

## DECEMBER 2014 QUARTERLY REPORT

Sovereign Metals Limited (“the Company” or “Sovereign”) is pleased to present its quarterly report for the period ending 31 December 2014. The Company’s primary focus during the period continued to be the advancement of its graphite prospects in Malawi, including the major Duwi Flake Graphite Project and the Lifidzi Saprolite-Hosted Graphite Project.

### Highlights:

#### ➤ Maiden Mineral Resource Estimate for Duwi:

- Total Indicated and Inferred Mineral Resource Estimate (‘MRE’) at Duwi of **86Mt at 7.1% TGC** (total graphitic carbon), containing **6.13Mt of graphite** (5% TGC cut-off).
- Indicated MRE of **17Mt at 8.1% TGC** (7% TGC cut-off) from surface to approximately 150m below surface.
- Only ~2.2km drilled of the known ~24km strike length of the Duwi Trend, indicating substantial potential to expand resources with further drilling.
- Scoping Study scheduled to commence to examine a production scenario of 30,000t of flake graphite per annum and expanded scenario of 65,000tpa, based on the Indicated MRE and Duwi’s world-class large flake metallurgical properties.

#### ➤ Encouraging Results from Saprolite Hosted Graphite Work:

- Ground EM surveys highlight 43 priority conductors at Lifidzi and 20 at Malingunde, where bedrock geology and a deep, preserved weathering profile favour the formation of saprolitic flake graphite deposits.
- Hand augering shows 19 of 43 (44%) conductors at Lifidzi are saprolitic graphite gneiss.
- Significant assays of saprolite mineralisation received to date from Lifidzi average 6.5% and peak at 12.0% TGC (4% TGC lower cut-off).
- Previous metallurgical test-work on Dedza saprolite indicates excellent large flake characteristics with 58% of concentrates >150µm and the total concentrate grading 94.1% TGC.

#### ➤ Independent metallurgical testwork program confirms outstanding large flake properties:

- A bench-scale testwork program was conducted by SGS Canada Inc. to independently verify the results from 2013 testwork at MINTEK Johannesburg.
- Results confirmed the outstanding large flake characteristics of Duwi fresh rock concentrates.

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**Operations**

Sovereign is exploring its large and highly prospective tenement holding located in Malawi, near the capital city, Lilongwe. Activities during the Quarter focussed on the maiden Mineral Resource Estimate (“MRE”) for the Duwi Flake Graphite Project in October and exploration of the Company’s sapolite targets at Lifidzi, Dedza and Malingunde.

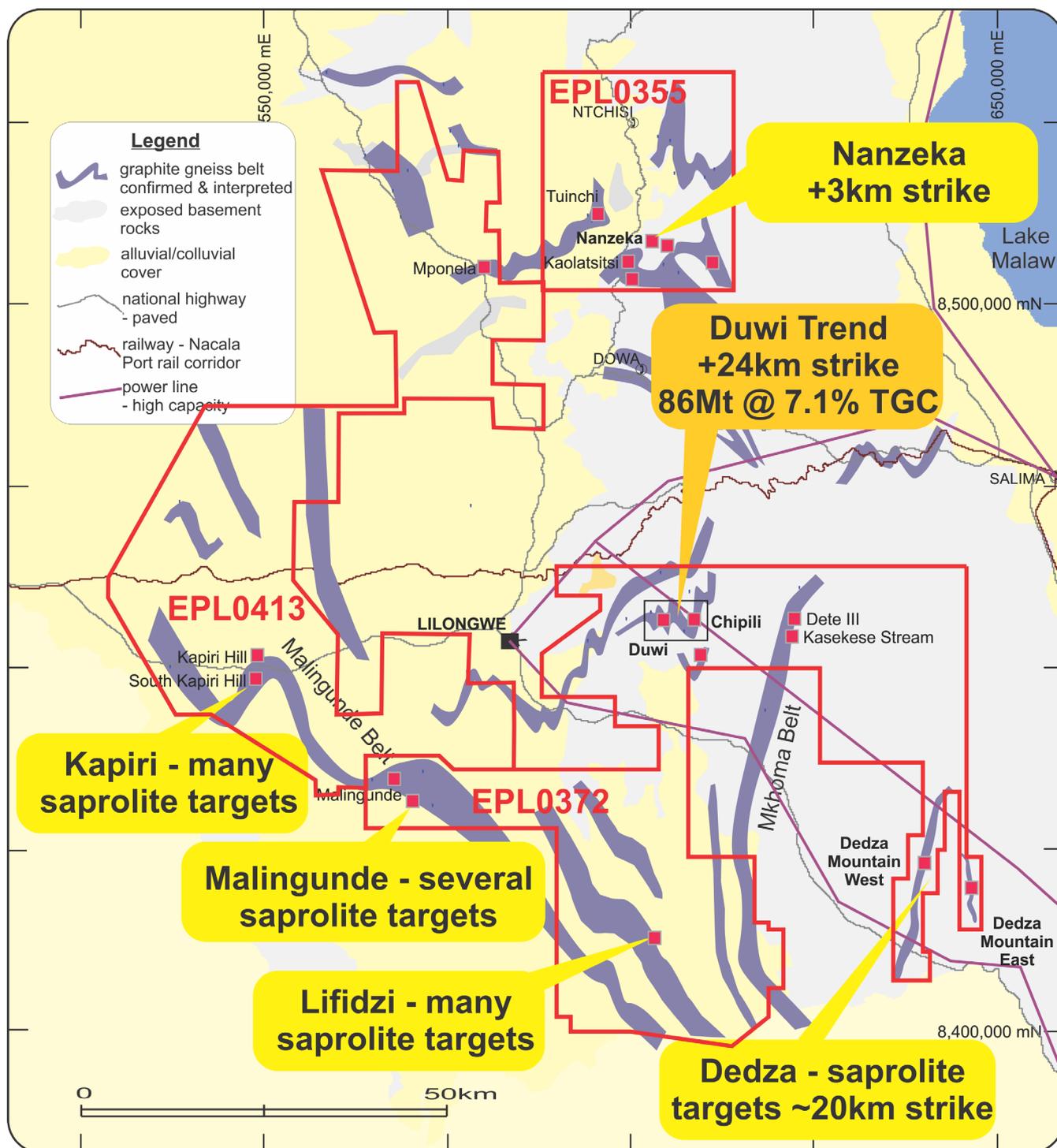
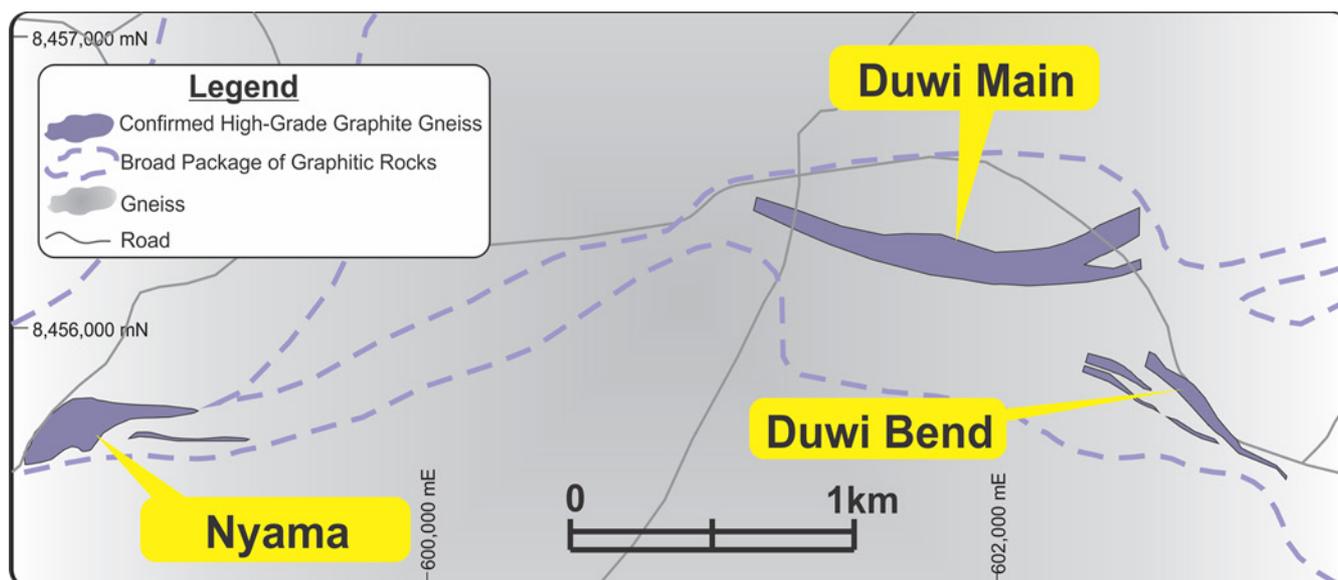


Figure 1. Simplified map showing major flake graphite prospects.

## Duwi Flake Graphite Project

The Company has identified three substantial proximal bodies of flake graphite mineralisation at Duwi – being Duwi Main, Duwi Bend and Nyama. A maiden MRE for these deposits was completed during the Quarter, totalling 86Mt at 7.1% TGC (total graphitic carbon), containing 6.13Mt of graphite (5% TGC cut-off).



**Figure 2. Simplified map showing Duwi Main, Duwi Bend and Nyama Prospects.**

The Duwi Project is located within 20km of Lilongwe, the capital city of Malawi, and is well serviced by road, rail, electricity and other infrastructure. Metallurgical testwork to date demonstrates that the Duwi Project can produce a world class large flake graphite concentrate, with greater than 64% of concentrates +100mesh (see ASX announcement 21 January 2014). Benchscale testwork completed by SGS Canada Inc. during the Quarter independently verified the earlier results from the 2013 testwork conducted by MINTEK Johannesburg.

### Geology

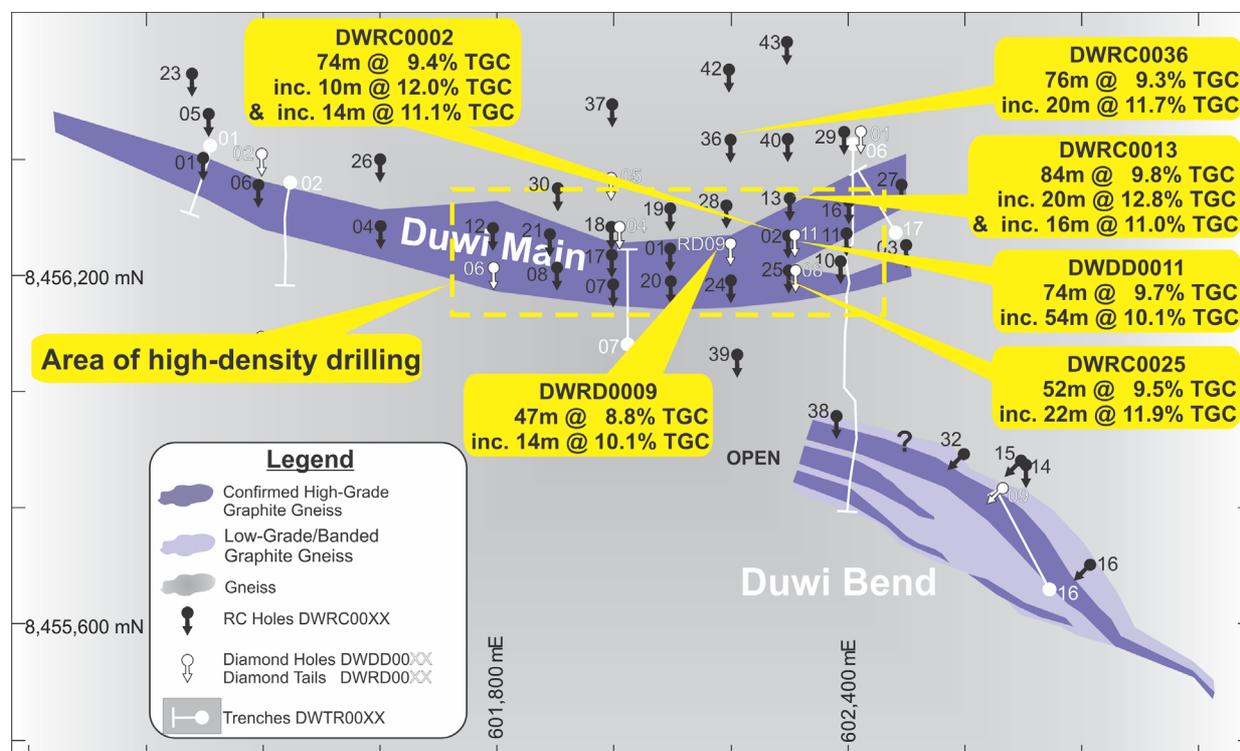
Graphite mineralisation at Duwi and Nyama occurs as multiple, high-grade, bands of flake graphite, hosted within Proterozoic gneissic rocks of felsic to intermediate composition. Mineralisation is open along strike and down dip in both Duwi and Nyama. Field mapping and trenching of the deposits in 2013 and 2014, has demonstrated geological continuity of the host gneisses.

Duwi Main has an east-west strike, dipping 45° to the north. It is currently modelled as two lenses of mineralisation, with a depth extent of 280m, a strike-length of 1,300m and a plan width varying between 25m and 180m. Duwi Bend has a strike of 125°, with a vertical dip. It is currently modelled as two parallel lenses, with a combined strike extent of 420m, down dip extent of 175m and plan width of 20m. Nyama, located approximately 2km west-south-west of Duwi Main, has an approximate east-west strike, and dips 40° to the north. It is currently modelled as three parallel lenses, striking approximately 400m, with a down dip extent of 230m and plan width of 40m.

### Drilling

The results from the final holes in the 2014 drilling program at the Duwi Project were reported during the quarter. A total of 5,285 metres of combined RC and diamond drilling was undertaken in 48 drill-holes.

The Duwi Main, Duwi Bend and Nyama prospects have thick zones of graphite mineralisation over a cumulative drilled strike length of ~2.2km (see Figure 3).

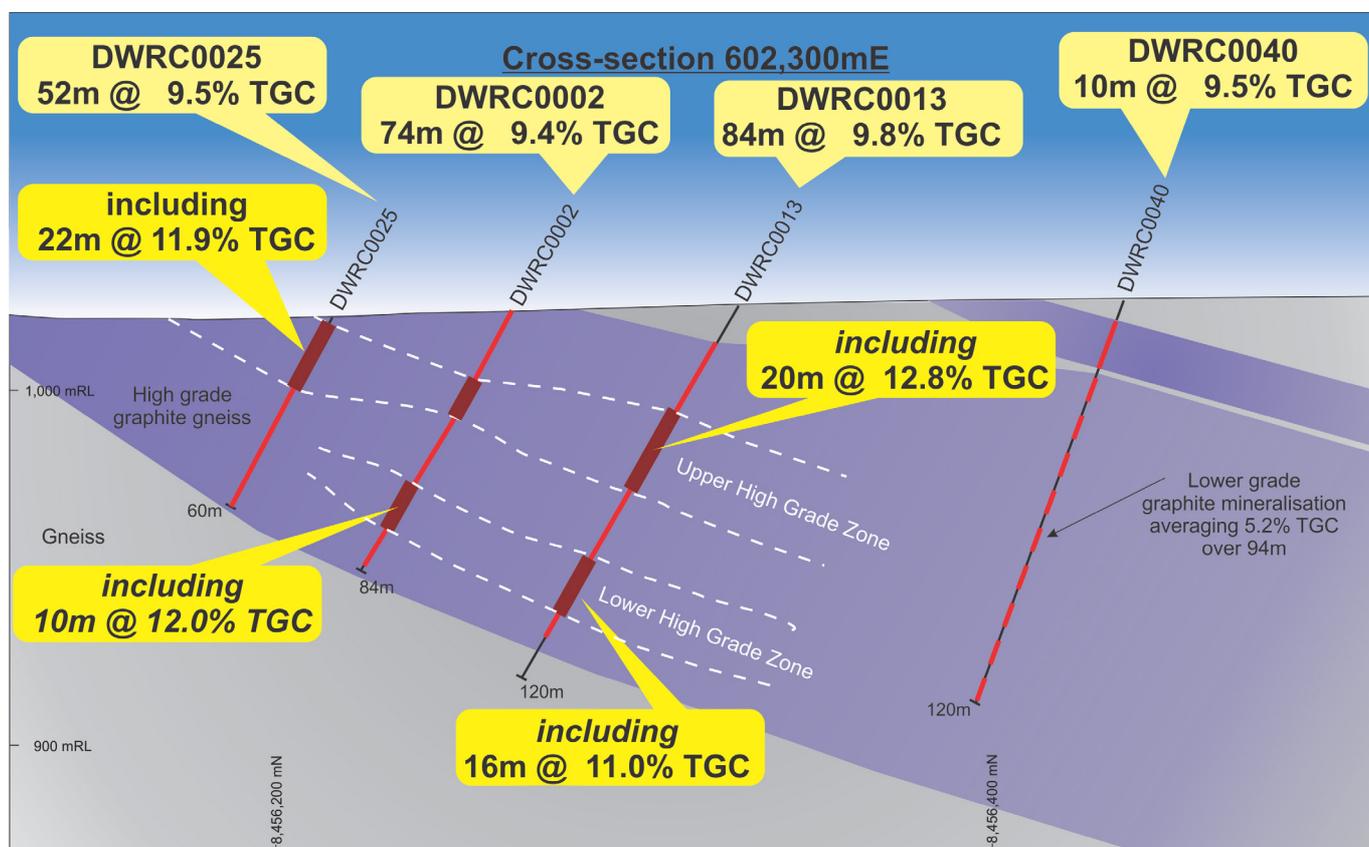


**Figure 3. Simplified map of Duwi Main and Duwi Bend showing selected 2014 RC drilling results reported to date.**

In particular, the Duwi Main zone has shown a number of thick, high grade graphite intercepts that begin at surface (Figures 3-5). This area was drilled at a higher density, nominally 50m by 100m, in order to provide more comprehensive data for the likely initial area of focus for a mining study.

Results from the 2014 drilling program include:

- DWRC0013:** 84m @ 9.8 %TGC (from 24m)  
inc. 20m @ 12.8% TGC & 16m @11.0% TGC
- DWRC0002:** 74m @ 9.4 % TGC (from 8m)  
inc. 10m @ 12.0% TGC & 14m @ 11.1% TGC
- DWRC0036:** 76m @ 9.3%TGC (from 138m)  
inc. 20m @ 11.7% TGC
- DWRC0025:** 52m @ 9.5% TGC (from 2m)  
inc. 22m @ 11.9% TGC
- DWRD0009:** 47m @ 8.8% TGC (from 66m)  
inc. 14m @ 10.1% TGC
- DWDD0011:** 74m @ 9.7% TGC (from 6m)  
inc. 54m @ 10.1% TGC



**Figure 4. 602,300mE cross-section at Duwi Main Zone**

All three deposits drilled to date within the Duwi Trend remain open down dip and along strike, suggesting that further drilling should be able to substantially expand the Mineral Resource.

### Mineral Resource Estimate

Following completion of the 2014 resource drilling program, CSA Global Pty Ltd (“CSA Global”) was engaged to complete the maiden MRE for the Duwi Project in Malawi. MRE’s were determined for three zones of mineralisation, being Duwi Main, Duwi Bend and Nyama (Figure 2). The MRE’s were reported in October 2014, in accordance with the JORC Code (2012 Edition) (refer ASX Announcement dated 17 October 2014).

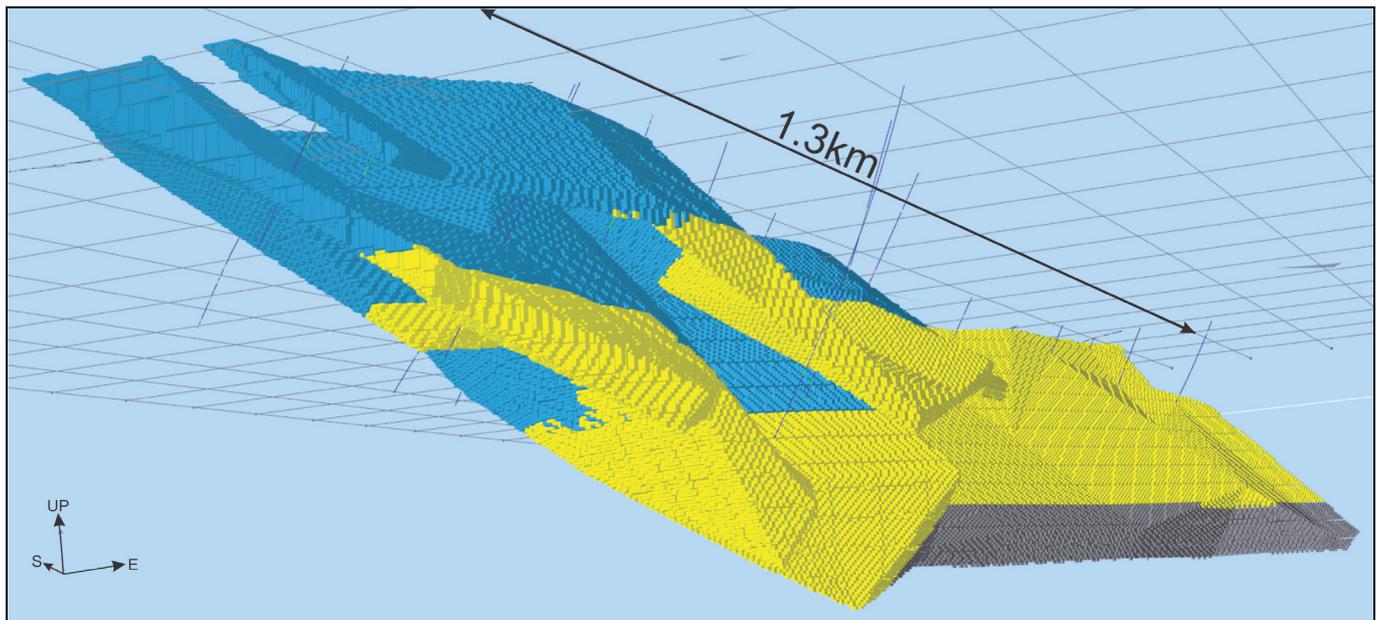
The MRE’s show a large body of flake graphite mineralisation at the Duwi Main Deposit (Figure 5), with smaller deposits at Duwi Bend and Nyama, all totalling 86Mt at 7.1% TGC (Indicated + Inferred), using a 5% TGC lower cut-off grade, as presented in Table 1.

Greater than 40% of the total MRE’s are in the Indicated category (above a 5% TGC cut-off grade). All of the Indicated material occurs in a coherent zone within 150m of surface in the central and eastern parts of the Duwi Main Deposit, where drilling is generally on 100m x 50m spacing (see Figure 3). At a 5% TGC lower cut-off the Indicated portion of the resource is 35Mt at 7.2% TGC. Using a higher cut-off grade at 7% TGC, the Indicated Resource component is 17Mt at 8.1% TGC.

Importantly, the Duwi Main, Duwi Bend and Nyama Deposits make up only ~2.2km strike length of the total Duwi Trend, which has known graphite mineralisation over ~24km of strike, indicating substantial potential for expansion and additions to the current resource.

**Table 1. Duwi Main, Duwi Bend and Nyama Resources at 5% TGC lower cut-off grade.**

Deposit	Category	Tonnage (MT)	Grade (% TGC)	Contained Graphite (MT)
Duwi Main	Indicated	35.2	7.2	2.52
	Inferred	34.3	7.3	2.49
	Total	69.5	7.2	5.01
Duwi Bend	Indicated	-	-	-
	Inferred	7.8	7.2	0.56
	Total	7.8	7.2	0.56
Nyama	Indicated	-	-	-
	Inferred	8.6	6.5	0.56
	Total	8.6	6.5	0.56
Total	Indicated	35.2	7.2	2.52
	Inferred	50.7	7.1	3.61
	Total	85.9	7.1	6.13



**Figure 5. 3D view from north east of Duwi Main Deposit, showing Indicated (blue), Inferred (yellow) and Unclassified (grey) volumes.**

Metallurgy

During the Quarter, an independent bench-scale metallurgical testwork program for the Duwi Project was completed. The testwork was performed by SGS Canada Inc. under the supervision of Mr Oliver Peters (MSc, P.Eng, MBA).

The primary objective of the testwork was to independently verify the results from 2013 testwork at MINTEK Johannesburg (see ASX Announcement 22 January 2014), by employing similar test work equipment and conditions prior to proceeding to the next phase of testwork.

The overall size distribution and grade of the MINTEK and SGS test were very similar (Figure 6 and Table 2). Concentrate grades of the three coarsest size fractions were all within 0.7% carbon content between the two laboratories, indicating excellent concentrate grade repeatability.

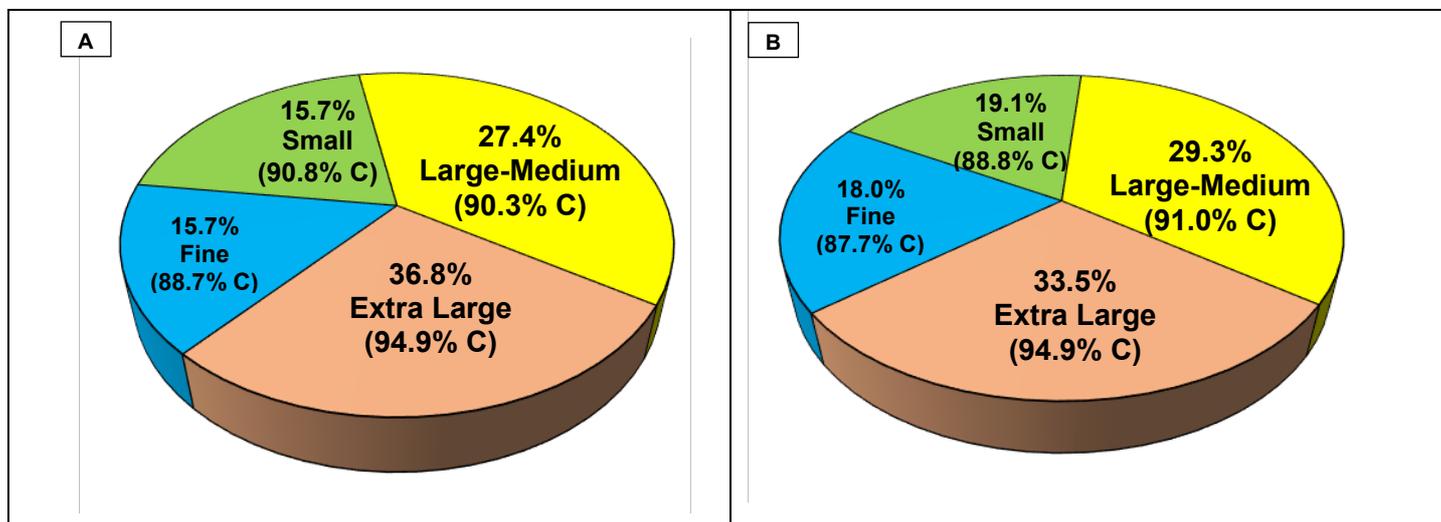


Figure 6: (A) Flake Size Distribution and Carbon<sup>1</sup> (“C”) Purity of MINTEK 2013 test (B) Flake Size Distribution and Carbon<sup>2</sup> Purity of SGS 2014 test

Table 2: Duwi – Concentrate Flake Size and Carbon Content

Particle size		MINTEK 2013		SGS 2014		Flake Category
Tyler Mesh	(µm)	Distribution (wt. %)	C <sup>1</sup> (%)	Distribution (wt. %)	C <sup>2</sup> (%)	
+35	+425	19.7	96.3	17.5	95.8	Extra Large (Jumbo)
-35 + 48	- 425 + 300	17.1	93.3	16.0	93.8	
-50 + 100	- 300 + 150	27.4	90.3	29.3	91.0	Large-Medium
-100 + 200	- 150 + 75	15.7	90.8	19.1	88.8	Small
-200	- 75	20.1	88.7	18.0	87.7	Amorphous
<b>Total</b>		<b>100.0</b>	<b>91.8</b>	<b>100.0</b>	<b>91.3</b>	

<sup>1</sup> The graphitic carbon content of the samples was determined using a thermo gravimetric analyser. The graphitic carbon equivalent content shown in the table is the difference between the loss on ignition at 375°C and 1,000°C.

<sup>2</sup> The chemical analysis used to determine the total carbon content employs combustion of a sample followed by infrared detection on a LECO SC-632 instrument. All reported analytical results have an associated measurement uncertainty based on the expected precision and accuracy relating to the method and sample concentration. Values at 100% should not be treated as pure products without additional impurity testing. The estimated measurement uncertainty for total carbon values greater than 90% C is 1.7% (relative) with a resolution of 1 significant figure.

SGS also completed a number of additional batch flotation tests on the master composite sample to assess the impact of a range of processing alternatives, principally grinding and polishing times and reagent variations. These tests provided further information on the effect of different potential process flowsheets on concentrate grade, flake size distribution and recovery. The results set out above represent a base case flowsheet to date and further work is required to optimise a process flowsheet prior to establishing process design criteria.

The results of the SGS testwork provide independent verification of the MIINTEK 2013 testwork and confirm 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.

The results of the testwork provide Sovereign with the required level of confidence to proceed to the next stage of testwork.

### Scoping Study

The Company plans to begin a scoping study to examine a production scenario of 30,000t of flake graphite per annum and an expanded scenario of 65,000t per annum.

The Indicated portion of the MRE will provide the base tonnage input for the Scoping Study. The Company notes that all of the Indicated material occurs in two wide, coherent zones from surface dipping at approximately 45° to the North (see Figure 5). This should facilitate low stripping ratios and low mining costs.

The Duwi Project is located within 20km of Lilongwe, the capital city of Malawi, and is well serviced by road, rail, electricity and other infrastructure. Metallurgical testwork to date demonstrates that the Duwi Project can produce a world class large flake graphite concentrate, with greater than 64% of concentrates +150µm.

## Saprolite Targets

Saprolite or clay hosted flake graphite mining operations, similar to those in China and Madagascar, have significant cost and environmental advantages over hard rock mining operations, due to:

- Simple, low cost exploration with auger or air-core drilling prevalent;
- The free-dig nature and very low strip ratios of the mineralised material, which is by definition close to or at surface;
- Simple processing with no primary milling circuit results in large capital and operating cost advantages; and
- The relative absence of sulphides offers substantial tailings management advantages.

Sovereign initially discovered widespread saprolite hosted graphite mineralisation at the Dedza Prospect and metallurgical test-work on samples from Dedza subsequently indicated very favourable large flake characteristics (see ASX Announcement 17 June 2014).

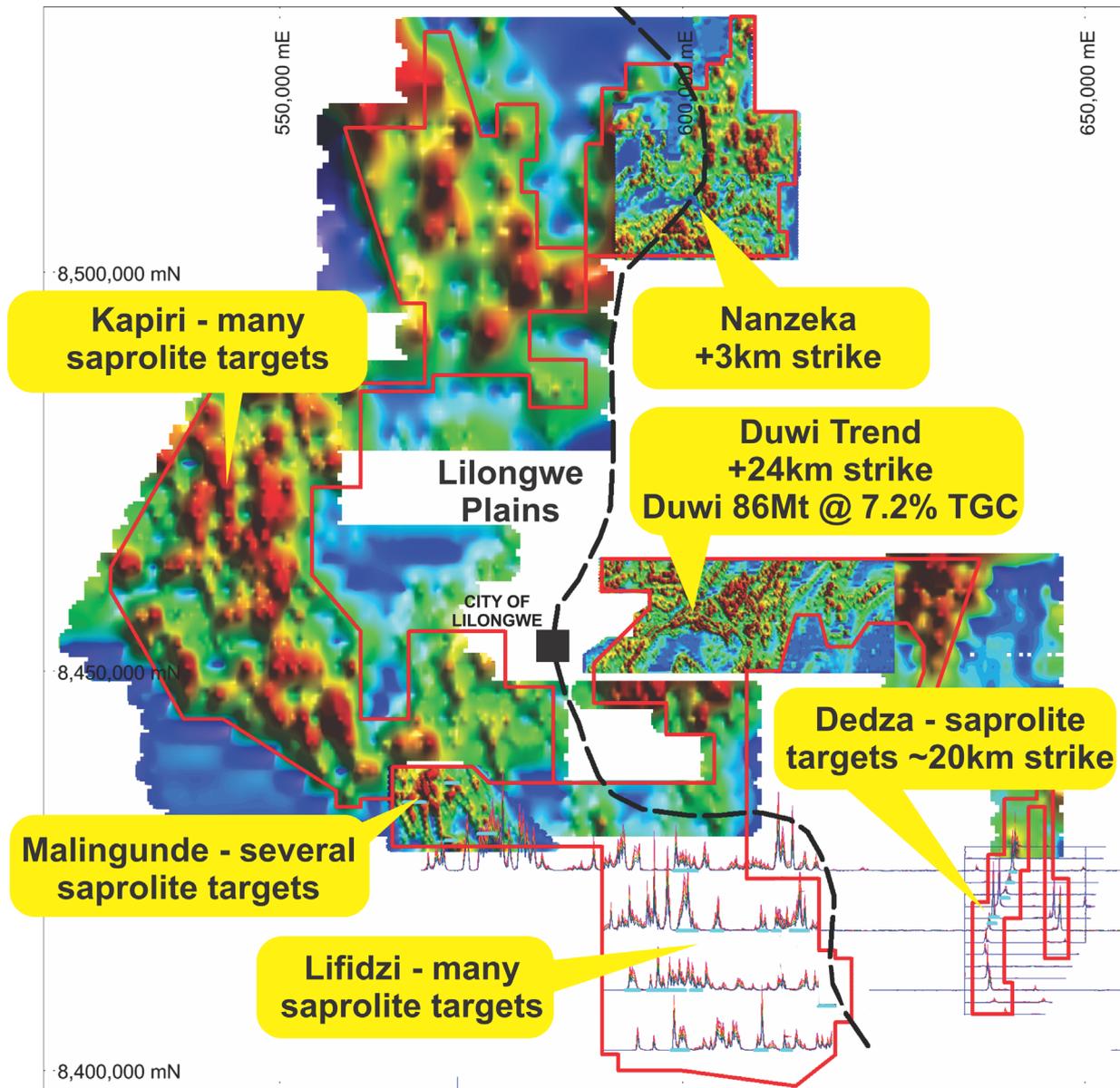
After assessing the potential cost advantages and high value flake characteristics of saprolite-hosted graphite, Sovereign's attention turned to its permits at Lifidzi and other areas such as Malingunde and Kapiri (Figure 7).

These three new areas occur on the Lilongwe Plain, which has a largely preserved, deep tropical weathering profile and therefore potentially significant thicknesses of saprolite. Similarities in the regional magnetic signatures and numerous, highly conductive responses in historical VTEM show that this area is underlain by the same paragneiss rock package that hosts the graphite deposits to the east of Lilongwe, for example - the Duwi Deposit.

Overall, the Company controls a vast area prospective for saprolitic graphite deposits with Lifidzi ~ 900km<sup>2</sup>, Malingunde ~140km<sup>2</sup> and Kapiri ~ 2,165km<sup>2</sup> (Figure 7).

During the Quarter, the Company commenced a program of ground electromagnetic (EM) surveys and hand auger drilling. The program was designed to test the saprolite-hosted (soft, clayey rock near surface) flake graphite zones, and initial results were highly encouraging:

- At Lifidzi, a total of 37 line km of ground EM was completed in the initial survey on E-W lines generally spaced 7.5km apart to test anomalies from previous aerial VTEM surveys.
- A total of 43 high-priority conductors were identified.
- Hand auger drilling showed that 19 of 43 (44%) of the conductors are saprolitic graphite gneiss.
- So far, assays have been reported for 12 of the 19 saprolitic graphite gneiss zones of which 8 were shown to be significant (>4% TGC).
- Average saprolite grades over all 8 significant zones are 6.5% TGC, with peak saprolite zone grades reaching 12.0%, 10.7% and 9.9% TGC.
- All mineralised holes ended in saprolite at depths between 6m and 10m due to the presence of water (and hence the limit of hand auger drilling). This indicates a deep saprolite profile is potentially present.
- At Malingunde, an initial 8 line km of ground EM identified 20 high priority conductors that are yet to be tested by hand auger drilling.
- At Kapiri, a large area underlain by conductive rocks shows a number of sub-cropping graphite occurrences, and importantly has a mostly preserved, deep weathering profile, suggesting substantial potential for saprolite-hosted flake graphite mineralisation.



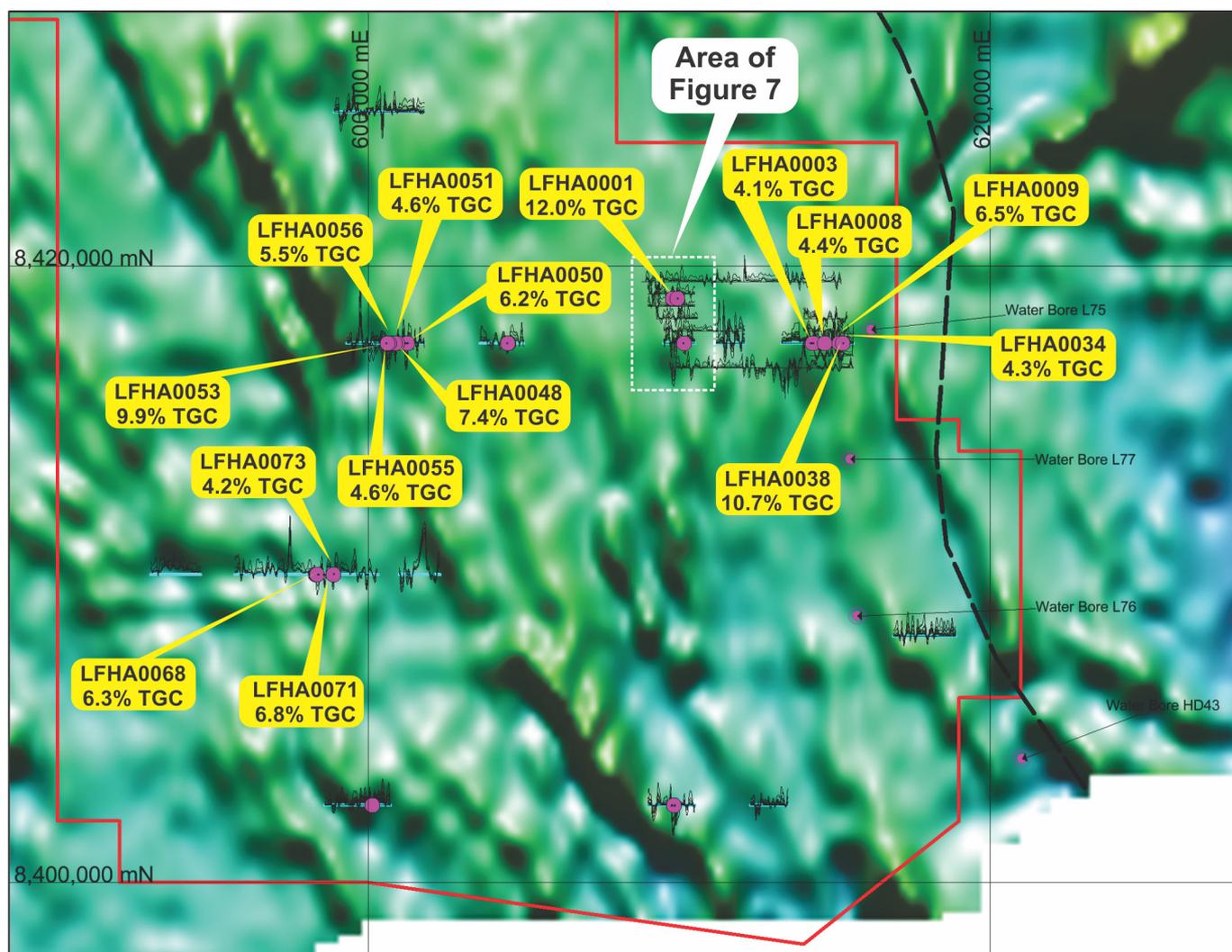
**Figure 7. Map of CMGP area over historical VTEM profiles and recent VTEM imagery. Initial ground EM lines at Lifidzi and Malingunde are shown in light blue**

Lifidzi

The Lifidzi area is underlain by a graphitic paragneiss rock package and has a largely preserved tropical weathering profile. It is therefore a prime target for large tonnages of saprolite-hosted graphite mineralisation. Graphite was previously detected in limited mapping, several water-bore holes and in “chiziro” (locally made paint containing graphite) on village huts.

The Company completed an initial ground EM program during the Quarter in order to further define targets for hand auger and aircore drilling. A total of 37km of wide spaced ground EM was completed and was very successful in defining conductors for testing (Figure 8).

A total of 43 high priority conductors were identified at Lifidzi. Hand auger drilling of the 43 conductors identified saprolitic graphite gneiss in 19 of the target zones. Assay results for 12 of the 19 graphitic zones have been reported and show 8 (of 12) contain average grades of over 4% TGC (see ASX Announcement dated 9 December 2014). A number of zones have multiple intercepts of graphite, indicating widths ranging between <10m and at least 80m. Additionally and importantly, a potentially deep saprolite profile is indicated as all mineralised holes terminated in saprolite at depths between 6m and 10m, due to the presence of water.



**Figure 8. Location of ground EM lines completed to date and hand-auger holes (magenta) that have intersected saprolitic graphite gneiss.**

### Dedza Mountain Prospect

The Company recognised significant potential for flake graphite mineralisation at Dedza Mountain through the discovery of approximately twenty trenches excavated for base metals exploration by a previous explorer. A discrete, ~20km long VTEM conductor at the Dedza Mountain West (“DMW”) Prospect showed that it was caused by graphite mineralisation in an area where a tropical weathering profile was largely preserved (Figure 7).

The Company undertook reconnaissance hand auger drilling, pitting, trenching and aircore drilling on the DMW and Dedza Mountain East (“DME”) Prospects to test the depth of saprolite and the potential for saprolite-hosted graphite mineralisation. Results released during the Quarter showed that saprolite graphite mineralisation, whilst modest in grade, is certainly present with intercepts ranging from 10m to 25m down-hole and saprolite thicknesses ranging from 10m to 20m vertically from surface (see ASX Announcement dated 9 December 2014).

### Other Target Areas

At Malingunde, an initial 8 line km of ground EM identified 20 high priority conductors, all of which remain to be tested by hand auger drilling (Figure 7). At Kapiri, a large area underlain by conductive rocks shows a number of sub-cropping graphite occurrences, and importantly has a mostly preserved, deep weathering profile, suggesting substantial potential for saprolite-hosted flake graphite mineralisation.

The Malingunde targets will be tested with an initial hand auger drilling program over the wet season (December 2014 to March 2015), whilst an initial ground EM and hand augering program at Kapiri is planned for 2015.

### Conclusion

With 19 conductors tested so far showing saprolite-hosted flake graphite in zones up to 80m wide (across strike), it is clear the potential of the Lifidzi area to host large tonnages is significant. The same graphitic paragneiss rock package also underlies the Malingunde and Kapiri areas, which also therefore show substantial saprolite-hosted flake graphite potential.

Current exploration information – geological mapping, VTEM, auger and aircore drilling - suggests that there is potentially several hundred kilometres of cumulative strike length suitable for exploration for shallow saprolite-hosted graphite zones.

## **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").

Mount Isa Mines completed a drill program at Mt Avarice EPM 8588 in the September Quarter.

Drilling at Mount Avarice consisted of 7 RC holes for 1,126m at the Magpie Prospect. It is expected that assay results will be available in the June Quarter once all QA/QC procedures have been completed and the drill completion report has been provided to Sovereign.

## **Tate River**

Following a review of all available exploration data, the Company notified Fusion Resources Limited of its intention to surrender its interest in the EPM 17103. The notification to surrender the permit was submitted after the end of the Quarter.

### Competent Person Statement

The information in this report that relates to Exploration Results is extracted from the reports entitled 'Strong Final Results from Duwi Project Drilling' dated 3 October 2014, 'Maiden JORC Resource Confirms Duwi as one the World's Largest Graphite Deposits' dated 17 October 2014 and 'Encouraging Results from Saprolite Hosted Graphite Work' dated 9 December 2014. These reports are available to view on [www.sovereignmetals.com.au](http://www.sovereignmetals.com.au). The information in the original ASX Announcements that related to Exploration Results was based on, and fairly represents, information compiled by Mr Peter Woodman, 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 'Further Metallurgical Testwork Confirms Exceptional Large Flake Characteristics' dated 21 October 2014. This report is available to view on [www.sovereignmetals.com.au](http://www.sovereignmetals.com.au). The information in the original ASX Announcement that related to Metallurgical Testwork 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'). 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 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 Mineral Resources is extracted from the report entitled 'Maiden JORC Resource Confirms Duwi as one the World's Largest Graphite Deposits' dated 17 October 2014. The announcement is available to view on [www.sovereignmetals.com.au](http://www.sovereignmetals.com.au). The information in the original ASX Announcement that related to Mineral Resources was based on, and fairly represents, information compiled by Mr David Williams, a Competent Person, who is a Member of The Australasian Institute of Mining and Metallurgy. Mr Williams is employed by CSA Global Pty Ltd, an independent consulting company. Mr Williams has sufficient experience, which is relevant to the style of mineralisation and type of deposit under consideration, and to the activity he is undertaking, to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. The Company confirms that it is not aware of any new information or data that materially affects the information included in the original market announcement and, in the case of estimates of Mineral Resources, that all material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed. The Company confirms that the form and context in which the Competent Person's findings are presented have not been materially modified from the original market announcement.

### 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 December 2014, the Company had an interest in the following tenements:

Project Name	Permit Number	Percentage Interest	Joint Venture Partner	Status
<b><u>Malawi</u></b>				
Central Malawi Graphite Project	EPL 0413	100%	-	Granted
	EPL 0372	100%	-	Granted
	EPL 0355	100%	-	Granted
<b><u>Queensland, Australia:</u></b>				
Nine Mile	EPMA 17305	100%	-	Application
Mt Marathon	EPM 8586	35.09%	Mount Isa Mines	Granted
Mt Avarice	EPM 8588	35.09%	Mount Isa Mines	Granted
Fountain Range	EPM 12561	35.09%	Mount Isa Mines	Granted
Corella River	EPM 12597	35.09%	Mount Isa Mines	Granted
Saint Andrews Extended	EPM 12180	35.09%	Mount Isa Mines	Granted
Dargalong	EPM 17103	100%	Fusion	Granted

During the Quarter, the Company notified Fusion Resources Limited of its intention to surrender its interest in EPM 17103. The notification to surrender the permit was subsequently submitted in January 2015.

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

Project Name	Permit Number	Type of change	Interest at beginning of quarter	Interest disposed of during quarter	Interest at end of quarter
<b><u>Carpentaria JV:</u></b>					
Mt Marathon	EPM 8586	Farm out	35.79%	0.70%	35.09%
Mt Avarice	EPM 8588	Farm out	35.79%	0.70%	35.09%
Fountain Range	EPM 12561	Farm out	35.79%	0.70%	35.09%
Corella River	EPM 12597	Farm out	35.79%	0.70%	35.09%
Saint Andrews Ext.	EPM 12180	Farm out	35.79%	0.70%	35.09%

# 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 DECEMBER 2014

### Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'ooo	Year to date (6 months) \$A'ooo
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for (a) exploration & evaluation	(1,030)	(1,643)
(b) development	-	-
(c) production	-	-
(d) administration	(138)	(388)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	12	33
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other (provide details if material)	-	-
- Business development	(20)	(44)
- Project Marketing	(19)	(48)
<b>Net Operating Cash Flows</b>	<b>(1,195)</b>	<b>(2,090)</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of: (a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	(3)	(8)
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)	-	-
<b>Net investing cash flows</b>	<b>(3)</b>	<b>(8)</b>
1.13 Total operating and investing cash flows (carried forward)	<b>(1,198)</b>	<b>(2,098)</b>

+ See chapter 19 for defined terms.

**Appendix 5B**  
**Mining exploration entity quarterly report**

1.13	Total operating and investing cash flows (brought forward)	(1,198)	(2,098)
	<b>Cash flows related to financing activities</b>		
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)	-	-
	<b>Net financing cash flows</b>	-	-
	<b>Net increase (decrease) in cash held</b>	<b>(1,198)</b>	<b>(2,098)</b>
1.20	Cash at beginning of quarter/year to date	2,131	3,031
1.21	Exchange rate adjustments to item 1.20		
1.22	<b>Cash at end of quarter</b>	<b>933</b>	<b>933</b>

**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	89
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 executive remuneration, 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'000
4.1	Exploration and evaluation	(300)
4.2	Development	-
4.3	Production	-
4.4	Administration	(140)
<b>Total</b>		<b>(440)</b>

### 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'000	Previous quarter \$A'000
5.1	Cash on hand and at bank	68	8
5.2	Deposits at call	865	2,123
5.3	Bank overdraft	-	-
5.4	Other (provide details)	-	-
<b>Total: cash at end of quarter (item 1.22)</b>		<b>933</b>	<b>2,131</b>

### 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.	35.79%	35.09%
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 <b>Preference securities</b> <i>(description)</i>				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 <b>+Ordinary securities</b>	103,840,328	103,840,328	Not applicable	Not applicable
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	9,500,000	9,500,000	Not applicable	Not applicable
7.5 <b>+Convertible debt securities</b> <i>(description)</i>				
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				

+ See chapter 19 for defined terms.

**Appendix 5B**  
**Mining exploration entity quarterly report**

7.7	<b>Options/ Rights</b>				
		<u>Options</u>		<i>Exercise price</i>	<i>Expiry date</i>
	- Unlisted options	500,000	-	\$0.35	31 March 2015
	- Unlisted options	250,000	-	\$0.22	30 September 2015
	- Unlisted options	1,500,000	-	\$0.33	15 May 2016
	- Unlisted options	1,500,000	-	\$0.40	15 May 2017
	- Unlisted options	1,500,000	-	\$0.47	15 May 2018
		<u>Rights</u>			
	- Perform. Rights	750,000	-	-	31 December 2016
	- Perform. Rights	1,100,000	-	-	31 December 2017
	- Perform. Rights	1,100,000	-	-	31 December 2018
7.8	Issued during quarter				
7.9	Exercised during quarter				
	- Perform. Rights	750,000	-	-	Not Applicable
7.10	Expired during quarter				
7.11	<b>Performance Shares</b>				
	- Class B	8,750,000	-	Not Applicable	<i>Conversion date</i> 7 November 2016
7.12	Changes during quarter				
	<i>Exercised</i>				
	- Class A	8,750,000	-	Not Applicable	Not Applicable
7.13	<b>Debentures</b> <i>(totals only)</i>				
7.14	<b>Unsecured notes</b> <i>(totals only)</i>				

## Compliance statement

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

Sign here: .....

Date: 30 January 2015

(Director/Company secretary)

Print name: Clint McGhie

+ See chapter 19 for defined terms.

## 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.

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