

MARCH 2018 QUARTERLY REPORT

Sovereign Metals Limited (“the Company” or “Sovereign”) is pleased to present its quarterly report for the period ending 31 March 2018. The Company is focused on the **world-class Malingunde Saprolite Hosted Graphite Project in Malawi**. The results of the 2017 Malingunde Scoping Study demonstrate the potential for the deposit to support a **very low capital and operating cost operation** with annual graphite concentrate production of approximately 44,000 tonnes over an initial mine life of 17 years.

HIGHLIGHTS:

Rapid progression of Pre-feasibility Study (“PFS”) at Malingunde.

- ❖ In November 2017, the Company commenced the PFS for the exceptionally low cost Malingunde Saprolite-Hosted Graphite Project. During the quarter the Company progressed key PFS disciplines, including engineering, mining, processing, environmental and social activities, including:
 - Completion of process design including final process flowsheets and design criteria.
 - Completion of flowsheet optimisation and commencement of the variability program.
 - Selection of final locations for major infrastructure, allowing completion of engineering activities.
- ❖ The PFS on track for completion in mid-2018.

Drilling intersects further high grade saprolite and identifies new zone at Malingunde.

- ❖ Aircore drilling was conducted in late 2017, with 210 holes for 6,212 metres completed. All results were released during and immediately post the March quarter and continued to confirm the excellent consistency of high-grade mineralisation along strike, as well as the substantial vertical thickness of the deposit.
- ❖ Drilling at Msinja, some 1.5km south-east of Malingunde, has defined a new and significant zone of high-grade saprolite-hosted graphite mineralisation over approximately 1km of strike. The mineralisation at Msinja is expected to add to the overall resource base.
- ❖ All drilling results will be incorporated into the updated JORC resource estimate, expected to be delivered this quarter.

Significant additions to Malawi land-holding.

- ❖ An additional, large Exclusive Prospecting Licence EPL0492 of 1,896km², located to the north of Malingunde and covering ground highly prospective for saprolite-hosted graphite deposits, was granted. The Company’s land holding in central Malawi now totals 3,993km².
- ❖ The Company has re-commenced regional exploration for further high-grade, saprolite-hosted graphite mineralisation on EPL0492 and its other existing EPLs.

Upcoming activity and news flow.

- ❖ The Company is rapidly progressing activities required to develop the Malingunde project. Upcoming news flow associated with the PFS includes an updated JORC resource estimate, metallurgical test work, flowsheet optimisation and advancement of the rail transport agreement.

ENQUIRIES

+618 9322 6322***Dr Julian Stephens – Managing Director******Dominic Allen – Business Development Manager***

Malingunde Pre-feasibility Study

The Company has made significant progress over the quarter with the PFS for the Malingunde Sapolite-Hosted Graphite Project. The PFS has been designed to build on the outstanding results delivered in the Scoping Study (completed in 2017) and has further developed the strategy to ensure a low capital and operating cost operation producing high quality coarse flake graphite.



Figure 1 (LHS): Pump testing of the new hydro-monitoring wells for pit dewatering investigations at Malingunde.

Figure 2 (RHS): Drum scrubber used for PFS test-work program at ALS Global (Perth).

During the quarter the Company progressed the following key PFS activities:

- 6,212m infill and extensional aircore drilling program was completed ahead of an updated JORC resource estimate expected toward the end of May.
- The field activities related to the geotechnical study for the infrastructure foundations have been planned and will commence early next quarter.
- A metallurgical program to test the primary comminution characteristics of the ore was completed at ALS Global in Perth. This testwork was designed to determine the suitability of an upfront scrubber in place of a primary crusher and mill units.
- The samples produced from the scrubber testwork are now being tested at SGS Canada. The flowsheet optimisation tests have been completed and the variability program has now started.
- The project engineering consultant, Minново, has completed the process design and issued the final process flowsheets and design criteria. The preliminary engineering is now underway and the capital and operating cost estimates for the plant and associated infrastructure have started.
- The results from the previously completed location study for the major infrastructure have been updated based on the preliminary results from the mining schedule and revised sizing of the tailings storage facility (TSF). Final locations have now been selected to allow completion of the engineering activities.
- SLR Consulting has completed the optimisation of the preferred TSF location and modelled the wall raise options based on the preliminary mining schedule. A review has also been undertaken into the preferred method for wall raising and these results will be incorporated into the design.
- The preliminary mining schedules have been used as the basis for a request for budget pricing (RFBP) which was sent out to a number of mining contractors. The results, along with the final pit geotechnical study results, are being used to generate the final mine design and production schedules for the study.
- A desktop study has been undertaken into examining the opportunity for in-pit disposal of tailings. The report is currently under review, but there appears to be limited benefits associated with this approach.

30 APRIL 2018

- The groundwater and surface water studies are progressing with the contaminant flow model and surface water management design currently being developed.
- The second round of stakeholder consultations has been completed and the draft Environmental Scoping Study (ESS) circulated for public comment. The ESS will be submitted to the Malawi Environmental Affairs Department in early May, with confirmation of the ESIA Terms of Reference expected in late May.
- Fieldwork has commenced on gathering social and community information which will be used for the resettlement action plan (RAP) that forms an integral part of the environmental and social impact assessment process.
- Baseline specialist environmental studies are being finalised with wet season field work now complete and the remaining studies well progressed.

Sovereign is targeting completion of the PFS in mid-2018, with certain work programs designed to continue directly through into the DFS stage. It is expected that the various work programs forming the PFS will generate significant news flow over the coming 3 months.

Malingunde drilling results

Aircore drilling was conducted in late 2017, with 210 holes for 6,212 metres completed. The drilling program was designed to further define and upgrade the JORC resource classification levels, as well as to test graphite mineralisation at Msinja and other targets.

All results have been received and reported to market and continue to confirm the excellent consistency of high-grade mineralisation along strike, as well as the substantial vertical thickness of the mineralised saprolite. The results will be incorporated into the updated JORC resource estimate, expected to be delivered in late May. Highlights include:

- **MGAC0182:** 23m @ 21.2% TGC
- **MGAC0183:** 36m @ 11.1% TGC inc. 8m @ 20.1% TGC
- **MGAC0186:** 12m @ 14.5% TGC inc. 6m @ 20.0% TGC
- **MGAC0190:** 21m @ 14.8% TGC inc. 14m @ 17.3% TGC
- **MGAC0240:** 16m @ 14.7% TGC inc. 5m @ 26.9% TGC
- **MGAC0241:** 17m @ 16.0% TGC inc. 10m @ 21.5% TGC
- **MGAC0268:** 14m @ 14.6% TGC inc. 6m @ 20.7% TGC
- **MGAC0281:** 18m @ 19.3% TGC inc. 8m @ 24.8% TGC
- **MGAC0290:** 15m @ 14.7% TGC inc. 8m @ 19.4% TGC
- **MGAC0291:** 13m @ 14.4% TGC inc. 5m @ 21.6% TGC
- **MGAC0303:** 21m @ 10.3% TGC inc. 8m @ 15.8% TGC
- **MGAC0307:** 21m @ 14.9% TGC inc. 12m @ 20.9% TGC
- **MGAC0308:** 21m @ 21.7% TGC inc. 12m @ 26.3% TGC
- **MGAC0371:** 26m @ 17.2% TGC inc. 13m @ 25.4% TGC
- **MGAC0375:** 21m @ 11.0% TGC inc. 6m @ 15.2% TGC
- **MGAC0383:** 19m @ 12.3% TGC inc. 10m @ 15.8% TGC

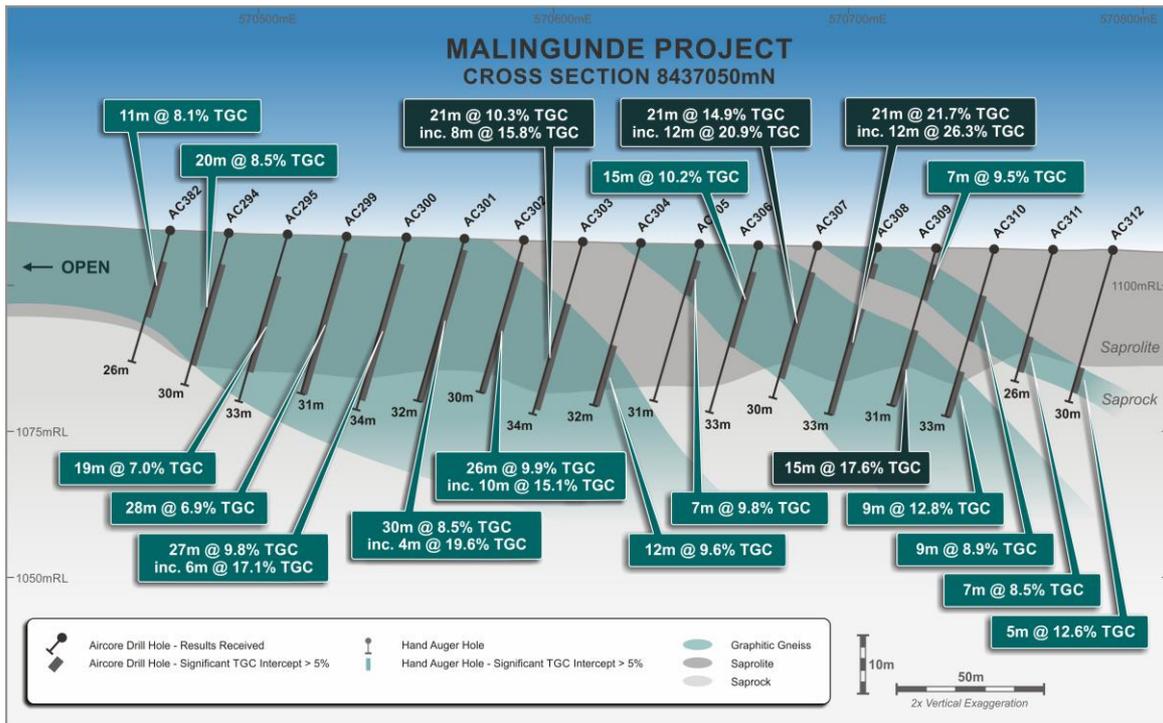


Figure 3. Malingunde cross-section showing high-grade, saprolite-hosted graphite. Mineralisation remains open to the west in this northern part of the deposit.

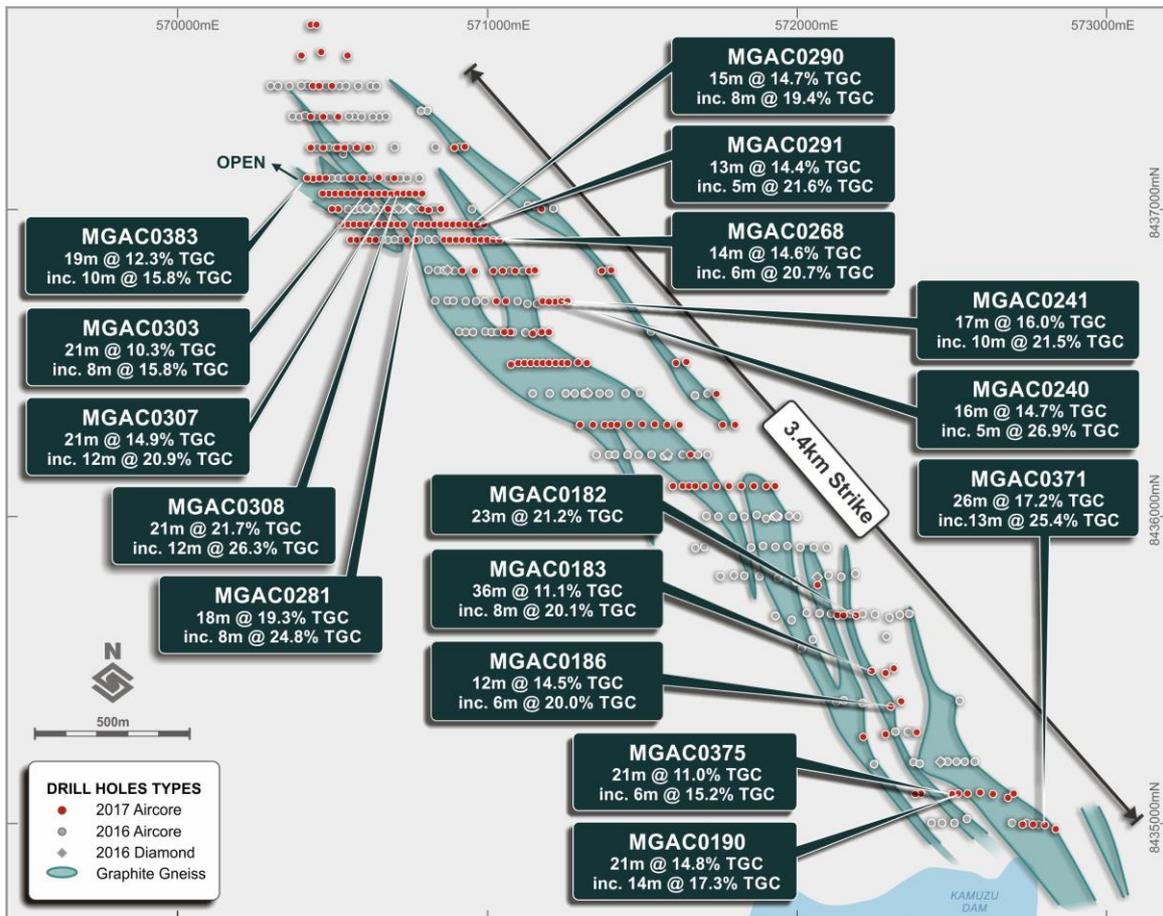


Figure 4. Malingunde plan showing selected high-grade, saprolite-hosted graphite drill intercepts.

New zone of graphite discovered at Msinja

A total of 28 aircore holes were drilled at Msinja, located approximately 1.5km to the south-east of Malingunde Main deposit. This drilling showed wide (up to 100m cumulative surface widths) and high-grade zones of saprolite-hosted flake graphite mineralisation over about 1km of strike which remains open to the south-east. Additionally, the drilling at Msinja has highlighted a number of very high-grade zones of circa 12% to 20% TGC. Highlights include:

- **MGAC0342 :** 25m @ 7.3% TGC
- **MGAC0349*:** 18m @ 9.1% TGC inc. 5m @ 12.0% TGC
- **MGAC0352*:** 15m @ 15.1% TGC inc. 5m @ 21.3% TGC
- **MGAC0353 :** 15m @ 7.9% TGC inc. 6m @ 10.4% TGC
- **MGAC0366*:** 10m @ 16.7% TGC inc. 5m @ 20.2% TGC

The mineralisation at Msinja will potentially add significantly to the overall resource base and supports the potential for a multi-generational graphite mining centre in Malawi.

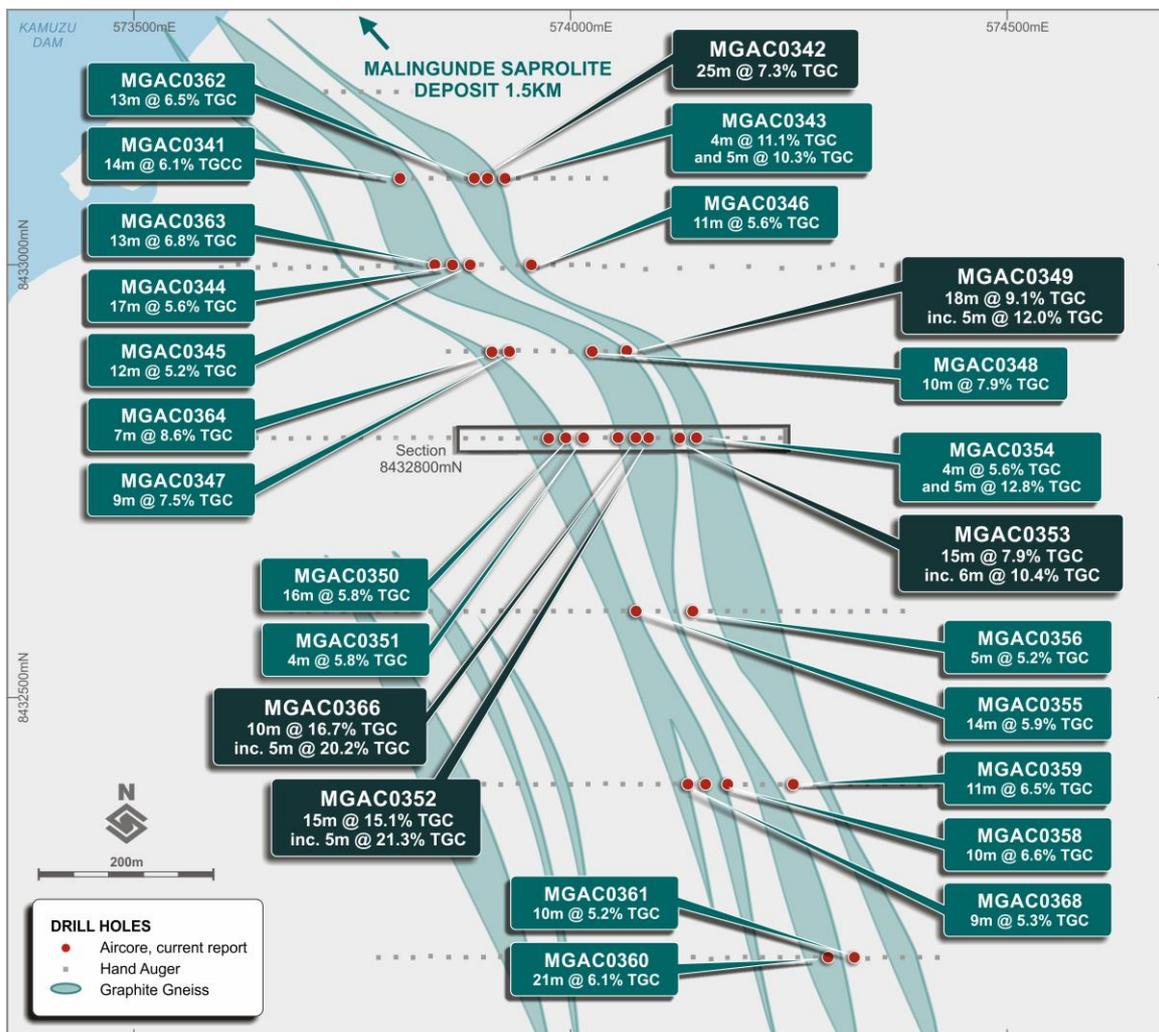


Figure 5. Map showing recently received aircore drilling results and mineralisation at the new Msinja discovery.

Additional ground secured

An additional, large Exclusive Prospecting Licence EPL0492 of 1,895km², located to the north of Malingunde and covering ground highly prospective for saprolite-hosted graphite deposits, was been granted to Sovereign by the Malawi Government. With other statutory relinquishments, the Company's land holding in central Malawi now totals 3,993km².

Sovereign's first mover advantage means it is the dominant ground holder in the Central Malawi Graphite Province, controlling ~80% of the total area prospective for flake graphite mineralisation. The Company has now re-commenced regional exploration with hand auger drilling to test for further high-grade, saprolite-hosted graphite mineralisation on EPL0492 and its other existing EPLs.

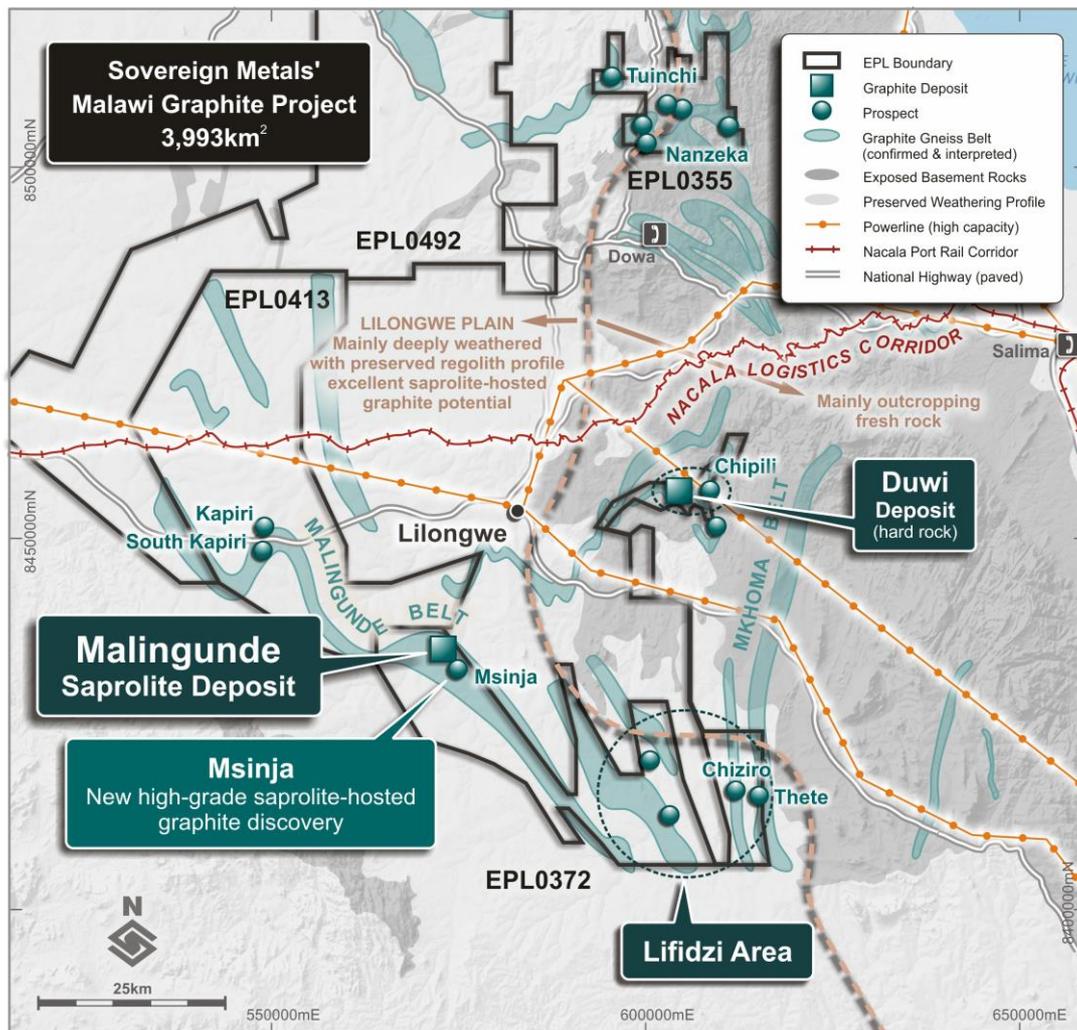


Figure 6. Map showing Sovereign's ground holding, location of the Msinja discovery and the new EPL0492.

Carpentaria joint venture

Mount Isa Mines (MIM), a Glencore Company, continues to manage and sole fund exploration on all tenements comprising the Carpentaria Joint Venture ("CJV"). Sovereign currently holds a 26.24% diluting interest in the tenements.

Competent Person Statements

The information in this announcement that relates to Exploration Results is extracted from announcements dated 17 January, 20 February, 19 March and 3 April 2018. These announcements are available to view on www.sovereignmetals.com.au. The information in the original announcement 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 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 announcements.

The information in this announcement that relates to Mining, Processing, Infrastructure, Production Targets, and Capital and Operating Costs is extracted from an announcement dated 20 June 2017. This announcement is available to view on www.sovereignmetals.com.au. The information in the original ASX Announcement that related to Mining, Processing, Infrastructure, Production Targets, and Capital and Operating Costs was based on and fairly represent information compiled or reviewed by Mr David Dodd, who is a Fellow of the Southern Africa Institute of Mining and Metallurgy. Mr Dodd is a consultant to Amec Foster Wheeler. Mr Dodd has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activities undertaken. The Company confirms that it is not aware of any new information or data that materially affects the information included in the original market announcement. The Company confirms that the form and context in which the findings are presented have not been materially modified from the original market announcement.

Production Target

The Production Target referred to in this announcement is based on Sovereign Metals Limited's Scoping Study for the Malingunde Project released to the ASX on 20 June 2017. The information in relation to the Production Target that the Company is required to include in a public report in accordance with ASX Listing Rules 5.16 and 5.17 was included in SVM's ASX Announcement released on 20 June 2017. The Company confirms that the material assumptions underpinning the Production Target referenced in the 20 June 2017 release continue to apply and have not materially changed.

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 1: Summary of mining tenements

As at 31 March 2018, the Company had an interest in the following tenements:

Project Name	Permit Number	Percentage Interest	Joint Venture Partner	Status
<u>Malawi</u>				
Central Malawi Graphite Project	EPL 0413	100%	-	Granted
	EPL 0372	100%	-	Granted
	EPL 0355	100%	-	Granted
	EPL 0492 ⁽¹⁾	100%	-	Granted
<u>Queensland, Australia:</u>				
Mt Marathon	EPM 8586	26.24%	Mount Isa Mines	Granted
Mt Avarice	EPM 8588	26.24%	Mount Isa Mines	Granted
Fountain Range	EPM 12561	26.24%	Mount Isa Mines	Granted
Corella River	EPM 12597	26.24%	Mount Isa Mines	Granted
Saint Andrews Extended	EPM 12180	26.24%	Mount Isa Mines	Granted

Note:

(1) EPL 0492 was granted during the period.

Beneficial percentage interests in Farm-out agreements disposed during the quarter ending 31 March 2018:

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	26.51%	0.27%	26.24%
Mt Avarice	EPM 8588	Farm out	26.51%	0.27%	26.24%
Fountain Range	EPM 12561	Farm out	26.51%	0.27%	26.24%
Corella River	EPM 12597	Farm out	26.51%	0.27%	26.24%
Saint Andrews Ext.	EPM 12180	Farm out	26.51%	0.27%	26.24%



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 LIMITED

ABN

71 120 833 427

Quarter ended ("current quarter")

31 MARCH 2018

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	-	-
1.2 Payments for		
(a) exploration & evaluation	(944)	(2,081)
(b) development	-	-
(c) production	-	-
(d) staff costs	(124)	(329)
(e) administration and corporate costs	(72)	(429)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	26	48
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	(46)	(132)
1.9 Net cash from / (used in) operating activities	(1,160)	(2,923)
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	-	(22)
(b) tenements (see item 10)	-	-
(c) investments	-	-
(d) other non-current assets	-	-

Appendix 5B
Mining exploration entity and oil and gas exploration entity quarterly report

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 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	-	(22)
3. Cash flows from financing activities		
3.1 Proceeds from issues of shares	-	6,500
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	(55)	(399)
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)	(6)	-
3.10 Net cash from / (used in) financing activities	(61)	6,101
4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of period	6,628	2,251
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(1,160)	(2,923)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	-	(22)
4.4 Net cash from / (used in) financing activities (item 3.10 above)	(61)	6,101
4.5 Effect of movement in exchange rates on cash held	-	-
4.6 Cash and cash equivalents at end of period	5,407	5,407

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	35	51
5.2 Call deposits	5,372	6,577
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)	5,407	6,628

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	124
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 and salaries, 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 <i>Add notes as necessary for an understanding of the position</i>	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	1,200
9.2 Development	-
9.3 Production	-
9.4 Staff costs	110
9.5 Administration and corporate costs	80
9.6 Other (provide details if material)	
- Business development	50
9.7 Total estimated cash outflows	1,440

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.	26.51%	26.24%
10.2 Interests in mining tenements and petroleum tenements acquired or increased	EPL 0492	Direct	0%	100%

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:
(Company secretary)

Date: 30 April 2018

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

Mining exploration entity and oil and gas exploration entity quarterly report

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.