SOVEREIGN METALS LIMITED

SEPTEMBER 2016 QUARTERLY REPORT

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

Highlights:

- ***Significant increase in scale of saprolite-hosted graphite mineralisation at Malingunde:***
  - *Initial diamond drilling intersected soft saprolite (clay) hosted graphite with vertical thicknesses averaging 20-30m, well in excess of initial expectations. This has substantially increased the overall saprolite tonnage potential for Malingunde. Diamond drilling assay results include:*

    MGDD0007: 15m @ 19.7% TGC within broader zone of 25m @ 15.1% TGC
    MGDD0006: 12m @ 17.1% TGC within broader zone of 20m @ 13.7% TGC

  - *Hand auger drilling defined high-grade flake graphite at Malingunde over 3.4km strike length with cumulative across strike widths averaging about 140m. Results include:*

MGHA0153	***10m @ 26.3% TGC***	***MGHA0235***	***7m @ 16.6% TGC***
MGHA0545	***8m @ 20.6% TGC***	***MGHA0548***	***7m @ 21.2% TGC***
MGHA0564	***7m @ 24.5% TGC***	***MGHA0870***	***7m @ 18.3% TGC***
MGHA0871	***9m @ 18.8% TGC***	***MGHA0895***	***8m @ 17.9% TGC***

  - *Soft saprolite-hosted flake graphite deposits generally have significantly lower capital and operational costs compared with hard rock operations. This is primarily due to their free-dig nature, very low life-of-mine stripping ratios and simplified processing plants that do not require more expensive crushing or primary milling circuits.*

- ***Outstanding metallurgy and simple flowsheet for Malingunde saprolite:***
  - *Initial bench-scale metallurgical test-work shows high-grade concentrates with excellent flake distribution can be produced from Malingunde saprolite. Results from the first flotation test produced a combined concentrate grading 97.3% C(t), with ~50% of the concentrate in the +149µm medium, large & jumbo flake size fractions.*
  - *Concentrates produced using a simple flowsheet that incorporates an upfront scrubber to wash & disaggregate the graphite flakes from the host material prior to flotation, providing significant capital & operational cost benefits over traditional hard-rock crushing & milling equipment.*

- ***Capital raising:***
  - *Sovereign completed the second tranche of a placement to raise $4.0 million (before costs).*
  - *Post Q3, the Company completed a placement to raise $1.1 million (before costs) which included $1.0 million to a prominent Australian institutional investor.*

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

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, and has access to enviable infrastructure; being 25km from rail access, 15km from high-capacity power-lines and with plentiful fresh water.

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, usually 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 resulting 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.

Geology

Saprolite is the very soft, graphite-bearing, clay-rich oxide material that is formed from intense weathering of the original bedrock. Sovereign's Malingunde saprolite-hosted flake graphite deposit is located on the Lilongwe Plain which is underlain by a paragneiss basement rock package containing extensive graphitic units. This area has a largely preserved, deep tropical weathering profile containing significant thicknesses of saprolite. Because graphite is inert during the weathering process, it is preserved whilst most of the silicate gangue minerals are altered to clays.

The Malingunde deposit appears to be large and 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 identified.

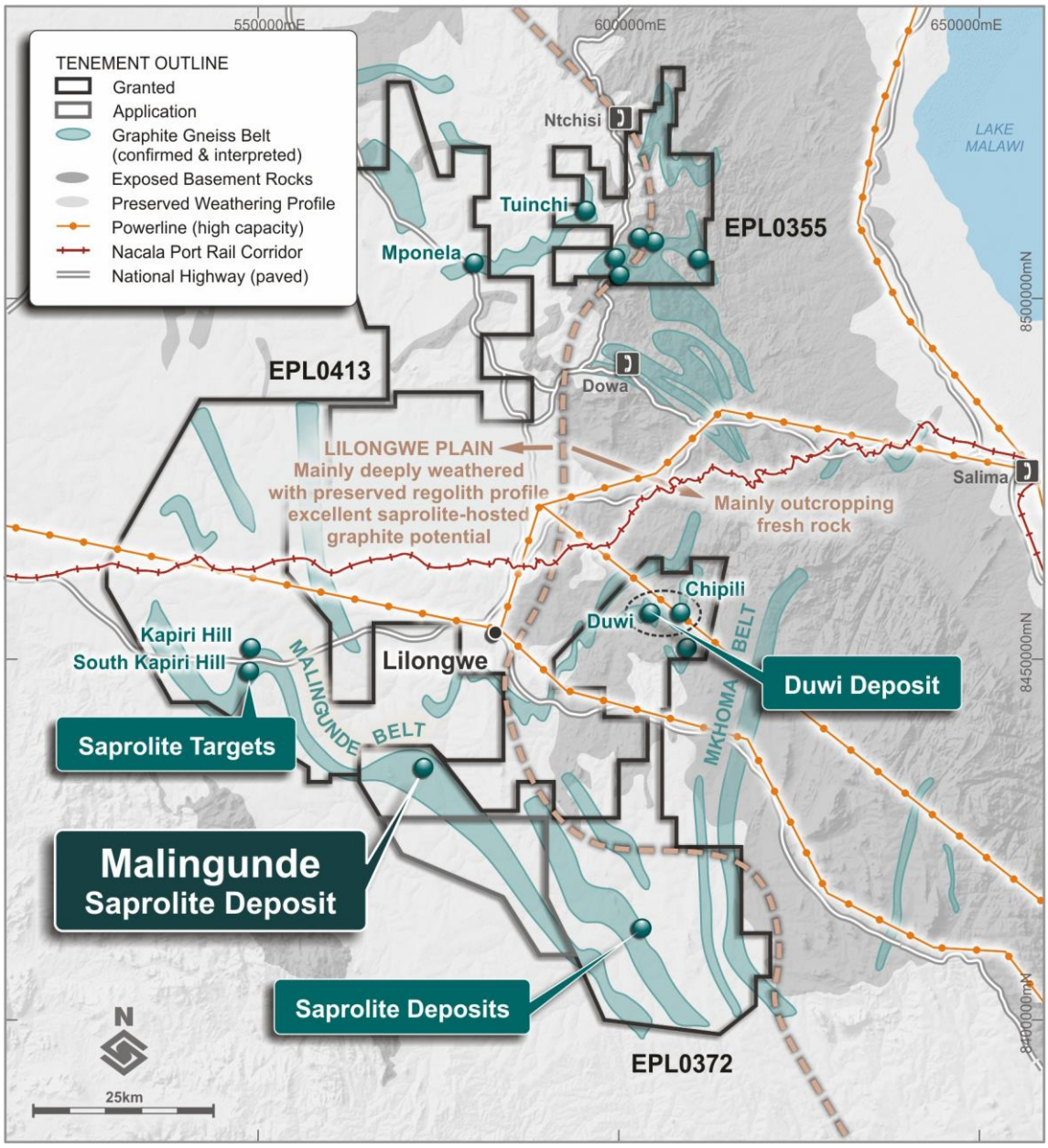

Figure 1. Map showing Sovereign's large 3,788km² ground package in Central Malawi with the major flake graphite deposits and target areas shown

Drilling

Results from the recent hand auger program at Malingunde continued to show excellent grades and continuity of the saprolite-hosted flake graphite mineralisation. New hand-auger results from Malingunde received during the September Quarter and in October include:

MGHA0153	***10m @ 26.3% TGC***	***MGHA0235***	***7m @ 16.6% TGC***
MGHA0545	***8m @ 20.6% TGC***	***MGHA0548***	***7m @ 21.2% TGC***
MGHA0564	***7m @ 24.5% TGC***	***MGHA0870***	***7m @ 18.3% TGC***
MGHA0871	***9m @ 18.8% TGC***	***MGHA0895***	***8m @ 17.9% TGC***

A diamond drilling program was designed to test the vertical thicknesses of mineralised saprolite, as well as provide substantial volumes of core for ongoing metallurgical test-work. A total of 13 large diameter PQ diamond holes were completed for a combined 488m. These show that the vast majority of saprolite-hosted graphite mineralisation has vertical thicknesses of between 20m and 30m.

The first batch of diamond drilling assays from Malingunde, received in October, returned thick and very high-grade zones of saprolite-hosted graphite mineralisation, including:

MGDD0007: 15m @ 19.7% TGC within broader zone of 25m @ 15.1% TGC

MGDD0006: 12m @ 17.1% TGC within broader zone of 20m @ 13.7% TGC

MGDD0003: 13m @ 10.7% TGC within broader zone of 25m @ 8.5% TGC

Processing of the remaining drill core is underway with assay results to be reported when received.

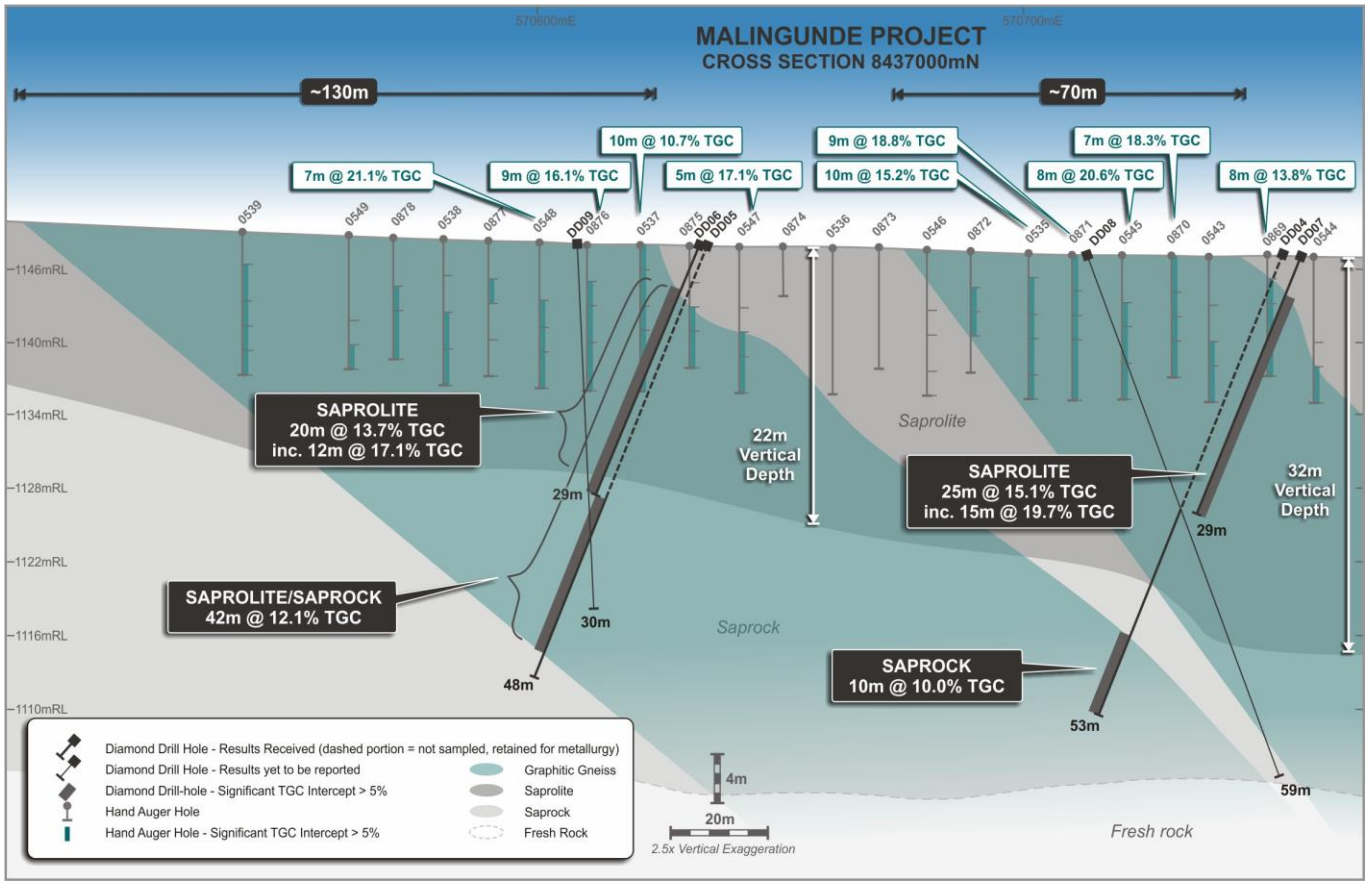

Figure 2. Cross-section (2.5 x vertical exaggeration) showing high-grade, saprolite-hosted graphite mineralisation with recent diamond-drilling assays. View is to the north.

Numerous and significant additional saprolite-hosted prospects have been identified along strike to the south-east of Malingunde. Further, Sovereign controls a very large ground holding to the north of Malingunde, interpreted to have the same paragneiss basement rock package containing substantial graphitic units. This area has yet to be tested by any modern exploration for saprolite-hosted deposits and provides immense additional exploration potential.

A ~5,000m aircore resource drilling program is due to commence imminently. Results will feed in to an initial resource estimate due for completion in Q1 2017.

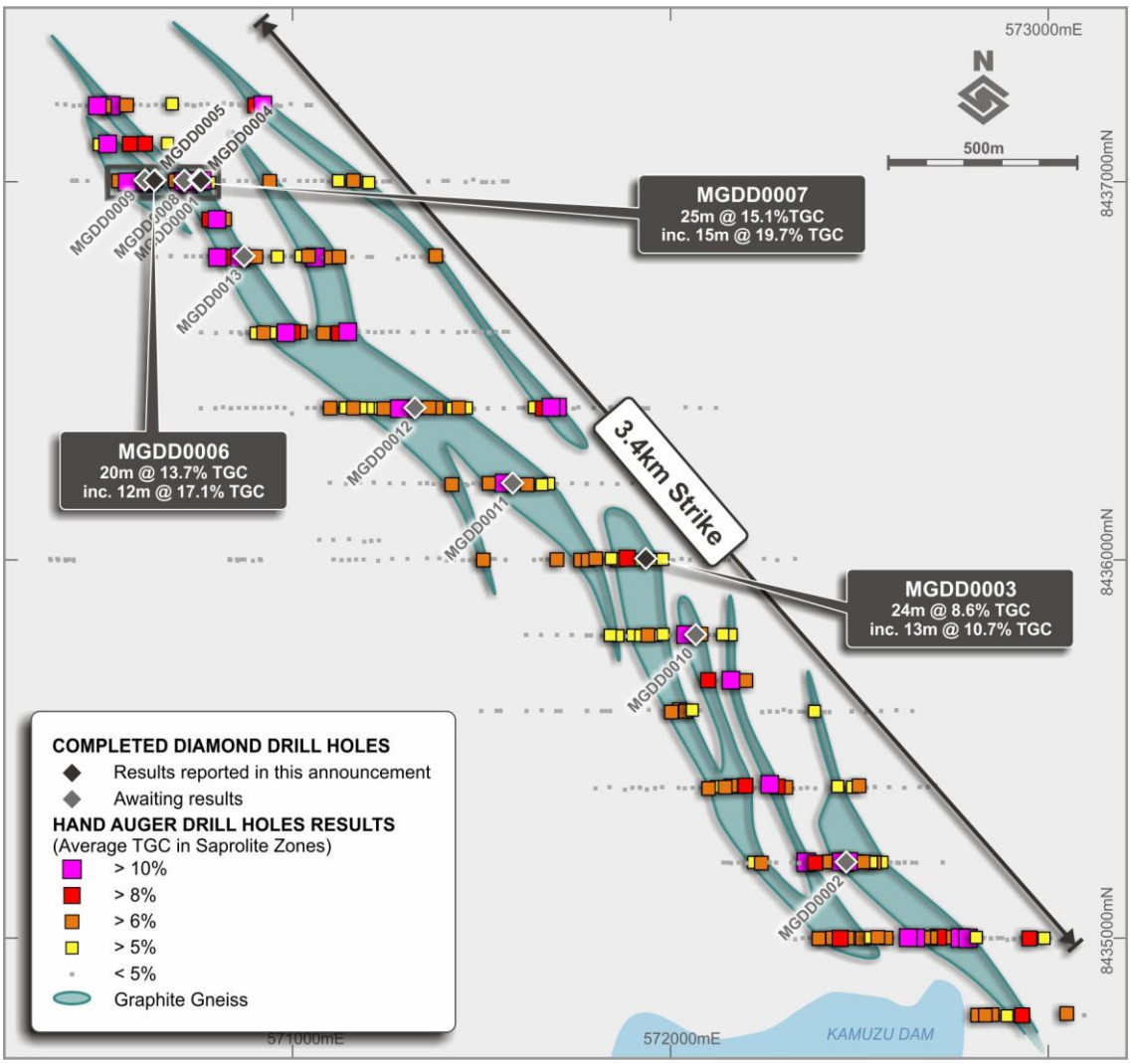

Figure 3. Map of the mineralised saprolite-hosted graphite zones, hand auger and diamond drill-holes at Malingunde.

Metallurgy

Sovereign's independent metallurgical test-work program for the Malingunde saprolite-hosted flake graphite deposit is being conducted at SGS Lakefield Canada under the supervision of Mr Oliver Peters (MSc, P.Eng, MBA).

The primary objectives of this initial bench-scale test work program are two-fold:

1) To test whether high-grade flake graphite concentrates with large proportions of jumbo and coarse flake can be obtained from Malingunde saprolite material.
2) To establish whether marketable concentrates can be obtained with an operational flowsheet that relies solely on media assisted scrubbing to liberate the graphite from the ore, as opposed to primary crushing and rod milling processes used for hard-rock deposits.

The ongoing test-work is being performed on a saprolite composite sample obtained through hand auger sampling with a head grade of 11.3% TGC (Holes MGHA0894-MGHA0898).

Initial disaggregation of the saprolite composite was conducted under conditions representative of a scrubber with ceramic media. This was followed by standard rougher flotation, polishing grind, cleaner flotation stages and a final gentle attritioning and cleaner flotation stage.

The results from the first test (Table 1) show that high-grade flake graphite concentrates of excellent flake size distribution can be produced with a flowsheet that **does not require any primary crushing or grinding**. Rather, the upfront treatment of the material is accomplished with a scrubber. This process also assists in the removal of fine (slimes) fractions, as well as oversize unmineralised material.

MALINGUNDE 2016 FLOTATION RESULTS – TEST #1				
PARTICLE SIZE		C (%)	Distribution (wt. %)	Flake Category
Tyler Mesh	(µm)			
+ 48	+ 297	96.8	20.4	Extra Large (Jumbo)
-48 + 100	- 297 + 149	97.8	28.3	Large-Medium
-100 + 200	- 149 + 74	97.6	27.6	Small
-200	- 74	96.4	23.7	Amorphous
TOTAL		97.3	100.0	

Table 1. Results of initial flotation test on Malingunde saprolite hosted graphite mineralisation.

Malingunde Summary

Substantial, high-grade saprolite-hosted flake graphite mineralisation has been discovered at Malingunde, with metallurgy showing that graphite products of excellent quality and flake size distribution can be produced with a simple process flowsheet that does not require primary crushing or grinding. Combined with the free-dig nature of the deposit, very low life-of-mine stripping ratios and proximity to infrastructure, Malingunde has the potential for significantly reduced development costs and ongoing operating costs when compared to similar-sized hard rock operations.

Upcoming activities at Malingunde include:

- **Diamond drilling**: Program now complete with 13 holes drilled for 488m. The remaining assay results are expected to be received over the coming weeks.
- **Metallurgy**: Ongoing flowsheet optimisation including mini-pilot to produce substantial quantities of concentrates for evaluation by potential offtake partners and for downstream test-work including Li-Ion battery and expandable graphite applications.
- **Resource definition drilling**: 5,000m air-core resource drilling program to commence imminently.
- **Initial resource estimate**: Targeted for Q1 2017.
- **Scoping study**: Targeted for late Q1 – early Q2 2017.

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").

Corporate

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 issue of the remaining 23.3 million new ordinary shares to raise a further $1.75 million before costs was approved by shareholders and the new shares were issued on 11 August 2016.

Following discussions with a number of creditors, shareholder approval was also received for the issue of 11.5 million new shares in conversion of amounts owing to creditors at the same price as the placement ($0.075). The new shares were issued to creditors on 5 August 2016.

During October, the Company announced an additional placement of 10 million ordinary shares at $0.11 each to raise $1.1 million (before costs). The placement included $1.0 million to a prominent Australian institutional investor.

The Company's current cash balance is ~A$4.4M.

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 Hand Auger Drilling Results, is extracted from the reports entitled 'Highest Grade Hand Auger Results to Date at Malingunde' dated 12 October 2016 and 'Further High-Grade Hand Auger Results at Malingunde' dated 29 August 2016. These reports are available to view on www.sovereignmetals.com.au. The information in the original ASX Announcements that related to Hand Auger Drilling 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 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 Malingunde Diamond Drilling Results, is extracted from the reports entitled 'Diamond Drilling Assays Confirm Thick High Grade Saprolite, dated 26 October 2016 and 'Drilling Significantly Increases Scale of Malingunde Saprolite-Hosted Graphite Deposit' dated 5 October 2016. These reports are available to view on www.sovereignmetals.com.au. The information in the original ASX Announcements that related to Diamond Drilling Results was based on information compiled by Dr Julian Stephens, a Competent Person who is a member of the Australian Institute of Geoscientists (AIG). Dr Stephens is the Managing Director of Sovereign Metals Limited and a substantial holder of shares, a holder of 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 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 Metallurgical Test work Results, is extracted from the report entitled 'Outstanding Metallurgy with Simple Process Flowsheet for Malingunde Saprolite' dated 7 September 2016. This report is available to view on www.sovereignmetals.com.au. The information in the original ASX Announcement that related to Metallurgical Test work Results was based on, and fairly represents, information compiled by Mr Oliver Peters, M.Sc., P.Eng., MBA, who is a Member of the Professional Engineers of Ontario (PEO), a 'Recognised Professional Organisation' (RPO) included in a list promulgated by the ASX from time to time. Mr Peters is a consultant of SGS Canada Inc. ("SGS"). SGS is engaged as a consultant by Sovereign Metals Limited. Mr Peters has sufficient experience, which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking, to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. The Company confirms that it is not aware of any new information or data that materially affects the information included in the original market announcement. The Company confirms that the form and context in which the Competent Person's findings are presented have not been materially modified from the original market announcement.

Appendix 1: Summary of Mining Tenements

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

Project Name	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	30.53%	Mount Isa Mines	Granted
Mt Avarice	EPM 8588	30.53%	Mount Isa Mines	Granted
Fountain Range	EPM 12561	30.53%	Mount Isa Mines	Granted
Corella River	EPM 12597	30.53%	Mount Isa Mines	Granted
Saint Andrews Extended	EPM 12180	30.53%	Mount Isa Mines	Granted

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

Project Name	Permit Number	Type of change	Interest at beginning of quarter	Interest disposed of during quarter	Interest at end of quarter
Carpentaria JV:					
Mt Marathon	EPM 8586	Farm out	32.45%	1.93%	30.53%
Mt Avarice	EPM 8588	Farm out	32.45%	1.92%	30.53%
Fountain Range	EPM 12561	Farm out	32.45%	1.92%	30.53%
Corella River	EPM 12597	Farm out	32.45%	1.92%	30.53%
Saint Andrews Ext.	EPM 12180	Farm out	32.45%	1.92%	30.53%

+Rule 5.5

Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

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

Name of entity

SOVEREIGN METALS LIMTED

ABN	**Quarter ended ("current quarter")**
71 120 833 427	30 SEPTEMBER 2016

Consolidated statement of cash flows		**Current quarter $A'000**	**Year to date (3 months) $A'000**
1.	**Cash flows from operating activities**		
1.1	Receipts from customers	-	-
1.2	Payments for		
	(a) exploration & evaluation	(411)	(411)
	(b) development	-	-
	(c) production	-	-
	(d) staff costs	(90)	(90)
	(e) administration and corporate costs	(155)	(155)
1.3	Dividends received (see note 3)	-	-
1.4	Interest received	9	9
1.5	Interest and other costs of finance paid	-	-
1.6	Income taxes paid	-	-
1.7	Research and development refunds	-	-
1.8	Other (provide details if material):		
	- Business development	(32)	(32)
1.9	**Net cash from / (used in) operating activities**	**(679)**	**(679)**

2.	**Cash flows from investing activities**		
2.1	Payments to acquire:		
	(a) property, plant and equipment	(4)	(4)
	(b) tenements (see item 10)	-	-
	(c) investments	-	-
	(d) other non-current assets	-	-

Consolidated statement of cash flows		**Current quarter $A'000**	**Year to date (3 months) $A'000**
2.2	Proceeds from the disposal of:		
	(a) property, plant and equipment	-	-
	(b) tenements (see item 10)	-	-
	(c) investments	-	-
	(d) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	**Net cash from / (used in) investing activities**	**(4)**	**(4)**

3.	**Cash flows from financing activities**		
3.1	Proceeds from issues of shares	1,750	1,750
3.2	Proceeds from issue of convertible notes	-	-
3.3	Proceeds from exercise of share options	-	-
3.4	Transaction costs related to issues of shares, convertible notes or options	(235)	(235)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	**Net cash from / (used in) financing activities**	**1,515**	**1,515**

4.	**Net increase / (decrease) in cash and cash equivalents for the period**		
4.1	Cash and cash equivalents at beginning of period	**2,794**	**2,794**
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(679)	(679)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(4)	(4)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	1,515	1,515
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	**Cash and cash equivalents at end of period**	**3,626**	**3,626**

5.	**Reconciliation of cash and cash equivalents** at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	**Current quarter $A'000**	**Previous quarter $A'000**
5.1	Bank balances	36	2,255
5.2	Call deposits	3,590	539
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	**Cash and cash equivalents at end of quarter (should equal item 4.6 above)**	**3,626**	**2,794**

6.	**Payments to directors of the entity and their associates**	**Current quarter $A'000**
6.1	Aggregate amount of payments to these parties included in item 1.2	152
6.2	Aggregate amount of cash flow from loans to these parties included in item 2.3	-

6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

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

7.	**Payments to related entities of the entity and their associates**	**Current quarter $A'000**
7.1	Aggregate amount of payments to these parties included in item 1.2	-
7.2	Aggregate amount of cash flow from loans to these parties included in item 2.3	-

7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2

Not applicable

8.	**Financing facilities available** *Add notes as necessary for an understanding of the position*	**Total facility amount at quarter end $A'000**	**Amount drawn at quarter end $A'000**
8.1	Loan facilities	-	-
8.2	Credit standby arrangements	-	-
8.3	Other (please specify)	-	-

8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.

Not applicable

9.	**Estimated cash outflows for next quarter**	**$A'000**
9.1	Exploration and evaluation	500
9.2	Development	-
9.3	Production	-
9.4	Staff costs	90
9.5	Administration and corporate costs	130
9.6	Other (provide details if material)	30
9.7	**Total estimated cash outflows**	**750**

10.	**Changes in tenements (items 2.1(b) and 2.2(b) above)**	**Tenement reference and location**	**Nature of interest**	**Interest at beginning of quarter**	**Interest at end of quarter**
10.1	Interests in mining tenements and petroleum tenements lapsed, relinquished or reduced	EPM 8586 EPM 8588 EPM 12561 EPM 12597 EPM 12180	Reduction of interest in accordance with terms of joint venture agreement.	32.45%	30.53%
10.2	Interests in mining tenements and petroleum tenements acquired or increased				

Compliance statement

1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.

2 This statement gives a true and fair view of the matters disclosed.

Sign here: ..... Date: 27 October 2016
(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 that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.

2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, AASB 6: Exploration for and Evaluation of Mineral Resources and AASB 107: Statement of Cash Flows apply to this report. If this quarterly report has been

prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standards apply to this report.

3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.