SOVEREIGN METALS LIMITED
ABN 71 120 833 427

Interim Financial Report for the Half Year Ended 31 December 2012

CORPORATE DIRECTORY

Directors
Mr Ian Middlemas –Chairman
Mr Peter Woodman
Mr Mark Pearce

Company Secretary
Mr Clint McGhie

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Stock Exchange Listing
Australian Securities Exchange
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ASX Code
SVM – Fully paid ordinary shares

Solicitors
Hardy Bowen Lawyers

Auditor
Deloitte Touche Tohmatsu

Bankers
Australia and New Zealand Banking Group Limited

CONTENTS

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 2012.

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
Mr Mark Pearce

All Directors were in office from 1 July 2012 until the date of this report, unless otherwise noted.

REVIEW AND RESULTS OF OPERATIONS

Sovereign is a dynamic resources company focussed 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 half year end include:

- Completed acquisition and accelerated exploration activities at the large (8,070km^2) and highly prospective Central Malawi Graphite Project ("CMGP");
- Substantial extensions to high grade graphite discoveries following geological mapping and rock-chip sampling program at the CMGP.
  - Duwi - Of a total of 150 samples, 75 grade above 10% total graphitic carbon ("TGC"), averaging 15.2% TGC, with a peak grade of 46.0% TGC. (Figure 4)
  - Ukonde - Of a total of 141 samples, 59 grade above 10% TGC, averaging 12.9% TGC, with a peak grade of 26.3% TGC.
  - Chipili - Of a total of 96 representative rock-chip samples collected, 56 with grade above 10% total graphitic carbon ("TGC"), averaging 15.1% TGC, with a peak grade of 35.3% TGC.
  - Nyama - Of a total of 102 samples, 38 with grade above 10% TGC, averaging 12.9% TGC, with a peak grade of 22.6% TGC.
  - Nanzeka - Of a total of 63 samples, 47 grade above 10% TGC, averaging 13.8% TGC, with a peak grade of 21.2% TGC.
- The combined Duwi, Ukonde, Chipili and Nyama Prospects collectively form the Duwi Trend with a cumulative strike length in excess of 18km and the potential for discovery of additional prospects (Figure 3).
- Heli-VTEM survey was conducted covering over 4,000 line kilometres (Figure 2). Initial interpretation of VTEM survey data confirms potential strike length of graphite gneisses in excess of two hundred kilometres.
  - Good correlation between strong conductors and high-grade graphite gneisses in areas already covered by field work and laboratory rock-chip results.
  - Large number of very strong conductors represent prime targets for additional discoveries of high grade graphite mineralisation.
- Completion of a placement in January 2013 to European based sophisticated investors, including a company affiliated with Aterra Capital, to raise $3 million (before costs). The placement provides additional funding for the continued exploration on the Company's projects, including the CMGP.

Central Malawi Graphite Project

In November 2012, the Company completed the acquisition of McCourt Mining Pty Ltd ("McCourt") which holds the large and highly prospective Central Malawi Graphite Project ("CMGP"), located in Malawi, near the capital city, Lilongwe.

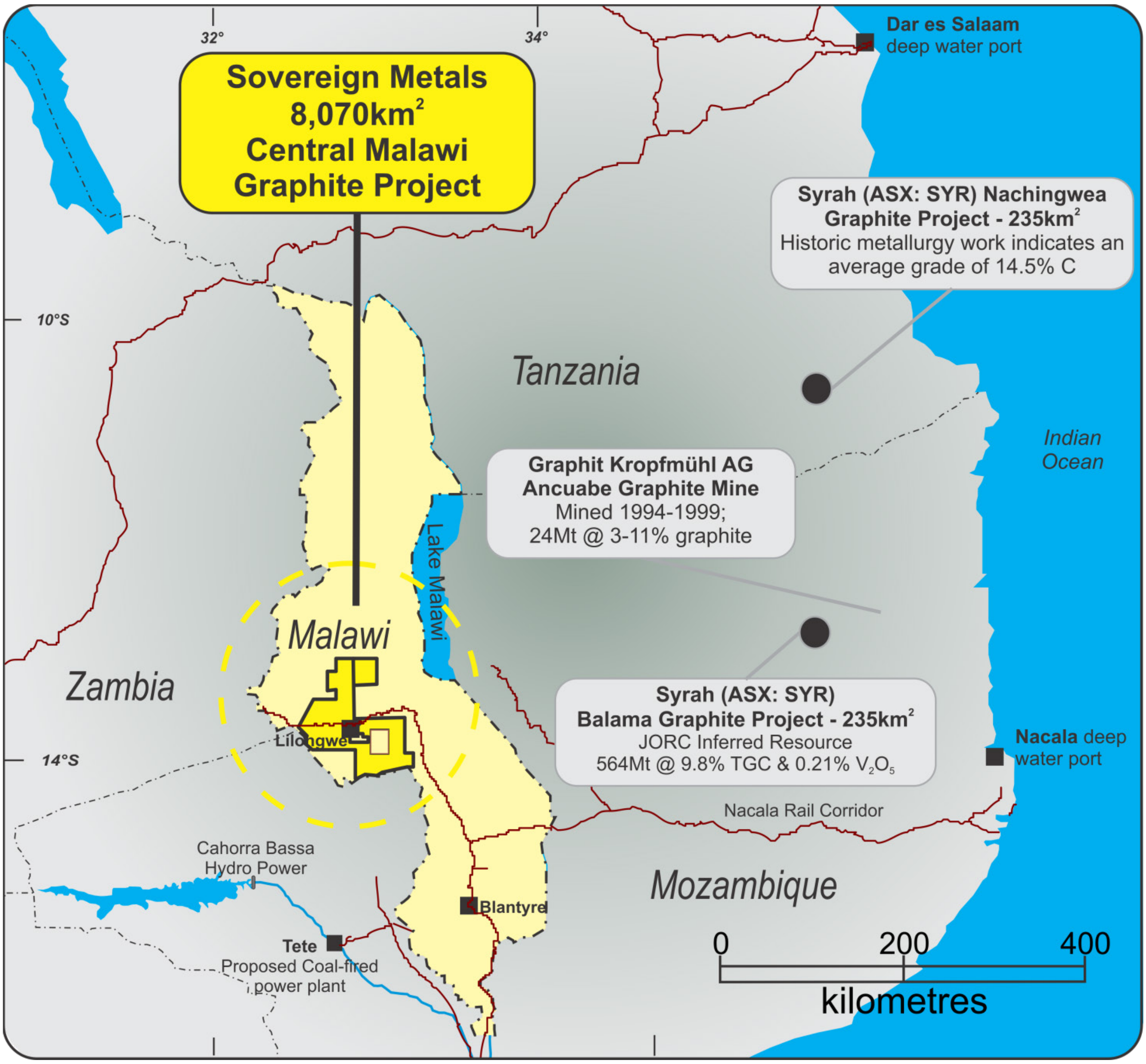

Figure 1. Location of the Central Malawi Graphite Project

The Project is composed of two tenements totalling 8,070km^2 in area, being:

- Exclusive Prospecting Licence EPL0355 - 780km^2; and
- Reconnaissance Licence RL0146 - 7,290km^2.

The CMGP is surrounded by established infrastructure including high capacity power lines, rail, roads and a port which is currently undergoing a major expansion. Five substantial graphite gneiss belts have been identified within the area covered by the CMGP Licences. Together, these total over 200km of strike length of known and inferred graphite gneiss. In total, over 50 targets have been identified in the area covered by the CMGP Licences.

During the half year, the Company conducted an intensive geological mapping and rock-chip sampling program, as well as initiating a substantial helicopter-borne VTEM survey that was flown in order assess historically known graphite prospects, and attempt to identify new areas of graphite mineralisation (Figure 2). Results to date support the Company's view that it controls a unique and potentially large graphite province.

Importantly, the Heli-VTEM survey confirmed that large areas of the Company's ground holdings are underlain by conductive and highly conductive rocks. In areas previously covered by historical exploration and more recent fieldwork carried out by the Company, there is a good correlation between linear, strong conductors and graphite gneisses whilst other less linear to ovoid conductors have been shown to be pyrite-graphite and/or pyrite gneisses.

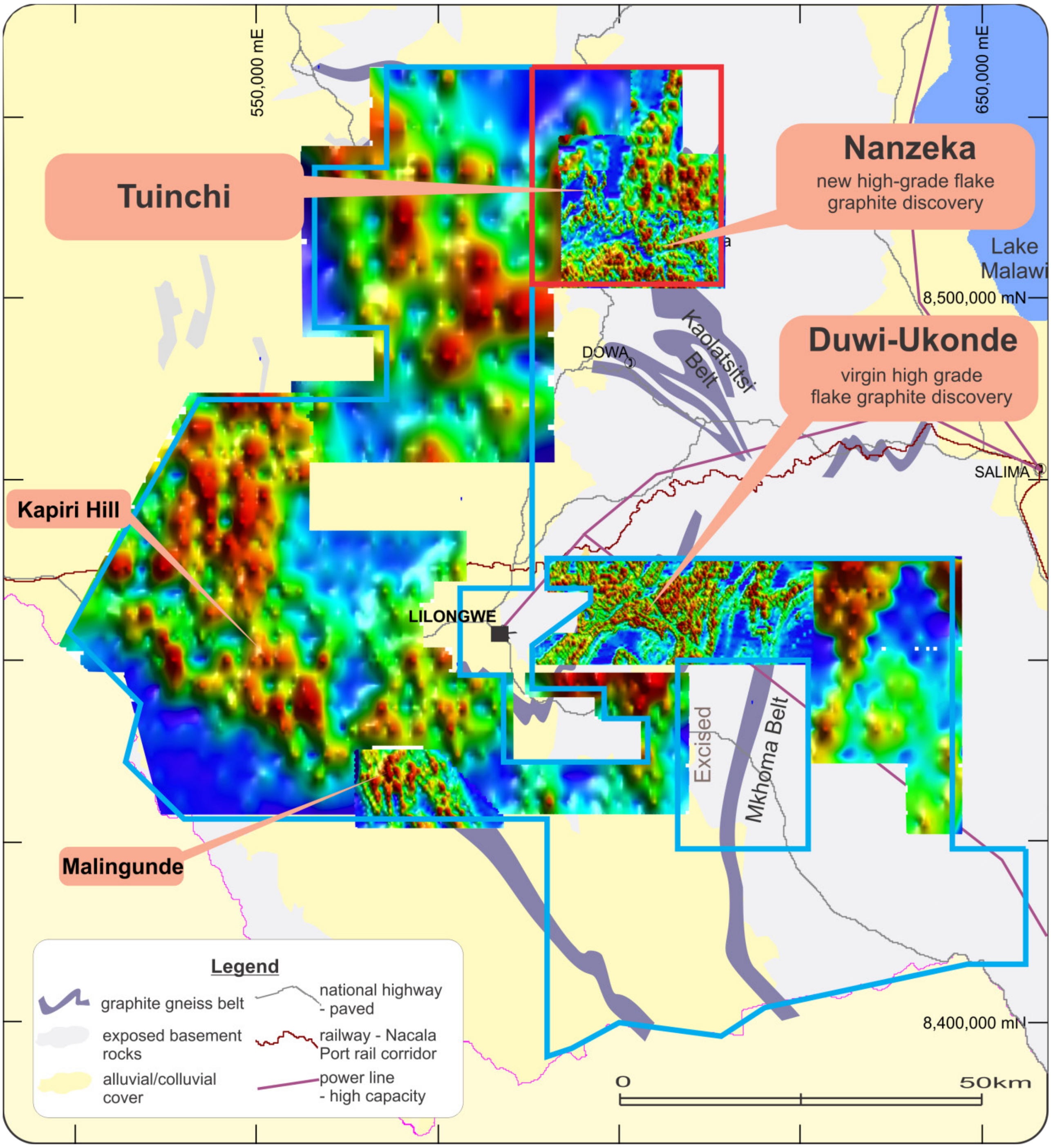

Figure 2. Channel 15 VTEM image showing area surveyed at the CMGP.

Ongoing mapping and representative rock-chip sampling at the CMGP continues to deliver excellent results and new high-grade graphite discoveries. A total of five prospects with substantial areas of high-grade flake graphite mineralisation have now been defined – Duwi, Ukonde, Chipili and Nyama – forming the Duwi Trend and all located within RL0146 (Figure 3), and at Nanzeka within EPL0355.

Duwi Trend (RL0146)

Continuous high grade mineralisation has now been identified over a cumulative strike length of greater than 18km in the Duwi Trend within RL0146. Mineralisation remains open along strike in a number of areas, and Heli-VTEM data indicates the potential for further significant extensions to this high-grade mineralised trend.

A summary of results received to date for each of these major, high-grade, coarse flake graphite prospects is below.

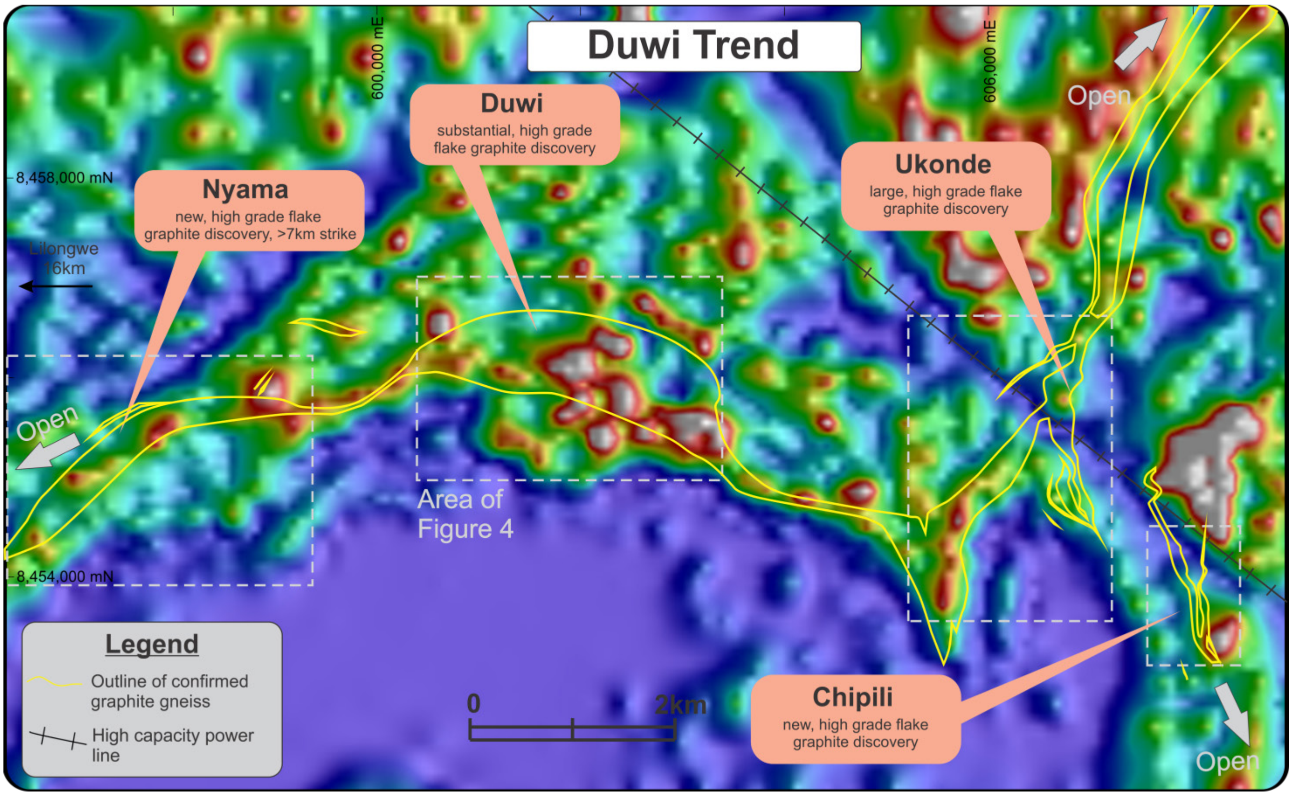

Figure 3. Channel 15 VTEM image with simplified geology of graphite gneiss prospects within the Duwi Trend.

<u>Duwi Prospect</u>

Results for a total of 153 samples from Duwi have been returned from the laboratory (Figure 4). Highlights include:

- Peak grade of 46.0% TGC
- Average grade of samples (n=111) using a low-cut of 7.5% TGC is 13.2% TGC
- Average grade of samples (n=74) using a low-cut of 10.0% TGC is 15.4% TGC

The Duwi prospect has dimensions of about 2.5km in length and on average, about 200m in surface width. The VTEM survey indicates additional graphite mineralisation should be present in a number of un-sampled areas. There is therefore a high likelihood that the high-grade mineralised area at Duwi will be expanded with further work.

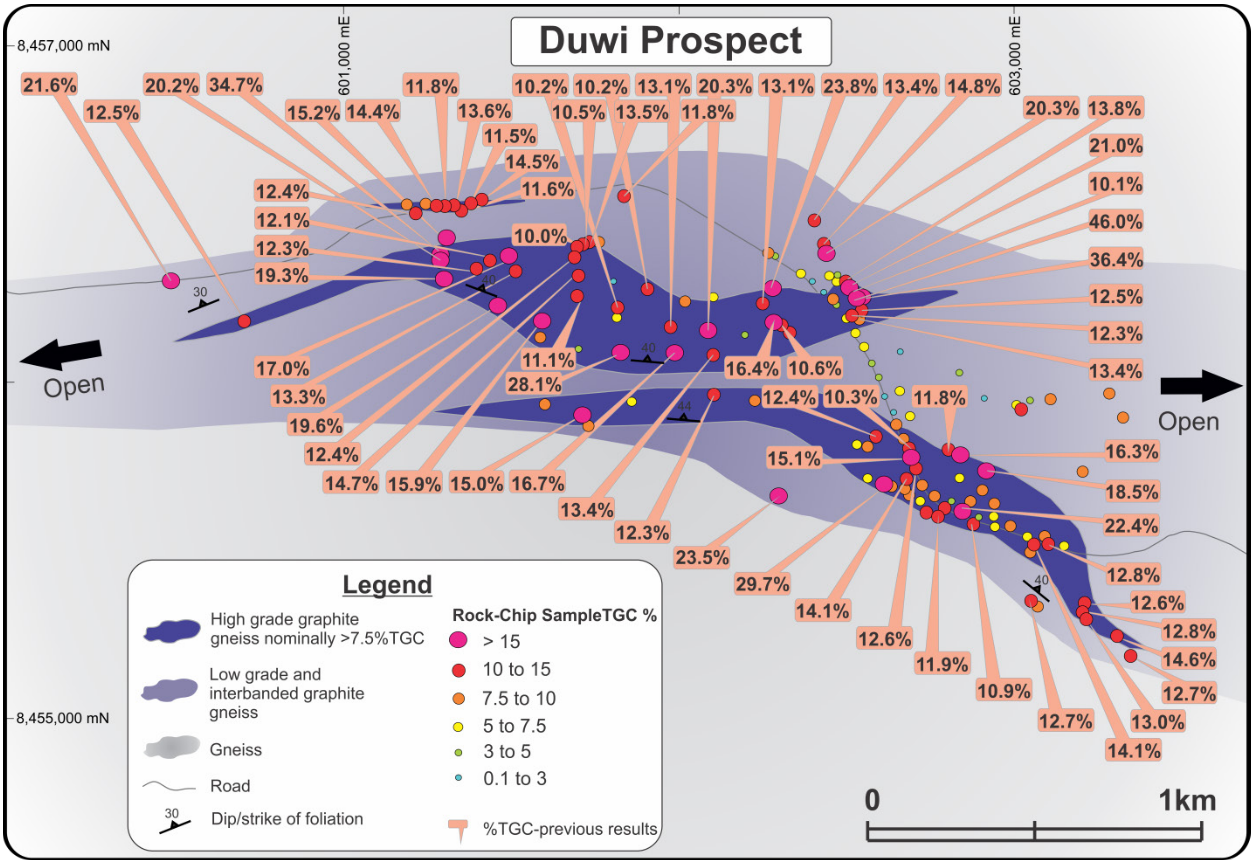

Figure 4. Rock-chip results over simplified geology, main Duwi Prospect.

Ukonde Prospect

A total of 228 rock-chip sample results have been returned from Ukonde. Highlights from rock-chip sample results received include:

- Peak grade of 33.3% TGC
- Average grade of samples (n=174) using a low-cut of 7.5% TGC is 11.6% TGC
- Average grade of samples (n=104) using a low-cut of 10.0% TGC is 13.5% TGC

At the Ukonde Prospect, a network of linking, high-grade flake graphite zones occurs over at least 7km in strike length, with individual zones ranging between 10m and 80m in surface widths. Cumulative across-strike surface widths range from 50m to 300m. Graphite mineralisation at Ukonde remains open to the north-west and links into the high-grade Duwi Prospect to the west.

Chipili Prospect

Results for a total of 96 rock-chip samples have been returned from the laboratory for the new, high-grade flake graphite discovery at Chipili. Highlights from these results include:

- Peak grade of 35.3% TGC
- Average grade of samples (n=72) using a low-cut of 7.5% TGC is 13.7% TGC

Average grade of samples (n=56) using a low-cut of 10.0% TGC is 15.1% TGC

The new, high-grade Chipili discovery is located just 1.5km east of Ukonde. Three major bands of high-grade flake graphite mineralisation occur over about 2km strike length with each band ranging between 5m and 40m surface width. Mineralisation is open along strike to the north and the south. A substantial VTEM conductor to the south of Chipili is a prime exploration target.

Nyama Prospect

A total of 102 rock-chip sample results have been returned from the new Nyama discovery. Highlights include:

- Peak grade of 22.6% TGC
- Average grade of samples (n=61) using a low-cut of 7.5% TGC is 11.2% TGC
- Average grade of samples (n=38) using a low-cut of 10.0% TGC is 12.9% TGC

The Nyama discovery is the westerly extension of the major Duwi prospect. It appears to be two separate zones of high-grade flake graphite mineralisation that range in surface width from 20m to 100m and have a confirmed and sampled strike length of about 7km each. Extensions to the Nyama VTEM conductors suggest this mineralised corridor may extend for at least a further 6km along strike to the south-west.

Nanzeka Prospect – EPL0355

Mapping and rock-chip sampling at Nanzeka has delineated two high-grade flake graphite zones over a combined strike length of 2.0km, with individual zones ranging between 10m and 150m in surface width.

Results for a total of 66 samples have been received so far. Highlights include:

- Peak grade of 21.2% TGC
- Average grade of samples (n=55) using a low-cut of 7.5% TGC is 13.5% TGC
- Average grade of samples (n=52) using a low-cut of 10.0% TGC is 13.7% TGC

Numerous VTEM conductors in the Nanzeka area indicate substantial potential for extensions and additional discoveries.

A summary of rock-chip sampling results from the CMGP at December 2012 can be found in the Company's ASX Announcement on 6 February 2013.

Regional Reconnaissance

Numerous new graphite prospects have been identified during this initial phase of reconnaissance field work and the Heli-VTEM survey.

Within EPL0355 in excess of 20 very strong conductors that range from 0.3km to over 5km strike length have been identified. Limited field work has been completed to date on these target areas, however, all identified conductors initially selected show a higher conductivity than Duwi and hence represent prime targets for further exploration.

These will be systematically followed up in due course.

The entire western two thirds of RL0146 show very substantial areas of conductivity anomalism (Figure 2). Very little field work has been undertaken so far in this area by the Company, due mostly to the fact that bedrock is obscured by shallow alluvial and colluvial cover. Rock-chip sampling results from limited areas of outcrop, however, show a number of zones at Malingunde and Kapiri with medium to high grade graphite gneisses. Further exploration work will be undertaken to confirm if substantial volumes of graphite gneisses are present in this area.

Ongoing Exploration Program

The exploration program at the CMGP continues with the following activities occurring over the coming months:

- Ground field work including mapping and rock-chip sampling to confirm high-priority targets identified by VTEM survey data is ongoing, with a steady flow of results expected. Numerous new graphite prospects continue to be discovered by the Company's geologists and these will be systematically followed up in due course.
- Sighter metallurgical and mineralogical test work has begun on 4 separate 60kg samples, with results expected to be released progressively.
- Trenching has begun at Nanzeka and programs are planned at Duwi, Ukonde, Chipili and Nyama, to be followed by an initial diamond drilling program.

Tate River

In late 2010 Sovereign reached agreement with Fusion Resources Pty Ltd ("Fusion"), a wholly owned subsidiary of Paladin Energy Limited, to acquire the remaining 50% interest in the prospective Tate River Project in north-east Queensland. The Tate River Project exhibits the potential for the discovery of epithermal and intrusion related gold and base metal mineralisation.

Previous exploration conducted on the Tate River Project by Sovereign has identified the potential for both base and precious metal discoveries. The first ever drill program at the Blade Vein Prospect returned best results of: 3m @ 60g/t. Ag, 4.2% Pb, 2.0% Zn & 0.65g/t. Au from 15m in hole TRRC020.

Sovereign believes the Tate River Project is prospective for precious and base metal discoveries.

During the half year, Sovereign engaged Core Geophysics to conduct a review of data from a 2008 airborne magnetic and radiometric survey from the Tate River Project. The review centred on the Golden Myall Prospect for additional targets as part of their continuing investigation into a larger Intrusion Related Gold Deposit system ("IRGD"), which Sovereign has indicated may possibly be the mineralising mechanism for gold and other metals at the Tate River Project.

An interpretation of readily identifiable structures was undertaken with a view to classifying areas of structural complexity, particularly in close proximity to the interpreted intrusive. A total of 10 target areas were identified for follow-up exploration work.

Carpentaria Joint Venture

Xstrata Copper, continues to manage and sole fund all tenements comprising the Carpentaria Joint Venture ("CJV").

Xstrata Copper advised that during the half year, exploration activity, including detailed mapping, field work and an airborne magnetic and radiometric survey, focussed on St Andrews Extended EPM 12180. Five areas have been highlighted for target evaluation and these areas will be further assessed in upcoming technical evaluation with a view to developing drill targets for the 2013 field season.

Operating Results

The net operating loss after tax for the half year ended 31 December 2012 was $1,408,527 (2011: $429,963).

The loss for the period includes $894,576 (2011: $173,739) in exploration expenditure and $245,643 (2011: $34,596) in business development costs incurred in assessing a number of new opportunities in the resource sector. Share based payment expenses of $88,352 (2011: $199,962) were recognised during the half year.

SIGNIFICANT POST BALANCE DATE EVENTS

Capital Raising

In January 2013, Sovereign completed a placement of 10 million ordinary shares to European based sophisticated investors, to raise $3 million before costs. The placement provides funding for the continued exploration on the Company's projects, including the CMGP.

The majority of the placement was made to a company affiliated with Aterra Capital ("Aterra"), who have subscribed for 8.33 million shares for a total of $2.5 million. Aterra is a private equity and venture capital firm based in Moscow that specialises in investments in natural resources projects.

At the date of this report there were no other 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 22 and forms part of this Directors' Report.

Signed in accordance with a resolution of Directors.

Peter Woodman
Director

7 March 2013

The information in this report that relates to Exploration Results, Mineral Resources or Ore Reserves is based on information compiled by Mr Peter Woodman, who is a member 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 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Woodman consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

DIRECTORS' DECLARATION

SOVEREIGN METALS LIMITED

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 11 to 21, 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 2012 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

7 March 2013

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE HALF YEAR ENDED 31 December 2012

SOVEREIGN METALS LIMITED

	Note	Half Year Ended 31 December 2012 $	Half Year Ended 31 December 2011 $
Revenue			
Interest revenue	4(a)	37,259	68,952
Total revenue		**37,259**	**68,952**
Expenses			
Exploration and evaluation expenses		(894,576)	(173,739)
Business development expenses		(245,643)	(34,596)
Corporate and administrative expenses		(305,567)	(290,580)
Loss before income tax		**(1,408,527)**	**(429,963)**
Income tax expense		-	-
Loss for the period		**(1,408,527)**	**(429,963)**
Other comprehensive income, net of income tax:			
Items that will not be reclassified subsequently to profit or loss		-	-
Items that may be reclassified subsequently to profit or loss		-	-
		-	-
Other comprehensive loss for the period, net of income tax		-	-
Total comprehensive loss for the period		**(1,408,527)**	**(429,963)**
Loss attributable to members of Sovereign Metals Limited		**(1,408,527)**	**(429,963)**
Total comprehensive loss attributable to members of Sovereign Metals Limited		**(1,408,527)**	**(429,963)**
Loss per share			
Basic loss per share (cents per share)		(2.38 cents)	(0.83 cents)
Diluted loss per share (cents per share)		(2.38 cents)	(0.83 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 2012

	Note	31 December 2012 $	30 June 2012 $
ASSETS			
Current Assets			
Cash and cash equivalents		871,826	2,261,411
Trade and other receivables		5,790	14,196
Total Current Assets		**877,616**	**2,275,607**
Non-current Assets			
Property, plant and equipment		53,222	40,210
Exploration and evaluation assets	5	7,170,282	-
Total Non-current Assets		**7,223,503**	**40,210**
TOTAL ASSETS		**8,101,120**	**2,315,817**
LIABILITIES			
Current Liabilities			
Trade and other payables		237,919	54,284
Total Current Liabilities		237,919	**54,284**
TOTAL LIABILITIES		**237,919**	**54,284**
NET ASSETS		**7,863,201**	**2,261,533**
EQUITY			
Issued capital	6(a)	15,850,105	10,085,888
Reserves	6(b)	1,574,376	328,398
Accumulated losses		(9,561,280)	(8,152,753)
TOTAL EQUITY		**7,863,201**	**2,261,533**

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 2012

SOVEREIGN METALS LIMITED

	Issued Capital $	Share Based Payments Reserve $	Accumulated Losses $	Total Equity $
Balance at 1 July 2011	**10,085,888**	**-**	**(7,381,952)**	**2,703,936**
Net loss for the period	-	-	(429,963)	**(429,963)**
Total comprehensive loss for the period	**-**	**-**	**(429,963)**	**(429,963)**
Transactions with owners, recorded directly in equity				
Adjustment to accumulated losses for expired options	-	199,962	-	**199,962**
Total transactions with owners recorded directly in equity	-	199,962	-	**199,962**
Balance at 31 December 2011	**10,085,888**	**199,962**	**(7,811,915)**	**2,473,935**

	Issued Capital $	Share Based Payments 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		88,353	-	**88,353**
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	1,245,978	-	**7,010,195**
Balance at 31 December 2012	**15,850,105**	**1,574,376**	**(9,561,280)**	**7,863,201**

The above Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED STATEMENT OF CASHFLOWS
FOR THE HALF YEAR ENDED 31 December 2012

SOVEREIGN METALS LIMITED

	Half Year Ended 31 December 2012 $	Half Year Ended 31 December 2011 $
Cash flows from operating activities		
Payments to suppliers and employees	(1,453,542)	(287,662)
Refunds of GST Payments	21,264	32,437
Interest received	37,259	70,083
Net cash used in operating activities	**(1,395,019)**	**(185,142)**
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	**(1,389,585)**	**(185,142)**
Cash and cash equivalents at the beginning of the period	2,261,411	2,665,568
Cash and cash equivalents at the end of the period	**871,826**	**2,480,426**

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 2012 were authorised for issue in accordance with the resolution of the Directors on 5 March 2013.

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 2.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This general purpose financial report for the interim half year reporting period ended 31 December 2012 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 2012 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.

(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 2012.

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 2012. 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.

A range of amendments to Standards and Interpretations have been made which are available for early adoption for financial reporting periods beginning on or after 1 July 2012. New and revised standards and amendments thereof and interpretations effective for the current half-year that are relevant to the Consolidated Entity include:

- Amendments to AASB 1, 5, 7, 101, 112, 120, 121, 132, 133 and 134 as a consequence of AASB 2011-9 'Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income'

The adoption of new and revised Standards and Interpretations has not affected the amounts reported for the current or prior year. However the application of AASB 2011-9 has resulted in a change to the Group's presentation of, or disclosure in, its half year financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Changes in Accounting Policy (continued)

AASB 2011-9 introduces new terminology for the statement of comprehensive income and income statement. Under the amendments to AASB 101, the statement of comprehensive income is renamed as statement of profit or loss. The amendments to AASB 101 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to AASB 101 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the representation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to AASB 101 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

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 2012	Queensland $	Malawi $	Unallocated[1] $	Total $
Segment revenue	-	-	37,259	**37,259**
Segment profit/(loss)	(10,704)	(1,107,916)	(289,905)	**(1,408,527)**
Segment assets	-	7,179,452	921,668	**8,101,120**
Segment liabilities	-	(118,919)	(118,999)	**(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 2012 $	Consolidated 31 December 2011 $
(a) Revenue		
Interest Revenue	37,259	68,952
(b) Share based payments		
Share based payments included in:		
- Corporate and administrative expenses	5,114	94,212
- Business Development	59,750	-
- Exploration and evaluation expenses	23,488	105,750
	88,352	**199,962**

5. EXPLORATION AND EVALUATION ASSETS

	Notes	Consolidated 31 December 2012 $	Consolidated 31 December 2011 $
(a) Movement in Exploration and Evaluation Assets			
Carrying amount as at 1 July 2012		-	-
- Additions	7	7,170,282	-
		7,170,282	**-**

6. EQUITY SECURITIES ISSUED

	Notes	Consolidated 31 December 2012 $	Consolidated 30 June 2012 $
(a) Issued and Paid Up Capital			
69,090,328 (30 June 2012: 51,590,328) fully paid ordinary shares		**15,850,105**	**10,085,888**
(b) Reserves			
Share Based Payment Reserve			
1,000,000 (30 June 2012: $141,000) unlisted $0.25 options		141,000	141,000
1,000,000 (30 June 2012: $132,000) unlisted $0.30 options		143,000	132,770
500,000 (30 June 2012: $54,628) unlisted $0.35 options		73,000	54,628
250,000 (30 June 2012: Nil) unlisted $0.22 options		59,750	-
8,750,000 (30 June 2012: Nil) Performance Shares 'Class A'	7	826,875	-
8,750,000 (30 June 2012: Nil) Performance Shares 'Class B'	7	330,750	-
Total Reserves		**1,574,376**	**328,398**

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

Date	Details	Number of Shares	Issue Price $	$
Half Year Ended 31 December 2011				
1 Jul 2011	**Opening balance**	**51,590,328**		**10,085,888**
31 Dec 2011	**Closing balance**	**51,590,328**		**10,085,888**
Half Year Ended 31 December 2012				
1 Jul 2012	**Opening balance**	**51,590,328**		**10,085,888**
8 August 2012	Share Placement	5,000,000	$0.22	1,100,000
7 November 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 2012
(Continued)

6. EQUITY SECURITIES ISSUED (Continued)

(d) Movements in Options Were as Follows:

Date	Details	Notes	Number of Incentive Options	Fair Value $	$
1 Jul 11	**Opening balance**		**-**		**-**
1 Jul 11	Grant of $0.25 incentive Options expiring 31 March 2014	(i)	1,000,000	0.141	-
1 Jul 11	Grant of $0.30 incentive Options expiring 30 September 2014	(i)	1,000,000	0.143	-
1 Jul 11	Grant of $0.35 incentive Options expiring 31 March 2015	(i)	500,000	0.146	-
31 Dec 11	Option vesting expense				199.962
31 Dec 11	**Closing balance**		**-**		**199,962**
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				28,603
31 Dec 12	**Closing balance**		**2,750,000**		**416,751**

Notes

(i) The value of options granted during the period are recognised over the vesting period (if applicable) of the grant in accordance with Australian Accounting Standards.

7. ACQUISITION OF CONTROLLED ENTITY

On 7 November 2012, the Company completed of the acquisition of McCourt Mining Pty Ltd ("McCourt") which holds the large and highly prospective Central Malawi Graphite Project ("CMGP"), located in Malawi, near the capital city, Lilongwe.

The total cost of the acquisition was $6,919,246 and comprised of an issue of equity instruments and cash as follows:

	Fair values on acquisition $
Exploration and Evaluation Assets	7,170,282
Cash & Cash Equivalents	15,489
Property, Plant & Equipment	7,876
Trade & Other Payables	(274,401)
Net assets acquired	**6,919,246**
Costs of the acquisition:	
Cash & Cash Equivalents	1,036,621
Fully Paid Ordinary Shares (12,500,000)	4,725,000
Performance Shares: Class A (8,750,000) [1]	826,875
Performance Shares: Class B (8,750,000) [2]	330,750
	6,919,246
Net cash outflow on acquisition:	
Cash & Cash Equivalents paid during period ended 31 December 2012	(1,036,621)
Net Cash Acquired	15,489
	1,021,132

Notes:

1. The fair value of the milestone shares at the acquisition date has been determined to be $826,875, based on Management's assessment of the probability that the milestone for the Class A shares will be met and the performance shares will convert into fully paid ordinary shares. The milestone for the Class A Performance shares will be met upon announcement by the Company to ASX of the delineation of at least an Inferred Mineral Resource of at least 25Mt at an average grade of not less than 10% total graphitic carbon (or the equivalent in contained tonnes of total graphitic carbon provided the average grade is not below 7.5% total graphitic carbon) using a cut-off grade of not less than 5% total graphitic carbon globally on the Project Licences and which is determined in accordance with the provisions of the JORC Code, within three years from the date of issue.

2. The fair value of the milestone shares at the acquisition date has been determined to be $330,750, based on Management's assessment of the probability that the milestone for the Class B shares will be met and the performance shares will convert into fully paid ordinary shares. The milestone for the Class B Performance shares will be met upon announcement by the Company to ASX of the results of a positive Scoping Study, within four years from the date of issue.

8. COMMITMENTS AND CONTINGENCIES

(a) Commitments

The Consolidated Entity has commitments for minimum expenditure on the CMGP exploration licences EPL0355 and RL0146 of $191,400 and $87,000 respectively over the life of the licences. Under the licences any shortfall is required to be paid to the Government of Malawi. These current commitments have been met.

(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.

9. DIVIDENDS PAID OR PROVIDED FOR

No dividend has been paid or provided for during the half year (2012: nil).

10. SUBSEQUENT EVENTS AFTER BALANCE DATE

Capital Raising

In January 2013, Sovereign completed a placement of 10 million ordinary shares to European based sophisticated investors, to raise $3 million before costs. The placement provides funding for the continued exploration on the Company's projects, including the CMGP.

The majority of the placement was made to a company affiliated with Aterra Capital ("Aterra"), who have subscribed for 8.33 million shares for a total of $2.5 million. Aterra is a private equity and venture capital firm based in Moscow that specialises in investments in natural resources projects.

There were no other significant events occurring after balance date requiring disclosure.

Deloitte.

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

7 March 2013

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 2012, 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.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

David Newman
Partner
Chartered Accountants

Deloitte.

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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 2012, 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 10 to 21.

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 2012 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.

Deloitte.

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 2012 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*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

David Newman
Partner
Chartered Accountants
Perth, 7 March 2013