

JUNE 2016 QUARTERLY REPORT

Sovereign Metals Limited ("the Company" or "Sovereign") is pleased to present its quarterly report for the period ending 30 June 2016.

Highlights:

- **\$4.0M capital raising and appointment of new Managing Director:**
 - Sovereign completed the first tranche of a placement to raise a total \$4.0 million (before costs). The funds will enable the Company to complete the PFS on the Duwi flake graphite deposit and continue exploration at the Malingunde saprolite-hosted deposit.
 - Dr Julian Stephens was appointed as new Managing Director of the Company. Dr Stephens identified and secured the Malawi graphite assets acquired by Sovereign in 2012 and has been closely involved in their subsequent exploration and development.
- **Commencement of Duwi Pre-Feasibility Study:**
 - Nova Projects has been appointed to manage the PFS which will be underpinned by the robust economics highlighted in the 2015 Scoping Study. The PFS will include the evaluation of a number of production capacity versus capex, opex and revenue scenarios.
 - Diamond drilling will commence in August to provide samples for further metallurgical and upstream test-work, as well as provide concentrates for testing by prospective offtake partners.
 - A comprehensive graphite characterisation test-work program is underway at a world-renowned German industrial minerals laboratory to assess Duwi concentrates for suitability in Li-Ion battery technology (spherical graphite) and further examine its expandable properties.
 - Meetings are scheduled in China in the coming weeks to progress the existing strategic partnership with Volinco and their associates with a view to securing binding offtake and future project development funding. Additional offtake and partnership options both within China and in other Asian, European and North American jurisdictions are also being pursued.
- **Hand auger drilling extends saprolite-hosted graphite mineralisation at Malingunde:**
 - The high-grade, soft saprolite-hosted deposit discovered at Malingunde may provide an additional option for the Company, as saprolite-hosted deposits can have significantly lower capital and operational costs than hard rock graphite deposits.
 - A further 334 hand auger holes for 807 samples have been despatched for assay with results expected progressively over the September Quarter.
 - Saprolite metallurgical samples have been despatched to SGS Lakefield in Canada for initial bench-scale test-work. Results are expected by the end of October.

Enquiries: **Dr Julian Stephens – Managing Director** +618 9322 6322

Duwi Pre-Feasibility Study

The Duwi deposit is one of the largest reported flake graphite deposits globally with a JORC Resource of 86Mt @ 7.1% TGC (Inferred + Indicated). Mining consultancy Nova Projects has been re-appointed to manage the Duwi Pre-Feasibility Study after successfully completing the 2015 Scoping Study which showed compelling and robust economics.

The scope of the PFS will include the evaluation of a number of production capacity versus capex, opex and revenue scenarios.

PFS work programs commenced or due to commence shortly include additional diamond drilling, spherical and further expandable graphite test-work and marketing. Engineering, site layout, process design, environmental and fiscal studies are due to commence in the coming months.

The diamond drilling program is set to begin at Duwi in mid-August and will provide bulk samples for further metallurgical and upstream (spherical & expandable) test-work, as well as provide concentrates for testing by prospective offtake partners.

A comprehensive graphite characterisation testing program is currently being conducted by an established and world-renowned German industrial minerals laboratory. This work will assess the Duwi concentrates for suitability in Li-Ion battery technology (spherical graphite) and further assess its expandable properties for industrial applications such as foils, gaskets and fire-retardant building materials.

Meetings are scheduled in China in the coming weeks to progress the existing strategic partnership with Volinco and their associates with a view to securing binding offtake and potential future project development funding. Additional offtake and partnership options both within China and in other Asian, European and North American jurisdictions are also being pursued.

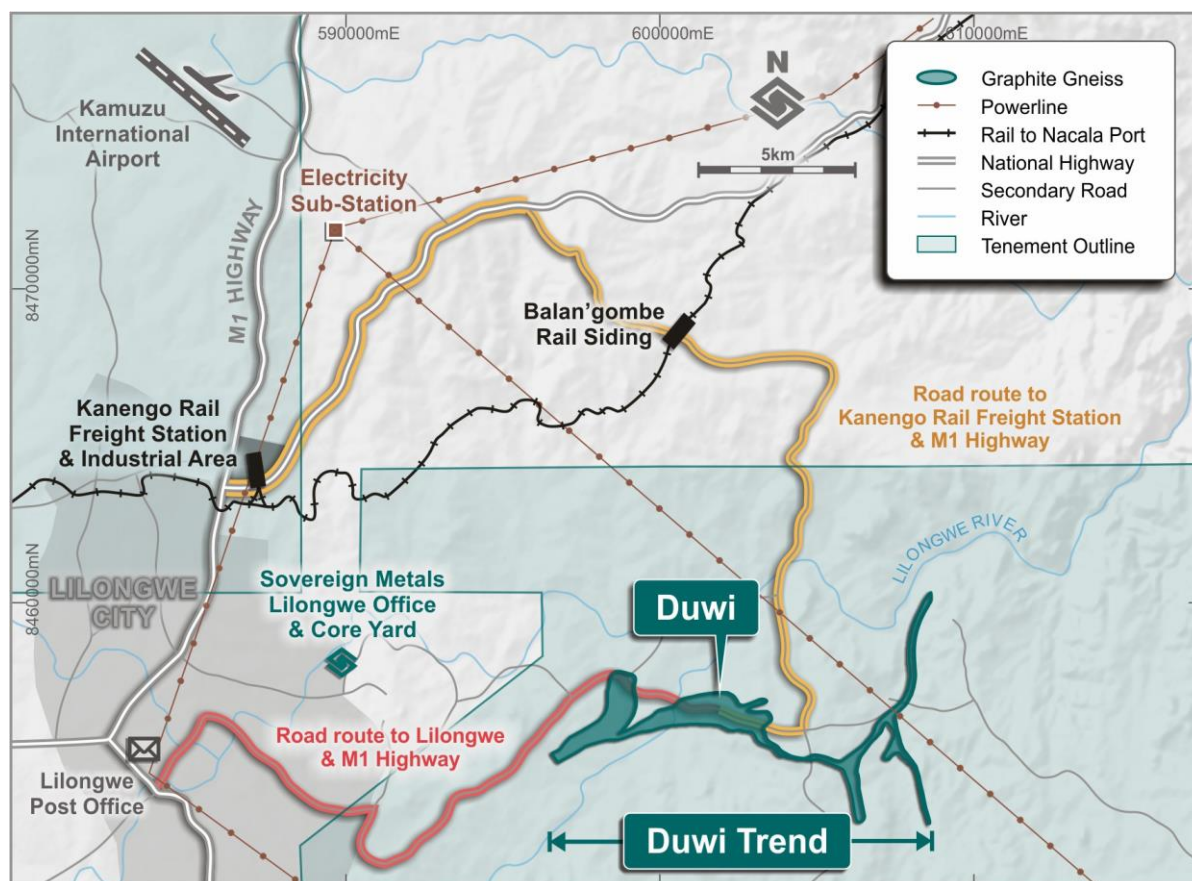


Figure 1. 2015 Duwi Flake Graphite Project – location and major infrastructure

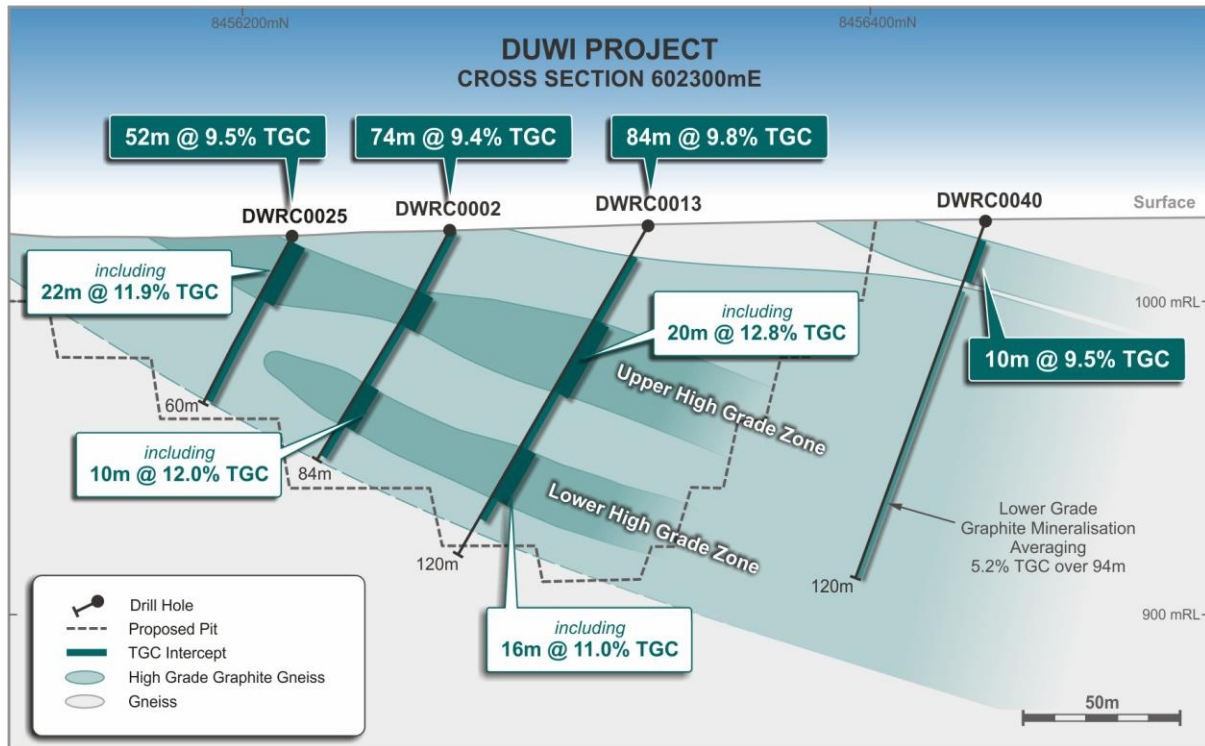


Figure 2. Duwi Flake Graphite Project cross-section 602300mE

Duwi Graphite Characterisation Testing Program

A comprehensive program testing the many properties of the Duwi graphite concentrates is now underway at an established and world-renowned German industrial minerals laboratory. The work is designed specifically to determine suitability of the Duwi concentrates for technology applications including Li-Ion battery anodes, as well as expandable graphite applications.

This work program will assess:

- Analytical characterization of the flotation concentrates including ash melting point, specific surface area (BET), true, raw apparent and tamped density, particle size distribution (PSD), oxidation resistance, porosity characteristics, specific electrical resistance and resilience (spring back).
- Suitability of the concentrates for use in Li-Ion battery technology via an extensive micronization and spheroidization program, followed by detailed characterization of the best products obtained.
- Further chemical purification (caustic and acid leaching) test-work both on the raw concentrates and the spherical graphite. This work follows on from the excellent acid leaching results on the Duwi concentrates that produced jumbo flake (+300um) concentrates grading 99.985% C(t) with a weighted average across all the whole concentrate of 99.979% C(t).
- Detailed expandability test work on five different sized graphite concentrates. This work will build on the excellent expandability results obtained on the Duwi concentrates in 2015 which showed;
 - Jumbo +50 mesh, 98.7% C(t): 345 ml/g equivalent to 2.9 g/l
 - Large + 80 mesh, 98.1% C(t): 179 ml/g equivalent to 5.6 g/l

These results are in line with or exceeding typical expansion ratios for quality grades of many marketed jumbo flake products. In addition to the expandability characteristics, the presence and level of contaminants and the properties of the ash (gangue minerals) are crucial to the quality of the final expanded graphite product. Both the Duwi jumbo and large flake expanded graphite products show world-class and extremely low levels of the highly undesirable halogens fluorine (F) and chlorine (Cl). Small ash particle sizes are also exhibited, which is also a highly desirable characteristic as large ash particles can cause imperfections in foils and other products. All other important attributes are well within marketable limits. The excellent expandability and low contaminant levels of Duwi jumbo and large flake indicates it should be appropriate for use in a large range of applications in a growing market.

Malingunde Saprolite-Hosted Deposit

In 2015, Sovereign's in-country geological team made a new and significant graphite discovery using hand auger drilling techniques in an area of no outcrop. The new deposit is located at Malingunde, just 15km SW of Lilongwe, Malawi's capital city.

The Malingunde Deposit is particularly significant for Sovereign as it is hosted within weathered, soft saprolite (clay) material. Saprolite-hosted flake graphite mining operations, similar to those in China and Madagascar, can have significant cost and environmental advantages over hard rock mining operations due to:

- The free-dig nature and very low strip ratios of the mineralised material, which is by definition close to or at surface;
- Simple processing, generally with no primary crushing and grinding circuit results in large capital and operating cost advantages;
- The preservation of coarse graphite flakes in the weathering profile due to graphite's chemically inert properties; and
- The relative absence of sulphides offers substantial tailings management advantages.

Recently reported results for a saprolite-hosted graphite mining operation in Madagascar processing material grading 4-5% TGC, suggest mine-gate operating costs significantly lower than those of similar hard rock operations.

The Malingunde deposit appears to be large and comparatively high grade, with visually coarse and jumbo flake graphite identified throughout. Saprolite-hosted mineralisation has been identified in hand auger drilling over 3.4km of strike with cumulative across strike widths locally exceeding 200m and averaging about 140m. Grades of mineralised saprolite average around 8% TGC (nominal 5% TGC cut-off) with a number of coherent higher grade zones well above 10% TGC having also been identified.

A further five saprolite-hosted graphite prospects have been discovered in the Lifidzi area located to the SE of Malingunde.

The Company will continue to progress the Malingunde saprolite project whilst the PFS is ongoing for the Duwi deposit. An initial bench-scale metallurgical program on Malingunde saprolite samples has commenced and a diamond drilling program is planned to start in early August.

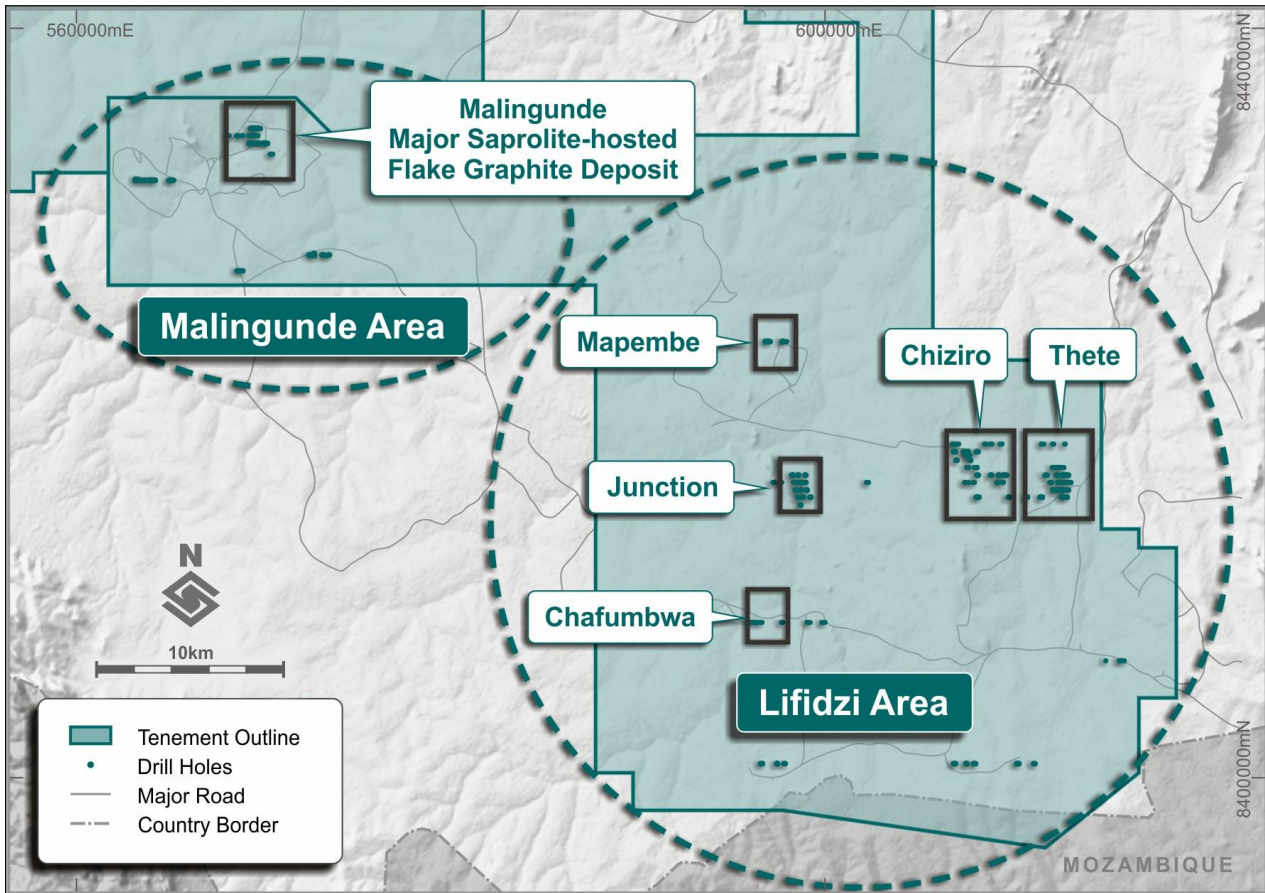


Figure 3. Map of Lifidzi and Malingunde areas showing the major saprolite-hosted flake graphite prospects.

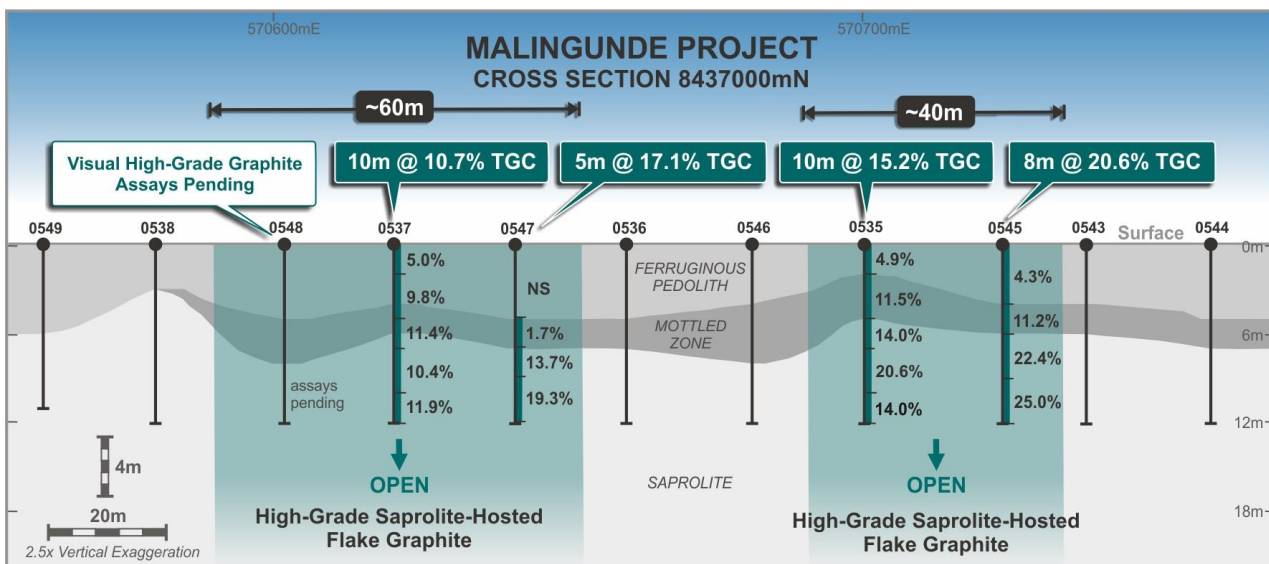


Figure 4. Cross-section (2.5 x vertical exaggeration) showing high-grade, saprolite-hosted graphite mineralisation at Ndumila II. Note that all mineralisation remains open at depth. View is to the north.

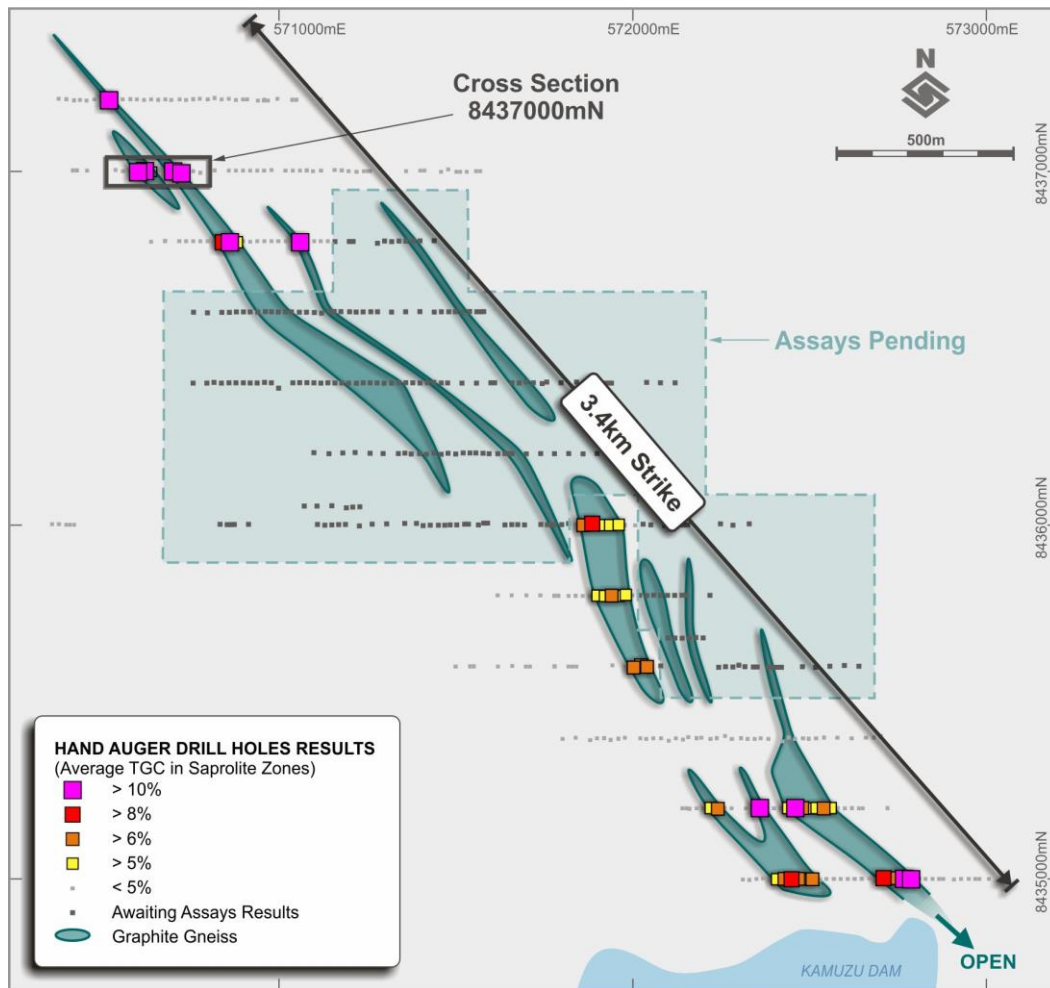


Figure 5. Map of the saprolite-hosted flake graphite deposit at Malingunde.

Carpentaria Joint Venture

Mount Isa Mines, a Glencore Company, continues to manage and sole fund exploration on all tenements comprising the Carpentaria Joint Venture (“CJV”).

During the Quarter, Mount Isa Mines commenced a drill program at the Tommy Creek Prospect (EPM 12561 Fountain Range) targeting a surface gossan with elevated Cu±Au±As±Co±Zn. It is anticipated the program will be completed in mid-August with results to be reported when available.

Corporate

Existing Director, Dr Julian Stephens, was appointed Managing Director of the Company effective 27 June 2016.

Dr Stephens identified and secured the Malawi graphite assets acquired by Sovereign in 2012 and has been closely involved in their subsequent exploration and development. He has extensive experience in the resources sector having spent in excess of 20 years in board, executive management, and senior operational roles including over 10 years working on projects in Malawi. Dr Stephens holds a PhD in from James Cook University and is a member of the Australian Institute of Geoscientists.

Mr Matthew Syme resigned as Director of the Company effective 27 June 2016.

In June 2016, the Company announced that it would place up to 53,333,333 ordinary shares at \$0.075 each to sophisticated investors in two tranches, to raise \$4.0 million before costs. The Company issued 30 million new shares to raise \$2.25 million before costs on 30 June 2016. The remaining 23.3 million new ordinary shares to raise a further \$1.75 million before costs will be issued subject to shareholder approval at a general meeting of Shareholders to be held on 5 August 2016.

The funds raised will be used to expedite development of the Company's 100% owned Duwi Flake Graphite Project in Malawi, along with ongoing exploration of a number of other advanced flake graphite prospects and general working capital.

Following discussions with a number of creditors, the Company is also seeking shareholder approval for the issue of up to 11.5 million new shares in conversion of amounts owing to creditors at the same price as the placement (\$0.075).

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.

Competent Person Statement

The information in this report that relates to Malingunde Exploration Results is extracted from the report entitled 'December 2015 Quarterly Report' dated 28 January 2016. This report is available to view on www.sovereignmetals.com.au. The information in the original ASX Announcement that related to 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 substantial holder of shares 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 announcement. The Company confirms that the form and context in which the Competent Person's findings are presented have not been materially modified from the original market announcement.

The information in this report that relates to Duwi Exploration Results is extracted from the report entitled 'Strong Final Results from Duwi Project Drilling' dated 3 October 2014. This report is available to view on www.sovereignmetals.com.au. The information in the original ASX Announcements that related to Exploration Results was based on, and fairly represents, information compiled by Mr Peter Woodman, a Competent Person who is a Member of The Australasian Institute of Mining and Metallurgy. Mr Woodman is a former Director of Sovereign Metals Limited. Mr Woodman has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity being undertaken, to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. The Company confirms that it is not aware of any new information or data that materially affects the information included in the original market announcement. The Company confirms that the form and context in which the Competent Person's findings are presented have not been materially modified from the original market announcement.

The information in this Report that relates to Mineral Resources is extracted from the report entitled 'Maiden JORC Resource Confirms Duwi as one the World's Largest Graphite Deposits' dated 17 October 2014. The 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.

Appendix 1: Summary of Mining Tenements

As at 30 June 2016, the Company had an interest in the following tenements:

| Project Name | Permit Number | Percentage Interest | Joint Venture Partner | Status |
|--------------------------------------|---------------|---------------------|-----------------------|---------|
| <u>Malawi</u> | | | | |
| Central Malawi Graphite Project | EPL 0413 | 100% | - | Granted |
| | EPL 0372 | 100% | - | Granted |
| | EPL 0355 | 100% | - | Granted |
| <u>Queensland, Australia:</u> | | | | |
| Mt Marathon | EPM 8586 | 32.45% | Mount Isa Mines | Granted |
| Mt Avarice | EPM 8588 | 32.45% | Mount Isa Mines | Granted |
| Fountain Range | EPM 12561 | 32.45% | Mount Isa Mines | Granted |
| Corella River | EPM 12597 | 32.45% | Mount Isa Mines | Granted |
| Saint Andrews Extended | EPM 12180 | 32.45% | Mount Isa Mines | Granted |

Beneficial percentage interests in Farm-out agreements disposed during the quarter ending 30 June 2016:

| Project Name | Permit Number | Type of change | Interest at beginning of quarter | Interest disposed of during quarter | Interest at end of quarter |
|-------------------------------|---------------|----------------|----------------------------------|-------------------------------------|----------------------------|
| <u>Carpentaria JV:</u> | | | | | |
| Mt Marathon | EPM 8586 | Farm out | 33.88% | 1.43% | 32.45% |
| Mt Avarice | EPM 8588 | Farm out | 33.88% | 1.43% | 32.45% |
| Fountain Range | EPM 12561 | Farm out | 33.88% | 1.43% | 32.45% |
| Corella River | EPM 12597 | Farm out | 33.88% | 1.43% | 32.45% |
| Saint Andrews Ext. | EPM 12180 | Farm out | 33.88% | 1.43% | 32.45% |

Appendix 5B

Mining exploration entity quarterly report

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

Name of entity

SOVEREIGN METALS LIMITED

ABN

71 120 833 427

Quarter ended ("current quarter")

30 JUNE 2016

Consolidated statement of cash flows

| | Current quarter \$A'000 | Year to date (12 months) \$A'000 |
|---|----------------------------|--|
| Cash flows related to operating activities | | |
| 1.1 Receipts from product sales and related debtors | - | - |
| 1.2 Payments for (a) exploration & evaluation | (191) | (866) |
| (b) development | - | - |
| (c) production | - | - |
| (d) administration | (33) | (340) |
| 1.3 Dividends received | - | - |
| 1.4 Interest and other items of a similar nature received | 4 | 24 |
| 1.5 Interest and other costs of finance paid | - | - |
| 1.6 Income taxes paid | - | - |
| 1.7 Other (provide details if material) | - | - |
| - Business development | (32) | (138) |
| - Project Marketing | - | - |
| Net Operating Cash Flows | (252) | (1,320) |
| Cash flows related to investing activities | | |
| 1.8 Payment for purchases of: (a) prospects | - | - |
| (b) equity investments | - | - |
| (c) other fixed assets | - | - |
| 1.9 Proceeds from sale of: (a) prospects | - | - |
| (b) equity investments | - | - |
| (c) other fixed assets | - | - |
| 1.10 Loans to other entities | (2) | (2) |
| 1.11 Loans repaid by other entities | 2 | 2 |
| 1.12 Other (provide details if material) | - | - |
| Net investing cash flows | - | - |
| 1.13 Total operating and investing cash flows (carried forward) | (252) | (1,320) |

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

| | | | |
|------|--|--------------|--------------|
| 1.13 | Total operating and investing cash flows (brought forward) | (252) | (1,320) |
| | Cash flows related to financing activities | | |
| 1.14 | Proceeds from issues of shares, options, etc. | 2,250 | 3,105 |
| 1.15 | Proceeds from sale of forfeited shares | - | - |
| 1.16 | Proceeds from borrowings | - | - |
| 1.17 | Repayment of borrowings | - | - |
| 1.18 | Dividends paid | - | - |
| 1.19 | Other (provide details if material) | | |
| | - Share issue costs | - | (57) |
| | Net financing cash flows | 2,250 | 3,048 |
| | Net increase (decrease) in cash held | 1,998 | 1,728 |
| 1.20 | Cash at beginning of quarter/year to date | 796 | 1,066 |
| 1.21 | Exchange rate adjustments to item 1.20 | | |
| 1.22 | Cash at end of quarter | 2,794 | 2,794 |

Payments to directors of the entity and associates of the directors
Payments to related entities of the entity and associates of the related entities

| | | Current quarter \$A'000 |
|------|--|----------------------------|
| 1.23 | Aggregate amount of payments to the parties included in item 1.2 | 88 |
| 1.24 | Aggregate amount of loans to the parties included in item 1.10 | - |

1.25 Explanation necessary for an understanding of the transactions

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

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

Not Applicable

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

Not Applicable

Financing facilities available

Add notes as necessary for an understanding of the position.

| | Amount available \$A'000 | Amount used \$A'000 |
|---------------------|-----------------------------|------------------------|
| 3.1 Loan facilities | - | - |

+ See chapter 19 for defined terms.

| | | |
|---------------------------------|---|---|
| 3.2 Credit standby arrangements | - | - |
|---------------------------------|---|---|

Estimated cash outflows for next quarter

| | | \$A'ooo |
|--------------|----------------------------|--------------|
| 4.1 | Exploration and evaluation | (250) |
| 4.2 | Development | - |
| 4.3 | Production | - |
| 4.4 | Administration | (200) |
| Total | | (450) |

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

| | Current quarter \$A'ooo | Previous quarter \$A'ooo |
|--|----------------------------|-----------------------------|
| 5.1 Cash on hand and at bank | 2,255 | 5 |
| 5.2 Deposits at call | 539 | 791 |
| 5.3 Bank overdraft | - | - |
| 5.4 Other (provide details) | - | - |
| Total: cash at end of quarter (item 1.22) | 2,794 | 796 |

Changes in interests in mining tenements

| | Tenement reference | Nature of interest (note (2)) | Interest at beginning of quarter | Interest at end of quarter |
|---|---|--|----------------------------------|----------------------------|
| 6.1 Interests in mining tenements relinquished, reduced or lapsed | EPM 8586 EPM 8588 EPM 12561 EPM 12597 EPM 12180 | Reduction of interest in accordance with terms of joint venture agreement. | 33.88% | 32.45% |
| 6.2 Interests in mining tenements acquired or increased | | | | |

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

| | Total number | Number quoted | Issue price per security (see note 3) (cents) | Amount paid up per security (see note 3) (cents) |
|--|----------------|---------------|---|--|
| 7.1 Preference securities <i>(description)</i> | | | | |
| 7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions | | | | |
| 7.3 +Ordinary securities | 172,420,139 | 172,420,139 | Not applicable | Not applicable |
| 7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs | 30,000,000 | 30,000,000 | \$0.075 per Share | \$0.075 per Share |
| 7.5 +Convertible debt securities <i>(description)</i> | | | | |
| 7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted | | | | |
| 7.7 Options/Rights | <u>Options</u> | | <i>Exercise price</i> | <i>Expiry date</i> |
| | 1,500,000 | | \$0.40 | 15 May 2017 |
| - Unlisted options | 1,500,000 | - | \$0.47 | 15 May 2018 |
| - Unlisted options | 1,000,000 | - | \$0.10 | 30 June 2018 |
| - Unlisted options | 1,416,667 | - | \$0.15 | 30 September 2018 |
| - Unlisted options | | - | | |
| | <u>Rights</u> | | | |
| - Perform. Rights | 800,000 | - | - | 31 December 2017 |
| - Perform. Rights | 800,000 | - | - | 31 December 2018 |

+ See chapter 19 for defined terms.

| | | | | | |
|------|--|-----------|---|---------------------------------|-----------------------------------|
| 7.8 | Issued during quarter | | | | |
| 7.9 | Exercised during quarter | | | | |
| 7.10 | Expired during quarter - Unlisted options | 1,500,000 | - | <i>Exercise price</i> \$0.33 | <i>Expiry date</i> 15 May 2016 |
| 7.11 | Performance Shares | | | | |
| 7.12 | Changes during quarter - | | | | |
| 7.13 | Debentures (totals only) | | | | |
| 7.14 | Unsecured notes (totals only) | | | | |

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 5).
- 2 This statement does ~~/does not~~* (*delete one*) give a true and fair view of the matters disclosed.

Sign here: Date: 28 July 2016
(~~Director~~/Company secretary)

Print name: Clint McGhie

Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 6: Exploration for and Evaluation of Mineral Resources* and *AASB 107: Statement of Cash Flows* apply to this report.

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

- 5 **Accounting Standards** ASX will accept, for example, the use of International Financial Reporting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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