

MARCH 2014 QUARTERLY REPORT

Sovereign Metals Limited ("the Company" or "Sovereign") is pleased to present its quarterly report for the period ending 31 March 2014.

Highlights:

- The Company completed an initial trench sampling program at the newly discovered Dedza Mountain East ("DME") flake graphite prospect.
 - Substantial widths of high-grade flake graphite intersected in trenches at DME where a discrete zone of graphite mineralisation was mapped by Company geologists over ~4km.
 - A total of 8 trenches for 502m were sampled over DME and showed consistent widths and grades of flake graphite mineralisation, **hosted within soft and highly weathered saprolite**. Results included:
 - DZTR0001: 14m @ 10.8% TGC incl. 6m @ 12.1% TGC**
 - DZTR0002: 18m @ 9.5% TGC**
 - DZTR0003: 20m @ 10.3% TGC incl. 10m @ 11.3% TGC**
 - DZTR0005: 14m @ 9.3% TGC**
- Results from an initial metallurgical test-work program confirmed the large flake potential of the Duwi Prospect. Results included:
 - Favourable high-value Extra Large (Jumbo) Flake "footprint" and increasing purity with flake size:
 - **> 35% of concentrate is +48 mesh (+300µm – Extra Large) with a purity of 95% Total Graphitic Carbon ("TGC")**
 - > 60% of concentrate is +100 mesh (+150µm) with a purity of 93% TGC
 - Overall recoveries of 87.5% grading 92.0% TGC
 - Indicates the potential of the Duwi Prospect to deliver a high-quality marketable flake graphite concentrate using simple conventional flotation technology.
- **Saprolite-hosted flake graphite** mining operations are likely to have significant advantages over hard rock operations, including the **potential for lower mining costs, reduced capex and opex, and may also result in the preservation of the coarser flake**.

The Company has commenced an exploration and metallurgical testwork program to focus on the excellent potential for high grade, low cost, flake graphite production from a number of saprolite hosted graphite prospects within its 100% owned Central Malawi Graphite Project.

Enquiries:

Peter Woodman – Managing Director +618 9322 6322

Central Malawi Graphite Project

Sovereign is exploring the large and highly prospective Central Malawi Graphite Project ("CMGP"), located in Malawi, near the capital city, Lilongwe.

The CMGP is composed of three tenements (Figure 6) totalling 7,261km² in area:

- Exclusive Prospecting Licence EPL0355 – 780km²;
- Exclusive Prospecting Licence EPL0372 – 2,499km²; and
- Reconnaissance Licence RL0146 – 3,982km².

Since acquiring the Project in November 2012, the Company has undertaken an intensive geological mapping and rock-chip sampling program, trenching programs and flown a substantial helicopter-borne VTEM survey. In June 2013, Sovereign undertook its initial drilling campaign at the Duwi and Nanzeka Prospects. The Company has also completed preliminary testwork on fresh rock samples from Duwi.

The Company has identified four significant flake graphite prospects where substantial widths and high grades of flake graphite have been identified in trenching and/or drilling. These are Duwi, Chipili (both within the greater Duwi Trend) and Dedza Mountain East in EPL0372 and the Nanzeka Prospect in EPL0355. Numerous other prospects and targets have been identified through mapping, sampling and the VTEM Survey, and require follow up work.

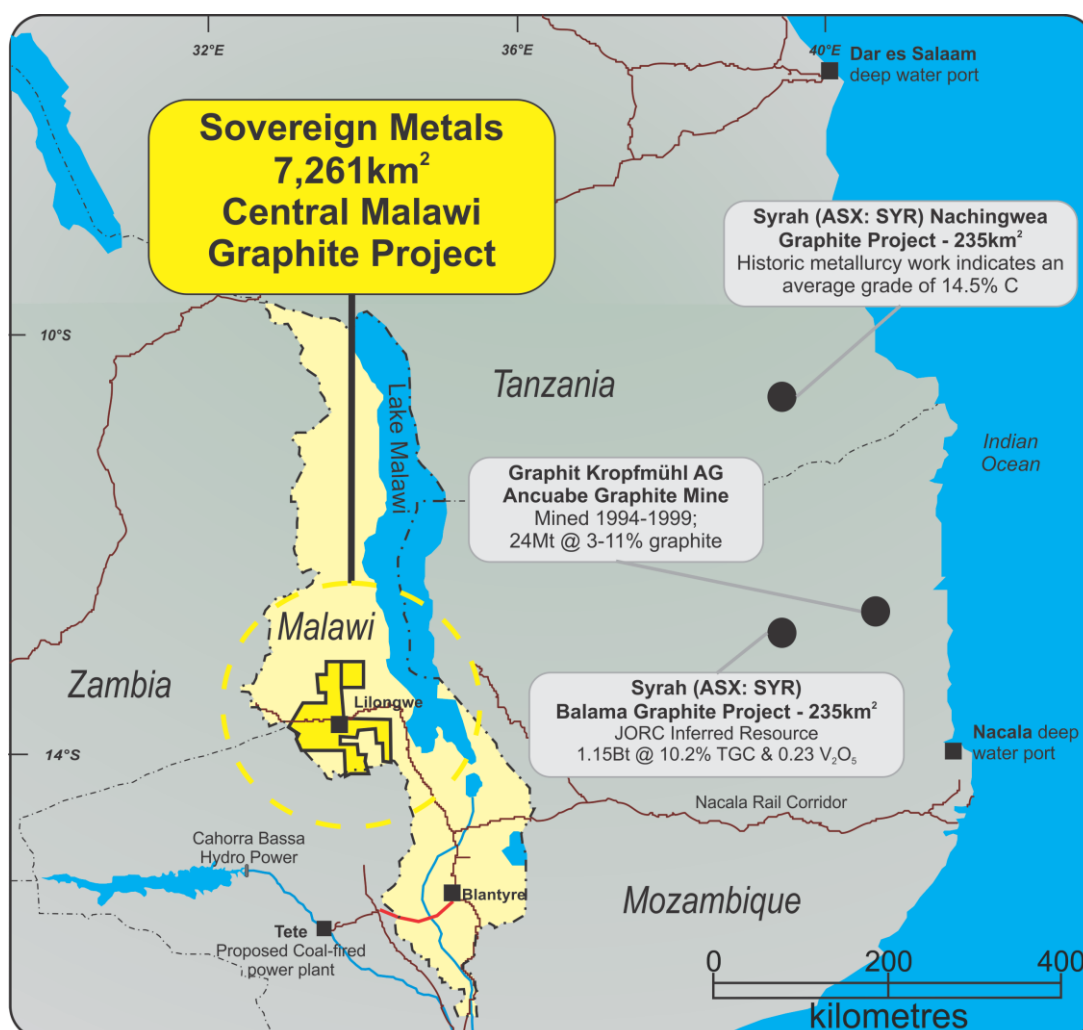


Figure 1. Location of the Central Malawi Graphite Project.

Dedza Mountain East (DME) & West (DMW) Prospects

The Company recognised significant potential for flake graphite mineralisation at Dedza through the discovery of approximately twenty trenches excavated for base metals exploration by a previous explorer. Subsequent field reconnaissance mapping defined two very discrete zones of graphite mineralisation with ~4km (DME) and ~20km (DMW) strike lengths respectively (Figure 2).

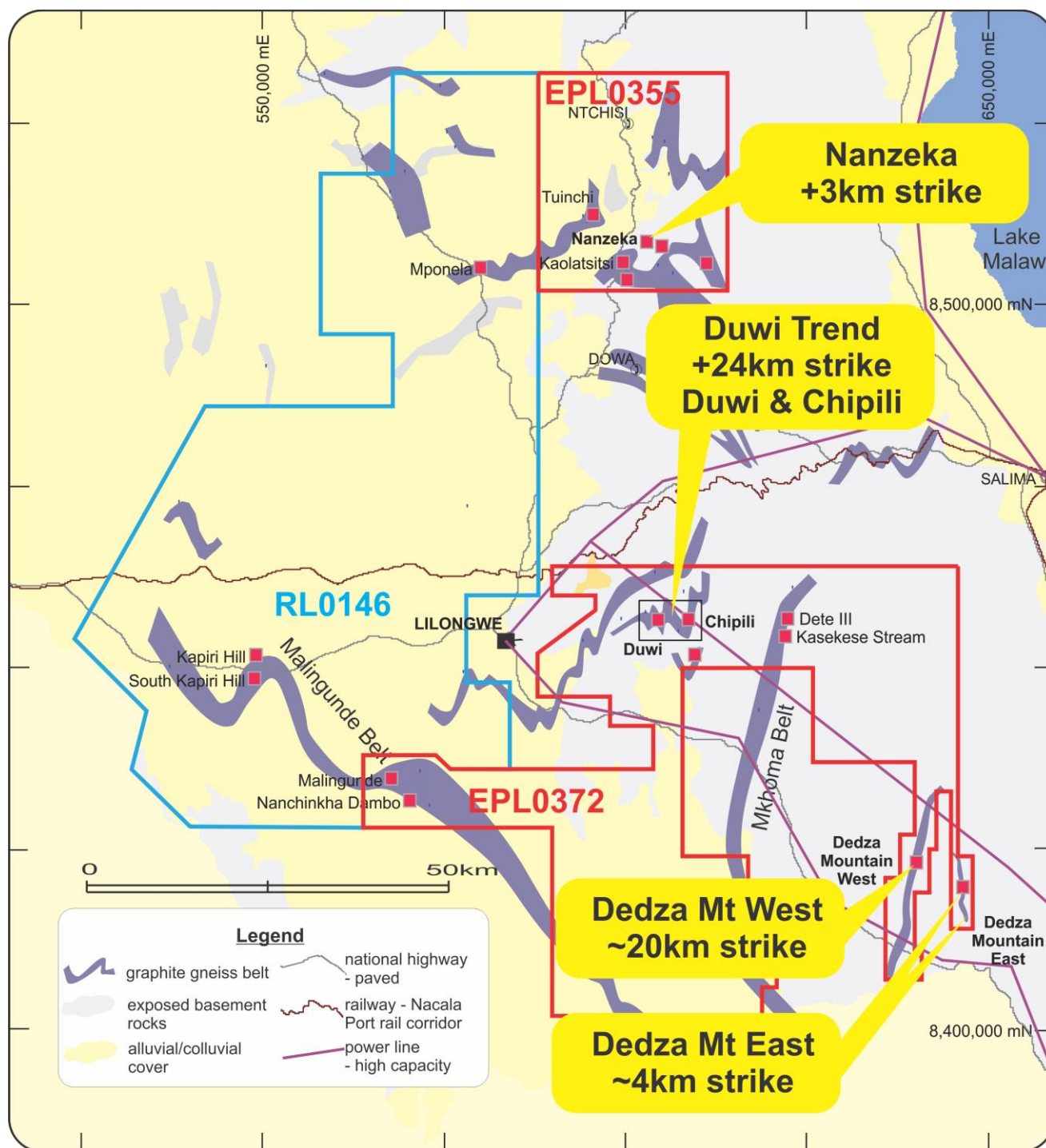


Figure 2. Simplified map of the CMGP showing major flake graphite prospects.

Field examination of the existing trenches at DME showed significant and visually consistent zones of coarse flake graphite mineralisation. A total of 8 trenches for 502m were sampled and showed graphite mineralisation to be hosted within very soft and highly weathered saprolite (Figure 3).

A ~500m trenching program is currently underway at the DMW and DME prospects with results to be reported when received.

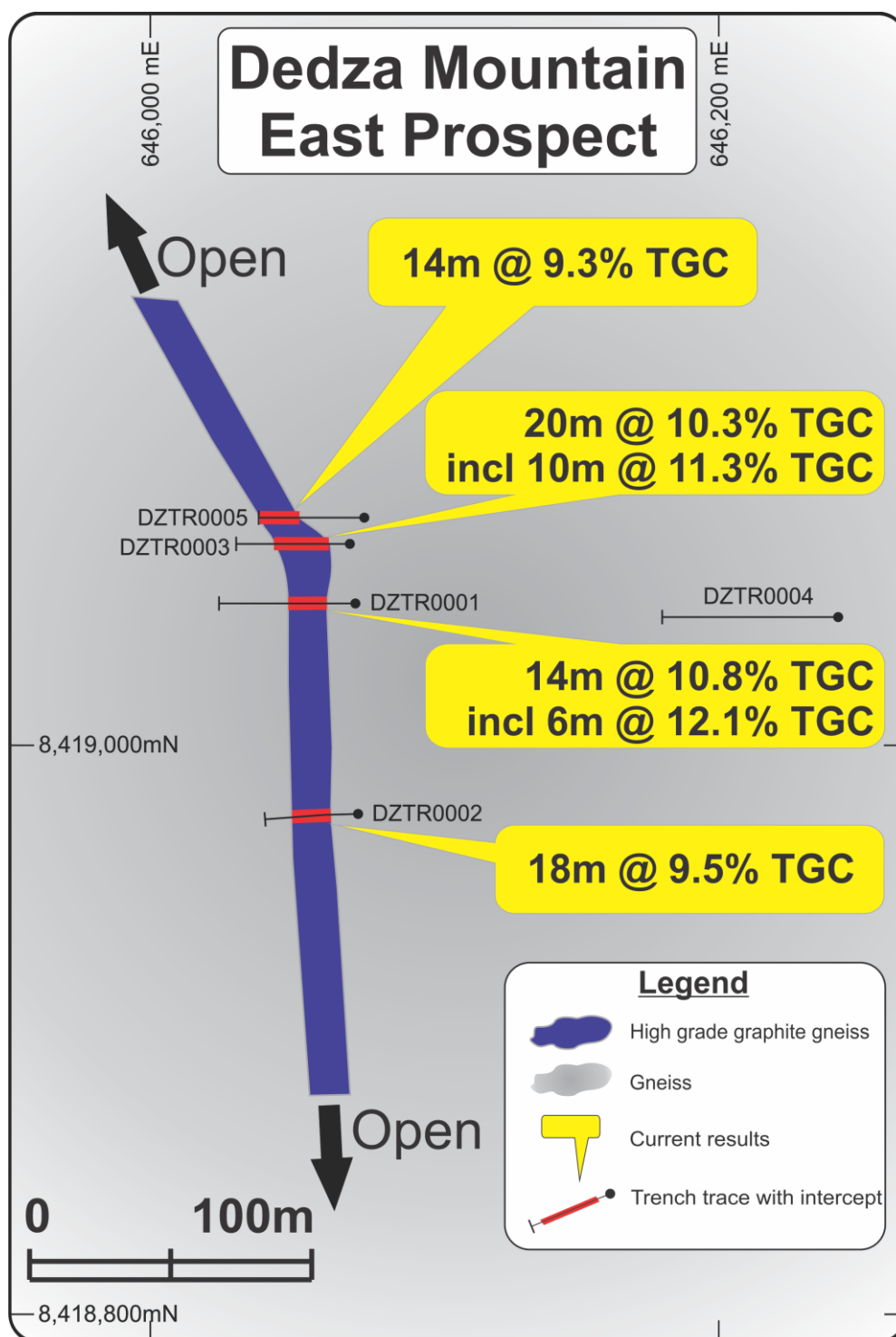


Figure 3. Trench results over Dedza Mountain East (DME) Prospect, March 2014.

Chipili Prospect

Visually coarse flake, high-grade graphite mineralisation was first recognised at Chipili, about 6km east of the Duwi Prospect, in the Company's initial mapping and rock-chip sampling program in early 2013. Graphite occurs in multiple, west dipping, sub-parallel zones ranging up to 28m in surface width.

A total of 8 trenches for 512m were excavated by hand and sampled in this program. Results show significant grades and widths of very coarse flake graphite mineralisation over a strike length in excess of 1km, including:

- **DWTR0014: 12m @ 10.2% TGC**
- **DWTR0015: 28m @ 9.1% TGC incl. 8m @ 11.1% TGC**

Graphite mineralisation was visually coarse flake, and appeared similar to that at the Duwi Prospect.

Metallurgical Testwork

The Company reported results of an initial comprehensive bench-scale metallurgical testwork program for the Duwi Prospect in January 2014 (see ASX announcement 22 January 2014). The testwork was performed on representative large-diameter drill core obtained from hole DWDD0004 from the 2013 drill program by MINTEK Johannesburg under the supervision of Tenova Mining and Minerals (South Africa).

The overall objective, to produce a well characterised graphite concentrate of more than 90% TGC (total graphitic carbon) with a high-proportion of coarse-flake, was achieved (see Table 1 & Figure 2).

Particle size		Distribution	TGC	Flake Category
Tyler Mesh	(µm)	(%)	(%)	
+35	+425	19.7	96.3	Extra Large (Jumbo)
-35 + 48	- 425 + 300	17.1	93.3	
-50 + 100	- 300 + 150	27.4	90.3	Large-Medium
-100 + 200	- 150 + 75	15.7	90.8	Small
-200	- 75	20.1	88.7	Amorphous
Total		100.0	91.8	

Table 1: Duwi Concentrate 1 – Flake Size and Total Graphitic Carbon (TGC) Content

The investigative testwork program was completed in two separate stages. All material was initially stage crushed to 100% -3.35mm. Stage-1 variability testwork on fresh rock samples confirmed the consistency of mineralised material from DWDD0004 in terms of flake graphite grain size, TGC content and gangue mineralogy.

A 45kg master composite sample grading 8.1% TGC was produced for the Stage-2 flotation tests. The final flotation tests employed an initial rougher flotation stage followed by 3-stages of regrinding using pebble-milling after the 1st, 2nd and 3rd cleaner stages.

Umpire analysis of all final flotation testwork product streams and final sized concentrates was completed by Bureau Veritas in Adelaide.

The final results for the flotation tests were reproducible by additional testwork performed under the same conditions.

The Company is highly encouraged by the results of this initial metallurgical testwork program as it shows that commercial grades of sought-after and valuable Extra Large ('Jumbo') and Large Flake make up close to two-thirds of the final concentrate. The proportion of Extra Large and Large Flake is at the higher end of reported graphite projects worldwide and significantly enhances the Project's commercial appeal.

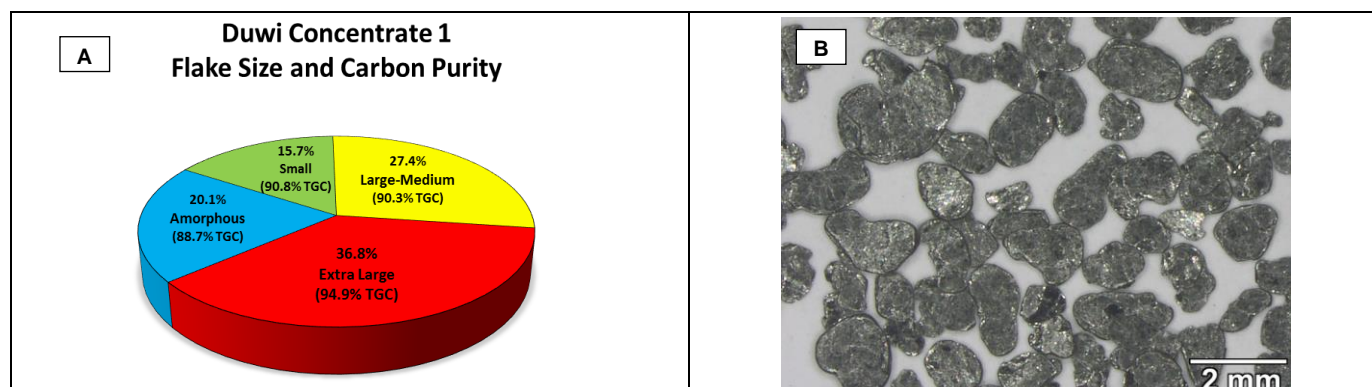


Figure 4: Duwi Concentrate 1 – (A) Flake Size Distribution and TGC Purity (B) Photograph of the Extra Large +425 µm fraction of Concentrate-1

Focus on Saprolite Potential

Historical and recent exploration work by the Company has identified substantial zones of weathered, soft saprolite hosting high-grade flake graphite mineralisation within the Central Malawi Graphite Project:

- Duwi Prospect – a circa 10m deep zone of weathered soft saprolite flake graphite mineralisation exists at surface over the main zones of primary flake graphite mineralisation, initially trenched and drilled over 2km of strike. (see ASX announcement 17 September 2013)
- Dedza Mountain East Prospect - high-grade flake graphite is hosted wholly within very soft and highly weathered upper saprolite at surface. Flake graphite mineralisation mapped over 24km of strike. (see ASX announcement 27 March 2014)
- Nanzeka Prospect - substantial trenched and drilled intercepts over 3km strike of surface saprolite-hosted high grade flake graphite mineralisation. (see ASX announcement 17 September 2013)

Saprolite-hosted flake graphite mining operations are likely to have significant advantages over hard rock operations, including:

- Lower mining costs as saprolite material is generally “free-dig” potentially requiring minimal drilling and blasting during mining. This material occurs at or near surface so will likely also have the benefit of low stripping ratios.
- The possibility that minimal primary crushing and grinding will be required may contribute to reduced capex and opex costs.
- Minimising primary crushing and grinding of the saprolite may also result in the preservation of the coarser flake graphite and therefore a greater proportion of Extra Large (Jumbo) and Large Flake graphite in the final concentrate being recovered.

These prospects represent a very small proportion of the graphite potential of the extensive graphitic gneisses mapped within the Central Malawi Graphite Project. Further saprolite mineralisation prospects have been identified within the five major, regional graphite gneiss belts identified with over 100km² of verified outcropping graphite gneiss and a cumulative strike length of ~270km however these prospects have not yet been sampled.



Figure 5 (Left). First pit excavated at Dedza Mountain West (DMW) Prospect showing flake graphite hosted within very soft saprolite to 5m depth. Figure 6 (Right). High-grade flake graphite hosted in saprolite exposed in trench at Dedza Mountain East (DME) Prospect.

As detailed above, the Company has achieved commercial grades of flake graphite concentrate from hard-rock at Duwi that have a significantly larger than usual proportion reporting to the Extra Large and Large Flake categories, which are priced at the high end of the flake graphite market (Figure 4 and Table 1).

This testwork did not assess weathered saprolitic material however field inspection indicates substantial graphite flake in the saprolite and accordingly, Sovereign has initiated initial washing and flotation testwork on material from the soft saprolite zones at Duwi and Dedza Mountain.

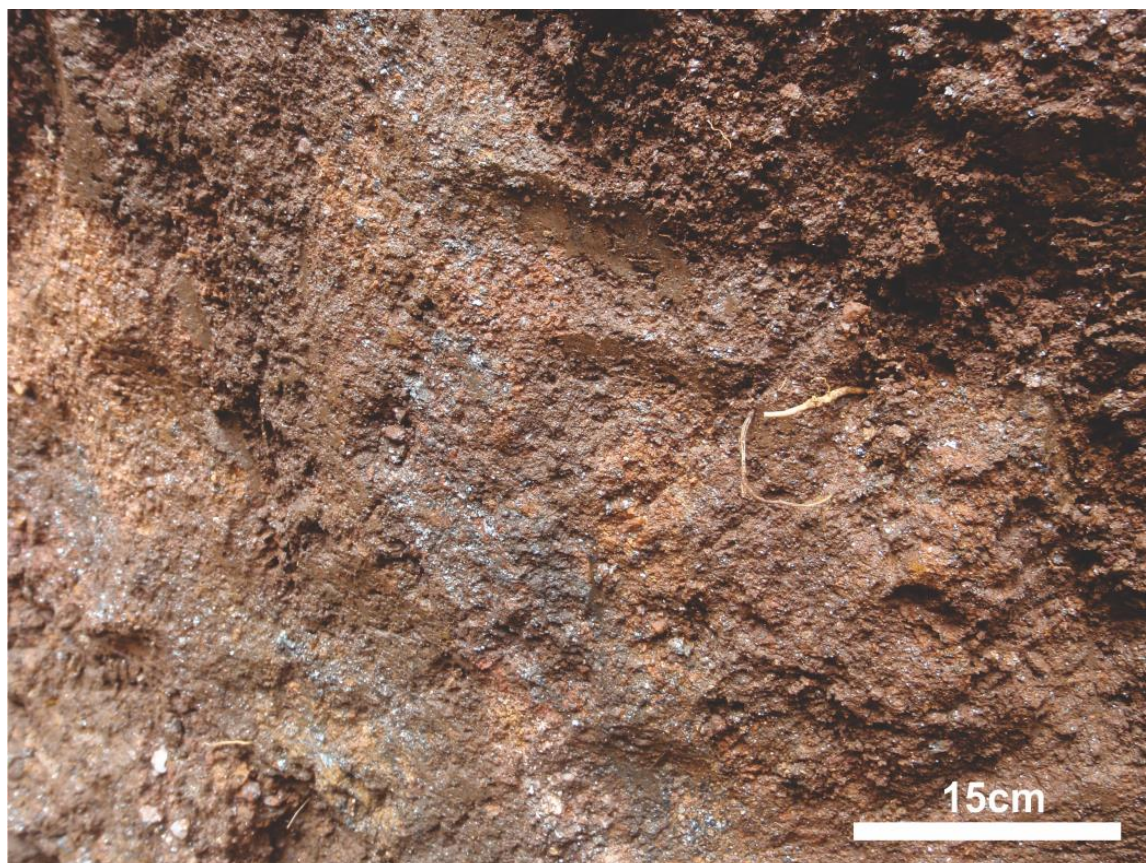


Figure 7. Close-up - trench exposure of high-grade flake graphite mineralisation in saprolite at Dedza Mountain East (DME). Scale bar is approximate only.

Ongoing Exploration and Metallurgical Program

The Company has commenced an exploration and metallurgical testwork program to focus on the excellent potential for high grade, low cost, flake graphite production from a number of saprolite hosted graphite prospects within its 100% owned Central Malawi Graphite Project.

The prime drilling season in Malawi has now begun and Sovereign will shortly commence drilling programs to test the Duwi, Dedza Mountain and Nanzeka prospects with a focus on soft saprolite-hosted flake graphite mineralisation.

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").

Mongoose Prospect

Drilling at Mount Avarice in the September 2013 Quarter consisted of twenty RC holes for 3,612m at the Mongoose Prospect which is located on the eastern boundary of EPM 8588 along strike north west of the historic Paddock open pit (not in EPM 8588) south of the township of Cloncurry.

Results were reported in March 2014 and demonstrated encouraging widths of high-grade copper mineralisation intersected in drilling with mineralisation open along strike and at depth in all areas, including:

MGX002:	17m @ 1.41% Cu and 0.29g/t. Au (from 173m) including 4m @ 4.07% Cu and 0.90g/t. Au (from 180m)
MGX009:	16m @ 4.20% Cu and 0.43g/t. Au (from 3m)
MGX019:	12m @ 1.18% Cu and 0.29g/t. Au (from 20m)

The Mongoose Prospect remains open to the north, south, west and at depth. The mineralisation is highly strategic, being located directly next to an existing open pit. The Mongoose Prospect requires further drill testing both to establish the potential resource but also the depth potential and to improve the geological model. Mount Isa Mines are currently reviewing the exploration results received to date prior to considering a follow up drill program at Mongoose.

Tate River

The Tate River Project, in north-east Queensland, exhibits the potential for the discovery of epithermal and intrusion related gold and base metal mineralisation. Sovereign has 100% interest in the Project.

No work was conducted during the Quarter.

Competent Person Statement

The information in this report that relates to Exploration Results, not including Metallurgical Testwork Results, is extracted from reports entitled 'Metallurgical Testwork Confirms Significant Large Flake Potential' dated 22 January 2014, 'Significant New Zone of Flake Graphite Identified at Dedza, Malawi' dated 27 March 2014 and 'Drilling by Glencore Returns Copper Mineralisation at Cloncurry' dated 25 March 2014. These reports are available to view on www.sovereignmetals.com.au. The information in the original ASX Announcements that related to Exploration Results, not including Metallurgical Testwork Results, were based on information compiled by Mr Peter Woodman, who is a member of the Australasian Institute of Mining and Metallurgy. Mr Woodman is a director of Sovereign Metals Limited. Mr Woodman 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 including 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 Testwork Results is extracted from the report entitled 'Metallurgical Testwork Confirms Significant Large Flake Potential' dated 22 January 2014 and is available to view on www.sovereignmetals.com.au. The information in the original ASX Announcement that related to Metallurgical Testwork Results was based on information compiled by Mr Michael Kenneth Rhodes, who is a Fellow of the Australasian Institute of Mining and Metallurgy. Mr Rhodes is an employee of Tenova Mining & Minerals (Pty) Ltd ("Tenova"). Tenova is engaged as a consultant by Sovereign Metals Limited. Mr Rhodes 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 including 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.

Forward Looking Statement

This release may include forward-looking statements, which may be identified by words such as "expects", "anticipates", "believes", "projects", "plans", and similar expressions. These forward-looking statements are based on Sovereign's expectations and beliefs concerning future events. Forward looking statements are necessarily subject to risks, uncertainties and other factors, many of which are outside the control of Sovereign, which could cause actual results to differ materially from such statements. There can be no assurance that forward-looking statements will prove to be correct. Sovereign makes no undertaking to subsequently update or revise the forward-looking statements made in this release, to reflect the circumstances or events after the date of that release.

Appendix A: Summary of Mining Tenements

As at 31 March 2014, 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	RL 0146	100%	-	Granted
	EPL 0372	100%	-	Granted
	EPL 0355	100%	-	Granted
<u>Queensland, Australia:</u>				
Nine Mile	EPMA 17305	100%	-	Application
Mt Marathon	EPM 8586	37.69%	Mount Isa Mines	Granted
Mt Avarice	EPM 8588	37.69%	Mount Isa Mines	Granted
Fountain Range	EPM 12561	37.69%	Mount Isa Mines	Granted
Corella River	EPM 12597	37.69%	Mount Isa Mines	Granted
Saint Andrews Extended	EPM 12180	37.69%	Mount Isa Mines	Granted
Dargalong	EPM 17103	100%	Fusion	Granted

No mining tenements were acquired or disposed of during the Quarter.

Beneficial percentage interests in Farm-out agreements disposed during the quarter ending, 31 March 2014:

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	38.02%	0.33%	37.69%
Mt Avarice	EPM 8588	Farm out	38.02%	0.33%	37.69%
Fountain Range	EPM 12561	Farm out	38.02%	0.33%	37.69%
Corella River	EPM 12597	Farm out	38.02%	0.33%	37.69%
Saint Andrews Ext.	EPM 12180	Farm out	38.02%	0.33%	37.69%

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")

31 MARCH 2014

Consolidated statement of cash flows

Cash flows related to operating activities		Current quarter \$A'ooo	Year to date (9 months) \$A'ooo
1.1	Receipts from product sales and related debtors	-	-
1.2	Payments for (a) exploration & evaluation	(160)	(1,319)
	(b) development	-	-
	(c) production	-	-
	(d) administration	(91)	(315)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	5	25
1.5	Interest and other costs of finance paid	-	-
1.6	Income taxes paid	-	-
1.7	Other (provide details if material)	-	-
	- Business development and transaction costs	-	-
Net Operating Cash Flows		(246)	(1,609)
Cash flows related to investing activities			
1.8	Payment for purchases of: (a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	-	(10)
1.9	Proceeds from sale of: (a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	-	-
1.10	Loans to other entities	-	-
1.11	Loans repaid by other entities	-	-
1.12	Other (provide details if material)	-	-
Net investing cash flows		-	(10)
1.13	Total operating and investing cash flows (carried forward)	(246)	(1,619)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(246)	(1,619)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	-	-
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):	-	-
	- Capital raising expenses	-	-
	Net financing cash flows	-	-
	Net increase (decrease) in cash held	(246)	(1,619)
1.20	Cash at beginning of quarter/year to date	710	2,083
1.21	Exchange rate adjustments to item 1.20		
1.22	Cash at end of quarter	464	464

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	82
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 directors 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	-
3.2	Credit standby arrangements	-

+ See chapter 19 for defined terms.

Estimated cash outflows for next quarter

	\$A'ooo
4.1 Exploration and evaluation	(150)
4.2 Development	-
4.3 Production	-
4.4 Administration	(120)
Total	(270)

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	18	7
5.2 Deposits at call	446	703
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	464	710

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.	38.02%	37.69%
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 (description)				
7.2	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3	*Ordinary securities	79,090,328	79,090,328	Not applicable	Not applicable
7.4	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs				
7.5	*Convertible debt securities (description)				
7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7	Options - Unlisted options - Unlisted options - Unlisted options	1,000,000 500,000 250,000	- - -	<i>Exercise price</i> \$0.30 \$0.35 \$0.22	<i>Expiry date</i> 30 September 2014 31 March 2015 30 September 2015
7.8	Issued during quarter				
7.9	Exercised during quarter				
7.10	Expired during quarter - Unlisted options	1,000,000	-	<i>Exercise price</i> \$0.25	<i>Expiry date</i> 31 March 2014

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

7.11	Performance Shares				
	- Class A	8,750,000	-	Not Applicable	<i>Conversion date</i> 7 November 2015
	- Class B	8,750,000	-	Not Applicable	7 November 2016
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:
(~~Director~~/Company secretary)

Date: 30 April 2014

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.
- 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.](#)

== == == == ==

+ See chapter 19 for defined terms.