



SOVEREIGN
METALS LIMITED

SOVEREIGN METALS LIMITED
ABN 71 120 833 427

INTERIM FINANCIAL REPORT
FOR THE HALF YEAR ENDED
31 DECEMBER 2015

CORPORATE DIRECTORY

Directors

Mr Ian Middlemas – Chairman
 Mr Matthew Syme
 Dr Julian Stephens
 Mr Mark Pearce

Company Secretary

Mr Clint McGhie

Registered and Principal Office

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 28 The Esplanade
 Perth WA 6000

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Share Register

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 172 St Georges Terrace
 Perth WA 6000

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Stock Exchange Listing

Australian Securities Exchange
 Home Branch – Perth
 Level 40, Central Park
 152-158 St Georges Terrace
 Perth WA 6000

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 2015 ("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)
Mr Matthew Syme
Dr Julian Stephens (appointed 22 January 2016)
Mr Mark Pearce

Former Director

Mr Peter Woodman (resigned 22 January 2016)

All Directors were in office from 1 July 2015 until the date of this report, unless otherwise noted.

REVIEW AND RESULTS OF OPERATIONS

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 and Malingunde Sapolite-Hosted Graphite Projects.

Highlights and advancements made on the Projects during the half year include:

➤ **Completion of Scoping Study confirming Duwi as a potential world class, high margin flake graphite project:**

- *The Study confirmed Duwi can support a Base Case scenario with graphite concentrate production of ~110,000 tonnes per annum over an initial mine life of 20 years.*
- *Life of mine operating cost estimate of US\$498 per tonne of concentrate (including transport costs FOB Nacala Port) mean excellent operating margins.*
- *Initial capital investment of US\$112m (before contingency) with a 1.7 year payback.*
- *Very low life of mine strip ratio of 0.67:1.00 waste:ore.*
- *Concentrate flake size and purity 'footprint' indicates suitability for use in a wide range of traditional and emerging end-use applications.*
- *Significant infrastructure advantages including proximity to existing rail, grid power, labour and fresh water supplies.*

➤ **Further Metallurgical Testwork produces high-grade flake graphite concentrates through conventional mineral processing techniques without chemical or thermal purification:**

- *Jumbo flake concentrates grading up to **99.2% C(t)** with combined coarse and jumbo flake categories (+150µm) averaging **97.5% C(t)**.*
- *Combined concentrates across all flake size fractions grading up to **96.6% C(t)**.*

➤ **Substantial, high-grade saprolite-hosted flake graphite deposit at Malingunde:**

- Hand auger drilling has delineated a substantial, high-grade, saprolite-hosted graphite deposit at Ndumila II, located just 20km south-west of the Malawian capital, Lilongwe.
- High-grade mineralisation identified over 3.4km strike with cumulative across strike widths locally exceeding 200m and averaging about 140m.
- Results include:

MGHA0153	10m @ 26.3% TGC	MGHA0175	5m @ 14.5% TGC
MGHA0178	7m @ 10.0% TGC	MGHA0283	9m @ 10.7% TGC
MGHA0290	10m @ 16.7% TGC	MGHA0418	7m @ 15.7% TGC
MGHA0423	10m @ 15.3% TGC	MGHA0436	8m @ 20.6% TGC
MGHA0535	10m @ 15.2% TGC	MGHA0537	10m @ 10.7% TGC
MGHA0545	8m @ 20.6% TGC	MGHA0547	5m @ 17.1% TGC

**all holes reported ended in high-grade graphite mineralisation*

- A further 5 major prospects have been identified at Lifidzi (Thete, Junction, Mapembe, Chafumbwe & Chiziro).

➤ **Strategic Offtake and Development Funding Partnership agreement:**

- Agreement signed with major Chinese corporation, China Volant Industry Co Ltd (“Volinco”), pursuant to which Volinco and the Company will work together to secure development funding and long term graphite offtake arrangements for Sovereign in mainland China.

Duwi Flake Graphite Project

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.

The Company has identified three substantial proximal bodies of flake graphite mineralisation at Duwi – being Duwi Main, Duwi Bend and Nyama. A maiden Mineral Resource Estimate (“MRE”) for these deposits was completed in October 2014, totalling 86Mt at 7.1% TGC (total graphitic carbon), containing 6.13Mt of graphite (5% TGC cut-off) (see Table 1 and ASX Announcement 17 October 2014).

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

A Scoping Study (“Study”) evaluating the production and export of flake graphite products from Duwi was completed in September 2015. Results of the Study confirmed Duwi as a potential world class, high margin flake graphite project (refer ASX Announcement 1 September 2015).

The Study considered two production scenarios:

- **The 1.5 Mtpa Base Case (“Base Case”):** Processing 30 Mt of Indicated and Inferred material from Duwi Main and Duwi Bend at a rate of 1.5 Mtpa over a 20-year life to produce approximately 110,000 tpa of flake graphite concentrate (>95% TGC). The life of mine (“LOM”) throughput of 30 Mt comprises 77% in the Indicated mineral resource category and 23% in the Inferred category.
- **The 0.55 Mtpa Low Tonnage Case (“Low Tonnage Case”):** Mining and processing of 11 Mt of Indicated Duwi Main ore at a mining and processing rate of 0.55 Mtpa over a 20-year life to produce approximately 40,000 tpa of flake graphite concentrate. The 11 Mt is comprised entirely of material in the Indicated mineral resource category.

The Study adopted the Base Case for the project assessment, focussing on the development of a 1.5 Mtpa mining and processing project. Cost estimates and production parameters for the Low Tonnage Case were extrapolated from the Base Case. The study highlights included:

- Simple open pit mining, amenable to a contract mining operation with a very low strip ratio of 0.67 for the Base Case and 0.51 for the Low Tonnage Case.
- High graphite recoveries (93.7%) using a simple flotation-based flowsheet to achieve high grade (>95% TGC) products, without further chemical processing.
- Ongoing test-work has confirmed the world class, large flake characteristics of Duwi concentrates with 63% > 150 µm including 33.5% in the highest value extra-large / jumbo (+300 µm) flake fraction. The proportion of jumbo and large flake is among the highest reported flake distributions of graphite projects worldwide and significantly enhances the Project’s commercial appeal.
- A long life of mine (LOM) over 20 years with an opportunity to use flexible production configurations. Both production cases suggested very profitable operations allowing a flexible approach to staging processing capacity and product composition to generate optimum cashflow outcomes.
- Low operating costs of \$36.90 per tonne ore processed or \$498 per tonne concentrate loaded (FOB) at the Mozambique port of Nacala.
- Initial capital investment of US\$112m (excluding a US\$26m contingency, sustaining/deferred, working and owner’s costs) for the Base Case and US\$55m for the Low Tonnage Case.
- The Project’s location only 15 km from Lilongwe provides excellent access to services and infrastructure. This includes only a short 25km haul to existing railway infrastructure and access to power and fresh water capable within the Project area.

Sovereign also completed its third independent metallurgical test-work program for the Duwi Flake Graphite Project during the half year at SGS Canada Inc.

The primary objectives of the test-work were threefold:

- To continue to verify the excellent flake graphite concentrate characteristics demonstrated by the earlier MINTEK and SGS test-work programs across different parts of the Duwi Deposit.
- To test various comminution media and flowsheets to attempt to improve already high-grade graphite concentrates, to expand the marketability of Duwi graphite products.
- To produce a sufficient quantity of concentrate samples to distribute to potential customers and end users for downstream application property testing/characterisation.

Overall, the attrition tests produced excellent upgrading results with concentrates averaging 96.2% C(t) with some of the jumbo flake portions grading as high as 99.2% C(t) using only simple physical comminution (crushing, grinding, and scrubbing) and flotation. Importantly, the results show that Duwi flake graphite can consistently be upgraded to >95% C(t) and hence has the flake size and grade characteristics pre-requisite for producing Li-ion battery grade spherical graphite.

Additionally, this test-work showed that slightly altering the grinding and attritioning conditions can produce higher grades (i.e. >95% C(t)) and slightly finer flake distribution OR can be set to produce lower grades (i.e. ~92% C(t)) with excellent coarse flake distribution. This provides maximum flexibility for the Company to potentially produce a large range of different graphite concentrates possibly suited to a variety of downstream applications including refractories and products for emerging markets such as Li-ion battery anodes.

Samples of bulk flotation concentrates have been distributed to potential customers and end users for downstream application property testing/characterisation.

The positive outcomes of the Scoping Study and ongoing metallurgical testwork support the ongoing development of Duwi. The Company is now undertaking assessment of end use application suitability of its concentrates through various international carbon companies and potential offtake partners.

Saprolite Targets

Sovereign's Malingunde and Lifidzi areas occur on the Lilongwe Plain, which has a largely preserved, deep tropical weathering profile and hence significant thicknesses of saprolite. These areas are underlain by the same paragneiss rock package that hosts Sovereign's hard rock Duwi flake graphite deposit, 15km east of Lilongwe.

During the half year, the Company's exploration efforts focused on saprolite-hosted flake graphite mineralisation in these areas. Previously completed geological mapping, Heli-VTEM and ground EM were followed up by hand auger drilling on conductive anomalies. To date, a total 1,055 hand auger holes for 8,931 metres of drilling has been completed in these areas.

This work has resulted in the discovery of a major saprolite-hosted flake graphite deposit at Ndumilla II in the Malingunde area. Additionally, five other prospects have been identified at Lifidzi (Thete, Junction, Mapembe, Chafumbwe & Chiziro).

At Ndumilla II, numerous parallel zones high-grade, saprolite-hosted mineralisation identified over 3.4km strike with cumulative across strike widths locally exceeding 200m and averaging about 140m. Results include:

MGHA0153	10m @ 26.3% TGC
MGHA0175	5m @ 14.5% TGC
MGHA0178	7m @ 10.0% TGC
MGHA0283	9m @ 10.7% TGC
MGHA0290	10m @ 16.7% TGC
MGHA0418	7m @ 15.7% TGC
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MGHA0436	8m @ 20.6% TGC
MGHA0535	10m @ 15.2% TGC
MGHA0537	10m @ 10.7% TGC
MGHA0545	8m @ 20.6% TGC
MGHA0547	5m @ 17.1% TGC

**all holes reported ended in high-grade graphite mineralisation*

All 5 major prospects at Lifidzi show substantial cumulative widths of mineralisation ranging from 20m to over 200m across strike and strike lengths of generally 1 to 3km, generally open in both directions.

Hand auger holes in all areas ended at maximum depths of 12m and with saprolite mineralisation remaining open at depth across all of the prospects. Thick saprolite profiles are indicated by hand auger results and will need to be drilled with aircore in order to fully define depth extents.

Significant potential exists to expand all prospects along strike and at depth with less than 10% of the combined area at Malingunde and Lifidzi explored with ground EM and hand auger drilling.

An aircore drilling program and an initial bench scale metallurgical program are planned for 2016 to advance Sovereign's significant saprolite-hosted flake graphite.

Corporate

The Company completed an entitlements issue in July 2015, with the issue of 5,916,666 Shares of the shortfall raising an additional \$355,000 before costs. In August 2015, the Company completed a placement of 8,333,333 Shares to the clients of Empire Capital Partners, raising \$500,000 before costs.

In October 2015, Sovereign entered into a Strategic Offtake and Development Funding Partnership agreement with major Chinese corporation China Volant Industry Co Ltd ("Volinco"), pursuant to which Volinco and the Company will work together to secure development funding and long term graphite offtake arrangements for Sovereign in mainland China.

Pursuant to the Partnership, Volinco will assist Sovereign in securing development finance and engineering and construction commitments in China. Sovereign and Volinco have also agreed to negotiate (on a best endeavours basis) an offtake and/or marketing agreement for all flake graphite concentrates produced by the Company in Malawi.

Operating Results

The net operating loss after tax for the half year ended 31 December 2015 was \$1,385,634 (2014: \$3,069,684).

The loss for the period includes \$791,740 (2014: \$2,192,527) in exploration expenditure, including \$152,150 in share based payments (2014: \$154,519).

Share based payment expenses totalling \$436,778 were recognised during the period (2014: \$528,109). The fair value of Incentive Options and Performance Rights are recognised over the vesting period of the option / right.

SIGNIFICANT POST BALANCE DATE EVENTS

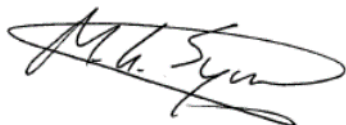
Other than as disclosed below, at the date of this report there were no significant events occurring after balance date requiring disclosure:

- (i) On 20 January 2016, Dr Julian Stephens was appointed a Director of the Company following the resignation of Mr Peter Woodman. Dr Stephens identified and secured the Malawi graphite assets acquired by Sovereign in 2012. He has been closely involved with the subsequent exploration and development of these assets, including the discovery of the Duwi Flake Graphite Project and completion of the recent successful Scoping Study.

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 20 and forms part of this Directors' Report.

Signed in accordance with a resolution of Directors.



Matthew Syme
Director

11 March 2016

Competent Person Statement

The information in this report that relates to Exploration Results, not including Geophysical Results, is extracted from the report entitled 'December 2015 Quarterly Report' dated 28 January 2016. This report is available to view on www.sovereignmetals.com.au. The information in the original ASX Announcement that related to Exploration Results was based on, and fairly represents, information compiled by Dr Julian Stephens, a Competent Person who is a member of the Australasian Institute of Geoscientists (AIG). Dr Stephens is a 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 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 'Excellent High Grade Metallurgical Results From Duwi' dated 16 September 2015. This report is available to view on www.sovereignmetals.com.au. The information in the original ASX Announcement that related to Metallurgical Testwork Results was based on, 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 included in the original market announcement. The Company confirms that the form and context in which the Competent Person's findings are presented have not been materially modified from the original market announcement.

The information in this Report that relates to 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. 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.

The information in this report that relates to the Scoping Study is extracted from the report entitled 'Scoping Study Confirms Potential For World Class, High Margin Flake Graphite Project at Duwi' dated 1 September 2015. The announcement is available to view on www.sovereignmetals.com.au.

- The information in the original ASX Announcement that relates to metallurgy, processing and infrastructure is based on, and fairly represents, information compiled by Mr Les Middleditch, a Competent Person, who is a Member of The Australasian Institute of Mining and Metallurgy. Mr Middleditch is an employee of Nova Projects, an independent consulting engineering company. Mr Middleditch has sufficient experience which is relevant to the metallurgy 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 information in the original ASX Announcement that relates to Whittle optimisation is based on, and fairly represents, information compiled by Mr Sean Richardson, a Competent Person, who is a Member of The Australasian Institute of Mining and Metallurgy. Mr Richardson is an employee of Scindian Resource Consultants, an independent consulting mining engineering company. Mr Richardson 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.

The Company advises that the information relating to the Scoping Study referred to in this report is based on lower-level technical and preliminary economic assessments, and is insufficient to support estimation of Ore Reserves or to provide assurance of an economic development case at this stage, or to provide certainty that the conclusions of the Scoping Study will be realised.

Production Target

The Production Target stated in this Report is based on the Company's Scoping Study for the Duwi Project as released to the ASX on 1 September 2015. The information in relation to the Production Target that the Company is required to include in a public report in accordance with ASX Listing Rule 5.16 was included in the Company's ASX Announcement released on 1 September 2015.

The Company confirms that the material assumptions underpinning the Production Target referenced in the 1 September 2015 release continue to apply and have not materially changed.

Forward Looking Statement

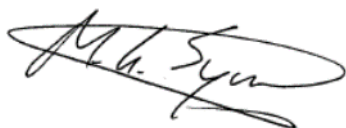
This release may include forward-looking statements, which may be identified by words such as "expects", "anticipates", "believes", "projects", "plans", and similar expressions. These forward-looking statements are based on Sovereign's expectations and beliefs concerning future events. Forward looking 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.

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 19, 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 2015 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.

On behalf of the Board



Matthew Syme
Director

11 March 2016

**CONDENSED CONSOLIDATED STATEMENT OF
PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**
FOR THE HALF YEAR ENDED 31 DECEMBER 2015



	Note	Half Year Ended 31 December 2015 \$	Half Year Ended 31 December 2014 \$
Revenue			
Interest revenue	4(a)	14,630	28,135
Foreign exchange gain/(loss) (realised)		1,541	(408)
Total revenue		16,171	27,727
Expenses			
Exploration and evaluation expenses		(791,740)	(2,192,527)
Business development and investor relations expenses		(283,382)	(387,944)
Corporate and administrative expenses		(326,683)	(516,940)
Loss before income tax		(1,385,634)	(3,069,684)
Income tax expense		-	-
Loss for the period		(1,385,634)	(3,069,684)
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		5,475	12,519
Other comprehensive income for the period, net of income tax		5,475	12,519
Total comprehensive loss for the period		(1,380,159)	(3,057,165)
Loss attributable to members of Sovereign Metals Limited		(1,385,634)	(3,069,684)
Total comprehensive loss attributable to members of Sovereign Metals Limited		(1,380,159)	(3,057,165)
Loss per share			
Basic loss per share (cents per share)		(1.02 cents)	(3.21 cents)
Diluted loss per share (cents per share)		(1.02 cents)	(3.21 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 2015



		31 December 2015	30 June 2015
	Note	\$	\$
ASSETS			
Current Assets			
Cash and cash equivalents		1,039,942	1,065,789
Trade and other receivables		30,461	34,311
Total Current Assets		1,070,403	1,100,100
Non-current Assets			
Property, plant and equipment		154,693	170,426
Exploration and evaluation assets	5(a)	7,170,282	7,170,282
Total Non-current Assets		7,324,975	7,340,708
TOTAL ASSETS		8,395,378	8,440,808
LIABILITIES			
Current Liabilities			
Trade and other payables		907,477	815,251
Provisions		9,516	5,723
Total Current Liabilities		916,993	820,974
TOTAL LIABILITIES		916,993	820,974
NET ASSETS		7,478,385	7,619,834
EQUITY			
Issued capital	6(a)	25,334,686	23,950,304
Reserves	6(b)	850,674	1,050,621
Accumulated losses		(18,706,975)	(17,381,091)
TOTAL EQUITY		7,478,385	7,619,834

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 2015



	Issued Capital \$	Share Based Payments Reserve \$	Foreign Currency Translation Reserve \$	Accumulated Losses \$	Total Equity \$
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
Balance at 1 July 2014	21,999,884	1,472,036	11,991	(13,507,801)	9,976,110
Net loss for the period	-	-	-	(3,069,684)	(3,069,684)
Other comprehensive income	-	-	12,519	-	12,519
Total comprehensive income/(loss) for the period	-	-	12,519	(3,069,684)	(3,057,165)
Transactions with owners, recorded directly in equity					
Performance rights converted	251,700	(251,700)	-	-	-
Performance shares converted	826,875	(826,875)	-	-	-
Share issue costs	(5,402)	-	-	-	(5,402)
Expired options	-	(143,000)	-	143,000	-
Share based payments expense	-	528,109	-	-	528,109
Total transactions with owners recorded directly in equity	1,073,173	(693,466)	-	143,000	522,707
Balance at 31 December 2014	23,073,057	778,570	24,510	(16,434,485)	7,441,652

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 2015



	Half Year Ended 31 December 2015	Half Year Ended 31 December 2014
	\$	\$
Cash flows from operating activities		
Payments to suppliers and employees	(882,177)	(2,128,451)
Refunds of GST payments	39,954	29,920
Interest received	14,444	32,833
Net cash used in operating activities	(827,779)	(2,065,698)
Cash flows from investing activities		
Payments for purchase of plant and equipment	-	(31,587)
Net cash used in investing activities	-	(31,587)
Cash flows from financing activities		
Proceeds from issue of shares	855,000	-
Payments for share issue costs	(53,068)	-
Net cash from financing activities	801,932	-
Net decrease in cash and cash equivalents	(25,847)	(2,097,285)
Cash and cash equivalents at the beginning of the period	1,065,789	3,030,676
Cash and cash equivalents at the end of the period	1,039,942	933,391

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 2015 was authorised for issue in accordance with the resolution of the Directors on 10 March 2016.

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 2015 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 2015 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.

Going Concern

The half year financial report has been prepared on the going concern basis which assumes the continuity of normal business activities and the realisation of assets and extinguishment of liabilities in the ordinary course of business.

For the half year ended 31 December 2015, the Consolidated Entity has incurred a net loss of \$1,385,634 (2014: \$3,069,684) and had net cash outflows from operating and investing activities of \$827,779 (2014: \$2,097,285). As at 31 December 2015, the Consolidated Entity had cash assets of \$1,039,942 (30 June 2015: \$1,065,789) and net current assets of \$153,410 (30 June 2015: \$93,901).

The Directors consider that the Consolidated Entity is a going concern and recognise that additional capital is required to ensure that it can continue to fund its operations during the twelve month period from the date of signing this report, and that certain expenditures may need to be deferred to coincide with any such capital raising activity. In this regard, the Consolidated Entity anticipates raising additional equity of at least \$1,000,000 commencing within the next 3 months from the date of signing this financial report to fund its planned operations.

Additionally, in October 2015, the Company signed a Strategic Offtake and Development Funding Partnership with major Chinese corporation China Volant Industry Co Ltd ("Volinco"), pursuant to which Volinco and the Company will work together to secure development funding and long term graphite offtake arrangements for Sovereign in mainland China. There are ongoing discussions with potential financing partners to assist in financing the development of the Consolidated Entity's graphite project.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of Preparation of Half Year Financial Report (continued)

The Directors have been involved in a number of recent successful capital raisings for other listed resource companies in similar circumstances, and accordingly, they are satisfied that they will be able to raise additional capital as required to enable the Consolidated Entity to meet its obligations as and when they fall due, with the potential to defer expenditure to coincide with any such capital raising activity, and accordingly, consider that it is appropriate to prepare the financial statements on the going concern basis.

Should the Consolidated Entity be unable to achieve the matters referred to above, significant uncertainty would arise as to whether the Consolidated Entity could continue as a going concern and therefore, whether it will be able to realise its assets and extinguish its liabilities in the normal course of business.

These half-year consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, or to the amounts and classification of liabilities that might be necessary should the Consolidated Entity be unable to continue as a going concern.

(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 2015.

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 2015. New and revised standards and amendments thereof and interpretations effective for the current half-year that are relevant to the Group include:

- AASB 1 *First-time Adoption of Australian Accounting Standards* (meaning of 'effective IFRSs');
- AASB 2 *Share-based Payment* (definitions of vesting conditions);
- AASB 3 *Business Combinations* (accounting for contingent consideration in a business combination);
- AASB 3 *Business Combinations* (scope exceptions for joint ventures);
- AASB 8 *Operating Segments* (aggregation of operating segments);
- AASB 8 *Operating Segments* (reconciliation of the total of the reportable segments' assets to the entity's assets);
- AASB 13 *Fair Value Measurement* (scope of paragraph 52 – portfolio exception);
- AASB 13 *Fair Value Measurement* (short term receivables and payables);
- AASB 116 *Property, Plant and Equipment* and AASB 138 *Intangible Assets* (revaluation method – proportionate restatement of accumulated depreciation/amortisation); and
- AASB 124 *Related Party Disclosures* (key management personnel).

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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2015
(Continued)



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 2015 \$	30 June 2015 \$
Australia	13,934	15,824
Malawi	7,311,041	7,324,884
	7,324,975	7,340,708

4. REVENUE AND EXPENSES

	Consolidated 31 December 2015 \$	Consolidated 31 December 2014 \$
(a) Revenue		
Interest revenue	14,630	28,135
(b) Share based payments		
Share based payments included in:		
- Corporate and administrative expenses	136,072	210,112
- Business development	148,555	163,478
- Exploration and evaluation expenses	152,151	154,519
	436,778	528,109

5. EXPLORATION AND EVALUATION ASSETS

	Consolidated 31 December 2015 \$	Consolidated 31 December 2014 \$
(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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2015
(Continued)



6. EQUITY SECURITIES ISSUED

	Consolidated 31 December 2015 \$	Consolidated 30 June 2015 \$
(a) Issued and Paid Up Capital		
142,420,139 (30 June 2015: 118,670,140) fully paid ordinary shares	25,334,686	23,950,304
(b) Reserves		
<i>Share Based Payment Reserve</i>		
Nil (30 June 2015: 250,000) unlisted \$0.22 options	-	59,750
1,500,000 (30 June 2015: 1,500,000) unlisted \$0.33 options	171,000	171,000
1,500,000 (30 June 2015: 1,500,000) unlisted \$0.40 options	158,471	109,050
1,500,000 (30 June 2015: 1,500,000) unlisted \$0.47 options	117,622	80,940
1,000,000 (30 June 2015: nil) unlisted \$0.10 options	40,073	-
1,416,667 (30 June 2015: nil) unlisted \$0.15 options	50,157	-
<i>Sub-total options (note 6(d))</i>	<i>537,323</i>	<i>420,740</i>
Nil (30 June 2015: 8,750,000) Performance Shares 'Class B' (note 6(e))	-	330,750
2,200,000 (30 June 2015: 2,950,000) Performance Rights (note 6(f))	261,859	253,114
Total Share Based Payments Reserve	799,182	1,004,604
<i>Foreign Currency Translation Reserve (FCTR)</i>		
Exchange differences	51,492	46,017
Total Foreign Currency Translation Reserve (FCTR)	51,492	46,017
Total Reserves	850,674	1,050,621

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2015
(Continued)



6. EQUITY SECURITIES ISSUED (Continued)

(c) Movements in Ordinary Share Capital Were as Follows:

Date	Details	Number of Shares	Issue Price \$	\$
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
1 Jul 2014	Opening balance	94,340,328	-	21,999,884
9 Dec 2014	Conversion of 8,750,000 Performance Shares 'Class A'	8,750,000	-	826,875
9 Dec 2014	Conversion of 750,000 Performance Rights	750,000	-	251,700
31 Dec 2014	Share issue costs	-	-	(5,402)
31 Dec 2014	Closing balance	103,840,328		23,073,057

(d) Movements in Options Were as Follows:

Date	Details	Notes	Number of Incentive Options	Fair Value \$	\$
1 Jul 15	Opening balance		4,750,000		420,740
13 Aug 15	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 15	Expiry of options		(250,000)	0.239	(59,750)
31 Dec 15	Share based payment expense	(i)	-	-	86,103
31 Dec 15	Closing balance		6,916,667		537,323
1 Jul 14	Opening balance		6,250,000		314,411
30 Sep 14	Expiry of incentive options		(1,000,000)	0.143	(143,000)
31 Dec 14	Share based payment expense	(i)	-		173,503
31 Dec 14	Closing balance		5,250,000		344,914

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 2015
(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 15	Opening balance		-	8,750,000		330,750
2 Oct 15	Conversion of Performance Shares 'Class B'	6(c)	-	(8,750,000)	0.0378	(330,750)
31 Dec 15	Closing balance		-	-		-
1 Jul 14	Opening balance		8,750,000	8,750,000		1,157,625
9 Dec 14	Conversion of Performance Shares 'Class A'	6(c)	(8,750,000)	-	0.0945	(826,875)
31 Dec 14	Closing balance		-	8,750,000		330,750

(f) **Movements in Performance Rights Were as Follows:**

Date	Details	Notes	Number of Performance Rights	Fair Value	
				\$	\$
1 Jul 15	Opening balance		2,950,000		253,114
2 Oct 15	Conversion of Performance Rights	6(c)	(750,000)	0.3356	(251,700)
31 Dec 15	Share based payment expense		-	-	260,445
31 Dec 15	Closing balance		2,200,000		261,859
1 Jul 14	Opening balance		-		-
5 Sep 14	Grant of Performance Rights		3,700,000		-
9 Dec 14	Conversion of Performance Rights	6(c)	(750,000)	0.3356	(251,700)
31 Dec 14	Share based payment expense		-	-	102,906
31 Dec 14	Closing balance		2,950,000		102,906

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 2015 \$	Consolidated 31 December 2014 \$
<i>Exploration Commitments - Central Malawi Graphite Project:</i>		
Within one year	200,000	305,907
After one year but not more than five years	-	317,721
More than five years	-	-
	200,000	623,628

(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.

8. DIVIDENDS PAID OR PROVIDED FOR

No dividend has been paid or provided for during the half year (2014: 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

Other than as disclosed below, at the date of this report there were no significant events occurring after balance date requiring disclosure:

- (i) On 22 January 2016, Dr Julian Stephens was appointed a Director of the Company following the resignation of Mr Peter Woodman. Dr Stephens identified and secured the Malawi graphite assets acquired by Sovereign in 2012. He has been closely involved with the subsequent exploration and development of these assets, including the discovery of the Duwi Flake Graphite Project and completion of the recent successful Scoping Study.

The Board of Directors
Sovereign Metals Limited
Level 9, 28 The Esplanade
PERTH WA 6000

11 March 2016

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 2015, 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.



DELOITTE TOUCHE TOHMATSU



Neil Smith
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 2015, 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, selected explanatory notes 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 19.

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 2015 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 2015 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*.

Material Uncertainty Regarding Continuation as a Going Concern

Without modifying our conclusion, we draw attention to Note 2 in the half-year financial report, which indicates that the consolidated entity incurred a net loss of \$1,385,634 and had net cash outflows from operating, and investing activities of \$827,779 during the half year ended 31 December 2015. These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty which may cast significant doubt about the ability of the consolidated entity to continue as a going concern and therefore the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.



DELOITTE TOUCHE TOHMATSU



Neil Smith
Partner
Chartered Accountants
Perth, 11 March 2016