



SOVEREIGN
METALS LIMITED

SOVEREIGN METALS LIMITED
ABN 71 120 833 427

INTERIM FINANCIAL REPORT
FOR THE HALF YEAR ENDED
31 DECEMBER 2013

CORPORATE DIRECTORY

Directors

Mr Ian Middlemas - Chairman
 Mr Peter Woodman
 Mr Mark Pearce

Company Secretary

Mr Clint McGhie

Registered and Principal Office

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Stock Exchange Listing

Australian Securities Exchange
 Home Branch – Perth
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 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 2013.

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 Peter Woodman	Managing Director
Mr Mark Pearce	Non-executive Director

All Directors were in office from 1 July 2013 until the date of this report, unless otherwise noted.

REVIEW AND RESULTS OF OPERATIONS

Sovereign is a dynamic resources company focused on the exploration and development of potentially large scale projects. Sovereign is actively exploring the large and highly prospective, 100% owned Central Malawi Graphite Project located in Malawi, near the capital city, Lilongwe (Figure 1).

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

- An initial metallurgical test-work program on samples from the Duwi Flake Graphite Prospect (Duwi Prospect) was undertaken by MINTEK Johannesburg under the supervision of Tenova Mining and Minerals, and results were reported in January 2014.
- The metallurgical test-work program confirmed the large flake potential of the Duwi Prospect. A significant proportion of the concentrate contained Large and Extra Large Flake graphite with attractive purity. Results included:
 - Favourable high-value Extra Large (Jumbo) Flake "footprint" and increasing purity with flake size:
 - **> 35% of concentrate is +48 mesh (+300µm – Extra Large) with a purity of 95% Total Graphitic Carbon ("TGC");**
 - > 60% of concentrate is +100 mesh (+150µm) with a purity of 93% TGC;
 - Overall recoveries of 87.5% grading 92.0% TGC;
 - Impurity levels of final concentrate within specifications for the majority of end-use products; and
 - Indicates the potential of the Duwi Prospect to deliver a high-quality marketable flake graphite concentrate using simple conventional flotation technology.
- Completion of the initial diamond drilling campaign at the Central Malawi Graphite Project ("CMGP") for a total of ten diamond drill holes for 1,388 metres at the Duwi and Nanzeka Prospects.
- Drilling and trenching results confirmed substantial widths of medium & high-grade flake graphite intersected over initial ~2km strike length, with mineralisation open along strike and at depth in all areas at the Duwi Prospect.
- At the Nanzeka Prospect, a near-surface, shallow dipping, high-grade flake graphite unit was identified over approximately 3km strike length and it remains open in both directions along strike and at depth.

- Based on the encouraging metallurgical testwork results from the Duwi Prospect, the next phases of work are the definition of an initial Mineral Resource and a comprehensive bench-scale metallurgical testwork program.

Central Malawi Graphite Project

Sovereign is exploring the large and highly prospective Central Malawi Graphite Project (“CMGP”), located in Malawi, near the capital city, Lilongwe.

The CMGP is composed of three tenements (Figure 1) totalling 7,261km² in area, being;

- Exclusive Prospecting Licence EPL0355 – 780km²;
- Exclusive Prospecting Licence EPL0372 – 2,499km²; and
- Reconnaissance Licence RL0146 – 3,982km².

The CMGP is surrounded by established infrastructure including high capacity power lines, rail, roads and a port which is currently undergoing a major expansion.

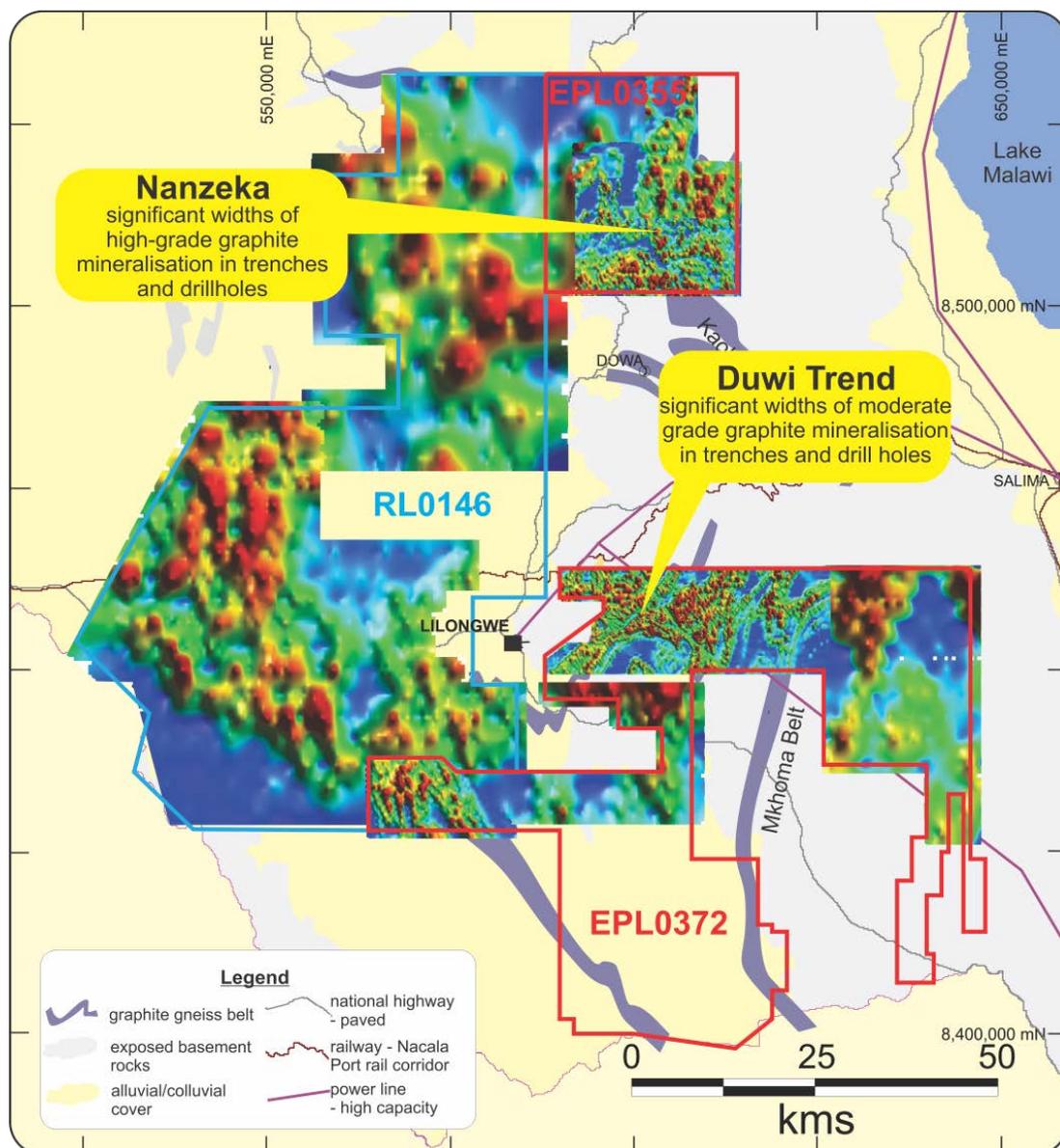


Figure 1. Central Malawi Graphite Project regional map

Since acquiring the Project in November 2012, the Company has undertaken an intensive geological mapping and rock-chip sampling program, a trenching program and flown a substantial helicopter-borne VTEM survey. In June 2013, Sovereign undertook its initial drilling campaign at the Duwi and Nanzeka Prospects and the results were reported during the half year.

The Company has identified six prime, large, high grade, flake graphite targets through sampling and mapping at Duwi, Ukonde, Chipili, Nyama and Lilongwe River Prospects forming the Duwi Trend in EPL0372 and the Nanzeka Prospect in EPL0355.

Large areas of the CMGP remain unexplored to date. The Heli-VTEM Survey of 4,116 line kilometres covered a significant area of the CMGP in order to assess historically known graphite prospects, and attempt to identify new areas of graphite mineralisation. Interpretation of results from the survey (refer ASX announcement 23 January 2013) identified at least 31 new, high priority conductors and the Company has begun field work in order to systematically confirm the existence of graphite mineralisation at these targets.

Metallurgical Testwork Summary

The Company recently completed an initial comprehensive bench-scale metallurgical testwork program which was conducted over the past six months for the Duwi Prospect. The testwork was performed by MINTEK Johannesburg under the supervision of Tenova Mining and Minerals (South Africa) and results were reported in January (see ASX announcement 22 January 2014). Testwork was performed on representative large-diameter drill core obtained from hole DWDD0004 from the 2013 drill program.

The overall objective, to produce a well characterised graphite concentrate of more than 90% TGC (total graphitic carbon) with a high-proportion of coarse-flake, was achieved (see Table 1 & Figure 2).

Table 1: Duwi Concentrate 1 – Flake Size and Total Graphitic Carbon (TGC) Content

Particle size		Distribution	TGC	Flake Category
Tyler Mesh	(µm)	(%)	(%)	
+35	+425	19.7	96.3	Extra Large (Jumbo)
-35 + 48	- 425 + 300	17.1	93.3	
-50 + 100	- 300 + 150	27.4	90.3	Large-Medium
-100 + 200	- 150 + 75	15.7	90.8	Small
-200	- 75	20.1	88.7	Amorphous
Total		100.0	91.8	

The investigative testwork program was completed in two separate stages. All material was initially stage crushed to 100% -3.35mm. Stage-1 variability testwork on fresh rock samples confirmed the consistency of mineralised material from DWDD0004 in terms of flake graphite grain size, TGC content and gangue mineralogy.

A 45kg master composite sample grading 8.1% TGC was produced for the Stage-2 flotation tests. The final flotation tests employed an initial rougher flotation stage followed by 3-stages of regrinding using pebble-milling after the 1st, 2nd and 3rd cleaner stages.

Umpire analysis of all final flotation testwork product streams and final sized concentrates was completed by Bureau Veritas in Adelaide.

The final results for the flotation tests were reproducible by additional testwork performed under the same conditions.

The Company is highly encouraged by the results of this initial metallurgical testwork program as it shows 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.

Based on the encouraging metallurgical testwork results the next phases of work are the definition of an initial Mineral Resource at Duwi and to undertake a comprehensive bench-scale metallurgical testwork program that will form the basis of the initial processing plant design.

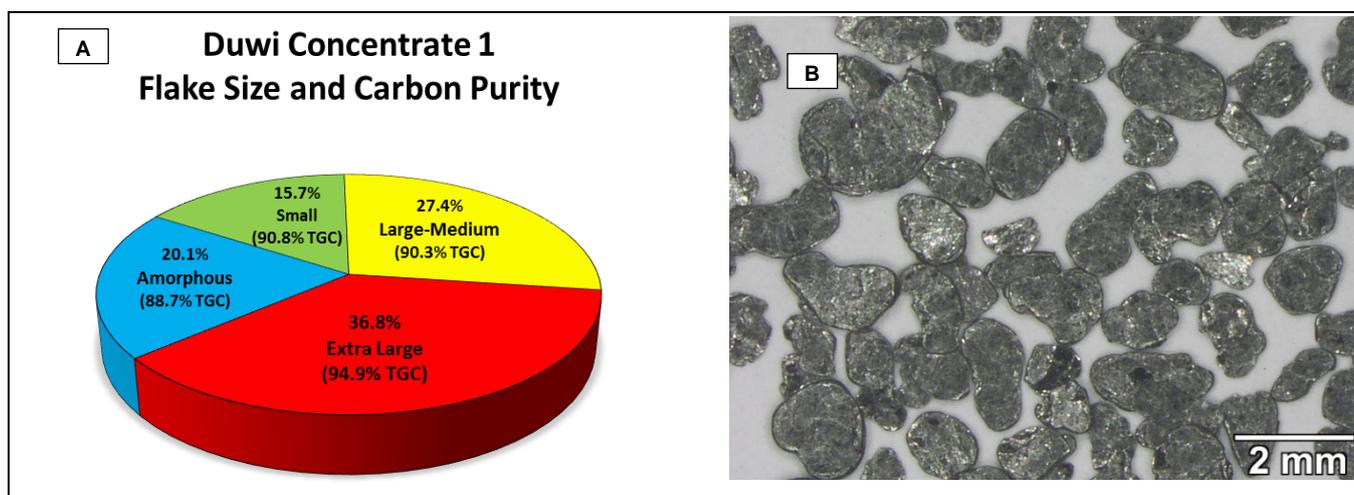


Figure 2: Duwi Concentrate 1 – (A) Flake Size Distribution and TGC Purity (B) Photograph of the Extra Large +425 µm fraction of Concentrate-1

Initial Diamond Drilling

During the half year, the Company completed its initial diamond drilling program at the Duwi and Nanzeka flake graphite prospects. A combined total of 10 diamond drill-holes for 1,388 metres of drilling and 15 trenches for 1,974 metres of trenching have now been completed across both prospects, with results confirming substantial widths of medium to high grade flake graphite at each prospect.

Duwi Prospect

The Company completed 7 trenches for 1,320m at Duwi, and then proceeded to drill seven diamond drill holes totalling 1,150m. Highlights include:

- A total of 7 drill-holes for 1,150m drilled, with results including:
 - DWDD0001:** 8m @ 13.6% TGC (from 32m) & 48m @ 7.7% TGC incl. 6m @ 13.7% TGC (from 102m)
 - DWDD0006:** 34m @ 8.5% TGC incl. 12m @ 11.8% TGC (from surface)
- A total of 7 trenches for 1,320m completed with results including:
 - DWTR0001:** 70m @ 9.0% TGC incl. 34m @ 11.8% TGC
 - DWTR0002:** 88m @ 8.2% TGC incl. 26m @ 9.0% TGC

Flake graphite mineralisation at Duwi has been demonstrated to occur in multiple, north-dipping, broad zones of moderate grade containing narrower high grade bands. Consistency of mineralisation tenor exists between trenching and drilling, with mapping showing extensive mineralisation continuing to the east and west. All mineralisation remains open along strike in both directions and down-dip. Several faults appear to cross-cut and displace the main graphite zones, though these do not terminate the mineralisation.

Overall, the Duwi prospect has been shown to be a large, medium to high-grade body of flake graphite mineralisation.

Nanzeka Prospect

The Company completed a total of 8 trenches for 654m at Nanzeka. Sovereign subsequently drilled three diamond holes with results reported below. Highlights of the trenching and drilling include:

- A total of 3 holes for 237m drilled, with results including:
KODD0002: 10m @ 11.0% TGC incl. 4m @ 12.5% (from 24m)
KODD0003: 8m @ 10.5% TGC incl. 4m @ 12.5% (from 8m)
- A total of 8 trenches for 654m completed with results including:
KOTR0005: 34m @ 13.3% TGC, incl. 18m @ 15.4% TGC
KOTR0004: 38m @ 11.7% TGC, incl. 12m @ 13.1% TGC
KOTR0007: 120m @ 9.1% TGC, incl. 28m @ 11.1% TGC

The trenching and drilling data together show a very consistent and predictable, high-grade zone of flake graphite over at least 3km, which is open in both directions along strike and down-dip. In general, the mineralised zone has shallow dips ranging between 0° and 35°, with the southern ~2km of strike folded into a gently plunging, synform-antiform pair. This geometry results in a substantial amount of mineralised material occurring at or near surface.

Regional Exploration

During the half year, the Company completed reconnaissance mapping and collected 19 rock chip samples at the newly identified Dezda Mountain East and West prospects, located about 70km SE of Lilongwe. In addition, sampling and geological logging of trenches excavated by a previous (base metals) explorer was undertaken across 8 trenches for 502m over a small portion of the Dedza Mountain East prospect. Significant widths of graphite gneiss were encountered in the trenches. The Company believes therefore that the Dedza Mountain prospects are significant as historical VTEM data suggests very discrete, highly conductive zones occur over a cumulative strike length of about 24km.

The Company also completed 8 trenches for 512m at the Chipili prospect, located about 6km east of the main Duwi prospect, along the greater Duwi Trend. Numerous zones of graphitic gneiss were intersected in the trenches at Chipili.

Laboratory results for these programs will be reported when they become available.

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 during the half year.

DIRECTORS' REPORT (Continued)



Drilling at Mount Avarice consisted of twenty RC holes for 3,612m at the Mongoose Prospect which is located on the eastern boundary of EPM 8588 along strike north west of the historic Paddock open pit (not in EPM 8588) south of the township of Cloncurry. It is expected that assay results will be available in the current quarter once all QA/QC procedures have been completed.

Tate River

The Tate River Project, in north-east Queensland, exhibits the potential for the discovery of epithermal and intrusion related gold and base metal mineralisation. Sovereign has 100% interest in the Project.

No work was conducted during the half year.

Operating Results

The net operating loss after tax for the half year ended 31 December 2013 was \$1,063,779 (2012: \$1,408,527).

The loss for the period includes \$841,973 (2012: \$894,576) in exploration expenditure.

SIGNIFICANT POST BALANCE DATE EVENTS

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

AUDITOR'S INDEPENDENCE DECLARATION

Section 307C of the Corporations Act 2001 requires our auditors, Deloitte Touche Tohmatsu, to provide the directors of Sovereign Metals Limited with an Independence Declaration in relation to the review of the half year financial report. This Independence Declaration is on page 18 and forms part of this Directors' Report.

Signed in accordance with a resolution of Directors.



Peter Woodman
Director

10 March 2014

The information in this report that relates to Metallurgical Testwork Results is extracted from the report entitled 'Metallurgical Testwork Confirms Significant Large Flake Potential' dated 22 January 2014 and 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 information compiled by Mr Michael Kenneth Rhodes, who is a Fellow of the Australian Institute of Mining and Metallurgy. Mr Rhodes is an employee of Tenova Mining & Minerals (Pty) Ltd ("Tenova"). Tenova is engaged as a consultant by Sovereign Metals Limited. Mr Rhodes 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 Exploration Results, not including Metallurgical Testwork Results, is extracted from the report entitled 'Metallurgical Testwork Confirms Significant Large Flake Potential' dated 22 January 2014 and is available to view on www.sovereignmetals.com.au. The information in the original ASX Announcement that related to Exploration Results, not including Metallurgical Testwork Results, was based on information compiled by Mr Peter Woodman, who is a member of the Australian 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.

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 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 2013 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



Peter Woodman
Director

10 March 2014

**CONDENSED CONSOLIDATED STATEMENT OF
PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**
FOR THE HALF YEAR ENDED 31 December 2013



	Note	Half Year Ended 31 December 2013 \$	Half Year Ended 31 December 2012 \$
Revenue			
Interest revenue	4(a)	16,505	37,259
Foreign exchange gain (realised)		1,046	-
Total revenue		17,551	37,259
Expenses			
Exploration and evaluation expenses		(841,973)	(894,576)
Business development expenses		-	(245,643)
Corporate and administrative expenses		(239,357)	(305,567)
Loss before income tax		(1,063,779)	(1,408,527)
Income tax expense		-	-
Loss for the period		(1,063,779)	(1,408,527)
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		1,774	-
Other comprehensive income for the period, net of income tax		1,774	-
Total comprehensive loss for the period		(1,062,005)	(1,408,527)
Loss attributable to members of Sovereign Metals Limited		(1,063,779)	(1,408,527)
Total comprehensive loss attributable to members of Sovereign Metals Limited		(1,062,005)	(1,408,527)
Loss per share			
Basic loss per share (cents per share)		(1.35 cents)	(2.38 cents)
Diluted loss per share (cents per share)		(1.35 cents)	(2.38 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 2013



		31 December 2013	30 June 2013
	Note	\$	\$
ASSETS			
Current Assets			
Cash and cash equivalents		710,871	2,082,662
Trade and other receivables		41,856	115,787
Total Current Assets		752,727	2,198,449
Non-current Assets			
Property, plant and equipment		156,598	172,289
Exploration and evaluation assets	5	7,170,282	7,170,282
Total Non-current Assets		7,326,880	7,342,571
TOTAL ASSETS		8,079,607	9,541,020
LIABILITIES			
Current Liabilities			
Trade and other payables		126,973	525,957
Provisions		3,477	3,901
Total Current Liabilities		130,450	529,858
TOTAL LIABILITIES		130,450	529,858
NET ASSETS		7,949,157	9,011,162
EQUITY			
Issued capital	6(a)	18,813,400	18,813,400
Reserves	6(b)	1,591,643	1,589,869
Accumulated losses		(12,455,886)	(11,392,107)
TOTAL EQUITY		7,949,157	9,011,162

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 2013



	Issued Capital \$	Share Based Payments Reserve \$	Foreign Currency Translation Reserve \$	Accumulated Losses \$	Total Equity \$
Balance at 1 July 2013	18,813,400	1,574,375	15,494	(11,392,107)	9,011,162
Net loss for the period	-	-	-	(1,063,779)	(1,063,779)
Other comprehensive income	-	-	1,774	-	1,774
Total comprehensive income/(loss) for the period	-	-	1,774	(1,063,779)	(1,062,005)
Transactions with owners, recorded directly in equity					
Total transactions with owners recorded directly in equity	-	-	-	-	-
Balance at 31 December 2013	18,813,400	1,574,375	17,268	(12,455,886)	7,949,157

	Issued Capital \$	Share Based Payments Reserve \$	Foreign Currency Translation Reserve \$	Accumulated Losses \$	Total Equity \$
Balance at 1 July 2012	10,085,888	328,398	-	(8,152,753)	2,261,533
Net loss for the period	-	-	-	(1,408,527)	(1,408,527)
Total comprehensive loss for the period	-	-	-	(1,408,527)	(1,408,527)
Transactions with owners, recorded directly in equity					
Placement of ordinary shares	1,100,000	-	-	-	1,100,000
Cost of share based payments	-	88,352	-	-	88,352
Ordinary shares issued at nil consideration	4,725,000	-	-	-	4,725,000
Performance rights issued	-	1,157,625	-	-	1,157,625
Share issue costs	(60,783)	-	-	-	(60,783)
Total transactions with owners recorded directly in equity	5,764,217	1,245,977	-	-	7,010,194
Balance at 31 December 2012	15,850,105	1,574,375	-	(9,561,280)	7,863,200

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 2013



	Half Year Ended 31 December 2013 \$	Half Year Ended 31 December 2012 \$
Cash flows from operating activities		
Payments to suppliers and employees	(1,501,705)	(1,453,542)
Refunds of GST payments	110,119	21,264
Interest received	19,795	37,259
Net cash used in operating activities	(1,371,791)	(1,395,019)
Cash flows from investing activities		
Payments for purchase of plant and equipment	-	(13,140)
Payment for purchase of exploration project	-	(1,021,132)
Net cash from/(used in) investing activities	-	(1,034,272)
Cash flows from financing activities		
Proceeds from issue of shares	-	1,100,000
Payments for share issue costs	-	(60,294)
Net cash from financing activities	-	1,039,706
Net decrease in cash and cash equivalents	(1,371,791)	(1,389,585)
Cash and cash equivalents at the beginning of the period	2,082,662	2,261,411
Cash and cash equivalents at the end of the period	710,871	871,826

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 2013 was authorised for issue in accordance with the resolution of the Directors on 7 March 2014.

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 2013 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 2013 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 2013, the Consolidated Entity has incurred a net loss of \$1,063,779 (2012: \$1,408,527) and had net cash outflows from operating and investing activities of \$1,371,791 (2012: \$2,429,291). As at 31 December 2013, the Consolidated Entity had cash assets of \$710,871 (30 June 2013: \$2,082,662) and net current assets of \$622,277 (30 June 2013: \$1,668,591).

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.

The Consolidated Entity plans to raise additional capital within 9 months from the date of signing the financial report to allow activities to return to a normal level of activity. The Directors are satisfied that they will be able to raise additional capital when required to enable the Consolidated Entity to meet their obligations as and when they fall due, and accordingly, consider that it is appropriate to prepare the financial statements on a going concern basis.

Should the Company and 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 2013.

In the current year, 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 2013. The adoption of these new and revised standards has not resulted in any significant changes to the Group's accounting policies or to the amounts reported for the current or prior periods.

New and revised Standards and amendments thereof and Interpretations effective for the current half-year that are relevant to the Group include:

- AASB 10 'Consolidated Financial Statements' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards';
- AASB 11 'Joint Arrangements' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'; and
- AASB 13 'Fair Value Measurement' and AASB 2011-8 'Amendments to Australian Accounting Standards arising from AASB 13'.

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.

Half year ended 31 December 2013	Queensland \$	Malawi \$	Unallocated ⁽¹⁾ \$	Total \$
Segment revenue	-	1,046	16,505	17,551
Segment profit/(loss)	(93,494)	(744,179)	(226,106)	(1,063,779)
Segment assets	-	7,315,385	764,223	8,079,607
Segment liabilities	-	(67,946)	(62,504)	(130,450)
Additions to non-current assets	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2013
(Continued)



3. SEGMENT INFORMATION (Continued)

Half year ended 31 December 2012	Queensland \$	Malawi \$	Unallocated ⁽¹⁾ \$	Total \$
Segment revenue	-	-	37,259	37,259
Segment profit/(loss)	(10,704)	(1,107,916)	(289,907)	(1,408,527)
Segment assets	-	7,179,452	921,668	8,101,120
Segment liabilities	-	(118,919)	(119,000)	(237,919)
Additions to non-current assets	-	7,179,452	11,946	7,191,398

Notes:

1. Unallocated segment revenues and expenses relate to interest income and expenses that arise at corporate level that cannot be directly allocated to the above exploration segments on reasonable basis. Unallocated segment assets and liabilities comprise cash and cash equivalents, available for sale financial assets and other assets and liabilities that cannot be directly allocated to the above exploration segments on reasonable basis.

4. REVENUE AND EXPENSES

	Consolidated 31 December 2013 \$	Consolidated 31 December 2012 \$
(a) Revenue		
Interest revenue	16,505	37,259
(b) Share based payments		
Share based payments included in:		
- Corporate and administrative expenses	-	5,114
- Business development	-	59,750
- Exploration and evaluation expenses	-	23,488
	-	88,352

5. EXPLORATION AND EVALUATION ASSETS

	Notes	Consolidated 31 December 2013 \$	Consolidated 31 December 2012 \$
(a) Movement in Exploration and Evaluation Assets			
Carrying amount as at 1 July		7,170,282	-
- Additions		-	7,170,282
		7,170,282	7,170,282

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2013
(Continued)



6. EQUITY SECURITIES ISSUED

	Notes	Consolidated 31 December 2013 \$	Consolidated 30 June 2013 \$
(a) Issued and Paid Up Capital			
79,090,328 (30 June 2013: 79,090,328) fully paid ordinary shares		18,813,400	18,813,400
(b) Reserves			
<i>Share Based Payment Reserve</i>			
1,000,000 (30 June 2013: 1,000,000) unlisted \$0.25 options		141,000	141,000
1,000,000 (30 June 2013: 1,000,000) unlisted \$0.30 options		143,000	143,000
500,000 (30 June 2013: 500,000) unlisted \$0.35 options		73,000	73,000
250,000 (30 June 2013: 250,000) unlisted \$0.22 options		59,750	59,750
8,750,000 (30 June 2013: 8,750,000) Performance Shares 'Class A'		826,875	826,875
8,750,000 (30 June 2013: 8,750,000) Performance Shares 'Class B'		330,750	330,750
Total Share Based Payments Reserve		1,574,375	1,574,375
<i>Foreign Currency Translation Reserve (FCTR)</i>			
Exchange differences		17,268	15,494
Total Foreign Currency Translation Reserve (FCTR)		17,268	15,494
Total Reserves		1,591,643	1,589,869

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

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

Date	Details	Number of Shares	Issue Price \$	\$
1 Jul 2012	Opening balance	51,590,328	-	10,085,888
8 Aug 2012	Share Placement	5,000,000	\$0.220	1,100,000
7 Nov 2012	Consideration Shares	12,500,000	\$0.378	4,725,000
	Share Issue costs	-	-	(60,783)
31 Dec 2012	Closing balance	69,090,328	-	15,850,105

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2013
(Continued)



6. EQUITY SECURITIES ISSUED (Continued)

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

Date	Details	Notes	Number of Incentive Options	Fair Value	
				\$	\$
1 Jul 12	Opening balance		2,500,000		328,398
23 Aug 12	Grant of \$0.22 Incentive Options expiring 30 September 2015	(i)	250,000	0.239	59,750
31 Dec 12	Option vesting expense	(i)			28,602
31 Dec 12	Closing balance		2,750,000		416,750
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.*

7. COMMITMENTS AND CONTINGENCIES

(a) **Commitments**

	2013 \$	2012 \$
<u>Exploration Commitments - Central Malawi Graphite Project:</u>		
Within one year	569,594	-
After one year but not more than five years	-	-
More than five years	-	-
	569,594	-

(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 (2012: 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, trade and other payables and interest bearing borrowings. The carrying amount of these financial assets and liabilities approximate their fair value.

10. SUBSEQUENT EVENTS AFTER BALANCE DATE

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

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

10 March 2014

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 or half-year ended 31 December 2013, 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 2013, 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 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 gives a true and fair view and 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 2013 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 2013 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 financial report which indicates that the Consolidated Entity incurred a net loss of \$1,063,779 and had net cash outflows from operating and investing activities of \$1,371,791 for the half year ended 31 December 2013. 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

DELOITTE TOUCHE TOHMATSU

Neil Smith

Neil Smith
Partner
Chartered Accountants
Perth, 10 March 2014