated with Inferred mineral resources and there is no certainty that further exploration work (including infill drilling) on the Malingunde deposit will result in the determination of additional Indicated mineral resources or that the production target itself will be realised.

The Scoping Study is based on the material assumptions outlined in an announcement made on 20 June 2017. These include assumptions about the availability of funding. While Sovereign considers all the material assumptions to be based on reasonable grounds, there is no certainty that they will prove to be correct or that the range of outcomes indicated by the Scoping Study will be achieved.

To achieve the range outcomes indicated in the Scoping Study, additional funding will likely be required. Investors should note that there is no certainty that Sovereign will be able to raise funding when needed. It is also possible that such funding may only be available on terms that dilute or otherwise affect the value of the Sovereign's existing shares. It is also possible that Sovereign could pursue other 'value realisation' strategies such as sale, partial sale, or joint venture of the Project. If it does, this could materially reduce Sovereign's proportionate ownership of the Project.

The Company has concluded it has a reasonable basis for providing the forward looking statements included in this announcement and believes that it has a reasonable basis to expect it will be able to fund the development of the Project. Given the uncertainties involved, investors should not make any investment decisions based solely on the results of the Scoping Study.

12. COMPETENT PERSON STATEMENTS

The information in this report that relates to Malingunde Exploration Results is extracted from announcements dated 29 August 2016, 5 September 2016, 12 October 2016, 26 October 2016, 18 January 2017, 21 February 2017 and 15 March 2017. These announcements are available to view on www.sovereignmetals.com.au. The information in the original ASX Announcements that related to Malingunde Exploration Results was 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 is the Managing Director of Sovereign Metals Limited and is also a holder of shares, options and performance rights in Sovereign Metals Limited. 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 announcements. 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 report that relates to Mineral Resources is extracted from an announcement dated 18 April 2017. This announcement is available to view on www.sovereignmetals.com.au. The information in the original ASX Announcement that related to Mineral Resources was based on, and fairly represents, information compiled by Mr David Williams, a Competent Person, who is a Member of The Australasian Institute of Mining and Metallurgy. Mr Williams is employed by CSA Global Pty Ltd, an independent consulting company. Mr Williams has sufficient experience, which is relevant to the style of mineralisation and type of deposit under consideration, and to the activity 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 and, in the case of estimates of Mineral Resources, that all material assumptions and technical parameters underpinning the estimates in the relevant market 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 information in this report 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 represents 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.

13. PRODUCTION TARGET

The Production Target referred to in this report 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 Sovereign'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.

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