



**SOVEREIGN**  
METALS LIMITED

**SOVEREIGN METALS LIMITED**  
**ABN 71 120 833 427**

**INTERIM FINANCIAL REPORT**  
**FOR THE HALF YEAR ENDED**  
**31 DECEMBER 2014**

## CORPORATE DIRECTORY

### Directors

Mr Ian Middlemas – Chairman  
 Mr Matthew Syme – Managing Director  
 Mr Peter Woodman – Technical Director  
 Mr Mark Pearce – Non-Executive Director

### 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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 Level 2  
 45 St Georges Terrace  
 Perth WA 6000

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 International: +61 8 9323 2000  
 Facsimile: +61 8 9323 2033

### 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

Hardy Bowen Lawyers

### 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 2014 ("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	Managing Director
Mr Peter Woodman	Technical Director
Mr Mark Pearce	Non-executive Director

All Directors were in office from 1 July 2014 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 Saprolite-Hosted Graphite Project.

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

#### ➤ **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.*

#### ➤ **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.*

#### ➤ **Completion of RC and diamond resource drilling program at Duwi:**

- *48 RC and diamond core holes totalling 5,285m completed at Duwi.*
- *Wide zones of high-grade flake graphite mineralisation intersected from surface at Duwi Main Zone, Duwi Bend and Nyama, over a cumulative 2.2km strike length.*
- *Mineralisation remains open down dip and along strike at all prospects. Approximately ~2.2km of strike length drilled of the known ~24km strike length of the Duwi Trend suggesting substantial potential to expand mineralised bodies with further drilling.*

#### ➤ **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.*



**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)
<b>Duwi Main</b>	Indicated	<b>35.2</b>	<b>7.2</b>	<b>2.52</b>
	Inferred	<b>34.3</b>	<b>7.3</b>	<b>2.49</b>
	Total	<b>69.5</b>	<b>7.2</b>	<b>5.01</b>
<b>Duwi Bend</b>	Indicated	-	-	-
	Inferred	<b>7.8</b>	<b>7.2</b>	<b>0.56</b>
	Total	<b>7.8</b>	<b>7.2</b>	<b>0.56</b>
<b>Nyama</b>	Indicated	-	-	-
	Inferred	<b>8.6</b>	<b>6.5</b>	<b>0.56</b>
	Total	<b>8.6</b>	<b>6.5</b>	<b>0.56</b>
<b>Total</b>	Indicated	<b>35.2</b>	<b>7.2</b>	<b>2.52</b>
	Inferred	<b>50.7</b>	<b>7.1</b>	<b>3.61</b>
	Total	<b>85.9</b>	<b>7.1</b>	<b>6.13</b>

#### Metallurgy

During the period, an independent bench-scale metallurgical testwork program for the Duwi Project commenced. The primary objective of the testwork, performed by SGS Canada Inc., 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 (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.

**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.

### **Lifidzi Sapolite-Hosted Graphite Project**

Sovereign initially discovered widespread sapolite 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). Sapolite 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.

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

These three new areas occur on the Lilongwe Plain, which has a largely preserved, deep tropical weathering profile and therefore potentially significant thicknesses of sapolite. 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 sapolitic graphite deposits with Lifidzi ~ 900km<sup>2</sup>, Malingunde ~140km<sup>2</sup> and Kapiri ~ 2,165km<sup>2</sup>.

During the period, the Company commenced a program of ground electromagnetic (EM) surveys and hand auger drilling. The program was designed to test the sapolite-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 sapolitic graphite gneiss.
- So far, assays have been reported for 12 of the 19 sapolitic graphite gneiss zones of which 8 were shown to be significant (>4% TGC).
- Average sapolite grades over all 8 significant zones are 6.5% TGC, with peak sapolite zone grades reaching 12.0%, 10.7% and 9.9% TGC.
- All mineralised holes ended in sapolite at depths between 6m and 10m due to the presence of water (and hence the limit of hand auger drilling). This indicates that a deep sapolite 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 sapolite-hosted flake graphite mineralisation.

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.

### **Corporate**

In August 2014, Shareholders approved Sovereign's Performance Rights Plan. The Plan is designed to reward superior performance based on materially improved Company performance in terms of growth in the value of the Company and resulting increases in Shareholder value. Following approval of the Plan, 3.7 million Performance Share Rights were issued on 5 September 2014.

Following announcement of the maiden MRE for the Duwi Project in October 2014 and satisfaction of the relevant milestones, 8.75M Class A Performance Shares and 750,000 Performance Rights converted into ordinary shares on 9 December 2014.

### **Operating Results**

The net operating loss after tax for the half year ended 31 December 2014 was \$3,069,684 (2013: \$1,063,779).

The loss for the period includes \$2,192,527 (2013: \$841,973) in exploration expenditure, including \$154,519 in share based payments (2013: Nil).

Share based payment expenses totalling \$528,109 were recognised during the period (2013: Nil). 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 24 February 2015, the Company announced that it will undertake a non-renounceable entitlements issue for one new ordinary share for every five ordinary shares held at the record date (to be determined) at an issue price of \$0.06 per Share to raise up to \$1.25 million before costs.

## 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 18 and forms part of this Directors' Report.

Signed in accordance with a resolution of Directors.



**Matthew Syme**  
Managing Director

10 March 2015

### **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 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 '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 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](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.*

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 8 to 17, 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 2014 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**  
Managing Director

10 March 2015

**CONDENSED CONSOLIDATED STATEMENT OF  
PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**  
FOR THE HALF YEAR ENDED 31 DECEMBER 2014



	Note	Half Year Ended 31 December 2014 \$	Half Year Ended 31 December 2013 \$
<b>Revenue</b>			
Interest revenue	4(a)	28,135	16,505
Foreign exchange gain/(loss) (realised)		(408)	1,046
<b>Total revenue</b>		<b>27,727</b>	<b>17,551</b>
<b>Expenses</b>			
Exploration and evaluation expenses		(2,192,527)	(841,973)
Business development and investor relations expenses		(387,944)	-
Corporate and administrative expenses		(516,940)	(239,357)
<b>Loss before income tax</b>		<b>(3,069,684)</b>	<b>(1,063,779)</b>
Income tax expense		-	-
<b>Loss for the period</b>		<b>(3,069,684)</b>	<b>(1,063,779)</b>
<b>Other comprehensive income, net of income tax:</b>			
<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		12,519	1,774
<b>Other comprehensive income for the period, net of income tax</b>		<b>12,519</b>	<b>1,774</b>
<b>Total comprehensive loss for the period</b>		<b>(3,057,165)</b>	<b>(1,062,005)</b>
<b>Loss attributable to members of Sovereign Metals Limited</b>		<b>(3,069,684)</b>	<b>(1,063,779)</b>
<b>Total comprehensive loss attributable to members of Sovereign Metals Limited</b>		<b>(3,057,165)</b>	<b>(1,062,005)</b>
<b>Loss per share</b>			
Basic loss per share (cents per share)		(3.21 cents)	(1.35 cents)
Diluted loss per share (cents per share)		(3.21 cents)	(1.35 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 2014



		31 December 2014	30 June 2014
	Note	\$	\$
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents		933,391	3,030,676
Trade and other receivables		60,953	50,818
<b>Total Current Assets</b>		<b>994,344</b>	<b>3,081,494</b>
<b>Non-current Assets</b>			
Property, plant and equipment		177,469	201,408
Exploration and evaluation assets	5(a)	7,170,282	7,170,282
<b>Total Non-current Assets</b>		<b>7,347,751</b>	<b>7,371,690</b>
<b>TOTAL ASSETS</b>		<b>8,342,095</b>	<b>10,453,184</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Trade and other payables		890,835	468,892
Provisions		9,608	8,182
<b>Total Current Liabilities</b>		<b>900,443</b>	<b>477,074</b>
<b>TOTAL LIABILITIES</b>		<b>900,443</b>	<b>477,074</b>
<b>NET ASSETS</b>		<b>7,441,652</b>	<b>9,976,110</b>
<b>EQUITY</b>			
Issued capital	6(a)	23,073,057	21,999,884
Reserves	6(b)	803,080	1,484,027
Accumulated losses		(16,434,485)	(13,507,801)
<b>TOTAL EQUITY</b>		<b>7,441,652</b>	<b>9,976,110</b>

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 2014



	Issued Capital \$	Share Based Payments Reserve \$	Foreign Currency Translation Reserve \$	Accumulated Losses \$	Total Equity \$
<b>Balance at 1 July 2014</b>	<b>21,999,884</b>	<b>1,472,036</b>	<b>11,991</b>	<b>(13,507,801)</b>	<b>9,976,110</b>
Net loss for the period	-	-	-	(3,069,684)	(3,069,684)
Other comprehensive income	-	-	12,519	-	12,519
<b>Total comprehensive income/(loss) for the period</b>	<b>-</b>	<b>-</b>	<b>12,519</b>	<b>(3,069,684)</b>	<b>(3,057,165)</b>
<b>Transactions with owners, recorded directly in equity</b>					
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
<b>Total transactions with owners recorded directly in equity</b>	<b>1,073,173</b>	<b>(693,466)</b>	<b>-</b>	<b>143,000</b>	<b>522,707</b>
<b>Balance at 31 December 2014</b>	<b>23,073,057</b>	<b>778,570</b>	<b>24,510</b>	<b>(16,434,485)</b>	<b>7,441,652</b>
<b>Balance at 1 July 2013</b>	<b>18,813,400</b>	<b>1,574,375</b>	<b>15,494</b>	<b>(11,392,107)</b>	<b>9,011,162</b>
Net loss for the period	-	-	-	(1,063,779)	(1,063,779)
Other comprehensive income	-	-	1,774	-	1,774
<b>Total comprehensive income/(loss) for the period</b>	<b>-</b>	<b>-</b>	<b>1,774</b>	<b>(1,063,779)</b>	<b>(1,062,005)</b>
<b>Transactions with owners, recorded directly in equity</b>					
<b>Total transactions with owners recorded directly in equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Balance at 31 December 2013</b>	<b>18,813,400</b>	<b>1,574,375</b>	<b>17,268</b>	<b>(12,455,886)</b>	<b>7,949,157</b>

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 2014



	Half Year Ended 31 December 2014 \$	Half Year Ended 31 December 2013 \$
<b>Cash flows from operating activities</b>		
Payments to suppliers and employees	(2,128,451)	(1,501,705)
Refunds of GST payments	29,920	110,119
Interest received	32,833	19,795
<b>Net cash used in operating activities</b>	<b>(2,065,698)</b>	<b>(1,371,791)</b>
<b>Cash flows from investing activities</b>		
Payments for purchase of plant and equipment	(31,587)	-
<b>Net cash used in investing activities</b>	<b>(31,587)</b>	<b>-</b>
<b>Cash flows from financing activities</b>		
Proceeds from issue of shares	-	-
Payments for share issue costs	-	-
<b>Net cash from financing activities</b>	<b>-</b>	<b>-</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(2,097,285)</b>	<b>(1,371,791)</b>
Cash and cash equivalents at the beginning of the period	3,030,676	2,082,662
<b>Cash and cash equivalents at the end of the period</b>	<b>933,391</b>	<b>710,871</b>

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 2014 was authorised for issue in accordance with the resolution of the Directors on ## March 2015.

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 2014 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 2014 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 2014, the Consolidated Entity has incurred a net loss of \$3,069,684 (2013: \$1,063,779) and had net cash outflows from operating and investing activities of \$2,097,285 (2013: \$1,371,791). As at 31 December 2014, the Consolidated Entity had cash assets of \$933,391 (30 June 2014: \$3,030,676) and net current assets of \$93,901 (30 June 2014: \$2,604,420).

The Consolidated Entity has undertaken measures to reduce expenditure in order to meet minimum legal and contractual obligations to match current cash levels prior to raising additional capital, including proposals to defer settlement of amounts due to Directors and other related party creditors.

The Consolidated Entity has announced plans to undertake a non-renounceable entitlements issue to raise \$1,246,084 (before costs). This capital raising is expected to be completed by the end of April 2015 and, based on a number of recent company recapitalisations the Directors have been involved with, the Directors are satisfied that the entitlements issue (including any shortfall) will be substantially, if not fully subscribed, enabling the Consolidated Entity to continue to meet its obligations as and when they fall due. Accordingly, the Directors consider that it is appropriate to prepare the financial statements on a 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 would be able to realise its assets and extinguish its liabilities in the normal course of business.

These 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.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (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 2014.

In the current period, the Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2014. New and revised standards and amendments thereof and interpretations effective for the current half year that are relevant to the Group include:

- AASB 132 *Financial Instruments: Presentation* and AASB 2012-3 Amendments to Australian Accounting Standards arising from AASB 132;
- AASB 136 *Impairment of Assets* and AASB 2013-3 Amendments to Australian Accounting Standards arising from AASB 136; and
- AASB 1031 *Materiality* and AASB 2013-9 (Part B) Amendments to Australian Accounting Standards to delete references to AASB 1031.

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

## 3. SEGMENT INFORMATION

AASB 8 requires operating segments to be identified on the basis of internal reports about components of the Consolidated Entity that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

The Consolidated Entity has two operating segments, being exploration in Queensland, Australia (Tate River Project and 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 2014 \$	30 June 2014 \$
Australia	22,524	24,444
Malawi	7,325,227	7,347,246
	<b>7,347,751</b>	<b>7,371,690</b>

**4. REVENUE AND EXPENSES**

	Consolidated 31 December 2014 \$	Consolidated 31 December 2013 \$
<b>(a) Revenue</b>		
Interest revenue	28,135	16,505
<b>(b) Share based payments</b>		
Share based payments included in:		
- Corporate and administrative expenses	210,112	-
- Business development	163,478	-
- Exploration and evaluation expenses	154,519	-
	<b>528,109</b>	<b>-</b>

**5. EXPLORATION AND EVALUATION ASSETS**

	Consolidated 31 December 2014 \$	Consolidated 31 December 2013 \$
<b>(a) Movement in Exploration and Evaluation Assets</b>		
Carrying amount as at 1 July	7,170,282	7,170,282
- Additions	-	-
	<b>7,170,282</b>	<b>7,170,282</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
FOR THE HALF YEAR ENDED 31 DECEMBER 2014  
(Continued)



**6. EQUITY SECURITIES ISSUED**

	Consolidated 31 December 2014 \$	Consolidated 30 June 2014 \$
<b>(a) Issued and Paid Up Capital</b>		
103,840,328 (30 June 2014: 94,340,328) fully paid ordinary shares	<b>23,073,057</b>	<b>21,999,884</b>
<b>(b) Reserves</b>		
<i>Share Based Payment Reserve</i>		
Nil (30 June 2014: 1,000,000) unlisted \$0.30 options	-	143,000
500,000 (30 June 2014: 500,000) unlisted \$0.35 options	73,000	73,000
250,000 (30 June 2014: 250,000) unlisted \$0.22 options	59,750	59,750
1,500,000 (30 June 2014: 1,500,000) unlisted \$0.33 options	106,875	19,475
1,500,000 (30 June 2014: 1,500,000) unlisted \$0.40 options	60,434	11,012
1,500,000 (30 June 2014: 1,500,000) unlisted \$0.47 options	44,855	8,174
<i>Sub-total options (note 6(d))</i>	<b>344,914</b>	<b>314,411</b>
Nil (30 June 2014: 8,750,000) Performance Shares 'Class A'	-	826,875
8,750,000 (30 June 2014: 8,750,000) Performance Shares 'Class B'	330,750	330,750
<i>Sub-total Performance Shares (note 6(e))</i>	<b>330,750</b>	<b>1,157,625</b>
2,950,000 (30 June 2014: Nil) Performance Rights (note 6(f))	102,906	-
<b>Total Share Based Payments Reserve</b>	<b>778,570</b>	<b>1,472,036</b>
<i>Foreign Currency Translation Reserve (FCTR)</i>		
Exchange differences	24,510	11,991
<b>Total Foreign Currency Translation Reserve (FCTR)</b>	<b>24,510</b>	<b>11,991</b>
<b>Total Reserves</b>	<b>803,080</b>	<b>1,484,027</b>

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

Date	Details	Number of Shares	Issue Price \$	\$
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
1 Jul 2013	Opening balance	79,090,328	-	18,813,400
31 Dec 2013	Closing balance	79,090,328	-	18,813,400

**NOTES TO THE FINANCIAL STATEMENTS**  
FOR THE HALF YEAR ENDED 31 DECEMBER 2014  
(Continued)



**6. EQUITY SECURITIES ISSUED (Continued)**

**(d) Movements in Options Were as Follows:**

Date	Details	Notes	Number of Incentive Options	Fair Value \$	\$
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	<b>Closing balance</b>		<b>5,250,000</b>		<b>344,914</b>
1 Jul 13	Opening balance		2,750,000		416,750
31 Dec 13	Closing balance		2,750,000		416,750

**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.

**(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 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	<b>Closing balance</b>		<b>-</b>	<b>8,750,000</b>		<b>330,750</b>
1 Jul 13	Opening balance		8,750,000	8,750,000		1,157,625
31 Dec 13	Closing balance		8,750,000	8,750,000		1,157,625

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

Date	Details	Notes	Number of Performance Rights	Fair Value \$	\$
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	<b>Closing balance</b>		<b>2,950,000</b>		<b>102,906</b>
1 Jul 13	Opening balance		-		-
31 Dec 13	Closing balance		-		-

**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.

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE HALF YEAR ENDED 31 DECEMBER 2014**  
(Continued)



**7. COMMITMENTS AND CONTINGENCIES**

**(a) Commitments**

	Consolidated 31 December 2014 \$	Consolidated 31 December 2013 \$
<i>Exploration Commitments - Central Malawi Graphite Project:</i>		
Within one year	305,907	569,594
After one year but not more than five years	317,721	-
More than five years	-	-
	<b>623,628</b>	<b>569,594</b>

**(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 (2013: 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.

- (ii) On 24 February 2015, the Company announced that it will undertake a non-renounceable entitlements issue for one new ordinary share for every five ordinary shares held at the record date (to be determined) at an issue price of \$0.06 per Share to raise up to \$1.25 million before costs.

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

10 March 2015

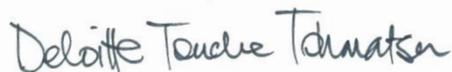
Dear Board Members

### **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 2014, 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 2014, 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 7 to 17.

## *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 2014 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 2014 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 1 in the half-year financial report, which indicates that the consolidated entity incurred a net loss of 3,069,684 and had net cash outflows from operating, and investing activities of \$2,097,285 during the half year ended 31 December 2014. These conditions, along with other matters as set forth in Note 1, 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, 10 March 2015