

DECEMBER 2013 QUARTERLY REPORT

Sovereign Metals Limited (“the Company” or “Sovereign”) is pleased to present its quarterly report for the period ending 31 December 2013.

Highlights:

- 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 during the Quarter, and results were reported in January 2014.
- The metallurgical testwork 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
 - Indicates the potential of the Duwi Prospect to deliver a high-quality marketable flake graphite concentrate using simple conventional flotation technology.
- 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.

Enquiries:

Peter Woodman – Managing Director +618 9322 6322

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.

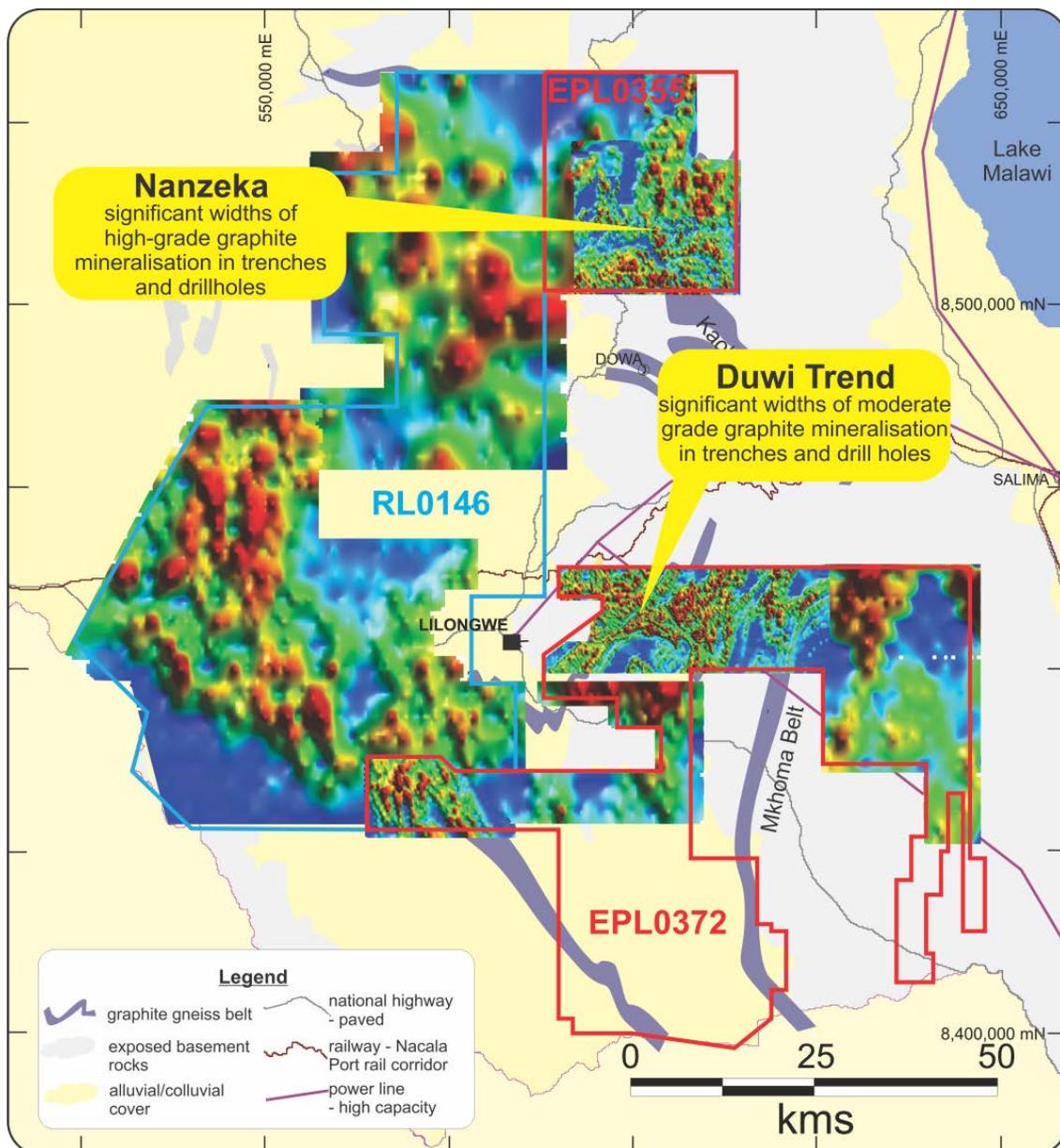


Figure 1. Central Malawi Graphite Project regional map

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 quarter.

The Company has now 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 (see Figure 3) 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).

The investigative testwork program was completed in two separate stages as shown in Table 2. 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 (see Figure 4).

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.

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 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.

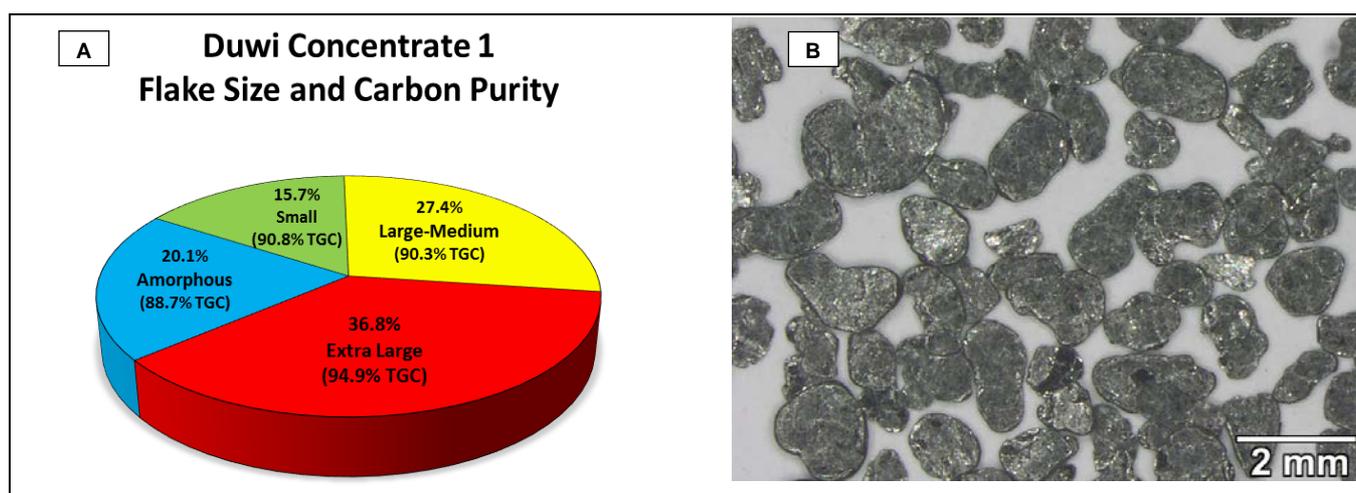


Figure 2: Duwi Concentrate 1 – (A) Flake Size Distribution and TGC Purity (B) Photograph of the Extra Large +425 µm fraction of Concentrate-1

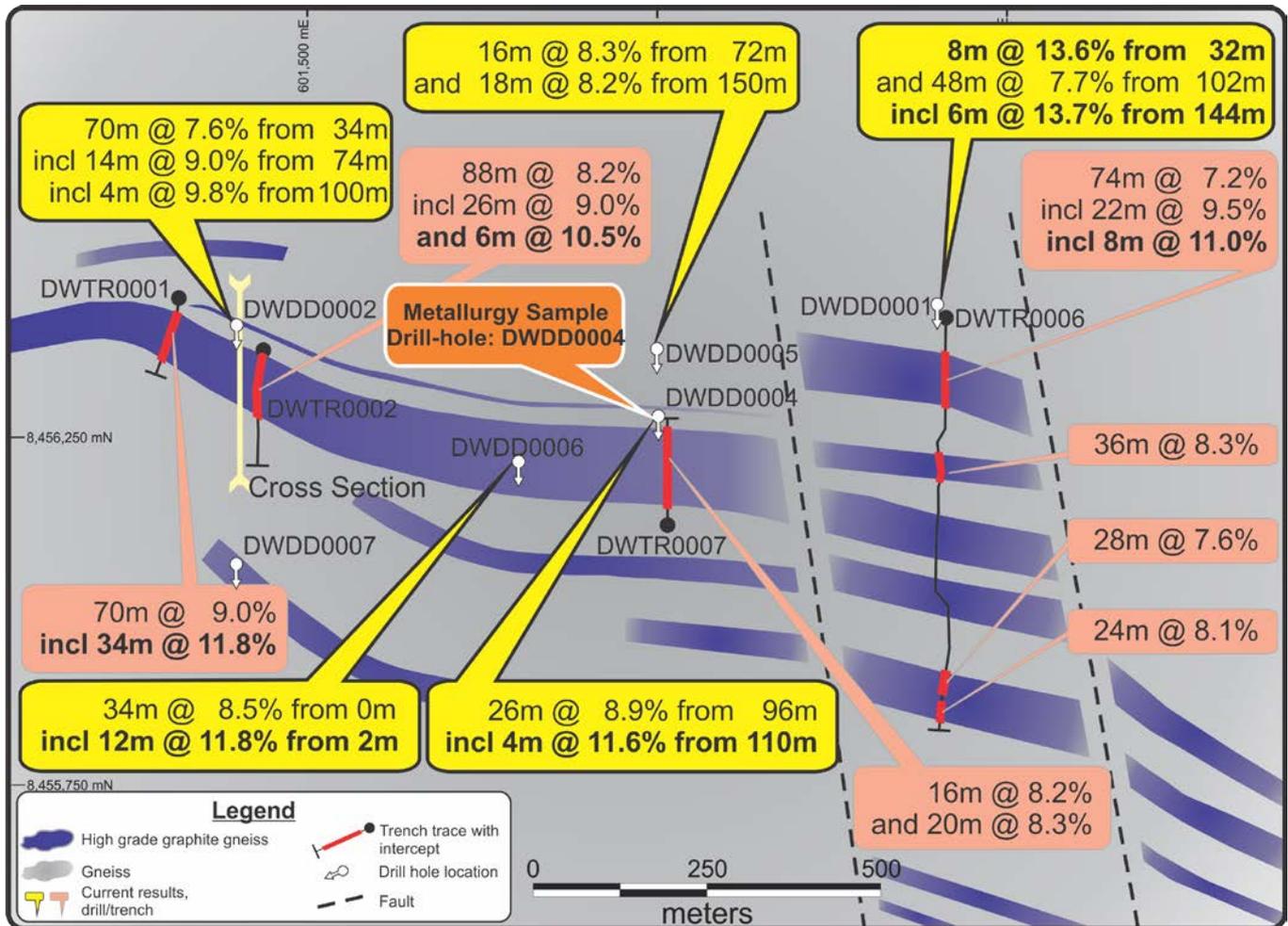


Figure 3: Location of Duwi Metallurgical Testwork Sample

Table 2: MINTEK Metallurgical Testwork Program Details

Testwork Phase:	Stage 1 - Characterisation and variability testwork	Stage 2 - Flotation testwork
Sample:	DWDD0004:40-120m (1/4 HQ)	DWDD0004:90-120m (1/4 HQ)
Sample Type:	Eight x 10 metre composites (155kg) 80m @ 7.1% TGC	Master Composite (45kg) Head Grade 8.1% TGC
Testwork Completed:	<ul style="list-style-type: none"> Detailed geochemical analysis Head Assaying Quantitative Mineralogy Petrographic Analysis 	<ul style="list-style-type: none"> Head Assaying Quantitative Mineralogy Detailed Mineralogy & Optical Image Analysis Size by Assay Grind Establishment Sighter Rougher Flotation tests Effect of grind flotation tests 2-Stage Regrind Flotation tests 3-Stage Regrind Flotation tests

Table 3: Duwi Master Composite – 3 Stage Regrind Flotation Test

Products	Time (min)	Mass (%)	Grade (%)		Recovery (%)	
			TGC	S	TGC	S
6° Cleaner Concentrate 1	0-1	7.3	92.8	0.16	81.92	0.41
6° Cleaner Concentrate 2	1-3	0.4	86.9	0.24	3.99	0.03
6° Cleaner Concentrate 3	3-6	0.2	69.7	0.53	1.58	0.03
Total	6	7.9	92.0	0.17	87.49	0.48

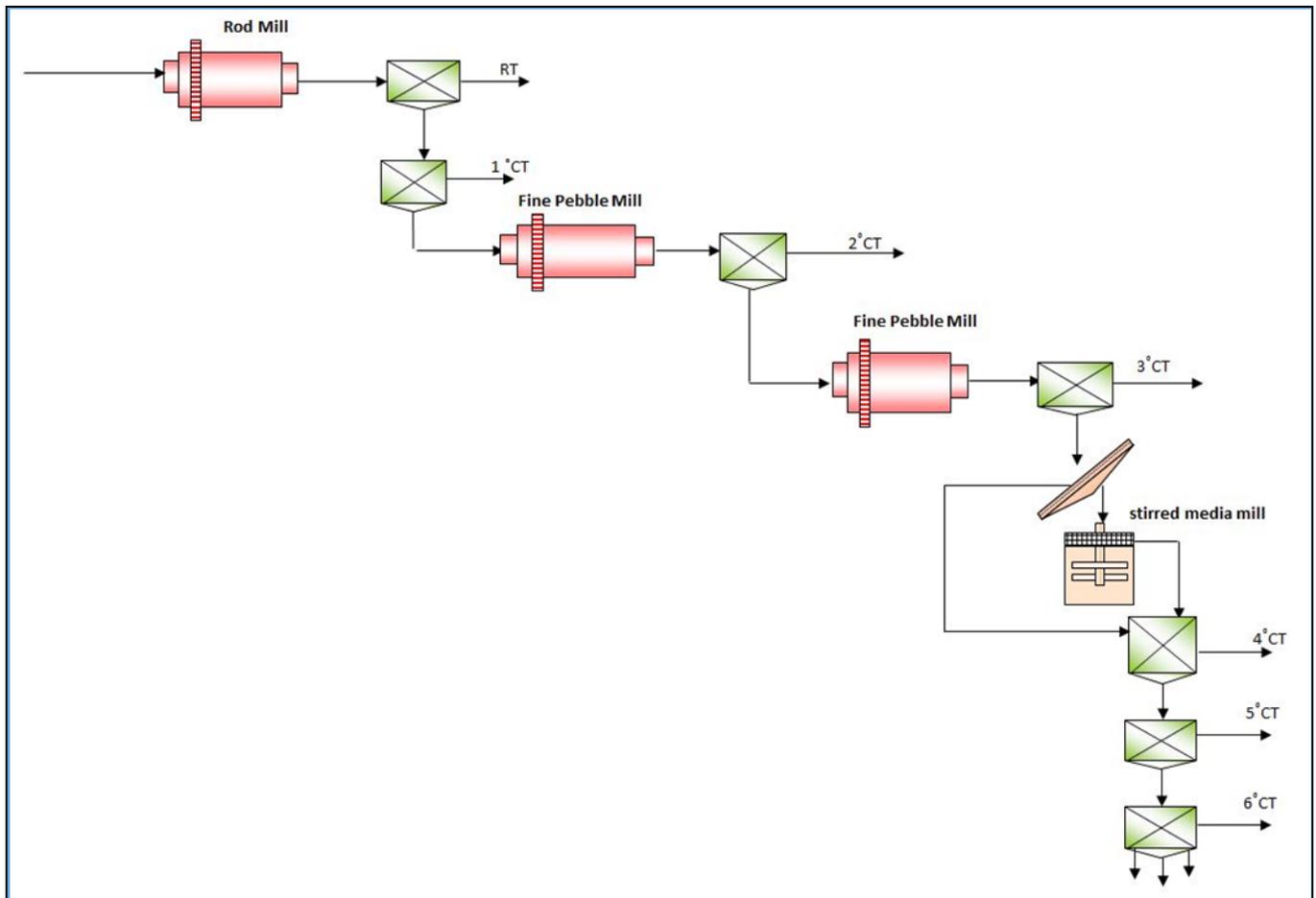


Figure 4: 3 Stage Regrind Flotation Testwork flowsheet

Table 4: Concentrate 1 – Analytical Details

Graphite Concentrate Analysis			
Ash - 6.90%	Carbon – 92.8% TGC	LOI (375°C) – 0.31%	
Moisture – 0.15%	Sulphur – 0.16% S	LOI (1000°C) – 93.16%	
ICP Ash Analysis			
SiO ₂ – 3.63%	CaO – 0.34%	MnO ₂ – 0.02%	Co – 0.0002%
Al ₂ O ₃ – 1.77%	MgO – 0.36%	TiO ₂ – 0.06%	
Fe ₂ O ₃ – 0.53%	K ₂ O – 0.19%	P ₂ O ₅ – 0.00%	

Regional Exploration

During the Quarter, 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 drill programs at Mt Marathon EPM 8586 and Mt Avarice EPM 8588 in the September Quarter.

Drilling at Mt Marathon consisted of seven RC holes for 1,083m around the historic Australian Margaret mine workings and was designed to test a 1.6km long IP anomalous zone coincident with malachite outcrops trending north and south of the historic workings. It is expected that assay results will be available in the current quarter once all QA/QC procedures have been completed.

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 Quarter.

Competent Person Statement

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 including in the original market announcement. The Company confirms that the form and context in which the Competent Person’s findings are presented have not been materially modified from the original market announcement.

The information in this report that relates to 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 including in the original market announcement. The Company confirms that the form and context in which the Competent Person’s findings are presented have not been materially modified from the original market announcement.

Appendix A: Summary of Mining Tenements

As at 31 December 2013, the Company had an interest in the following tenements:

Project Name	Permit Number	Percentage Interest	Joint Venture Partner	Status
<u>Malawi</u>				
Central Malawi Graphite Project	RL 0146	100%	-	Granted
	EPL 0372	100%	-	Granted
	EPL 0355	100%	-	Granted
<u>Queensland, Australia:</u>				
Nine Mile	EPMA 17305	100%	-	Application
Mt Marathon	EPM 8586	38.02%	Mount Isa Mines	Granted
Mt Avarice	EPM 8588	38.02%	Mount Isa Mines	Granted
Fountain Range	EPM 12561	38.02%	Mount Isa Mines	Granted
Corella River	EPM 12597	38.02%	Mount Isa Mines	Granted
Saint Andrews Extended	EPM 12180	38.02%	Mount Isa Mines	Granted
Dargalong	EPM 17103	100%	Fusion	Granted

No mining tenements were acquired or disposed of during the Quarter.

Beneficial percentage interests in Farm-out agreements disposed during the quarter ending, 31 December 2013:

Project Name	Permit Number	Type of change	Interest at beginning of quarter	Interest disposed of during quarter	Interest at end of quarter
<u>Carpentaria JV:</u>					
Mt Marathon	EPM 8586	Farm out	38.47%	0.45%	38.02%
Mt Avarice	EPM 8588	Farm out	38.47%	0.45%	38.02%
Fountain Range	EPM 12561	Farm out	38.47%	0.45%	38.02%
Corella River	EPM 12597	Farm out	38.47%	0.45%	38.02%
Saint Andrews Ext.	EPM 12180	Farm out	38.47%	0.45%	38.02%

Appendix 5B

Mining exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10

Name of entity

SOVEREIGN METALS LIMITED

ABN

71 120 833 427

Quarter ended ("current quarter")

31 DECEMBER 2013

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'ooo	Year to date (6 months) \$A'ooo
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for (a) exploration & evaluation	(260)	(1,159)
(b) development	-	-
(c) production	-	-
(d) administration	(94)	(224)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	7	20
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other (provide details if material)	-	-
- Business development and transaction costs	-	-
Net Operating Cash Flows	(347)	(1,363)
Cash flows related to investing activities		
1.8 Payment for purchases of: (a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	(10)
1.9 Proceeds from sale of: (a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other (provide details if material)	-	-
Net investing cash flows	-	(10)
1.13 Total operating and investing cash flows (carried forward)	(347)	(1,373)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(347)	(1,373)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	-	-
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other (provide details if material):	-	-
	- Capital raising expenses	-	-
	Net financing cash flows	-	-
	Net increase (decrease) in cash held	(347)	(1,373)
1.20	Cash at beginning of quarter/year to date	1,057	2,083
1.21	Exchange rate adjustments to item 1.20		
1.22	Cash at end of quarter	710	710

Payments to directors of the entity and associates of the directors
Payments to related entities of the entity and associates of the related entities

	Current quarter \$A'000	
1.23	Aggregate amount of payments to the parties included in item 1.2	83
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

Payments include directors fees, superannuation and provision of a fully serviced office.

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

Not Applicable

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

Not Applicable

Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1	Loan facilities	-
3.2	Credit standby arrangements	-

+ See chapter 19 for defined terms.

Estimated cash outflows for next quarter

		\$A'000
4.1	Exploration and evaluation	(150)
4.2	Development	-
4.3	Production	-
4.4	Administration	(90)
Total		(240)

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.		Current quarter \$A'000	Previous quarter \$A'000
5.1	Cash on hand and at bank	7	24
5.2	Deposits at call	703	1,033
5.3	Bank overdraft	-	-
5.4	Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)		710	1,057

Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed EPM 8586 EPM 8588 EPM 12561 EPM 12597 EPM 12180	Reduction of interest in accordance with terms of joint venture agreement.	38.47%	38.02%
6.2	Interests in mining tenements acquired or increased			

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 Preference securities <i>(description)</i>				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 *Ordinary securities	79,090,328	79,090,328	Not applicable	Not applicable
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs				
7.5 *Convertible debt securities <i>(description)</i>				
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 Options			<i>Exercise price</i>	<i>Expiry date</i>
- Unlisted options	1,000,000	-	\$0.25	31 March 2014
- Unlisted options	1,000,000	-	\$0.30	30 September 2014
- Unlisted options	500,000	-	\$0.35	31 March 2015
- Unlisted options	250,000	-	\$0.22	30 September 2015
7.8 Issued during quarter				
7.9 Exercised during quarter				
7.10 Expired during quarter				

+ See chapter 19 for defined terms.

7.11	Performance Shares				
	- Class A	8,750,000	-	Not Applicable	<i>Conversion date</i> 7 November 2015
	- Class B	8,750,000	-	Not Applicable	7 November 2016
7.12	Changes during quarter				
7.13	Debentures (totals only)				
7.14	Unsecured notes (totals only)				

Compliance statement

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

Sign here: Date: 30 January 2014
(Director/Company secretary)

Print name: Clint McGhie

Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 6: Exploration for and Evaluation of Mineral Resources* and *AASB 107: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Financial Reporting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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+ See chapter 19 for defined terms.