



SOVEREIGN
METALS LIMITED

SOVEREIGN METALS LIMITED
ABN 71 120 833 427

**INTERIM FINANCIAL REPORT
FOR THE HALF YEAR ENDED
31 DECEMBER 2016**

CORPORATE DIRECTORY

Directors

Mr Ian Middlemas – Chairman
 Dr Julian Stephens
 Mr Mark Pearce

Company Secretary

Mr Clint McGhie

Registered and Principal Office

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Stock Exchange Listing

Australian Securities Exchange
 Home Branch – Perth
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 152-158 St Georges Terrace
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ASX Code

SVM – Fully paid ordinary shares

Solicitors

DLA Piper

Auditor

Deloitte Touche Tohmatsu

Bankers

Australia and New Zealand Banking Group Limited

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The Directors of Sovereign Metals Limited present their report on the Consolidated Entity consisting of Sovereign Metals Limited ("Sovereign" or "the Company" or "Parent") and the entities it controlled at the end of, or during, the half year ended 31 December 2016 ("Consolidated Entity" or "Group").

DIRECTORS

The names of Directors in office at any time during the financial period or since the end of the financial period are:

Current Directors

Mr Ian Middlemas (Chairman)

Dr Julian Stephens

Mr Mark Pearce

All Directors were in office from 1 July 2016 until the date of this report, unless otherwise noted.

REVIEW AND RESULTS OF OPERATIONS

The Company's primary focus during the period was the advancement of its Malingunde saprolite hosted graphite project in Malawi.

Highlights and advancements during and subsequent to the end of the half year include:

➤ **Diamond and aircore drilling intersected thick zones of high grade saprolite at Malingunde:**

- A drilling program comprising a total of 5,517m in 180 aircore holes and 488m in 13 large-diameter PQ diamond holes was completed at Malingunde during the quarter. Assays for the first 87 aircore and 5 diamond holes have been received to date and show thick, high-grade zones of saprolite-hosted graphite mineralisation including intercepts of up to 30m downhole. Results include:

MGAC0019: 13m @ 17.8% TGC

MGAC0020: 23m @ 16.1% TGC

MGAC0030: 30m @ 15.3% TGC inc. 10m @ 20.8% TGC

MGAC0017: 31m @ 10.8% TGC inc. 6m @ 25.3% TGC

MGDD0007: 25m @ 15.1% TGC inc. 15m @ 19.7% TGC

MGDD0006: 20m @ 13.7% TGC inc. 12m @ 17.1% 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.

➤ **Continued metallurgy improvements:**

- Continued bench-scale metallurgical test-work with refinements showed improvements in grade and flake size distribution. Latest results show outstanding super-jumbo and jumbo flake distribution in high-grade graphite concentrates with **78% exceeding 149µm in size**, including **33% of +297µm Jumbo flake and 14% of +500µm Super Jumbo flake**.

➤ **Upcoming activity and news flow for H1 2017 - Malingunde**

- **Metallurgy:** Ongoing flowsheet optimisation and variability test-work continues. Work includes production of larger quantities of concentrates for evaluation by potential offtake partners.
- **Downstream Test-work:** Program focused on Li-ion battery suitability and expandable graphite applications commenced at a renowned German industrial minerals laboratory.
- **Maiden Resource Estimate:** Targeted for Q1 2017.
- **Scoping Study:** Targeted for early Q2 2017.
- **Offtake:** Discussions with potential offtake and strategic partners are ongoing.

REVIEW AND RESULTS OF OPERATIONS (Continued)

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 Lilongwe power sub-station and with plentiful fresh water.

Malingunde 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 near surface mineralised material;
- Simple processing, generally with no primary crushing and grinding circuit, resulting in large capital and operating cost advantages;
- The preservation of coarse flakes in the weathering profile due to graphite's chemically inert properties; and
- The absence of sulphides offers substantial tailings and waste 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 underlying 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 diamond, aircore and hand auger drilling over 3.4km of strike with cumulative across strike widths locally exceeding 200m and averaging about 120m.

Drilling

Hand auger drilling

Results received from the final hand auger program at Malingunde continued to show excellent grades and continuity of the saprolite-hosted flake graphite mineralisation, including the two highest grade intercepts to date and a potential new zone of very high grade mineralisation along strike some 2km SE of the main deposit:

MGHA0548: 7m @ 21.2% TGC inc. 3m @ 30.5% TGC (ended in mineralisation; main deposit)

MGHA0564: 7m @ 24.5% TGC inc. 2m @ 35.5% TGC (ended in mineralisation; new zone ~2km to SE)

REVIEW AND RESULTS OF OPERATIONS (Continued)

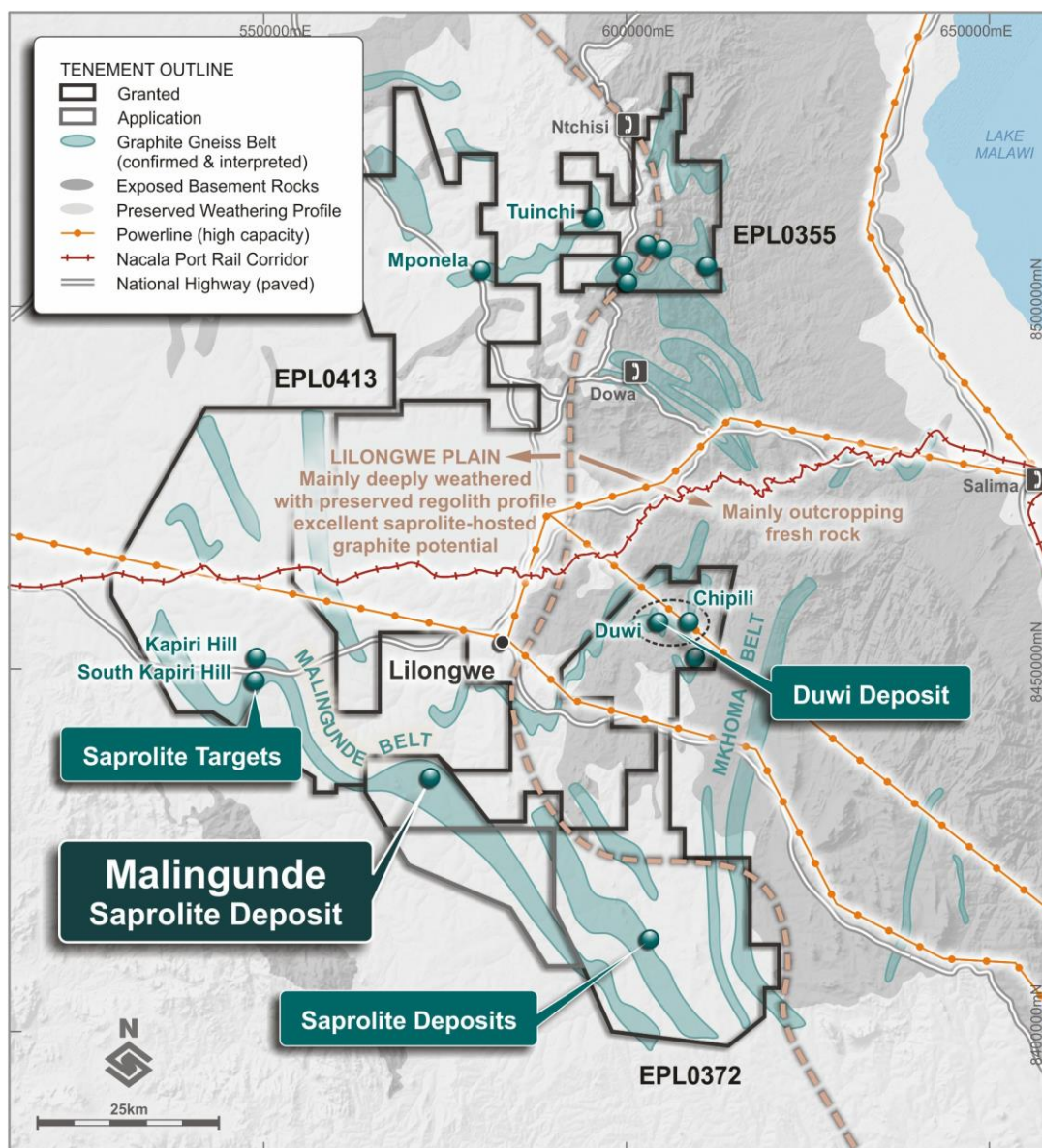


Figure 1. Map showing Sovereign's large 3,788km² ground package in Central Malawi with the major flake graphite deposits and target areas shown

Diamond drilling

A diamond drilling program was designed to test the vertical thicknesses of mineralised sapolite, as well as provide substantial volumes of core for ongoing metallurgical test-work. A total of 13 large diameter PQ diamond holes were completed in August and September 2016 for a combined 488m. These showed that the vast majority of sapolite-hosted graphite mineralisation has vertical thicknesses of between 20m and 30m.

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

MGDD0007: 25m @ 15.1% TGC inc. 15m @ 19.7% TGC

MGDD0006: 20m @ 13.7% TGC inc. 12m @ 17.1% TGC

MGDD0003: 25m @ 8.5% TGC inc. 13m @ 10.7% TGC

REVIEW AND RESULTS OF OPERATIONS (Continued)

Aircore drilling

Resource drilling for a total of 5,517m in 180 aircore holes was completed at Malingunde in November and December 2016. Assays from the first two batches of aircore samples (87 holes) show the thickest zones of high-grade saprolite-hosted graphite mineralisation received to date, and include intercepts of up to 30m downhole. Assay results from the first 87 holes include:

MGAC0019: 13m @ 17.8% TGC

MGAC0020: 23m @ 16.1% TGC

MGAC0047: 12m @ 15.7% TGC inc. 6m @ 23.8% TGC

MGAC0030: 30m @ 15.3% TGC inc. 10m @ 20.8% TGC

MGAC0058: 24m @ 11.9% TGC inc. 10m @ 17.1% TGC

MGAC0065: 26m @ 11.0% TGC inc. 4m @ 20.0% TGC

MGAC0016: 20m @ 10.4% TGC inc. 10m @ 12.9% TGC

MGAC0017: 31m @ 10.8% TGC inc. 6m @ 25.3% TGC

Results for the remaining 94 aircore and 5 diamond drill-holes are pending and Sovereign remains on track to report a maiden JORC resource estimate at Malingunde during March.

Regional exploration potential

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.

Metallurgy

The continuing metallurgical test-work program has highlighted the occurrence of substantial jumbo and super jumbo flake graphite zones within the Malingunde deposit. The robust metallurgical response of material throughout the saprolite zones provides further increased confidence in the process design parameters adopted for the Scoping Study, currently underway.

All independent metallurgical test-work on material from the Malingunde saprolite-hosted flake graphite project was undertaken at SGS Lakefield Canada under the supervision of Mr Oliver Peters (MSc, P.Eng, MBA).

Recent test-work was conducted on several composite samples of PQ diamond drill core obtained from the 2016 drilling program, producing final concentrates with world-class flake distribution (Table 1).

REVIEW AND RESULTS OF OPERATIONS (Continued)

MALINGUNDE 2017 FLOTATION RESULTS				
		TEST #F13		
PARTICLE SIZE		C (%)	Distribution (wt. %)	Flake category
Tyler mesh	(µm)			
+32	+ 500	97.1	14.2	Super Jumbo
+ 48	+ 297	96.1	32.8	Jumbo
-48 + 100	- 297 + 149	96.7	31.7	Large-Medium
-100 + 200	- 149 + 74	97.0	16.6	Small
-200	- 74	95.4	4.8	Amorphous
TOTAL		96.6	100.0	

Table 1. Results of flotation Test F13 on Malingunde saprolite hosted graphite mineralisation¹

The metallurgical results to date from Malingunde show outstanding distribution of coarse, jumbo and super-jumbo flake graphite in high grade concentrates from different vertical levels and different mineralised zones across the deposit.

The outstanding jumbo and super-jumbo flake distribution results significantly enhance the potential basket price for Malingunde concentrates which should have a substantial positive impact on future realised project revenues. This, coupled with the inherent low capex and low opex nature of soft saprolite operations provides the potential for best in class operating margins at Malingunde.

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 very low ongoing operating costs when compared to similar-sized hard rock operations.

Upcoming activities at Malingunde include:

- **Metallurgy:** Ongoing flowsheet optimisation and variability test-work continues. Work in H1 2017 will include production of larger quantities of concentrates for evaluation by potential offtake partners.
- **Downstream Test-work:** A program of downstream test-work focused on Li-ion battery suitability and expandable graphite applications has commenced at a renowned German industrial minerals laboratory.
- **Initial Resource Estimate:** Targeted for Q1 2017.
- **Scoping Study:** Targeted for early Q2 2017.
- **Offtake:** Discussions with potential offtake and strategic partners are ongoing.

REVIEW AND RESULTS OF OPERATIONS (Continued)

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.

The Managing Director, Dr Stephens was granted the following incentive options on 5 August 2016 as part of his remuneration package following shareholder approval:

- 1,500,000 incentive options exercisable at \$0.12 each on or before 31 July 2018;
- 2,000,000 incentive options exercisable at \$0.15 each on or before 31 July 2019;
- 2,500,000 incentive options exercisable at \$0.18 each on or before 31 July 2020.

In October 2016, the Company completed a 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 following securities were also issued to key employees and consultants as part of their remuneration package during the period:

- 750,000 incentive options exercisable at \$0.12 each on or before 31 July 2018;
- 1,000,000 incentive options exercisable at \$0.15 each on or before 31 July 2019;
- 1,250,000 incentive options exercisable at \$0.18 each on or before 31 July 2020;
- 2,000,000 incentive options exercisable at \$0.15 each on or before 31 December 2018; and
- 130,000 ordinary fully paid shares.

The Company's cash balance at 31 December 2016 ~A\$3.7M.

Operating Results

The net operating loss after tax for the half year ended 31 December 2016 was \$2,012,687 (2015: \$1,385,634).

The loss for the period includes \$1,372,753 (2015: \$791,740) in exploration expenditure, including \$40,188 in share based payments (2015: \$152,150).

Share based payment expenses totalling \$178,647 were recognised during the period (2015: \$436,778). The fair value of Incentive Options and Performance Rights are recognised over the vesting period of the option / right.

SIGNIFICANT POST BALANCE DATE EVENTS

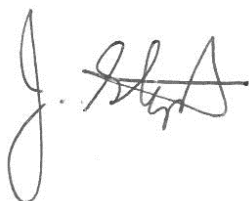
At the date of this report there were no significant events occurring after balance date requiring disclosure:

AUDITOR'S INDEPENDENCE DECLARATION

Section 307C of the Corporations Act 2001 requires our auditors, Deloitte Touche Tohmatsu, to provide the directors of Sovereign Metals Limited with an Independence Declaration in relation to the review of the half year financial report. This Independence Declaration is on page 19 and forms part of this Directors' Report.

This report is made in accordance with a resolution of the directors made pursuant to section 306(3) of the Corporations Act 2001.

For and on behalf of the Directors



Julian Stephens
Managing Director

10 March 2017

Competent Person Statement

The information in this announcement that relates to Exploration Results is extracted from announcements dated 29 August 2016, 5 September 2016, 12 October 2016, 26 October 2016, 18 January 2017 and 21 February 2017. These announcements are available to view on www.sovereignmetals.com.au. The information in the original announcements that related to Exploration Results were based on, and fairly represents, information compiled by Dr Julian Stephens, a Competent Person who is a member of the Australasian Institute of Geoscientists (AIG). Dr Stephens 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 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 Metallurgical Test-work Results, is extracted from announcements dated 7 September 2016, 23 November 2016 and 27 February 2017. These reports are 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.

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.

DIRECTORS' DECLARATION



In accordance with a resolution of the Directors of Sovereign Metals Limited, I state that:

In the opinion of the Directors:

- (a) the financial statements and notes, as set out on pages 9 to 18, are in accordance with the Corporations Act 2001, including:
 - (i) complying with Accounting Standard AASB 134: *Interim Financial Reporting* and the Corporations Regulations 2001; and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half year ended on that date.
- (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.

This declaration is signed in accordance with a resolution of the Board of Directors made pursuant to section 303(5) of the Corporations Act 2001.

On behalf of the Board

A handwritten signature in black ink, appearing to read "J. Stephens", written over a faint circular stamp.

Julian Stephens
Managing Director

10 March 2017

**CONDENSED CONSOLIDATED STATEMENT OF
PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE HALF YEAR ENDED 31 DECEMBER 2016**



	Note	Half Year Ended 31 December 2016 \$	Half Year Ended 31 December 2015 \$
Revenue			
Interest revenue	4(a)	32,931	14,630
Foreign exchange gain/(loss) (realised)		(5,203)	1,541
Total revenue		27,728	16,171
Expenses			
Exploration and evaluation expenses		(1,372,753)	(791,740)
Corporate and administrative expenses		(352,557)	(326,683)
Business development and investor relations expenses		(315,105)	(283,382)
Loss before income tax		(2,012,687)	(1,385,634)
Income tax expense		-	-
Loss for the period		(2,012,687)	(1,385,634)
Other comprehensive income, net of income tax:			
<i>Items that will not be reclassified subsequently to profit or loss</i>		-	-
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange differences on foreign entities		9,393	5,475
Other comprehensive income for the period, net of income tax		9,393	5,475
Total comprehensive loss for the period		(2,003,294)	(1,380,159)
Loss attributable to members of Sovereign Metals Limited		(2,012,687)	(1,385,634)
Total comprehensive loss attributable to members of Sovereign Metals Limited		(2,003,294)	(1,380,159)
Loss per share			
Basic loss per share (cents per share)		(0.99 cents)	(1.02 cents)
Diluted loss per share (cents per share)		(0.99 cents)	(1.02 cents)

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

**CONDENSED CONSOLIDATED STATEMENT OF
FINANCIAL POSITION**
AS AT 31 DECEMBER 2016



		31 December 2016	30 June 2016
	Note	\$	\$
ASSETS			
Current Assets			
Cash and cash equivalents		3,711,344	2,793,993
Trade and other receivables		42,217	30,668
Total Current Assets		3,753,561	2,824,661
Non-current Assets			
Property, plant and equipment		119,906	129,836
Exploration and evaluation assets	5(a)	7,170,282	7,170,282
Total Non-current Assets		7,290,188	7,300,118
TOTAL ASSETS		11,043,749	10,124,779
LIABILITIES			
Current Liabilities			
Trade and other payables		449,800	1,244,302
Provisions		14,026	7,980
Total Current Liabilities		463,826	1,252,282
TOTAL LIABILITIES		463,826	1,252,282
NET ASSETS		10,579,923	8,872,497
EQUITY			
Issued capital	6(a)	30,986,602	27,454,529
Reserves	6(b)	751,212	563,172
Accumulated losses		(21,157,891)	(19,145,204)
TOTAL EQUITY		10,579,923	8,872,497

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

**CONDENSED CONSOLIDATED
STATEMENT OF CHANGES IN EQUITY**
FOR THE HALF YEAR ENDED 31 DECEMBER 2016



	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 period	-	-	-	(2,012,687)	(2,012,687)
Other comprehensive income	-	-	9,393	-	9,393
Total comprehensive income/(loss) for the period	-	-	9,393	(2,012,687)	(2,003,294)
Transactions with owners, recorded directly in equity					
Issue of ordinary shares	3,725,295	-	-	-	3,725,295
Share issue costs	(193,222)	-	-	-	(193,222)
Share based payments expense	-	178,647	-	-	178,647
Total transactions with owners recorded directly in equity	3,532,073	178,647	-	-	3,710,720
Balance at 31 December 2016	30,986,602	692,556	58,656	(21,157,891)	10,579,923
Balance at 1 July 2015	23,950,304	1,004,604	46,017	(17,381,091)	7,619,834
Net loss for the period	-	-	-	(1,385,634)	(1,385,634)
Other comprehensive income	-	-	5,475	-	5,475
Total comprehensive income/(loss) for the period	-	-	5,475	(1,385,634)	(1,380,159)
Transactions with owners, recorded directly in equity					
Issue of ordinary shares	855,000	-	-	-	855,000
Performance rights converted	251,700	(251,700)	-	-	-
Performance shares converted	330,750	(330,750)	-	-	-
Share issue costs	(53,068)	-	-	-	(53,068)
Expired options	-	(59,750)	-	59,750	-
Share based payments expense	-	436,778	-	-	436,778
Total transactions with owners recorded directly in equity	1,384,382	(205,422)	-	59,750	1,238,710
Balance at 31 December 2015	25,334,686	799,182	51,492	(18,706,975)	7,478,385

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

**CONDENSED CONSOLIDATED
STATEMENT OF CASH FLOWS**
FOR THE HALF YEAR ENDED 31 DECEMBER 2016



	Half Year Ended 31 December 2016 \$	Half Year Ended 31 December 2015 \$
Cash flows from operating activities		
Payments to suppliers and employees	(1,821,769)	(882,177)
Refunds of GST payments	72,169	39,954
Interest received	27,282	14,444
Net cash used in operating activities	(1,722,318)	(827,779)
Cash flows from investing activities		
Payments for purchase of plant and equipment	(17,109)	-
Net cash used in investing activities	(17,109)	-
Cash flows from financing activities		
Proceeds from issue of shares	2,850,000	855,000
Payments for share issue costs	(193,222)	(53,068)
Net cash from financing activities	2,656,778	801,932
Net decrease in cash and cash equivalents	917,351	(25,847)
Cash and cash equivalents at the beginning of the period	2,793,993	1,065,789
Cash and cash equivalents at the end of the period	3,711,344	1,039,942

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

1. CORPORATE INFORMATION

The interim financial report of the Group for the six months ended 31 December 2016 was authorised for issue in accordance with the resolution of the Directors on 10 March 2017.

Sovereign Metals Limited is a limited company incorporated and domiciled in Australia whose shares are publicly traded. The principal activities of the Company and its subsidiaries (the Group) are described in the Directors' Report on page 1.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This general purpose financial report for the interim half year reporting period ended 31 December 2016 has been prepared in accordance with Accounting Standard AASB 134: *Interim Financial Reporting* and the *Corporations Act 2001*.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2016 and any public announcements made by Sovereign Metals Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

(a) Basis of Preparation of Half Year Financial Report

The principal accounting policies adopted in the preparation of the financial report have been consistently applied to all the periods presented, unless otherwise stated.

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit or loss, certain classes of property, plant and equipment and investment property.

(b) Changes in Accounting Policy

Accounting policies applied by the Consolidated Entity in this consolidated interim financial report are the same as those applied by the Consolidated Entity in its consolidated financial report for the year ended 30 June 2016.

In the current period, the Group has adopted all of the new and revised standards, interpretations and amendments that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2016. New and revised standards and amendments thereof and interpretations effective for the current half-year that are relevant to the Group include:

- AASB 2014-3 Amendments to Australian Accounting Standards - Accounting for Acquisitions of Interests in Joint Operations;
- AASB 2014-4 Amendments to Australian Accounting Standards - Clarification of Acceptable Methods of Depreciation and Amortisation;
- AASB 2014-9 Amendments to Australian Accounting Standards - Equity Method in Separate Financial Statements;
- AASB 2015-1 Amendments to Australian Accounting Standards - Annual Improvements to Australian Accounting Standards 2012-2014 Cycle, including 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;
- AASB 2015-2 Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 101; and
- AASB 2015-3 Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2016
(Continued)



2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Changes in Accounting Policy (Continued)

The adoption of new and revised standards and amendments has not affected the amounts reported for the current or prior half year periods. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

3. 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 Queensland, Australia the Carpentaria Joint Venture) and Malawi (Central Malawi Graphite Project). Information regarding these segments is reported below.

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

	31 December 2016 \$	30 June 2016 \$
Australia	16,590	12,064
Malawi	7,273,598	7,288,054
	7,290,188	7,300,118

4. REVENUE AND EXPENSES

	Consolidated 31 December 2016 \$	Consolidated 31 December 2015 \$
(a) Revenue		
Interest revenue	32,931	14,630
(b) Share based payments		
Share based payments included in:		
- Corporate and administrative expenses	53,537	136,072
- Business development	84,922	148,555
- Exploration and evaluation expenses	40,188	152,151
	178,647	436,778

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2016
(Continued)



5. EXPLORATION AND EVALUATION ASSETS

	Consolidated 31 December 2016 \$	Consolidated 31 December 2015 \$
(a) Movement in Exploration and Evaluation Assets		
Carrying amount as at 1 July	7,170,282	7,170,282
- Additions	-	-
	7,170,282	7,170,282

6. EQUITY SECURITIES ISSUED

	Consolidated 31 December 2016 \$	Consolidated 30 June 2016 \$
(a) Issued and Paid Up Capital		
217,329,083 (30 June 2016: 172,420,139) fully paid ordinary shares	30,986,602	27,454,529
(b) Reserves		
<i>Share Based Payment Reserve</i>		
1,000,000 (30 June 2016: 1,000,000) unlisted \$0.10 options	40,073	40,073
2,250,000 (30 June 2016: Nil) unlisted \$0.12 options	34,672	-
1,416,667 (30 June 2016: 1,416,667) unlisted \$0.15 options	50,157	50,157
2,000,000 (30 June 2016: Nil) unlisted \$0.15 options	33,000	-
3,000,000 (30 June 2016: Nil) unlisted \$0.15 options	25,260	-
3,750,000 (30 June 2016: Nil) unlisted \$0.18 options	23,034	-
1,500,000 (30 June 2016: 1,500,000) unlisted \$0.40 options	195,000	195,000
<i>Sub-total options (note 6(d))</i>	<i>401,196</i>	<i>285,230</i>
1,400,000 (30 June 2016: 1,400,000) Performance Rights (note 6(f))	291,360	228,679
Total Share Based Payments Reserve	692,556	513,909
<i>Foreign Currency Translation Reserve (FCTR)</i>		
Exchange differences	58,656	49,263
Total Foreign Currency Translation Reserve (FCTR)	58,656	49,263
Total Reserves	751,212	563,172

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2016
(Continued)



6. EQUITY SECURITIES ISSUED (Continued)

(c) Movements in Ordinary Share Capital were as follows:

Date	Details	Number of Shares	Issue Price \$	\$
1 Jul 2016	Opening balance	172,420,139		27,454,529
5 Aug 2016	Conversion of debt for equity	11,445,610	0.075	858,421
11 Aug 2016	Share placement	23,333,333	0.075	1,750,000
20 Oct 2016	Share placement	10,000,001	0.11	1,100,000
20 Oct 2016	Share based payment	130,000	0.13	16,874
31 Dec 2016	Share issue costs	-	-	(193,222)
31 Dec 2016	Closing balance	217,329,083		30,986,602
1 Jul 2015	Opening balance	118,670,140	-	23,950,304
9 Jul 2015	Issue of shortfall securities	5,916,666	0.06	355,000
13 Aug 2015	Share placement	8,333,333	0.06	500,000
2 Oct 2015	Conversion of 8,750,000 Performance Shares 'Class B'	8,750,000	-	330,750
	Conversion of 750,000 Performance Rights	750,000	-	251,700
31 Dec 2015	Share issue costs	-	-	(53,068)
31 Dec 2015	Closing balance	142,420,139		25,334,686

(d) Movements in Options Were as Follows:

Date	Details	Notes	Number of Incentive Options	Fair Value \$	\$
1 Jul 2016	Opening balance		3,916,667		285,230
5 Aug 2016	Grant of \$0.12 options	(i)	1,500,000	0.035	-
	Grant of \$0.15 options	(i)	2,000,000	0.040	-
	Grant of \$0.18 options	(i)	2,500,000	0.045	-
3 Oct 2016	Grant of \$0.12 options	(i)	750,000	0.035	-
	Grant of \$0.15 options	(i)	1,000,000	0.040	-
	Grant of \$0.18 options	(i)	1,250,000	0.045	-
30 Dec 2016	Grant of \$0.15 options	(i)	1,000,000	0.018	18,000
	Grant of \$0.15 options	(i)	1,000,000	0.015	15,000
31 Dec 2016	Share based payment expense	(i)	-	-	82,966
31 Dec 2016	Closing balance		14,916,667		401,196
1 Jul 2015	Opening balance		4,750,000		420,740
13 Aug 2015	Grant of \$0.10 options	(i)	1,000,000	0.040	40,073
	Grant of \$0.15 options	(i)	1,416,667	0.035	50,157
30 Sep 2015	Expiry of options		(250,000)	0.239	(59,750)
31 Dec 2015	Share based payment expense	(i)	-	-	86,103
31 Dec 2015	Closing balance		6,916,667		537,323

Notes

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2016
(Continued)



6. EQUITY SECURITIES ISSUED (Continued)

(e) Movements in Performance Shares Were as Follows:

Date	Details	Notes	Number of Performance Shares 'Class A'	Number of Performance Shares 'Class B'	Fair Value \$	\$
1 Jul 2016	Opening balance		-	-		-
31 Dec 2016	Closing balance		-	-		-
1 Jul 2015	Opening balance		-	8,750,000		330,750
2 Oct 2015	Conversion of Performance Shares 'Class B'	6(c)	-	(8,750,000)	0.0378	(330,750)
31 Dec 2015	Closing balance		-	-		-

(f) Movements in Performance Rights Were as Follows:

Date	Details	Notes	Number of Performance Rights	Fair Value \$	\$
1 Jul 2016	Opening balance		1,400,000		228,679
	Share based payment expense		-		62,681
31 Dec 2016	Closing balance		1,400,000		291,360
1 Jul 2015	Opening balance		2,950,000		253,114
2 Oct 2015	Conversion of Performance Rights	6(c)	(750,000)	0.3356	(251,700)
31 Dec 2015	Share based payment expense		-	-	260,445
31 Dec 2015	Closing balance		2,200,000		261,859

Notes

- (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.

7. COMMITMENTS AND CONTINGENCIES

(a) Commitments

	Consolidated 31 December 2016 \$	Consolidated 31 December 2015 \$
<u>Exploration Commitments - Central Malawi Graphite Project:</u>		
Within one year	318,085	200,000
After one year but not more than five years	18,973	-
More than five years	-	-
	337,058	200,000

(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 half year.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2016
(Continued)



8. DIVIDENDS PAID OR PROVIDED FOR

No dividend has been paid or provided for during the half year (2015: nil).

9. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Group's financial instruments consist of those which are measured at amortised cost including trade and other receivables, and trade and other payables. The carrying amount of these financial assets and liabilities approximate their fair value.

10. SUBSEQUENT EVENTS AFTER BALANCE DATE

At the date of this report there were no significant events occurring after balance date requiring disclosure.

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

10 March 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 review of the financial statements of Sovereign Metals Limited for the half-year ended 31 December 2016, 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 review; and
- (ii) any applicable code of professional conduct in relation to the review.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



David Newman
Partner
Chartered Accountants

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

We have reviewed the accompanying half-year financial report of Sovereign Metals Limited, which comprises the condensed statement of financial position as at 31 December 2016, and the condensed statement of profit or loss and other comprehensive income, the condensed statement of cash flows and the condensed statement of changes in equity for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 8 to 18.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Sovereign Metals Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Auditor's Independence Declaration

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Sovereign Metals Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Sovereign Metals Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.


DELOITTE TOUCHE TOHMATSU



David Newman Partner
Chartered Accountants
Perth, 10 March 2017