



SOVEREIGN GOLD
COMPANY LIMITED

ACN 145 184 667

Level 2, 131 Macquarie Street Sydney NSW 2000

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Notice of General Meeting and Explanatory Memorandum

For the Meeting of Members to be held at
Level 2 Hudson House, 131 Macquarie Street Sydney NSW 2000 at 11am on Monday, 18 August 2014.

*The Independent Expert has concluded that resolution 1 and resolution 2 (**the Project Acquisition Transactions**) to be voted on by Shareholders are each and also together, **fair and reasonable** to the Shareholders.*

This Notice of General Meeting, including the Independent Expert's Report, should be read in its entirety. If Shareholders are in doubt as to how they should vote, they should seek advice from their accountant, solicitor or other professional adviser prior to voting.

Should you wish to discuss any matter please do not hesitate to contact the Company.



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Sovereign Gold Company Limited

ACN 145 184 667

NOTICE OF GENERAL MEETING

Notice is hereby given that a general meeting of Shareholders of Sovereign Gold Company Limited (**Company** or **Sovereign**) will be held at Level 2, 131 Macquarie Street, Sydney, NSW 2000, on Monday, **18 August at 11am (Meeting)**.

The Explanatory Memorandum and Independent Expert's Report provide additional information on matters to be considered at the Meeting. The Explanatory Memorandum, Independent Expert's Report and the Proxy Form are included in this Notice.

The Directors have determined pursuant to regulation 7.11.37 of the *Corporations Regulations 2001* (Cth) that the persons eligible to vote at the Meeting are those who are registered as Shareholders of the Company on **Friday, 15 August 2014 at 5pm (AEST)**.

Terms and abbreviations used in the Notice are defined in Schedule 1.

Action to be taken by Shareholders

Shareholders should read this Notice, including the Explanatory Memorandum and Independent Expert's Report, carefully before deciding how to vote on each resolution. A hardcopy of the Independent Expert's Report is available, at no cost, on request.

A Proxy Form is enclosed with the Notice. This is to be used by Shareholders if they wish to appoint a representative (a proxy) to vote in their place. All Shareholders are invited and encouraged to attend the Meeting or, if they are unable to attend in person, sign and return the Proxy Form to the Company in accordance with the instructions thereon. Lodgement of a Proxy Form will not preclude a Shareholder from attending and voting at the Meeting in person.

Please note that:

- (a) a member of the Company entitled to attend and vote at the Meeting is entitled to appoint a proxy;
- (b) a proxy need not be a member of the Company; and
- (c) a member of the Company entitled to cast two or more votes may appoint two proxies and may specify the proportion or number of votes each proxy is appointed to exercise, but where the proportion or number is not specified, each proxy may exercise half of the votes.

The enclosed Proxy Form provides further details on appointing proxies and Proxy Form lodgement.



AGENDA

Resolution 1:

Special Resolution – approval of the cancellation of 64,000,000 ordinary shares in PMR

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an special resolution:

"That the Company is authorised to approve the cancellation of 64,000,000 ordinary shares in Precious Metal Resources Limited ACN 145 105 148 (PMR) held by the Company for nil consideration pursuant to s256C(2) of the Corporations Act, 2001, subject to the members of PMR subsequently passing a special resolution to reduce its capital by the cancellation of 64,000,000 ordinary shares in PMR held by the Company."

Voting Exclusion

The Company will disregard any votes cast on this special resolution by any party to the transaction and any associate of that person.

However, the Company will not disregard a vote if:

- a) it is cast by the person as proxy for a person who is entitled to vote, in accordance with directions on the Proxy Form; or
- b) it is cast by the Chairman as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

As Resolutions 1 and 2 are inter-conditional, a person whose votes are disregarded on Resolution 2 will have their votes on Resolution 1 disregarded.

Resolution 2:

Ordinary Resolution – acquisition of PMR tenements, rights and shares in Hudson SPC

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an ordinary resolution:

"Subject to 64,000,000 shares held by the Company in Precious Metal Resources Limited ACN 145 105 148 (PMR) first having been cancelled pursuant to Chapter 2J.1 of the Corporations Act, 2001, for the purposes of Chapter 2E, Listing Rule 10.1 and all other purposes, the Company approves and authorises:

- 1. the purchase by the Company from PMR of all the right, title and interest in the following exploration licences under the NSW Mining Act, 1992, EL4474 and EL5339; and*
- 2. the purchase by the Company of all the right, title and interest in 70 fully paid ordinary shares in the capital of Hudson SPC PTY LTD ACN 161 194 172,*

in consideration of the issue by the Company to PMR of 1,000,000 ordinary shares and otherwise on the terms and conditions set out in the Explanatory Memorandum".

Voting Exclusion

The Company will disregard any votes cast on this ordinary resolution by any party to the First Relevant Transaction and any associate of that person.



However, the Company will not disregard a vote if:

- a) it is cast by the person as proxy for a person who is entitled to vote, in accordance with directions on the Proxy Form; or
- b) it is cast by the Chairman as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

As Resolutions 1 and 2 are inter-conditional, a person whose votes are disregarded on Resolution 1 will have their votes on Resolution 2 disregarded.

Resolution 3: Ordinary resolution to ratify previous share issue

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an ordinary resolution:

"That for the purposes of ASX Listing Rule 7.4, and for all other purposes, the shareholders of the Company approve and ratify the allotment and issue of 3,472,222 fully paid ordinary shares, at an issue price of \$0.0575 each, on the terms and conditions set out in the explanatory statement."

Voting Exclusion

The Company will disregard any votes cast on this ordinary resolution by Bergen Global Opportunity Fund II LLC (**Bergen**) and any associate of Bergen.

However, the Company will not disregard a vote if:

- a) it is cast by the person as proxy for a person who is entitled to vote, in accordance with directions on the Proxy Form; or
- b) it is cast by the Chairman as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

Resolution 3: Ordinary resolution to ratify previous option issue

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an ordinary resolution:

"That for the purposes of Listing Rules 7.1 and 7.4 of the ASX, and for all other purposes to approve the issue by the Company of 1,800,000 options exercisable at \$0.2491 per option on or before 16 December 2016, on the terms and conditions set out in the explanatory statement."

Voting Exclusion

The Company will disregard any votes cast on this ordinary resolution by Bergen Global Opportunity Fund II LLC (**Bergen**) and any associate of Bergen.

However, the Company will not disregard a vote if:

- a) it is cast by the person as proxy for a person who is entitled to vote, in accordance with directions on the Proxy Form; or
- b) it is cast by the Chairman as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.



Resolution 4: Ordinary resolution to approve SPP Shortfall Shares

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an ordinary resolution:

"That for the purposes of ASX Listing Rule 7.1, and for all other purposes, approval is given for the Company to issue the SPP Shortfall Shares pursuant to the Underwriting Agreement, on the terms and conditions set out in the explanatory statement."

Voting Exclusion

The Company will disregard any votes cast on this ordinary resolution by Hudson Investment Group Limited (**Hudson**) and any associate of Hudson.

However, the Company will not disregard a vote if:

- a) it is cast by the person as proxy for a person who is entitled to vote, in accordance with directions on the Proxy Form; or
- b) it is cast by the Chairman as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

Independent Expert's Report

HLB Mann Judd Corporate (NSW) Pty Ltd (**HMJC**) has prepared an Independent Expert's Report which comments on the fairness and reasonableness of Resolution 1 and Resolution 2 (together **the Project Acquisition Transaction**) to Shareholders that are not a party to the Project Acquisition Transaction.

Independent Expert's Report concludes the Transactions are **fair and reasonable** to the non-associated Shareholders.

Shareholders are urged to carefully consider the Independent Expert's Report.

BY ORDER OF THE BOARD

Henry Kinstlinger
Company Secretary

14 July 2014



Sovereign Gold Company Limited

ACN 145 184 667

Explanatory Memorandum

1 Introduction

This Explanatory Memorandum has been prepared for the information of Shareholders of the Company in connection with the business to be conducted at the Extraordinary General Meeting of Shareholders to be held on Monday, 18 August 2014 at 11am.

Shareholders should carefully read the Independent Expert Report contained in Annexure A in full and this Explanatory Memorandum before making any decision as to how to vote.

Section 2	Background – SUGEC JV
Section 3.1	Special Resolution 1 - Capital reduction in PMR (OVERVIEW)
Section 3.2	Details of the Special Resolution
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2 Background

The Sugec Project

On 9 April 2014, Sovereign and PMR jointly announced an in-principle agreement to a corporate restructure to rationalise and simplify each company's structure and assets (**Proposed Restructure**).

Sovereign and PMR currently hold exploration tenements in the New England district of New South Wales, Australia, targeting gold, silver, and other base metals.

Both Sovereign and PMR have separately entered into joint venture agreements (**Sugec JV**) and other arrangements (memoranda of understanding) with Jiangsu Geology and Engineering Co. Ltd (**Sugec**), whereby Sugec is to provide up to \$21.5 million funding for the exploration and development of certain tenements controlled by Sovereign and by PMR. The tenements subject to the Sugec funding are referred to as the Sugec Project Tenements.

Sovereign and PMR currently participate in the Sugec JV via a special purpose entity, Hudson SPC Pty Ltd, in which they both hold an equity interest with Hongkong Global Resources (**HKGR**).

HKGR is an entity that facilitated the relationship between Sovereign, PMR and Sugec Mining. HKGR will be entitled to a 21.5% interest in Hudson SPC in return for services provided if Sugec Mining completes its funding obligations. HKGR's interest in Hudson SPC is earned proportionately in line with Sugec Mining's interest in SRL. As such HKGR's interest in Hudson SPC will be diluted if Sugec does not meet the full funding commitment.

The directors of Sovereign and PMR have indicated that the Proposed Restructure will provide a simpler and more efficient structure for managing the Sugec JV relationship and the development of the Sugec Project Tenements.

The key terms of the proposed transactions are as follows:

- Sovereign will acquire EL 4474 and EL 5339 currently owned by PMR
- Sovereign will acquire 70 shares in Hudson SPC Pty Ltd currently held by PMR
- Sovereign will relinquish control of PMR by allowing the selective reduction of 64 million PMR shares currently held by Sovereign
- Sovereign will issue 1 million ordinary shares to PMR (**Consideration Shares**)

together (**the Project Acquisition Transaction**).

The purpose of this Notice of Meeting is to seek the approval by Sovereign's shareholders for the resolutions necessary for the Company to acquire 100% of PMR's rights and interests in the Sugec JV

If the resolutions pursuant to this general meeting of shareholders are approved, then on completion of the Project Acquisition Transaction, if approved, Sovereign's interest in the share capital of PMR will be reduced from 77.67% (67.57 million shares) to 15.53% (3.57 million shares) and PMR will no longer hold any interest in the Sugec Project Tenements or the Sugec JV.

3 Special Resolution to cancel 64,000,000 PMR Shares

3.1 Overview

- 3.1.1 Resolution 1 seeks the approval of a special resolution for the purposes of Chapter 2E and all other purposes, to authorise the Company to approve the cancellation of 64,000,000 ordinary shares in PMR held by the Company for nil consideration pursuant to s. 256C(2) of the Corporations Act (**the First Transaction**).



- 3.1.2 S 256C(2) of the Corporations Act provides that if a reduction of capital involves a cancellation of shares then the reduction of capital must be approved by a special resolution passed at a meeting of the shareholders whose shares are to be cancelled.
- 3.1.3 The special resolution to cancel 64,000,000 PMR shares is the first of a two-part transaction and is subject to PMR shareholders passing a resolution to cancel 64,000,000 of their share capital. (See resolution 2, the Second Transaction).
- 3.1.4 In the event that special resolution 1 is not passed, then ordinary resolution 2 is ineffective.
- 3.1.5 In the event that resolution 2 is not passed, the cancellation of Sovereign's 64,000,000 PMR shares will not be completed.

3.2 Details of this Special Resolution

- 3.2.1 Under Chapter 2E of the Corporations Act, a public company cannot give a "financial benefit" to a "related party" unless one of the exceptions set out in sections 210 to 216 of the Corporations Act apply or shareholders have in a general meeting approved the giving of that financial benefit to the related party.
- 3.2.2 PMR is a related party of Sovereign on the basis that Sovereign is an entity that controls PMR, a public company, as defined in s228(1) Corporations Act.
- 3.2.3 Directors, John Dawkins, Peter Meers, Jacob Rebek, and Michael Leu are related parties as they are directors of both PMR and Sovereign, being the entity that controls PMR (per s228(2) of the Corporations Act).
- 3.2.4 Section 195 of the Corporations Act restricts from voting on a matter being considered by the board where the director has a material personal interest in that matter. However the directors are specifically allowed to call a general meeting for shareholders to approve the matter under s195(4), and on this basis do so.
- 3.2.5 This special resolution proposes the cancellation of the 64,000,000 shares in PMR for no consideration.
- 3.2.6 Under s229(3) of the Corporations Act, this proposal would constitute "giving a financial benefit" (s229(2)(c)), as it would constitute the "release (of) an obligation of the related party" per s229(3)(f).
- 3.2.7 Under such circumstances a general meeting to approve the cancellation of 64,000,000 PMR for no consideration is required (per section 256C(2) of the Corporations Act) by passing a special resolution by members.

3.3 Listing Rule Chapter 10 Transactions with persons in a position of influence

- 3.3.1 LR 10.1 provides that, among other things, shareholder approval is required before a listed company may dispose of a substantial asset to a related party (LR 10.1.1).
- 3.3.2 LR 10.2 provides that an asset is substantial if its value or the value of the consideration for it is, or in ASX's opinion is, 5% or more of the equity interests of the listed company as set out in the latest accounts given to ASX under the listing rules.
- 3.3.3 Listing Rule 10.2.1 outline rules for calculating value, which should include intangibles, provisions for deducting depreciation and amortisation, deduction of liabilities, and would include the aggregation of separate transactions that in the ASX's view would form part of the same commercial transaction.



- 3.3.4 ASIC requires explanatory information regarding the value of the financial benefit proposed to be granted to be provided to Shareholders.
- 3.3.5 Shareholders should therefore read the Notice of General Meeting and Explanatory Statement in its entirety before making a decision as to how to vote on Resolution 1, including additional information provided regarding Resolution 2.
- 3.3.6 To assist shareholders to consider the value of Relevant Transaction 1 the following information as adopted by the Independent Expert's Report (Fairness of Transaction):

Consideration Provided with respect to the First Relevant Transaction including Special Resolution 1

The following table presents valuations adopted by the Independent Expert.

Summary of Valuation	Low (\$)	High(\$)	Adopted (\$)
Consideration Provided:			
Value of 64 million PMR Shares	13,760,000	15,040,000	14,400,000
Value of 1 million SOC Shares issued to PMR	60,000	80,000	70,000
			14,470,000
Assets Acquired			
Value of EL 4474 and EL 5339			14,750,000
			3,600,000
			18,350,000

3.4 Sections 195, 208, and 217-227 of the Corporations Act

- 3.4.1 Section 195 of the Corporations Act restricts from voting on a matter being considered by the board where the director has a material personal interest in that matter. However directors are specifically allowed to call a general meeting for shareholders to approve the matter under s195(4), and on this basis do so.
- 3.4.2 The Non-Associated Director has determined to seek Shareholders to pass a special resolution to approve the cancellation of 64,000,000 PMR Shares despite PMR being a related party, as provided for under Section 208 of the Corporations Act.
- 3.4.3 Pursuant to Sections 217 to 227 of the Corporations Act, the Company provides the following information to Shareholders in respect of the proposed financial benefit to be given to the related parties.
- 3.4.3.1 The related party to whom the financial benefit is being given is PMR, a company controlled by Sovereign (section 219(1)(a));
- 3.4.3.2 The maximum number of securities proposed to be cancelled (being the nature of the financial benefit to be provided) is 64,000,000 PMR Shares (section 219(1)(b));
- 3.4.3.3 John Dawkins, Peter Meers, Jacob Rebek, and Michael Leu are related parties of Sovereign, on the basis of their common directorships with PMR (section 228(2)(a)).



- 3.4.3.4 By virtue of their common directorships directors as related parties to the transaction are deemed to have an interest in the outcome of this proposed resolution, and therefore abstain from recommending in favour of Resolution 1 on the basis of this declared conflict.
- 3.4.3.5 None of Sovereign's directors hold shares in PMR either personally or indirectly.
- 3.4.3.6 The Independent Expert Report is provided with this Notice.

3.5 ASX Listing Rule 10.1, 10.2

- 3.5.1 The report of the Independent Expert on the fairness and reasonableness of the Project Acquisition Transaction is included with this Notice. The Independent Expert's Report can be downloaded from the Company's website at www.sovereigngold.com.au. Shareholders may receive a hard copy at no cost, by contacting the Company on (02) 9251 7177.
- 3.5.2 The Independent Expert adopted the value of the 64,000,000 PMR shares between \$13,760,000 and \$15,040,000 (set out in section 11.1.1 of the report - see the Independent Expert's Report included with this Notice. Note that for the First Relevant Transaction to be completed, the second resolution would need to be approved which would require the Company issuing a further 1,000,000 Sovereign Shares to PMR (estimated by the Independent Expert as being valued between \$60,000 and \$80,000).
- 3.5.3 The non-associated Director recommends that Non-Associated Shareholders vote in favour of the Resolution because:
 - 3.5.3.1 the Independent Expert has concluded that the First Relevant Transaction is fair and reasonable to Shareholders (see section 3.1 and 3.12 of the Independent Expert Report);
 - 3.5.3.2 First Relevant Transaction, being the cancellation of 64,000,000 PMR shares is an integral conditional element of the Project Acquisition Transaction as a whole;
 - 3.5.3.3 The independent expert has estimated that the value of the assets proposed to be acquired exceeds the value of the consideration provided as constituting a less value than the consideration paid for PMR's interest in the Sugec JV (see section 12.1 of the Independent Expert's Report); and
 - 3.5.3.4 It is the board's opinion that the resulting corporate structure will facilitate a stronger capital raising market and likelihood for faster returns as the result of Sovereign's more streamlined corporate structure.
- 3.5.4 A Voting Exclusion Statement has been included for the purpose of Special Resolution 1.

3.6 Effect of cancellation of 64 million PMR Shares

- 3.6.1 (If Shareholders approve the cancellation of the PMR shares, and subject to PMR's shareholders approving the selective reduction of their capital for the Consideration Shares), Sovereign's holding in PMR will be diluted from 77.67% (67,570,938 PMR Shares) to 15.53% with a remaining holding of 3,570,938 PMR Shares.



4 Ordinary Resolution to acquire the Sugec- PMR tenements and all PMR's rights and shares in Hudson SPC

4.1 Overview

- 4.1.1 This resolution completes the Project Acquisition Transaction by issuing 1,000,000 Sovereign shares to PMR (the Consideration Shares).
- 4.1.2 The payment of the Consideration Shares will complete the acquisition of all the right, title and interest in the following exploration licences EL4474 and EL5339 and the purchase of all the right, title and interest in 70 fully paid ordinary shares in the capital of Hudson SPC held by PMR.
- 4.1.3 This resolution is subject to the 64,000,000 PMR shares first being cancelled (and therefore Special Resolution 1 being approved).
- 4.1.4 The completion of this acquisition acquires PMR's interest in the Sugec JV. As the result, Sovereign's ownership percentage in Sugec JV via Hudson SPC Pty Ltd will increase from 54.3% (pre-transaction) to 78.5% (post-transaction).
- 4.1.5 Passing this ordinary resolution will complete Sovereign's corporate restructure objective of simplifying and rationalising its business operations as announced to the ASX on 9 April 2014.

4.2 Details of ordinary resolution 2 (Issue of the Consideration Shares)

- 4.2.1 Under Chapter 2E of the Corporations Act, a public company cannot give a "financial benefit" to a "related party" unless one of the exceptions set out in sections 210 to 216 of the Corporations Act apply or shareholders have in a general meeting approved the giving of that financial benefit to the related party.
- 4.2.2 PMR is a related party of Sovereign on the basis that Sovereign is an entity that controls PMR, a public company, as defined in s228(1), Corporations Act 2001 through its common directorships (John Dawkins, Peter Meers, Jacob Rebek and Michael Leu. (It's noted that Sovereign would no longer control PMR on the basis of its shareholding because Special Resolution 1 would need to be passed and the 64,000,000 PMR shares cancelled before Transaction 2 is able to be completed.)
- 4.2.3 On this basis an ordinary resolution of shareholders is proposed to approve the issue of the Consideration Shares to PMR, notwithstanding it constitutes a financial benefit to a related party, as provided under Chapter 2E of the Corporations Act.

4.3 Listing Rule Chapter 10 - Transactions with persons in a position of influence

- 4.3.1 LR 10.1 provides that, among other things, shareholder approval is required before a listed company may acquire a substantial asset from a related party (LR 10.1.1).
- 4.3.2 As described in 4.2.2 above, PMR is a related party.
- 4.3.3 LR 10.2 provides that an asset is substantial if its value or the value of the consideration for it is, or in ASX's opinion is, 5% or more of the equity interests of the listed company as set out in the latest accounts given to ASX under the listing rules.
- 4.3.4 The board has formed the view that the this transaction in isolation does not constitute a transaction of a substantial asset with a person of influence, however, when viewed



together with the intention of acquiring PMR's Sugec-JV's assets, then LR 10.1 and LR10.2 is applicable to the Second Relevant Transaction.

- 4.3.5 For the above reasons, shareholder approval from non-associated shareholders is sought by the non-associated director, to approve this transaction to comply, among other things, with the relevant Chapter 10 of the listing rules.

4.4 ASX Listing Rule 10.7 Classified Asset

- 4.4.1 LR 10.1 requires that when a "classified asset" is acquired, the consideration must be in restricted shares. A classified asset includes "an interest in a mining exploration area".
- 4.4.2 The right, title and interest in the following exploration licences under the NSW Mining Act, 1992, EL4474 and EL5339, and the acquisition of 70 shares in Hudson SPC, which holds further shares in tenement holder SRL are interests in mining exploration areas and therefore classified assets, as defined in LR 10.7.
- 4.4.3 On this basis, Sovereign proposes to enter into a restriction agreement with PMR within 5 days of the shares being issued to PMR, the effect of which would be prevent PMR from dealing with the Consideration Shares until 12 months following the execution of the restriction agreement.

4.5 ASX Listing Rule 10.1, 10.2

- 4.5.1 The report of the Independent Expert on the fairness and reasonableness of the Project Acquisition Transaction is included as Annexure A. The Independent Expert's Report can be downloaded from the Company's website at www.sovereigngold.com.au. Shareholders may receive a hard copy at no cost, by contacting the Company on (02) 9251 7177.
- 4.5.2 The Independent Expert valued the Consideration Shares between \$60,000 and \$80,000 (set out in section 12.1.1 of the report - see the Independent Expert's Report included with this Notice).
- 4.5.3 The non-associated Director recommends Non-Shareholders vote in favour of the resolution 2 because:
- 4.5.3.1 the Independent Expert has concluded that the Second Relevant Transaction is fair and reasonable to Shareholders (see section 3.1 of the Independent Expert Report);
 - 4.5.3.2 the Project Acquisition Transaction provides the Shareholders commercial benefits greater than the consideration paid and will enhance the Company's influence over the Sugec JV; and
 - 4.5.3.3 the Completion of the Project Acquisition Transaction will streamline and rationalise Sovereign's corporate structure.

4.6 Sections 195, 208 and 217-227 of the Corporations Act

- 4.6.1 Section 195 of the Corporations Act restricts from voting on a matter being considered by the board where the director has a material personal interest in that matter. However directors are specifically allowed to call a general meeting for shareholders to approve the matter under s195(4), and on this basis do so.
- 4.6.2 The Non-Associated Director has determined to put to Shareholders an ordinary resolution to approve the issue of the Consideration Shares to PMR despite PMR being a related party, as provided for under Section 208 of the Corporations Act.



- 4.6.3 Pursuant to Sections 217 to 227 of the Corporations Act, Sovereign provides the following information to Shareholders in respect of the proposed financial benefit to be given to the related parties.
- 4.6.4 The related party to whom the financial benefit is PMR a company controlled by Sovereign (section 219(1)(a)) by virtue of common directorships held by John Dawkins, Peter Meers, Jacob Rebek and Michael Leu.
- 4.6.5 The maximum number of securities proposed to be issued (being the nature of the financial benefit to be provided) is 1,000,000 ordinary shares in Sovereign (section 219(1)(b)).
- 4.6.6 None of Sovereign's directors hold shares in PMR either personally or indirectly.
- 4.6.7 The Independent Expert Report provided with this Notice.
- 4.6.8 A Voting Exclusion Statement has been included for the purpose of Resolution 2.

5 Resolution 3: approve the May 2014 issue of 3,472,222 shares

5.1 Listing Rule 7.1, 7.4, and 7.5

- 5.1.1 Resolution 3 seeks shareholder ratification of the issue of 3,472,222 fully paid ordinary shares at an issue price of \$0.0576 per share pursuant to a convertible securities agreement with US based institutional investor Bergen Global Opportunity Fund II LLC.
- 5.1.2 The purpose of the issue of the convertible security was to raise capital for general corporate and working capital purposes.
- 5.1.3 Subject to certain exceptions, ASX Listing Rule 7.1 restricts a company from issuing or agreeing to issue equity securities in any 12 months period which amount to more than 15% of the Company's ordinary securities on issue at the commencement of that period without shareholder approval.
- 5.1.4 Provided the issue did not breach the 15% threshold in Listing Rule 7.1, ASX Listing Rule 7.4 permits the ratification of previous issues of securities made without prior shareholder approval. If subsequent approval by shareholders of the share issue, this will "refresh" the Company's ability to issue shares up to the 15% limit without the need for shareholder approval.
- 5.1.5 The Company seeks shareholder ratification of the issue of shares under the personal offer so that the Company will have flexibility to issue further securities should the need or opportunity arise.
- 5.1.6 In accordance with the requirements of Listing Rule 7.5, the following information is provided to shareholders to allow them to assess Resolution 3:
 - 5.1.6.1 A total number of 3,472,222 shares were allotted and issued.
 - 5.1.6.2 The shares were issued at an issue price of \$0.0576 per share.
 - 5.1.6.3 The placement was an "excluded offer" to Bergen Global Opportunity Fund II LLC pursuant to a convertible securities agreement.
 - 5.1.6.4 The shares were fully paid ordinary shares and rank equally in all respects with the existing fully paid ordinary shares on issue.
 - 5.1.6.5 Funds raised by the issue of shares pursuant to the convertible securities agreement have been used for working capital requirements.



5.1.6.6 A Voting Exclusion Statement has been included for the purpose of Resolution 3.

6 Resolution 4 Ratification of Previous Option Issue

6.1 Listing Rule 7.1, 7.4, and 7.5

- 6.1.1 Resolution 4 seeks shareholder ratification of the issue of 1,800,000 options pursuant to a convertible securities agreement with US based institutional investor Bergen Global Opportunity Fund II LLC (**Bergen**) announced to the market on 16 December 2013.
- 6.1.2 The 1,800,000 options issued to Bergen are exercisable at \$A0.2491 per option in ordinary securities on or before 16 December 2016 and were issued for nil consideration and to secure a convertible note for up to \$4,000,000 in funding.
- 6.1.3 The option issue did not breach the 15% threshold in Listing Rule 7.1. Therefore ASX Listing Rule 7.4 permits the ratification of previous issues of securities made without prior shareholder approval.
- 6.1.4 If subsequent approval by shareholders of the share issue, this will “refresh” the Company’s ability to issue shares up to the 15% limit without the need for shareholder approval.
- 6.1.5 The Company seeks shareholder ratification of the issue of shares under the personal offer so that the Company will have flexibility to issue to issue securities up to the 15% limit without the need for shareholder approval if the need or opportunity arises.
- 6.1.6 In accordance with the requirements of Listing Rule 7.5, the following information is provided to shareholders to allow them to assess Resolution 4:
 - 6.1.6.1 A total number of 1,800,000 options were issued for nil consideration to secure funds through a convertible note facility.
 - 6.1.6.2 The options are exercisable at \$A0.2491 per option in ordinary securities on or before 16 December 2016.
 - 6.1.6.3 On exercise each option converts to one fully paid ordinary shares and rank equal in all respects with the existing fully paid ordinary shares on issue.
 - 6.1.6.4 Funds raised from the exercise of the options pursuant to the convertible securities agreement would be used for working capital requirements.
- 6.1.7 A Voting Exclusion Statement has been included for the purpose of Resolution 4.

7 Resolution 5 Placement – SPP Shortfall Shares

7.1 General

- 7.1.1 The Company and Hudson Investment Group Limited (the **Underwriter**) have entered into an underwriting agreement (**Underwriting Agreement**) pursuant to which Underwriter has agreed to underwrite the SPP Offer. A summary of the key terms of the Underwriting Agreement is set out in section 7.2 below.
- 7.1.2 Resolution 5 seeks Shareholder approval pursuant to ASX Listing Rule 7.1 for the Company to issue the SPP Shortfall Shares to HIGL or sub-underwriters pursuant to the Underwriting Agreement.
- 7.1.3 Subject to certain exceptions, ASX Listing Rule 7.1 restricts a company from issuing or agreeing to issue equity securities in any 12 months period which amount to more than 15% of the Company’s ordinary securities on issue at the commencement of that period without shareholder approval.



- 7.1.4 The effect of Resolution 5 will be to allow the Company to issue the SPP Shortfall Shares during the period of 3 months after the Meeting (or a longer period, if allowed by ASX), without diminishing the Company's 15% annual issuing capacity.

7.2 Underwriting Agreement

- 7.2.1 The Company has entered into the Underwriting Agreement with Underwriter, appointing Underwriter to underwrite the SPP Offer and subscribe for the SPP Shortfall Shares. Under the Underwriting Agreement. Underwriter is entitled to appoint sub-underwriters to subscribe for as many of the SPP Shortfall Shares as Underwriter sees fit.
- 7.2.2 Set out below is a summary of the material terms of the Underwriting Agreement.
- 7.2.3 The obligations of Underwriter under the Underwriting Agreement to subscribe for the SPP Shortfall Shares are subject to conditions precedent, namely:
- 7.2.3.1 Underwriter being satisfied with its due diligence enquiries in relation to the Company and the SPP Offer; and
 - 7.2.3.2 Underwriter notifying the Company that it has obtained sufficient sub-underwriting commitments (determined in the absolute discretion of Underwriter).
- 7.2.4 In consideration for undertaking its obligations under the Underwriting Agreement, the Company has agreed to pay Underwriter an underwriting fee of 5% of the gross proceeds of the SPP Offer. Any sub-underwriting and selling fees to third parties will be met from this fee by Underwriter.
- 7.2.5 The Company makes various customary representations, warranties and indemnities in favour of Underwriter under the Underwriting Agreement.
- 7.2.6 Underwriter may terminate the Underwriting Agreement in various circumstances, including the following:
- 7.2.6.1 the Company fails to perform or observe any of its material obligations under the Underwriting Agreement;
 - 7.2.6.2 a representation or warranty made or given by the Company under the Underwriting Agreement proving to have been untrue or incorrect in any material respect;
 - 7.2.6.3 unconditional approval (or conditional approval, provided the conditions would not, in the reasonable opinion of Underwriter, have a material adverse effect on the success of the SPP Offer) by the ASX for official quotation of the Shares comprising the SPP Offer is refused, or is not granted on or before the closing date of the SPP Offer;
 - 7.2.6.4 before the closing date of the SPP Offer, the All Ordinaries Price Index as calculated by the ASX falls by more than 10% below the All Ordinaries Price Index for a period of three consecutive trading days so calculated as at the close of business of the ASX on the date of the Underwriting Agreement;
 - 7.2.6.5 a court or ASIC concludes that the issue to be made under the SPP Offer does not comply with the requirements of the Corporations Act or any other applicable law;
 - 7.2.6.6 an insolvency event occurs in respect of the Company;



- 7.2.6.7 there is a material adverse change in the management, financial position, results of operations or prospects of the Company; and
- 7.2.6.8 trading in any securities of the Company is suspended by ASX for more than 5 business days, or any securities of the Company quoted on the Official List of ASX cease to be so quoted.

7.3 Technical Information required by ASX Listing Rule 7.3

- 7.3.1 Pursuant to and in accordance with ASX Listing Rule 7.3, the following information is provided in relation to the issue of the SPP Shortfall Shares pursuant to the Underwriting Agreement.
 - 7.3.1.1 The maximum number of SPP Shortfall Shares that may be issued under the SPP is 39,609,806 shares as limited by Exception 15 of Listing Rule 7.2. This rule states that the 15% capital limit per LR 7.1, does not to SPPs or their underwriters, provided the number of securities to be issued is not greater than 30% of existing capital (in 12 months), as well as other issue price limits already met under SPP.
 - 7.3.1.2 The maximum SPP Shortfall shares assume none of the Shares offered under the SPP Offer are subscribed for by eligible Shareholders, and the SPP pricing formula results in a price for each SPP share being no more than \$0.025.
 - 7.3.1.3 The SPP Shortfall Shares will be issued no later than 3 months after the date of the Meeting (or such later date to the extent permitted by any ASX waiver or modification of the ASX Listing Rules) and it is intended that issue of the SPP Shortfall Shares will occur on the same date;
 - 7.3.1.4 The issue price will be the lesser of \$0.04 cents per share or a 10% discount of the volume weighted average price of the Company's shares traded on the ASX over the 5 trading days up to and including 23 July 2014, rounded down to the nearest \$0.001
 - 7.3.1.5 The SPP Shortfall Share Price is the same price as the Shares under the SPP Offer.
 - 7.3.1.6 The SPP Shortfall Shares will be issued to Underwriter or sub-underwriters appointed by Underwriter, none of whom will be related parties of the Company.
 - 7.3.1.7 The SPP Shortfall Shares issued will be fully paid ordinary shares in the capital of the Company issued on the same terms and conditions as the Company's existing Shares.
 - 7.3.1.8 The Company intends to use the funds raised from the issue of the SPP Shortfall Shares towards the progress of the Company's exploration activities and to provide working capital. Refer to the Company's ASX announcements of 18 June 2014 and 19 June 2014 for further details.

8 Declaration

Other than the information above and otherwise in this Explanatory Memorandum, the Company believes that there is no other information that would be reasonably required by Shareholders in order to decide whether or not it is in the Company's shareholder's best interests to pass the resolutions herein.



Sovereign Gold Company Limited

ACN 145 184 667

Schedule 1 - Definitions

In the Notice, words importing the singular include the plural and vice versa.

\$ means Australian Dollars;

ASX means the ASX Limited (ABN 98 008 624 691) and where the context permits the Australian Securities Exchange operated by ASX Limited;

Chairman means the person appointed to chair the Meeting of the Company convened by the Notice;

Company means Sovereign Gold Company Limited ACN 145 184 667 (ASX:SOC) and Sovereign;

Consideration Shares means 1,000,000 fully paid ordinary shares issued by the Company to PMR as payment for the acquisition of the PMR-Sugec Tenements and Hudson SPC interests;

Constitution means the constitution of the Company as at the date of the Meeting;

Corporations Act means the *Corporations Act 2001* (Cth);

Director means a director of the Company;

EL means exploration license permit as granted pursuant to the *Mining Act 1992* (NSW), as may be varied, extended or renewed from time to time;

ELA means exploration licence application permit as granted pursuant to the *Mining Act 1992* (NSW), as may be varied, extended or renewed from time to time;

First Relevant Transaction means the selective reduction of 64,000,000 PMR shares on the terms outlined in the first resolution and this outlined in this explanatory memorandum;

Hudson SPC means Hudson SPC Pty Ltd, a special purpose vehicle established by Sovereign, PMR and Hong Kong Global Resources Ltd;

Independent Expert means HLB Mann Judd Corporate (NSW) Pty Ltd ABN 94 003 918 125 and Australian Financial Services Licence Number 253 134;

Independent Expert's Report means the Independent Expert's Report prepared by the Independent Expert and accompanying this Notice;

PMR means Precious Metal Resources Limited ACN 145 105 148;

PMR-Sugec Tenements means EL 4744 & EL 5339;

Second Relevant Transaction means the issue Consideration Shares to PMR on the terms outlined in the second resolution and as outlined in this explanatory memorandum;

Sovereign means the Company;

SPP means the share purchase plan of the Company announced on 19 June 2014;

SPP Offer means the offer made to eligible Shareholders pursuant to the SPP.



SPP Shortfall Shares is the number of Shares offered to eligible Shareholders pursuant to the SPP Offer (up to a maximum 39,609,806), and assuming that no SPP Shares have been applied for by eligible Shareholders as at the closing date of the SPP Offer.

SRL means Sugec Resources Limited ACN 1 62 033 098;

Sugec Project Tenements means the suite of tenements subject (EL 6483, EL 7491, EL 7700, EL 7701, EL 7766, EL 7768, EL 7769, EL 7770, EL 4474, EL 5339, EL 7679) to agreements or memorandums of understandings with PMR (or wholly owned subsidiary) or Sovereign (or wholly owned subsidiary) that are or may be vended into Sugec Resources Limited (and whose interest is maintained by Sovereign through its investment interest in Hudson SPC); and

Underwriting Agreement has the meaning given to it in section 7.2;

Project Acquisition Transaction means the First Relevant Transaction and the Second Relevant Transaction.



Sovereign Gold Company Limited

ACN 145 184 667

Proxy Form

Please complete, sign and return this document to:

To: The Secretary
Sovereign Gold Company Limited
Level 2, Hudson House
131 Macquarie Street
SYDNEY NSW 2000

fax executed form to: 02 9251 7500

or

email executed form to: rockett@higl.com.au

I/We

being a member of Sovereign Gold Company Limited appoint:

Name of proxy:.....

Address of proxy:

Or in his/her absence (or if left blank), the chairman of the meeting as my/our proxy to attend, vote and otherwise act on my/our behalf at the General Meeting of the Company to be held on **18 August 2014** and at any adjournment of that meeting. If you wish to appoint the proxy in respect of only a specified percentage of your shares you must insert that percentage in the appropriate space below. In the absence of any such specification, the proxy will be taken to have been appointed in respect of all of your shares.

My/our proxy is authorised to exercise the vote rights in respect of% of my/our shares.

Proxy Instructions

If you wish to direct how your votes are to be cast, place mark (X) in the appropriate box below. Unless otherwise directed, the proxy holder may vote as he/she thinks fit, or abstain from voting.

Before completing this form, please read the notes on voting on the rear of this proxy form.

RESOLUTIONS	FOR	AGAINST	ABSTAIN
1. Special Resolution 1: Approval to cancel 64,000,000 shares in PMR.			
2. Ordinary Resolution 2: Subject to Resolution 1 being passed, approval to acquire PMR's Sugec JV interests.			
3. Ordinary Resolution 3: To ratify past share issue			
4. Ordinary Resolution 4: To ratify past option issue			
5. Ordinary Resolution 5: Place SPP Shortfall Funds			

The Chairman intends to vote all undirected proxies that he receives in favour of each resolution to be brought before the meeting, except where the Chairman is expressly forbidden to do so, under the Corporations Act 2001.

If the Chairman of the meeting is appointed as your proxy, or may be appointed by default and you **do not** wish to direct your proxy how to vote in respect of a resolution, please place a mark in this box:

☐

By marking this box, you acknowledge that the Chairman of the meeting may exercise your proxy even if he has an interest in the outcome of the resolution/s and that votes cast by the Chairman of the meeting for those resolutions other than as proxy holder will be disregarded because of that interest.



If you do not mark this box, and you have not directed your proxy how to vote, the Chairman will not cast your votes on the resolution and your votes will not be counted in calculating the required majority if a poll is called on the resolution.

Individual or Security holder 1

Sole Director and Sole
Company Secretary
(if appointed)

Security holder 2

Director

Security holder 3

Director/Company Secretary

Contact Person

Daytime Telephone Number

Date

Notes on Proxies

1. A Member entitled to attend and vote at this meeting is entitled to appoint not more than two proxies to attend and vote in his stead pursuant to the Constitution.
2. If a Member appoints one proxy only, that proxy shall be entitled to vote on a show of hands, but if a Member appoints two proxies, neither shall be entitled to vote on a show of hands.
3. Where more than one proxy is appointed, each proxy must be appointed to represent a specified portion of the Member's voting rights.
4. A proxy need not be a Member.
5. A proxy form must be signed by the Member(s) or the Member's attorney or, if a corporation, be executed in accordance with Section 127 of *the Corporations Act 2001* or by its attorney.
6. The instrument appointing a proxy and the power of attorney (if any) under which it is signed, or a notarially certified copy of the power and a declaration by the attorney of its non-revocation, must be deposited at the registered office of the Company or sent by facsimile to +61 (2) 9251 7500 not less than 48 hours before the person named in the instrument purports to vote pursuant to it.
7. An appointment of a proxy is not effective for a particular meeting of members unless the proxy form or a certified copy of it is received by the Company at its registered office, PO Box Level 2, Hudson House, 131 Macquarie Street, Sydney 2000 or fax number 02 9251 7500, at that office not later than forty eight (48) hours before the time for holding the meeting.

Independent Expert's Report

Sovereign Gold Company Limited

20 June 2014

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20 June 2014

Recommending Directors
Sovereign Gold Company Limited
Level 2, 131 Macquarie Street
SYDNEY NSW 2000

Dear Sirs

INDEPENDENT EXPERT'S REPORT

1. Introduction

Sovereign Gold Company Limited ("Sovereign", or "the Company") is an Australian public company with securities listed on the Australian Securities Exchange ("ASX") (ASX code SOC). The Directors of Sovereign have entered into certain agreements with Precious Metal Resources Limited ("PMR") (ASX code PMR) in relation to:

- (i) Sovereign acquiring two exploration tenements from PMR (EL 4474 and EL 5339);
- (ii) Sovereign acquiring PMR's 70 shares in Hudson SPC Pty Ltd;
- (iii) PMR cancelling 64 million PMR shares held by Sovereign; and
- (iv) Sovereign issuing 1 million Sovereign shares to PMR.

The above items are collectively referred to as the "Transactions" within this report and are summarised below in Section 4.

2. Purpose of Our Report

The Recommending Directors of Sovereign have requested that HLB Mann Judd Corporate (NSW) Pty Ltd ("HMJC") prepare an independent expert's report ("Report") to assist the Non-Associated Shareholders in their consideration of the resolutions set out in the Notice of Meeting and the Explanatory Memorandum ("EM") prepared by Sovereign and sent to shareholders of the Company. The purpose of our Report is to express an opinion as to whether or not the collective Transactions are fair and reasonable to the Non-Associated shareholders of Sovereign, that is, shareholders of Sovereign other than those who have an association with PMR. We understand the Transactions will be enacted via two resolutions that are inter-conditional.

We understand that this Report will accompany the EM to assist them in determining whether or not to approve the proposed Transactions.

The EM sets out the regulatory requirements in relation to the Transactions.

The EM notes that Chapter 2E and Chapter 2J.1 of the *Corporations Act 2001* ("the Act") and ASX Listing Rule 10.1 ("Listing Rules") require that the proposed transactions be approved by the Non-Associated Shareholders of Sovereign.

The "Recommending Directors" of Sovereign are all Sovereign Directors with the exclusion of Mr John Dawkins, Mr Michael Leu, Mr Peter Meers and Mr Rado Rebek, who are also Directors of PMR, ie the only Sovereign Director who is not also a Director of PMR is Mr Julian Malnic.

This assignment is a valuation engagement as defined by APES 225 *Valuation Services* as issued by the Accounting Professional & Ethical Standards Board. "Valuation engagement" means an engagement or assignment to perform a valuation and provide a valuation report where the independent expert is free to employ the valuation approaches, valuation methods and valuation procedures that a reasonable and informed third party would perform, taking into consideration all the specific facts and circumstances of the engagement or assignment available to the independent expert at that time.

The Valuation opinion is as at 30 May 2014.

HLB Mann Judd Corporate (NSW) Pty Ltd ABN 94 003 918 125

Level 19 207 Kent Street Sydney NSW 2000 Australia | Telephone +61 (0)2 9020 4000 | Fax +61 (0)2 9020 4190

Email: mailbox@hlbnsw.com.au | Website: www.hlb.com.au

3. Summary of Opinion

We have considered the terms of the Transactions outlined in the EM and in this Report. As a result of our review and considering all relevant factors of which we are aware, we have concluded that the collective Transactions are **Fair** and **Reasonable** to the Non-Associated Shareholders.

3.1. Fairness of Transactions

In forming our view on the fairness of the Transactions we have compared the value of the assets to be acquired by Sovereign to the value of the consideration provided to PMR as set out below.

Summary of valuation	Reference	Low \$	High \$	Adopted \$
Consideration Provided:				
Value of 64 million PMR shares	11.1.1	13,760,000	15,040,000	14,400,000
Value of 1 million Sovereign shares issued to PMR	11.2.1	60,000	80,000	70,000
Total value of Consideration provided				14,470,000
Assets Acquired:				
Value of EL 4474 and EL 5339	12.1.1			14,750,000
Value of 70 shares in Hudson SPC	12.2.1			3,600,000
Total value of assets acquired				18,350,000

The value for the assets acquired, as detailed above, has been determined on the assumption that all funding commitments in relation to the exploration of the tenements contained within agreements and MOUs currently in place will be completed in full.

As the value of the assets proposed to be acquired exceeds the value of the consideration provided we conclude that the Transactions are fair to the Non-Associated Shareholders.

3.2. Reasonableness Assessment

ASIC Regulatory Guides 111: Content of Expert Reports states that an offer is “reasonable” if it is fair. It might also be “reasonable” if, despite being “not fair”, the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of any higher offer.

On the basis that we have concluded that the Transactions are **Fair**, we have concluded that the Transactions are also **Reasonable** to the Non-Associated Shareholders.

We have considered the likely advantages and disadvantages of the Transactions, some of which are detailed in the table below.

Advantages and Disadvantages	Reference
Advantages: <ul style="list-style-type: none"> The transactions will allow Sovereign greater influence over, and may improve the efficiencies of the Sugec JV (refer to section 8). Sovereign will gain control over additional exploration tenements to which Sugec has committed funding. The Transactions may reduce Sovereign’s corporate overhead costs as they will no longer need to consolidate PMR. 	14
Disadvantages: <ul style="list-style-type: none"> Sovereign shareholders will have a reduced exposure to the operations, and potential future increases in value, of PMR. Sovereign will have a greater exposure to exploration activities in the New England region of NSW, similar to existing Sovereign activities. This may be detrimental if no significant resources are located. The equity interests of existing Sovereign shareholders will be diluted by the issue of 1 million additional shares in the Company. 	15

4. Outline of the Transactions

On 9 April 2014 Sovereign announced that it had reached agreement with PMR on a proposed corporate restructure to rationalise and simplify the structure and assets of each company.

Sovereign and PMR currently hold exploration tenements in the New England district of New South Wales, Australia, targeting gold, silver and other base metals.

Both Sovereign and PMR have separately entered into joint venture agreements ("Sugec JV") and other arrangements (memoranda of understanding) with Jiangsu Geology and Engineering Co. Ltd ("Sugec"), whereby Sugec is to provide up to \$21.5 million funding for the exploration and development of certain tenements controlled by Sovereign and by PMR. The tenements subject to the Sugec funding are referred to as the Sugec Tenements (refer 8.1 below).

Sovereign and PMR currently participate in the Sugec JV via a special purpose entity, Hudson SPC Pty Ltd, in which they both hold an equity interest.

Refer to section 8 of this report for further detail on the Sugec Project Tenements and Hudson SPC.

The directors of Sovereign and PMR have indicated that it is their view that the proposed Transaction will provide a more simple and more efficient structure in managing the Sugec JV relationship and the development of the Sugec Tenements.

The key terms of the proposed Transactions are as follows:

- Sovereign will acquire EL 4474 and EL 5339 currently owned by PMR
- Sovereign will acquire 70 shares in Hudson SPC Pty Ltd currently held by PMR
- Sovereign will relinquish control of PMR by allowing the reduction of 64 million PMR shares currently held by Sovereign
- Sovereign will issue to PMR 1 million ordinary shares in Sovereign

Following the completion of the Transactions, Sovereign's interest in the share capital of PMR will be reduced from 77.67% (67.57 million shares) to 15.53% (3.57 million shares) and PMR will no longer hold any interest in the Sugec Project Tenements nor the Sugec JV.

5. Basis of Our Evaluation

5.1. Regulatory Guidelines

In determining whether the proposed transactions are fair and reasonable, we have referred to Regulatory Guides 111 '*Content of Expert Reports*' and 112 '*Independence of Experts*' issued by ASIC ("RG 111" and "RG 112").

RG 111 indicates that a proposal is considered "fair" if the value of the financial benefit being offered as consideration is equal to or less than the value of the assets being acquired in respect of the transaction.

RG 111 states that an offer is "reasonable" if it is fair. It might also be "reasonable" if, despite being "not fair", the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of any higher offer.

5.2. Adopted Basis of Evaluation

We have observed the requirements of RG 111 by:

- Analysing available data and forming an opinion on the fair value of the consideration provided by Sovereign and the fair value of the PMR assets to be acquired. Refer to sections 11 and 12 of our Report for valuation considerations;
- Assessing the reasonableness of the proposed Transactions. Refer to section 13 of our Report for our reasonableness assessment; and
- Identifying and commenting on the possible advantages and disadvantages of the Transactions (see sections 14 and 15 of our Report).

5.3. ASX Listing Rules

ASX Listing Rule 10.1 provides that a listed company must ensure that neither it, nor any of its subsidiaries, acquires a substantial asset from a subsidiary or related party without the approval of holders of the company's ordinary shares.

An asset is a "substantial asset" if its value, or the value of the consideration for it, or in ASX's opinion its value, is equal to or in excess of 5% of the value of the equity interests of the company as set out in the latest accounts given to ASX under the ASX Listing Rules.

Sovereign currently holds a controlling interest in PMR (in excess of 77% of the issued securities); as such PMR is a related party of Sovereign.

The proposed Transactions deal with assets which represent more than 5% of Sovereign's equity interests as at 31 December 2013 (such total equity interests being approximately \$20.65 million and 5% of that amount being approximately \$1.03 million). Accordingly, the completion of the Transactions would represent an acquisition by Sovereign of a substantial asset under ASX Listing Rule 10.1.

6. Background: Sovereign Gold Company Limited

6.1. Overview

Sovereign is an Australian public company with securities listed on the Australian Securities Exchange ("ASX"). The company is a small early-stage minerals resource exploration and development entity.

The company was incorporated on 10 August 2010 to focus on minerals exploration and development activities in Australia and overseas. Sovereign's primary activities relate to the exploration of large Intrusion-Related Gold Systems in New South Wales. The main sites for the exploration activities are in the Rocky River-Uralla Goldfields in the New England region of New South Wales and Mount Adrah in southern NSW.

The securities commenced trading on the ASX on 3 December 2010, at which time there were 77 million shares on issue and an initial price of \$0.20 per share.

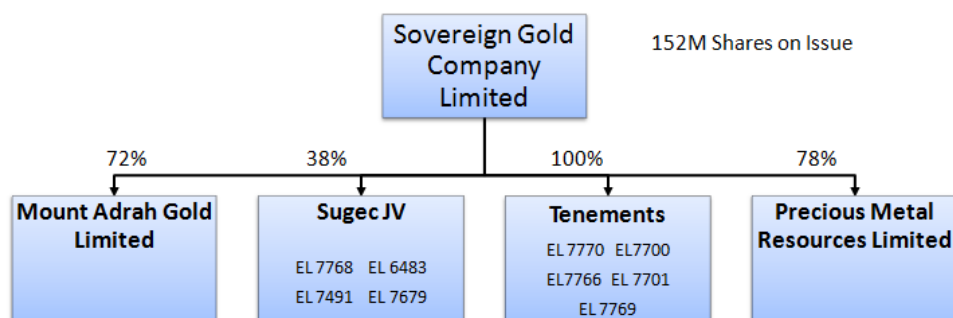
On 27 August 2012 Sovereign announced a takeover offer for 100% of the shares in PMR. Sovereign was successful in acquiring control of 81% of PMR at the completion of the offer. As at 30 April 2014 Sovereign held 77.67% of the ordinary shares of PMR.

6.2. Corporate Structure

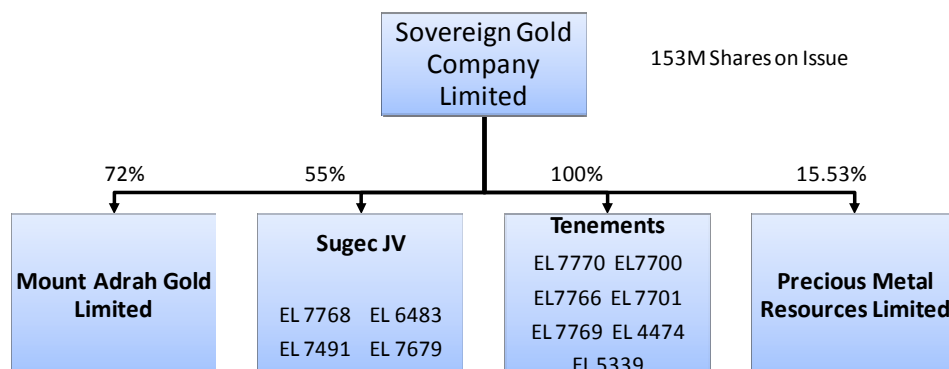
The diagram below details Sovereign's significant assets and projects and how they would change if the proposed Transactions are undertaken.

Sovereign Group Significant Project diagram:

Current Structure:



Proposed Structure following the Transaction,
and before additional Sugec Funding:



6.3. Significant Activities

As at 30 May 2014 the Company held an interest in, and was focused on, two main projects, being the Sugec JV and Mount Adrah, and held a controlling interest in PMR.

6.3.1. Sugec JV Activities

The activities in relation to the Sugec Tenements (being tenements controlled by Sovereign and PMR) which are subject to the Sugec JV (as defined below) relationship are focussed on the exploration of large Intrusion-Related Gold Systems ("IRGS"). The tenements are located in the New England region of New South Wales and cover 2,643 square kilometres in the Rocky River-Uralla Goldfields and Halls Peak areas.

The Sugec JV is the result of the formation of a relationship with Jiangsu Geology and Engineering Co. Ltd ("Sugec"), a Chinese company. Under the current agreements Sugec has committed up to \$21.5 million for exploration expenditure over the combined Sugec Tenements (refer 8.1 below). The commitment of the Sugec cash has funded the recent exploration activities completed in relation to the Sugec Tenements.

The mineral resource estimate for Sugec Tenements has not yet been defined and management have indicated that further exploration works are planned.

At the completion of the proposed Transactions, and before the input of the balance of \$21.5m funding by Sugec, on a fully diluted basis Sovereign will hold an interest in approximately 55% of the Sugec JV tenements.

6.3.2. Mount Adrah

Sovereign acquired 93.91% of the shares in Gossan Hill Gold Limited in April 2013. In February 2014 Gossan Hill Gold Limited was renamed Mount Adrah Gold Limited ("Mount Adrah"). Mount Adrah owns five exploration licenses which are situated between Wagga Wagga and Tumut in NSW. Deep drill testing at the Mount Adrah prospect tenements has lead to indications of a substantial IRGS existing in the area. As at 31 December 2013 Sovereign held an 87% interest in Mount Adrah, which was reduced to 72.11% as at 30 April 2014.

The JORC compliant mineral resource estimate for Mount Adrah is 770,000 ounces of gold, at various cut-off grades.

A prospectus was issued on 4 April 2014 for the initial public offer ("IPO") of Mount Adrah Gold Limited. The IPO offer for Mount Adrah opened on 23 April 2014, with the aim to issue 10,000,000 shares at price of \$0.20 per share, to raise \$2 million. The target date for listing was 6 June 2014. On 16 June 2014 the offer was withdrawn by Mount Adrah.

6.4. Sovereign ASX announcements

Below is a table summarising the announcements made by Sovereign to the Australian Securities Exchange during the six month period to 30 April 2014. The table includes detail of the Sovereign share price prior to the announcement and the prices on the day of and 3 days after the announcement.

Date	Announcement	Closing Price day prior to announcement \$	Closing Price day of announcement \$	Closing price 3 days after announcement \$
08/11/2013	Uralla - Encouraging gold results with high silver values	0.225	0.230	0.220
18/11/2013	PMR: PMR acquiring Peel Fault Gold Project	0.215	0.215	0.210
19/11/2013	Change in substantial holding for PMR	0.215	0.215	0.200
21/11/2013	Bonanza hit confirms multiple high-grade structures	0.205	0.210	0.190
26/11/2013	Company Update - Presentation	0.195	0.190	0.175
27/11/2013	Corporate Advisor Appointment	0.190	0.190	0.175
12/12/2013	Mineral Resource Update	0.160	0.170	0.165
16/12/2013	Notice pursuant to section 708A(5)(e) Corporations Act	0.165	0.160	0.170
16/12/2013	Appendix 3B	0.165	0.160	0.170
16/12/2013	\$4 million Funding secured	0.165	0.160	0.170
27/12/2013	Hobbs Pipe Mineral Resource Update Additional Information	0.170	0.165	0.155
02/01/2014	Sovereign Gold Presentation	0.165	0.155	0.145
02/01/2014	Change in substantial holding from RAF	0.165	0.155	0.145
15/01/2014	PMR:Halls Peak base metal mineralisation continuity confirm	0.140	0.150	0.160
31/01/2014	Quarterly Activities Report	0.140	0.140	0.135
31/01/2014	Appendix 5B Mining exploration entity quarterly report	0.140	0.140	0.135
04/02/2014	Gossan Hill Developments	0.140	0.135	0.135
18/02/2014	Initial Director's Interest Notice	0.135	0.130	0.125
18/02/2014	Mining Industry identity joins board	0.135	0.130	0.125
27/02/2014	Mount Adrah drilling to target high grade mineralisation	0.120	0.120	0.125
25/03/2014	Annual Report to shareholders	0.105	0.100	0.100
31/03/2014	Mount Adrah to IPO	0.100	0.098	0.086
04/04/2014	Mount Adrah Prospectus Lodged	0.086	0.082	0.077
09/04/2014	Corporate Restructure	0.077	0.077	0.074
09/04/2014	PMR: Corporate Restructure	0.077	0.077	0.074
11/04/2014	Notice of the AGM and Explanatory Statement	0.076	0.076	0.066
29/04/2014	Market Update	0.062	0.064	0.060
30/04/2014	Quarterly Cashflow Report	0.064	0.064	0.060
30/04/2014	Quarterly Activities Report	0.064	0.064	0.060

Source: ASX announcements and S&P Capital IQ

We understand that Sovereign makes relevant information available to the market on a timely basis as required by the ASX listing rules. As such, the market should be considered to be fully informed and therefore the share price reflective of the fair value of the Company.

6.5. Sovereign's Capital Structure

The table below shows Sovereign's capital structure as extracted from Sovereign's share register at 30 April 2014.

30 April 2014	
Total shares on issue	153,109,851
Number of shareholders	794

Source: Sovereign share register

As at 30 April 2014 Sovereign had a total of 1.8 million options on issue. Each option can be exercised into an ordinary share of the Company for a price of \$0.2491 per option and is exercisable on or before 16 December 2016.

Below is a table of the ten largest shareholders in Sovereign as at 30 April 2014, as extracted from the Company's share register.

Shareholder	Shares	%
Hudson Resources Limited	40,000,000	26.13
Raffles Capital Limited	26,975,000	17.62
Mr Li Ren	6,000,000	3.92
Mayfair Capital Pty Ltd	5,026,325	3.28
Michael Roby Leu	4,875,000	3.18
Russell Lay	4,095,534	2.67
Mr Geng Du Lou	4,000,000	2.61
Code Nominees Pty Ltd	3,884,234	2.54
Mr Antonius Budi Setiawan	2,700,000	1.76
Mr Bruce Dennis	2,250,000	1.47
Mr Bruse Dennis <Boyle Invest P/L Family A/C>	2,250,000	1.47
	102,056,093	66.66

Source: Sovereign share register at 30 April 2014

The largest 10 shareholders in Sovereign control 66.66% of the shares on issue.

The Sovereign 31 December 2013 Annual Report discloses the significant shareholders as set out in the table below.

Significant Shareholders	Shares	% of Issued Capital
Hudson Resources Limited	40,000,000	26.13
Raffles Capital Limited	27,375,000	17.88
	67,375,000	44.00

Source: Sovereign Annual report for the year ended 31 December 2013

6.6. Financial Position

Information regarding Sovereign's audited financial position at 31 December 2011, 31 December 2012, 31 December 2013 and unaudited financial position at 31 March 2014 is summarised in Appendix A. As at 31 December 2013 Sovereign recorded net assets of \$20.65 million.

As at 31 March 2014 Sovereign held cash and cash equivalents of approximately \$195,100.

6.7. Earnings

Information regarding Sovereign's audited results for the three years ended 31 December 2011, 31 December 2012 and 31 December 2013 is summarised in Appendix A. Information regarding unaudited results for the 3 months to 31 March 2014 is also summarised in Appendix A. Audited pre-tax operating profits (losses) of Sovereign in those periods is detailed below.

Sovereign Gold Company Ltd	12mth Period ended 31 Dec 2013 \$	12mth Period ended 31 Dec 2012 \$	12mth Period ended 31 Dec 2011 \$
Total Income	1,432,951	344,815	184,501
Total Expenses	(3,073,156)	(1,311,749)	(1,231,857)
Operating (Loss)/Profit	(1,640,205)	(966,934)	(1,047,356)
Source: Sovereign Gold Company Limited Financial Statements for the year ended 31 December 2011, 2012 & 2013			

7. Background: Precious Metal Resources Limited

7.1. Overview

Precious Metal Resources Ltd ("PMR") is a minerals resource exploration and development company based in Australia. PMR's main activities relate to exploration for deposits of precious and base metals (copper, lead, zinc, silver and gold). PMR activities are located in New South Wales, PMR holds a large number of exploration licences and Exploration Licence Applications ("ELA") issued by government authorities.

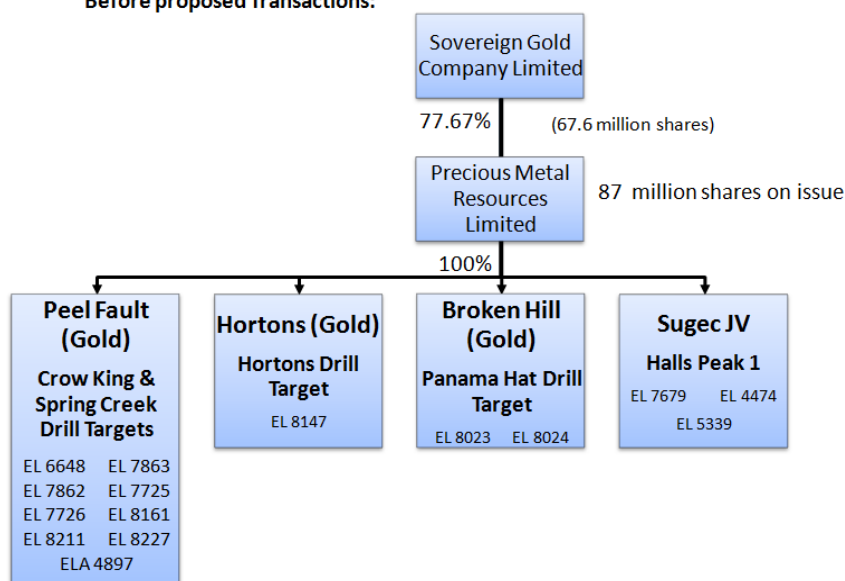
PMR commenced trading on the ASX in December 2011.

PMR, along with Sovereign, has entered into joint venture agreements and other undertakings with Sugec to fund the exploration of the Sugec Tenements in the New England region of NSW Refer to section 8 below for further details of these arrangements and undertakings.

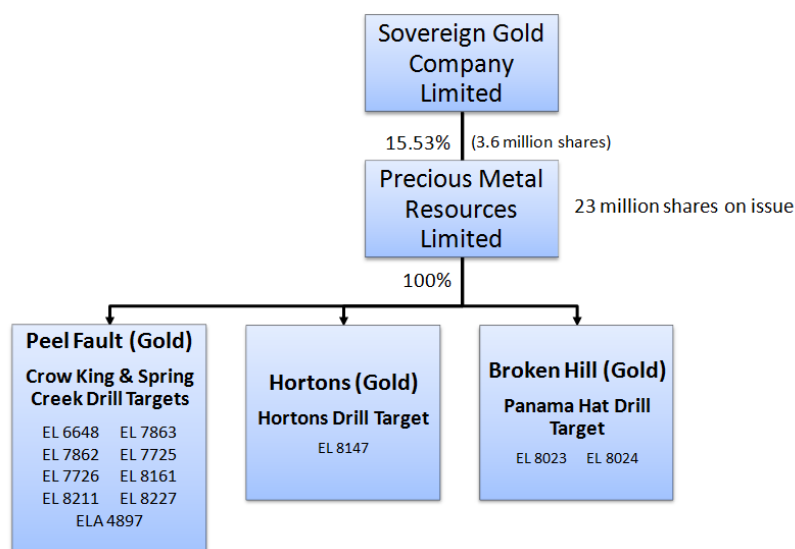
PMR has recently acquired the Peel Fault Gold Project from Gossan Hill Gold (now Mount Adrah, a subsidiary of Sovereign), and is looking to rapidly develop and drill test the area. PMR also holds exploration tenements in relation to the Broken Hill Gold and Hortons Gold projects located in NSW.

7.2. Corporate Structure

Before proposed Transactions:



After proposed Transactions:



7.3. Precious Metal Resources ASX announcements

Below is a table summarising the announcements made by PMR to the Australian Securities Exchange during the six month period to 30 April 2014. The table includes detail of the PMR share price prior to the announcement and the prices on the day of and 3 days after the announcement.

Date	Announcement	Closing Price day prior to announcement \$	Closing Price day of announcement \$	Closing price 3 days after announcement \$
18/11/2013	PMR acquiring Peel Fault Gold Project	0.430	0.350	0.380
19/11/2013	Change in substantial holding from SOC	0.350	0.350	0.380
19/11/2013	Appendix 3B	0.350	0.350	0.380
21/11/2013	Correction - Release of Securities from Escrow	0.300	0.380	0.300
21/11/2013	Release of Securities from Escrow	0.300	0.380	0.300
03/01/2014	Promising Results Halls Peak Drilling	0.250	0.260	0.260
08/01/2014	Appendix 3B	0.260	0.260	0.260
15/01/2014	Halls Peak base metal mineralisation continuity confirmed	0.260	0.250	0.270
28/01/2014	Further Research Report	0.270	0.270	0.270
31/01/2014	Quarterly Activities Report	0.270	0.270	0.270
31/01/2014	Appendix 5B Mining exploration entity quarterly report	0.270	0.270	0.270
20/02/2014	PMR Clarification - Qtr Report Dec 2013	0.300	0.300	0.300
20/02/2014	Executive Movements	0.300	0.300	0.300
04/03/2014	Notice of Meeting	0.250	0.250	0.250
24/03/2014	Annual Report to shareholders	0.250	0.250	0.250
04/04/2014	Shareholders Approve Peel Fault Gold Project Acquisition	0.300	0.300	0.300
08/04/2014	Notice of Annual General Meeting/Proxy Form	0.300	0.300	0.300
09/04/2014	SOC: Corporate Restructure	0.300	0.300	0.300
09/04/2014	Corporate Restructure	0.300	0.300	0.300
17/04/2014	Ceasing to be a substantial holder from RAF	0.300	0.300	0.300
30/04/2014	Quarterly Cashflow Report	0.300	0.300	0.300
30/04/2014	Quarterly Activities Report	0.300	0.300	0.300

Source: ASX announcements and S&P Capital IQ

We understand that PMR makes relevant information available to the market on a timely basis as required by the ASX listing rules. As such, the market should be considered to be fully informed and therefore the share price reflective of the fair value of the Company. However we note that the PMR share price does not appear to have fluctuated significantly in response to announcements made to the market by PMR. We note that the volume of PMR shares available for trading on the market is restricted due to the significant (in excess of 76%) investment held by Sovereign. These factors may indicate that the PMR quoted market price is not reflective of the fair value of the company. Further analysis is included in section 11.1 of our Report.

7.4. PMR's Capital Structure

The table below shows PMR's capital structure as extracted from PMR's share register at 30 April 2014.

	30 April 2014
Total shares on issue	87,000,000
Number of shareholders	390

Source: PMR's share register

The 31 December 2013 annual report of PMR noted that as at 31 December 2013 there were 1.65 million unquoted options on issue with an expiry date of 24 October 2014 and an additional 1.95 million Employee Share options which have an expiry date of 24 October 2016. The annual report also notes that each option has an exercise price of \$0.30 per option and is exercisable into an ordinary share of PMR.

Below is a table of the ten largest shareholders in PMR as at 30 April 2014, as extracted from the company's share register.

Shareholder	Shares	%
Sovereign Gold Company Limited	67,570,938	77.67
Raffles Capital Limited	9,150,000	10.52
Gossan Hill Gold Limited	2,000,000	2.30
Code Nominees Pty Ltd	1,800,000	2.07
Mr Richard Yap	1,000,000	1.15
Ms Najma Tasneem	379,412	0.44
Hudson Corporate Limited	263,333	0.30
Mr Cheok Huat Aw	250,000	0.29
Benbaxter Pty Ltd	166,667	0.19
Mr Man Chime Chan	155,000	0.18
	82,735,350	95.10

Source: PMR share register at 30 April 2014

The largest 10 shareholders in PMR control in excess of 95% of the shares on issue.

The PMR 31 December 2013 Annual Report discloses the significant shareholders set out in the table below.

Significant Shareholders	Shares	% of Issued Capital
Sovereign Gold Company Limited	66,570,938	76.52
Raffles Capital Limited	10,000,000	11.49
	76,570,938	88.01

Source: PMR Annual report for the year ended 31 December 2013

7.5. Financial Position

Information regarding PMR's financial position at 31 December 2011, 31 December 2012, 31 December 2013 and 31 March 2014 is summarised in Appendix B. As at 31 December 2013 PMR recorded net assets of \$1.36 million.

As at 31 March 2014 PMR's unaudited cash and cash equivalents was \$191,938.

7.6. Earnings

Information regarding PMR's audited results for the three years ended 31 December 2011, 31 December 2012 and 31 December 2013 is summarised in Appendix B. Pre-tax operating profits (losses) of PMR in those periods is detailed below.

Precious Resource Metals Ltd	12mth Period ended 31 Dec 2013 \$	12mth Period ended 31 Dec 2012 \$	12mth Period ended 31 Dec 2011 \$
Total Income	80,423	241,675	8,490
Total Expenses	(1,372,453)	(942,385)	(499,117)
Operating (Loss)/Profit	(1,292,030)	(700,710)	(490,627)

Source: Precious Resource Metals Limited draft financial statements for the year ended 31 December 2011, 2012 & 2013

8. Background: Sugec Project

8.1. Project history

The Sugec Project has been established following agreements entered into between Sovereign, PMR and Jiangsu Geology and Engineering Co Ltd ("Sugec") of China in relation to the exploration and development of certain mineral resource tenements located in the New England region of NSW.

On 28 March 2012 Sovereign announced that it had entered into a co-operation and investment agreement with Sugec. The agreement contemplated Sugec providing \$4 million in funding for the exploration of EL 7768 and EL 7491 owned by Sovereign. The funds were to be spent over the period to 31 March 2014 and Sugec would become entitled to a 30% interest in the tenements.

On 29 March 2012 PMR announced it had entered into a co-operation and investment agreement with Sugec. The agreement contemplated Sugec providing \$2 million in funding for the exploration of EL 7679 owned by PMR. The funds were to be spent over the period to 31 March 2014 and Sugec would become entitled to a 30% interest in the tenement.

The 28 March 2012 and 29 March 2012 agreements were subsequently amended, and the funding amounts in those agreements were contemplated in accordance with the 26 November 2012 agreement referred to below.

On 26 November 2012 Sovereign announced that Sugec, Sovereign and PMR had agreed to amend the abovementioned agreements, such that Sugec had agreed via a memorandum of understanding ("MOU") to provide funding of an additional \$15 million (bringing the total commitment at that time to \$21.0 million) in relation to the exploration of the tenements noted below in table 8.1 ("the Sugec Tenements") which are owned by Sovereign and PMR, and which are located in close proximity to and include some of the tenements subject to the abovementioned agreements. Sugec will become entitled to a 30% ownership interest in each of these tenements, once the planned expenditure is incurred.

The parties are still to formalise the terms and conditions of the additional \$15 million in funding to be provided by Sugec as detailed in the MOU announced on 26 November 2012 and detailed within exploration cooperation agreements between the parties. The MOU indicates that the funding arrangements will be on similar terms to the existing SRL SA (refer below).

Tenement	Sugec Tenements Entity initially owned	Sugec Expenditure commitment \$
EL 6483	SOC	500,000
EL 7491	SOC	2,000,000
EL 7700	SOC	1,000,000
EL 7701	SOC	1,000,000
EL 7766	SOC	1,500,000
EL 7768	SOC	2,000,000
EL 7769	SOC	1,500,000
EL 7770	SOC	2,000,000
EL 4474	PMR	4,000,000
EL 5339	PMR	4,000,000
EL 7679	PMR	2,000,000
		21,500,000

Note: \$21.5 million includes \$21million as referred to above, and \$0.5million referred to below.

Source: Sovereign ASX announcement 26 November 2012 and 9 April 2014

Subsequent to the negotiation of the additional Sugec funding (as announced on 26 November 2012), an agreement was reached between the parties which allows the Sugec expenditure to be applied against the exploration activities in the Sugec Tenements as a whole, as opposed to the initially contemplated tenement by tenement allocation.

Sugec Resources Limited ("SRL")

To facilitate the exploration activities, Sugec Resources Limited ("SRL"), an Australian based special purpose vehicle, was established to conduct the exploration and development works associated with the Sugec Project. A shareholders agreement was signed on 5 February 2013 between:

- SUGEC Mining Company Pty Ltd ("Sugec Mining"), which is owned by Sugec,
- Hudson SPC Pty Ltd ("Hudson SPC"), a special purpose vehicle established by Sovereign PMR,
- Hongkong Global Resources Ltd ("HKGR").

SRL holds the licences for tenements EL 7768, EL 7491, EL 6483 and EL 7679 vended from Sovereign and PMR. It is contemplated that SRL will hold the remaining Sugec Tenements once the MOU is finalised.

The SRL Shareholders Agreement ("SRL SA") dated 5 February 2013, entered into between the SRL shareholders, entitles Hudson SPC to own 70% of SRL and SUGEC Mining to own 30% SRL.

Subsequent to the initial SRL SA, the parties agreed that Sovereign would transfer EL 6483 to SRL in return for Sugec committing an additional \$0.5 million in funding expenditure.

Hudson SPC

Hudson SPC was established to facilitate the transfer of the Sugec Tenements from Sovereign and PMR to SRL.

Hongkong Global Resources Ltd

HKGR is an entity that facilitated the relationship between Sovereign, PMR and Sugec Mining. HKGR will be entitled to a 21.5% interest in Hudson SPC in return for services provided if Sugec Mining completes its funding obligations. HKGR's interest in Hudson SPC is earned proportionately in line with Sugec Mining's interest in SRL. As such HKGR's interest in Hudson SPC will be diluted if Sugec does not meet the full funding commitment.

Hudson SPC currently has the following ownership structure:

Hudson SPC equity interest at 9 April 2014	No. of Shares	%
Sovereign Gold Company Ltd	157	54
Precious Metal Resources Ltd	70	24
Hongkong Global Resources Ltd**	62	21
Total Equity	289	100

*** These shares are notionally held and will be issued when Sugec Mining completes its funding obligations.*

Sujec JV

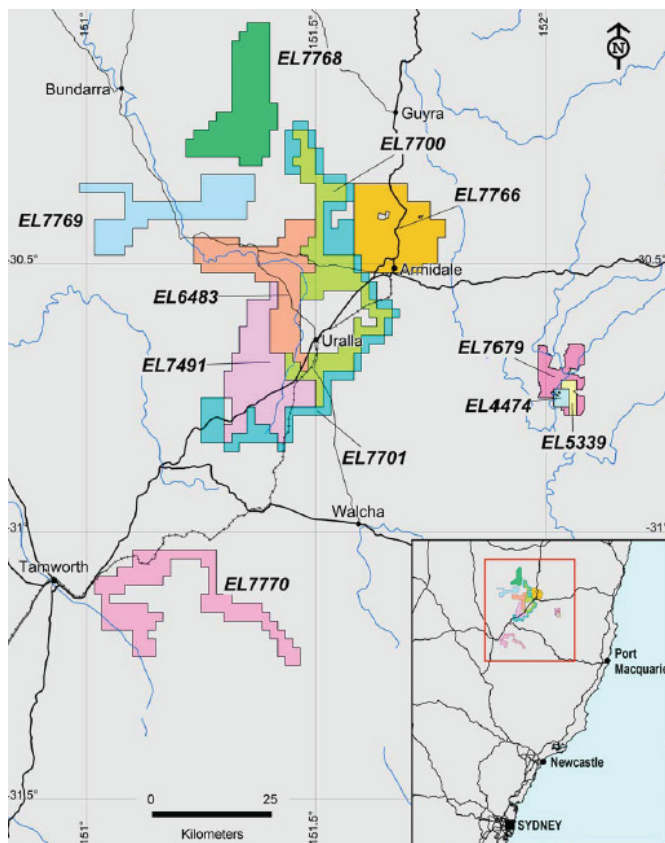
Key terms of the Sugec JV as defined in the SRL SA and subsequently amended on 5 March 2014 are detailed below:

- The SRL SA as subsequently amended will last until the earlier of the date of termination, which is currently 31 December 201; listing of SRL on ASX; one shareholder holding all issued shares in SRL; or if SRL is deregistered or wound up.
- 210 ordinary shares were issued to Hudson SPC, representing a 70% interest in SRL, in return for transferring EL 7768, EL 7491 and EL 7679 to SRL.
- Sugec Mining will be issued up to 90 warranty shares which are convertible into ordinary shares in SRL at the completion of the funding obligations. This represents a 30% interest in SRL.
- Sugec Mining will provide funding at least equal to the \$6 million for exploration activities conducted by SRL in relation to the exploration licences vended by Sovereign and PMR (refer 8.1 above).
- Neither Hudson SPC nor Sugec Mining have an obligation to provide funding to SRL other than Sugec Mining's \$6 million expenditure commitment.
- The warranty shares will convert into fully paid ordinary shares at the ratio of 30 warranty shares to 30 ordinary shares upon each \$2 million contributed or spent by Sugec Mining. Warranty shares in relation to any unspent funds will be forfeited after the prescribed time, which currently ends on 31 December 2014.

Subsequent to the initial SRL SA, the parties agreed that Sovereign would transfer EL 6483 to SRL in return for Sugec committing an additional \$0.5 million in funding expenditure, and also that agreed:

- Hudson SPC would receive an additional 17 shares in SRL,
- Sovereign would receive an additional 17 shares in Hudson SPC.

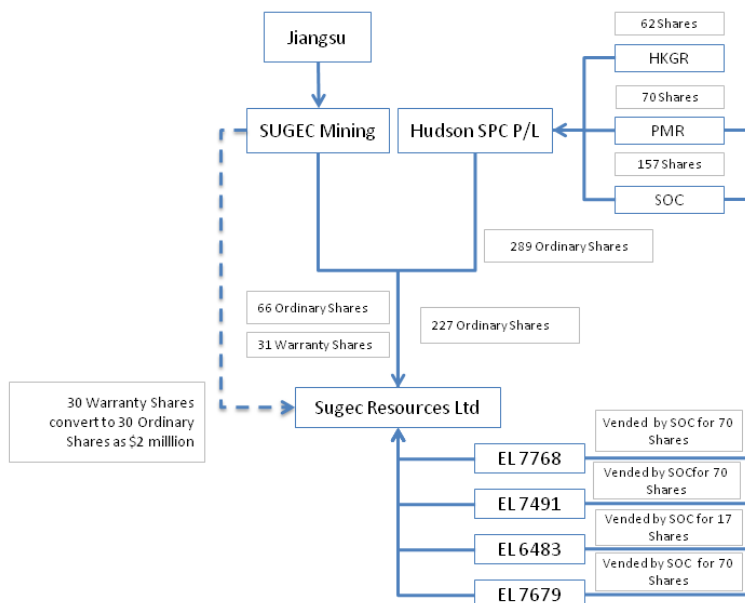
The map below details the tenements currently subject to the Sugec joint venture.



8.2. Corporate Structure

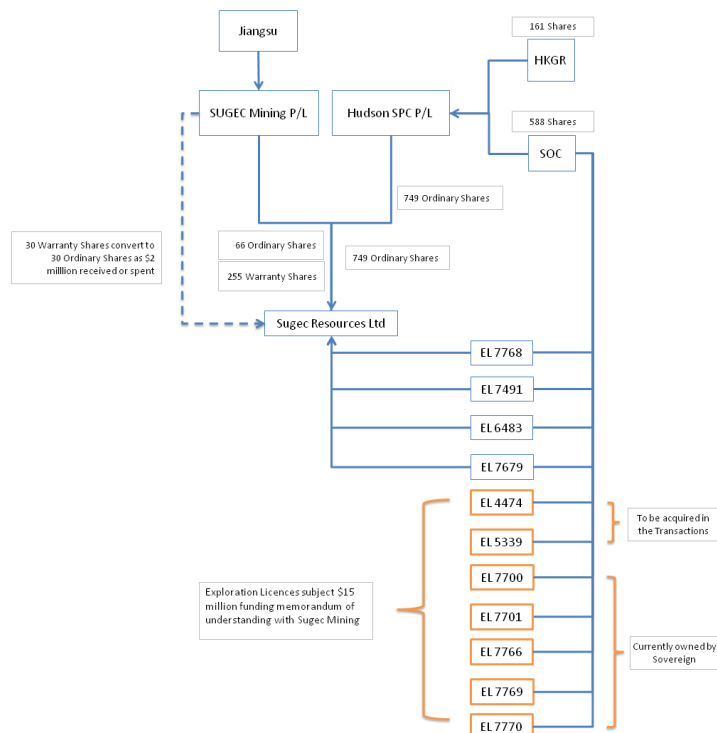
The diagram at 8.2.1 details the JV's current structure, and the diagram at 8.2.2 shows the proposed Sugec project structure after the completion of the proposed Transactions and including all Exploration Licences subject to the agreements with Sugec Mining, and assuming that \$21.5 million of exploration funded by Sugec has occurred.

8.2.1. Sugec JV Structure diagram (Current):



Source: Sovereign Gold Company Limited Management

8.2.2. Sugec JV Structure after the completion of the Transactions and including all tenements subject to Sugec Mining agreements:



Source: Sovereign Gold Company Limited Management

9. Industry Background and Market Overview – Gold Ore

Sovereign and PMR are mineral resource companies with exposure to gold ore related projects. Gold ore is extracted from the earth and used in the production of gold. The industry information noted below has been sourced from IBISWorld: *Gold Ore Mining in Australia*, March 2014.

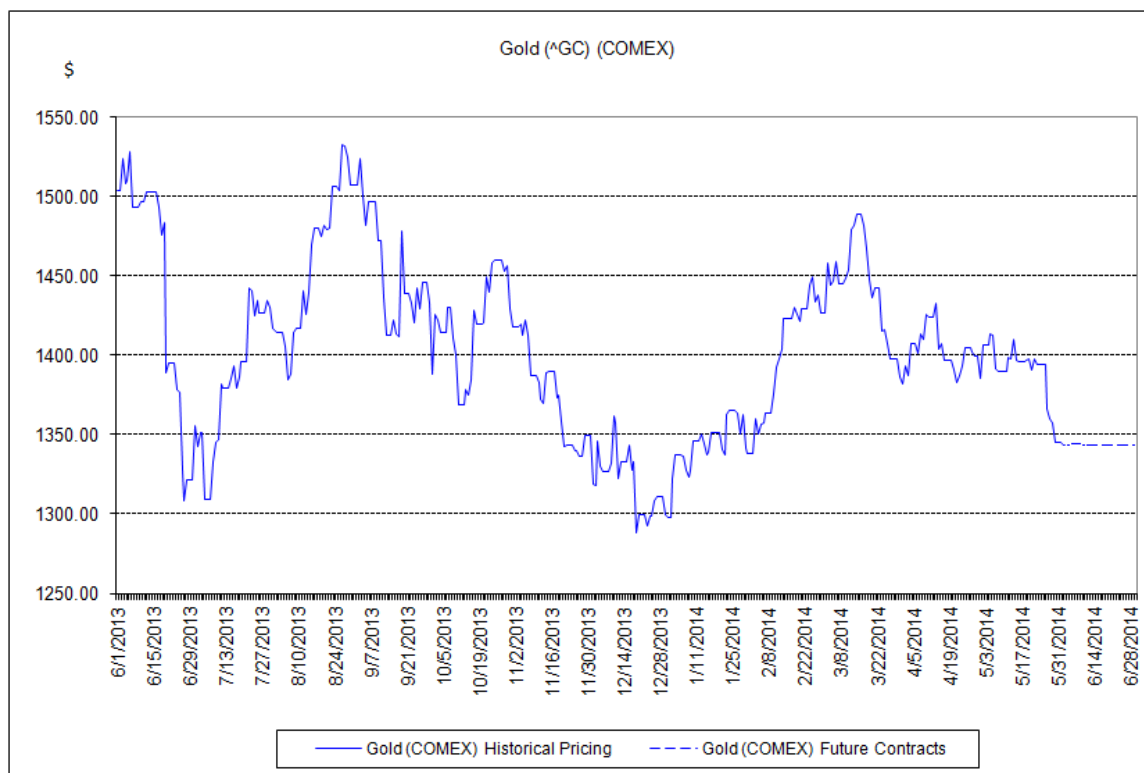
“Over the five years to June 2014, revenue for the Australian Gold Ore Mining industry is expected to increase at an annualised rate of 5.4%.

“The use of gold in industry fluctuates with the general economic climate; gold demand increases for investment purposes when there are periods of economic uncertainty.

“The main industry products include Archaen lode gold, recent lode gold, copper-gold, and iron oxide copper-gold. Archaen lode gold accounts for the largest share of industry revenue, at an estimated 48.3% in 2013. IBISWorld estimates that copper-gold accounts for 28.3% of industry revenue in 2013 and recent lode gold accounts for about 14.8% of industry revenue.

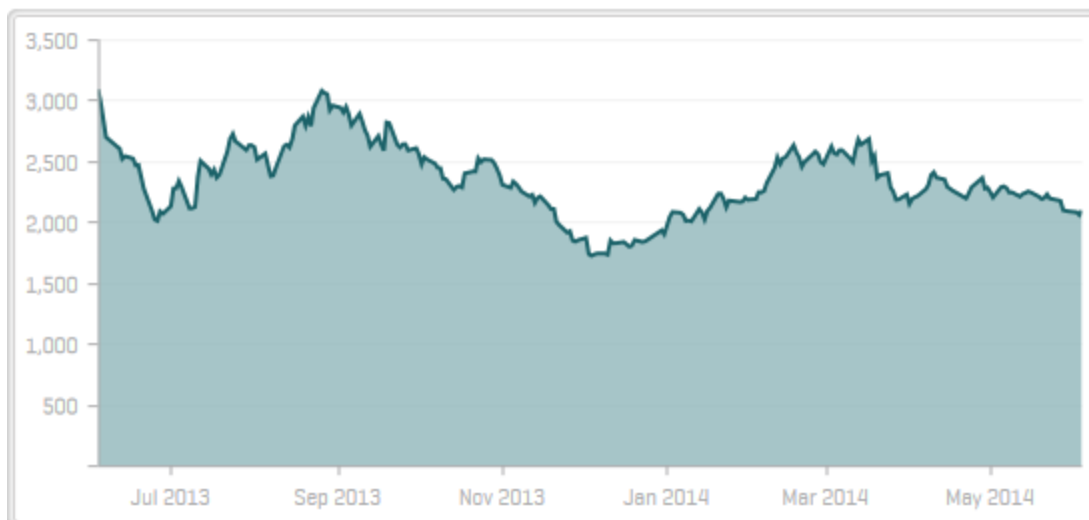
“The majority of Australian Gold Ore industry revenue (68.2%) is derived from the processing and refining of gold. Three markets account for nearly all of Australia’s gold ore exports: Germany, Philippines, and South Korea.

“The table below details the gold futures price traded over the past 12 months. As detailed in the table (the price of) gold futures have traded between a maximum of \$1,533 per ounce and a minimum of \$1,289 per ounce over the period. The futures price as at 30 May 2014 was \$1,343 “per ounce).



Source: S&P Capital IQ – COMEX historical Gold futures contract prices [AUD]

“The graph below details the movement in the S&P ASX All Ordinaries Gold Index (“XGD”) over the past 12 months. The XGD includes a broad range of companies in the gold sub-industry within the ASX All Ordinaries Index. The index, therefore, serves as a broad market indicator for the gold industry within Australia.”



Source: S&P Dow Jones Indices – ASX All Ordinaries Gold [AUD]

10. Valuation Methodology

For the purpose of evaluating the fairness of the proposed Transactions we have analysed the value of Sovereign's assets and interests to be disposed of, and the consideration to be received by Sovereign.

ASIC Regulatory Guide 111: *Content of Expert Reports* details valuation methodologies generally appropriate to be considered by an expert. These are detailed below:

- Discounted cash flow method: the net present value of future cash flows;
- Application of an earnings multiple to future maintainable earnings: the value of operations based on the capitalisation of future maintainable earnings;
- Orderly realisation of assets: the amount that would be available for distribution to security holders on an orderly realisation of assets;
- Quoted market value of listed securities: the quoted price for listed securities in a liquid and active market;
- Recent offers received: the attributable value based on any recent genuine offers received; and
- Comparable market transactions: the identification of comparable sale transactions.

We have provided more detail on methodologies commonly used for valuing assets and businesses in *Appendix C*.

10.1. Selected Valuation Methodology – Shares in Sovereign

Sovereign is a junior exploration company in the early stage of exploration and development of its assets. It is not yet possible to determine with any accuracy the future cash flows or value that may be derived from the Company's interest in its significant projects such as the Sugec JV and other exploration tenements. For this reason it was deemed not appropriate to use either the discounted cash flow method or the earnings method to value the shares in Sovereign.

We are also not aware of any recent takeover offers for Sovereign, or comparable market transactions.

The two valuation methodologies which we have determined are the most relevant and which we will adopt in considering the value of shares in Sovereign are:

- Quoted market value of the listed securities (refer to section 11.2 below); and
- Net asset valuation, as a proxy for "orderly realisation" (refer to section 11.2.2 below).

10.2. *Selected Valuation Methodology – Shares in PMR*

PMR is a junior exploration company in the early stage of exploration and development of its assets. It is not yet possible to determine with any accuracy the future cash flows or value that may be derived from the Company's exploration activities. For this reason it was deemed not appropriate to use either the discounted cash flow method or the earnings method to value the shares in PMR.

We are also not aware of any recent takeover offers for PMR other than the Sovereign offer in 2012.

The valuation methodologies which we have determined are the most relevant in considering the value of shares in PMR are:

- Quoted market value of the listed securities (refer to section 11.1 below);
- Net asset valuation, as a proxy for "orderly realisation" (refer to section 11.2.2 below); and
- The indicative value applied in the Sovereign takeover offer (refer 11.2.1 below).

10.3. *Selected Valuation Methodology – Exploration and Development Assets*

The Sugec Tenement exploration and development assets are in the early stages of exploration and development. As such it is not possible to estimate with any accuracy any potential future earnings or cash flows from their exploration and development. Hence it was deemed not appropriate to use either the discounted cash flow method or the earnings method to value these assets.

In valuing the tenements subject to the Sugec JV we have considered the costs that have been incurred to date in relation to the acquisition and development of the projects. We have also considered the terms and conditions of the Sugec JV agreements and other contractual arrangements entered into in arm's length transactions.

11. **Value of Consideration Provided**

The terms of the Transactions indicate that Sovereign will provide consideration for the Transactions by way of:

- PMR cancelling 64 million PMR shares held by Sovereign; and
- Sovereign issuing 1 million Sovereign shares to PMR.

We have considered below the values of the Consideration proposed to be provided by Sovereign.

11.1. *Quoted Market Value of PMR*

We have performed an analysis of the fair value of PMR as a whole by reference to the quoted market price of PMR shares immediately prior to and following the announcement of the Transactions on 9 April 2014.

An analysis of the movement in the PMR share price over the six month period to 30 April 2014 indicates a share price range from \$0.27 to \$0.43 per share. There was on-market trading volume of 676,300 shares during that period, which is equivalent to 0.78% of the issued capital of PMR, or 6.48% if you exclude the shares held by the significant shareholders Sovereign (76.5%) and Raffles Capital Limited (11.5%). The quoted market price at 9 April 2014 was \$0.30 per share.

Summary of PMR share price movements (1 November 2013 to 30 April 2014)	Date	Closing Share Price \$	Implied Market Capitalisation
High	18-Nov-13	0.43	\$37,410,000
Low	11-Feb-14	0.27	\$23,490,000
Total volume of transactions past 6 months			676,300
As a percentage of total shares			0.78%
Total shares on issue			87,000,000
Total shares excluding strategic investors			10,429,062
Volume traded as a percentage of the available shares			6.48%

From a review of share price and trading volume data the following appears apparent:

- The market for PMR shares does not appear to be active, as the PMR share price is not sensitive to market announcements and transactions.
- There was no response from the market to the announcement of the proposed Corporate Restructure on 9 April 2014, with no trading in PMR shares noted since that date.

Our analysis of the register of PMR shareholders and the history of trading in PMR shares noted the following:

- Approximately 88% of PMR's ordinary shares are controlled by two significant strategic investors (Sovereign and Raffles Capital Limited) who do not actively trade their shares.
- The top 10 shareholders in PMR control in excess of 95% of the ordinary shares on issue.
- There was trading in PMR shares on only 21 of the 122 available trading days in the 6 month period to 30 April 2014.
- PMR has approximately 390 individual shareholders.

RG 111 paragraph 69(d) states that in order for the quoted market price of listed entities to be a relevant indicator of a company's value a "liquid and active market" is required. The volume of trading in PMR shares over the assessed period is considered low. While in our experience this is not uncommon for an ASX listed entity of similar size and scale to PMR, we have determined that the market for PMR shares does not appear to be liquid or active as there was no response to the significant announcement of the corporate restructure on 9 April 2014 and there is only a small percentage of PMR's total shares on issue available for regular trading on market.

On this basis we do not believe that the quoted market price of PMR shares is the most relevant indicator of the fair value of the company.

11.1.1. Assessed value of 64 million PMR shares

Sovereign's 2012 takeover offer of PMR implied a value range of \$0.215 to \$0.235 per PMR share. As Sovereign has maintained a controlling interest in PMR since that date and there has been no significant change to the nature or scale of PMR operations since that date, nor significant volumes of PMR shares traded on market, we have utilised the 2012 takeover value range within our assessed value of the PMR shares foregone as part of the Transaction consideration.

On the basis that Sovereign gained control of PMR following the 2012 takeover offer, the indicative PMR share price values as a result of that takeover transaction have been assumed to include a control premium. As such no additional allowance or adjustment has been made to our assessed PMR share values to be applied as part of the Transaction consideration.

Summary of valuation	Low \$	High \$	Adopted \$
Value per PMR share	0.215	0.235	0.225
Value of 64 million PMR shares	13,760,000	15,040,000	14,400,000

Based on our calculations we have adopted the mid-point value of \$14,400,000 for the 64 million PMR shares proposed to be cancelled.

11.1.2. PMR – Net Asset Valuation

As a cross check to the value of PMR shares calculated above, we have considered the value of a share in PMR on a net asset basis. This method has been used as a proxy for the orderly realisation of assets, on the assumption that the value of assets and liabilities recognised within the PMR financial statements are materially the same value as would be obtained in an orderly disposal.

The major assets of PMR are considered to be exploration assets and are carried at the original cost of acquisition plus exploration costs incurred by PMR to date. As noted in this Report, it is not considered currently possible or reasonable to determine a relevant value of the individual assets by alternative means, due to their early stage of development.

As such we have referred to the value of the PMR assets and liabilities as disclosed in PMR's Annual Report for the year ended 31 December 2013.

PMR Net Asset Valuation	
PMR net asset value as at 31 December 2013	\$1,362,207
Number of PMR shares on issue	87,000,000
Net Assets per PMR Share	\$0.002

Source: PMR Financial Statements for the year ended 31 December 2013

The value of PMR net assets per share is considerably lower than the adopted value range obtained based on the implied value of the previous takeover offer detailed in section 11.1.1 above. It further supports the opinion that the quoted market price may not be a relevant indicator of the fair value of PMR shares.

11.1.3. Additional Cross Check

We have noted at 11.1 above that we do not believe that the quoted market price is a relevant indicator of the fair value of PMR shares.

However, as an additional cross check to the value of PMR shares as calculated in 11.1.2, we have considered the value of a share in PMR utilising the quoted market price as at 9 April 2014, which remained unchanged as at 30 April 2014, being \$0.30 per share.

Utilising \$0.30 at the high end of our value range and \$0.215 at the low end of our value range (refer 11.1.1) and adopting the mid point of \$0.258, a value of \$16.48 million is derived for 64 million PMR shares.

If we were to utilise this value our conclusion on the transactions would remain unchanged.

11.2. Quoted Market Value of Sovereign

We have performed an analysis of the fair value of Sovereign as a whole by reference to the quoted market price of Sovereign shares immediately prior to and following the announcement of the Transactions on 9 April 2014.

Generally, the quoted market price in an active market is the best evidence of the fair value of a company. However, the combined fair value of the underlying individual assets and liabilities of a company may be higher or lower in value.

An analysis of the movement in the Sovereign Gold share price over the six month period to 30 April 2014 indicates a share price range from \$0.06 to \$0.24 per share. There was on-market trading volume of 15.28 million shares during that period, which is equivalent to 9.9% of the issued capital of Sovereign, or 17.8% if you exclude the shares held by the significant shareholders Hudson Resources Limited (26.13%) and Raffles Capital Limited (17.88%).

Summary of Sovereign share price movements (1 November 2013 to 30 April 2014)	Date	Closing Share Price	Implied Market Capitalisation
High	1 November 2013	\$0.24	\$35,980,815
Low	30 April 2014	\$0.06	\$9,799,030
Total volume of transactions past 6 months			15,286,630
As a percentage of total shares			9.9%
Total shares on issue			153,109,851
Total shares excluding strategic investors			85,734,851
Volume traded as a percentage of the available shares			17.83%

Source: S&P Capital IQ and HMJC calculations

From a review of share price and volume data the following appears apparent:

- The market for Sovereign shares appears to be active, with the Sovereign share price sensitive to market announcements and transactions.
- The market responded to the announcement of the proposed Corporate Restructure on 9 April 2014, with an increase in trading volumes of 1 million shares over the following 5 days (0.65% of the Sovereign shares on issue).

Our analysis of the register of Sovereign shareholders and the history of trading in Sovereign shares noted the following:

- Approximately 44% of Sovereign's ordinary shares are controlled by two significant strategic investors (Hudson Resources Limited and Raffles Capital Limited) who do not actively trade their shares. Excluding this block of shares, 17.83% of Sovereign's available shares were traded on market in the 6 month period to 30 April 2014;
- There was trading in Sovereign shares on 119 of the 122 available trading days in the 6 month period to 30 April 2014;
- Sovereign had approximately 794 individual shareholders as at 28 February 2014 and detailed in the 2013 annual report.

RG 111 paragraph 69(d) states that in order for the quoted market price of listed entities to be a relevant indicator of a company's value a "liquid and active market" is required. We have determined that the market for Sovereign shares is liquid and active as there was regular trading in Sovereign shares in the 6 month period to 31 March 2014.

We have not noted anything to indicate that the quoted market price of Sovereign Gold shares is not a relevant indicator of the fair value of the company.

11.2.1. Assessed value of 1 million Sovereign shares

We have reviewed the quoted market price of Sovereign shares for a 10 day period either side of the Transaction announcement date of 9 April 2014. The average closing market price of Sovereign shares in that period was \$0.0825 per share.

On the basis that the 1 million Sovereign shares to be issued represents a minority interest in the company, no premium for control has been allowed.

In determining the range of Sovereign share values to apply we have used the closing price 10 days after the announcement of the Transaction being \$0.064 per share and the 20 day average calculated above.

Summary of valuation	Low \$	High \$	Adopted \$
Value per Sovereign share	0.06	0.08	0.07
Value of 1 million Sovereign shares	60,000	80,000	70,000

Based on our calculations we have determined a value of \$70,000 for the 1 million Sovereign shares proposed to be issued to PMR.

11.2.2. Sovereign – Net Asset Valuation

As a cross check to the value of Sovereign shares calculated above, we have considered the value of a share in Sovereign on a net asset basis. This method has been used as a proxy for the orderly realisation of assets, on the assumption that the values of assets and liabilities recognised within the Sovereign financial statements are materially the same value as would be obtained in an orderly disposal.

The major assets of Sovereign are considered to be exploration assets and are carried at the original cost of acquisition plus exploration costs incurred by Sovereign to date. As noted in this Report, it is not considered currently possible or reasonable to determine a relevant value of the individual assets by alternative means, due to their early stage of development. As such we have referred to the value of the Sovereign assets and liabilities as disclosed in Sovereign's Annual Report for the year ended 31 December 2013.

Sovereign Net Asset Valuation	
Sovereign net asset value as at 31 December 2013	\$20,652,681
Number of Sovereign shares on issue	153,109,851
Net Assets per Sovereign Share	\$0.13

Source: Sovereign Financial Statements for the year ended 31 December 2013

The value of Sovereign net assets per share is considerably higher than the adopted value range obtained based on the quoted market value in section 11.2.1 above. It demonstrates that the market may not have factored into the quoted price of Sovereign shares the full value of the Company's assets.

11.3. Fair Value of Consideration

Based on our assessment of the components of the consideration as set out above we have concluded that the fair value of the consideration to be provided by Sovereign in connection with the Transactions is in the range of \$14.46 million to \$19.28 million.

Summary of valuation	Low \$	High \$	Adopted \$
Value of 64 million PMR shares (11.1.1)	13,760,000	15,040,000	14,400,000
Value of 1 million Sovereign shares (11.2.1)	60,000	80,000	70,000
Fair Value of Total Consideration	13,820,000	15,120,000	14,470,000

12. Value of exploration assets to be acquired

We have considered the fair value of the exploration assets proposed to be acquired from PMR, being tenements EL 4474 and EL 5339, along with 70 shares (24%) in Hudson SPC. Our valuation considerations are set out below.

12.1. Value of Exploration Tenements

In section 8 of this Report we have provided a background to the Sugec Project and the associated tenements. We note that the Sugec Project tenements are still in the early exploration stage and no feasibility studies have yet been completed in relation to the commercialisation of any resources. The tenements remain highly speculative. The Directors have advised us that significant expenditure is anticipated to be required to prove any resource and progress the exploration activities and identify any development opportunities.

The tenements proposed to be acquired directly from PMR are EL 4474 and EL 5339. As detailed in section 8.1 of this report the MOU's in place between PMR and Sugec as announced on 26 November 2012 indicated Sugec's intention to fund \$8 million towards exploration on the two tenements. On the completion of this exploration funding Sugec will be entitled to a 30% interest in each tenement. We have determined that these agreements entered on arms length terms, represent the best indicator of the tenement values.

As detailed in section 8, the form of this additional funding via the MOU's is still to be confirmed with Sugec. PMR management have indicated that they anticipate that the proposed structure for the exploration funding will be similar to the existing Sugec JV arrangements. If this funding was not to be received or the terms and conditions were significantly different to the current Sugec JV arrangements then the implied value of EL 4474 and EL 5339 may be higher or lower. PMR management have indicated that they have no reason to believe that Sugec will not provide the agreed funding.

The value of the exploration tenements acquired from PMR has been assessed on the basis of the MOU's entered into and executed by knowledgeable and willing parties on arm's length terms. The value has been calculated based on the implied cost for Sugec Mining to earn a 30% interest in the subject tenements in accordance with the terms of the Exploration and Co-operation Agreement. On this basis the implied value of 100% of EL 4474 and EL 5339 is \$26.67 million. This is considered to be a relevant indication of the fair value of the tenements.

After the completion of the proposed Transaction, Sovereign will hold a 79% interest in Hudson SPC.

Tenement	Sugec Expenditure commitment to earn 30% \$	Implied value of 100% interest \$	Hudson SPC interest @ 70% \$	Implied value of Sovereign interest via Hudson SPC at 79% \$
EL 4474	4,000,000	13,333,333	9,333,333	7,373,333
EL 5339	4,000,000	13,333,333	9,333,333	7,373,333
	8,000,000	26,666,667	18,666,667	14,746,667

Given the highly speculative nature of the tenements and the lack of any objective data or recent comparable transactions, the indicative values of the tenements as implied by the Sugec joint venture arrangements between PMR, Hudson SPC and Sugec Mining appear to be the most applicable indication of the tenement values.

12.1.1. Assessed value of EL 4474 and EL 5339

On the basis of our analysis set out above we have assessed the fair value of tenements EL 4474 and EL 5339 to be acquired from PMR to be \$14.75 million. This value has been based on the diluted value of the tenements after taking into consideration the equity ownership interests in Hudson SPC.

Summary of valuation	Assessed value \$	Adopted \$
Value of EL 4474 and EL 5339	14,746,667	14,750,000

12.2. Value of interest in Hudson SPC

Section 8 of this report details the background to the Sugec Project, the associated tenements and Hudson SPC. As noted previously the Sugec Project tenements, which are the significant asset of Hudson SPC, are still in the early exploration stage and no feasibility studies have been completed in relation to the commercialisation of the resource. The tenements remain highly speculative. The Directors have advised us that significant expenditure is anticipated to be required to prove any resource and progress the exploration activities and identify any development opportunities.

Hudson SPC currently holds a notional 70% interest in SRL (ie subject to completion of the funding agreements). From our enquiries of Sovereign management we are not aware of any material assets and liabilities of Hudson SPC and SRL other than those related to the Sugec tenements held by SRL. On this basis we have valued the tenements held by SRL to assess the value of SRL and the implied value of Hudson SPC. Sugec has committed to fund exploration activities of up to \$6.5 million in relation to the SRL exploration tenements.

On the completion of this exploration funding Sugec will be entitled to a 30% interest in SRL.

The value of the SRL exploration tenements to which Hudson SPC has an exposure have been assessed on the basis that the contractual agreements have been entered into and executed by knowledgeable and willing parties on arm's length terms. The value applicable to Hudson SPC has been calculated based on the implied cost for Sugec Mining to earn a 30% interest in SRL, in accordance with the SRL SA. On this basis the implied value of 100% of the tenements currently held by SRL is \$21.67 million. This is considered to be a relevant indication of the fair value of the underlying assets of Hudson SPC.

Tenement	Sugec Expenditure commitment to earn 30%	Implied value of 100% interest	Hudson SPC interest @ 70%	Implied value of PMR interest via Hudson SPC at 24%
	\$	\$	\$	\$
EL 7491	2,000,000	6,666,667	4,666,667	1,120,000
EL 7768	2,000,000	6,666,667	4,666,667	1,120,000
EL 7679	2,000,000	6,666,667	4,666,667	1,120,000
EL 6483	500,000	1,666,667	1,166,667	280,000
	6,500,000	21,666,667	15,166,667	3,640,000

The table below details the current equity interest in Hudson SPC prior to the completion of the Transactions. PMR currently owns 70 shares in Hudson SPC which are proposed to be acquired by Sovereign:

Hudson SPC equity interest @ 9 April 2014	No. Of Shares	%
Sovereign Gold Company Ltd	157	54
Precious Metal Resources Ltd	70	24
Hong Kong Global Resources Ltd**	62	21
Total Equity	289	100

** These shares are notionally held and will be issued

12.2.1. Assessed value of 70 shares in Hudson SPC

On the basis of our analysis set out above we have assessed the fair value of 70 shares in Hudson SPC to be acquired from PMR to be \$3.6 million. This value has been based on the implied value of the Sugec tenements in which Hudson has an equity interest.

70 shares represent 24% of the issued capital of Hudson SPC.

Summary of valuation	Assessed value \$	Adopted \$
Value of 70 shares in Hudson SPC	3,640,000	3,600,000

12.3. Fair Value of Assets acquired

Based on our assessment of the fair values of the assets to be acquired from PMR as set out above we have concluded that the fair value of the assets to be acquired as part of the Transactions is **\$18.35 million**.

Summary of valuation	Adopted \$
Value of EL 4474 and EL 5339	14,750,000
Value of 70 shares in Hudson SPC	3,600,000
Fair Value of assets to be acquired	18,350,000

13. Reasonableness Considerations

We have concluded on the reasonableness of the Transactions below, in accordance with the guidance provided by RG 111.

As detailed in section 3.1 of this Report we have concluded that the Transactions are **Fair** for the Non-Associated Shareholders; as such, we have also concluded that the Transactions are **Reasonable** to the Non-Associated shareholders.

14. Advantages of the Proposed Transactions

Detailed below are some of the identified advantages of the Transaction.

14.1. *The Transaction will allow Sovereign greater focus on core projects*

The Transaction will allow Sovereign to focus on its two significant exploration and development projects – the Sugec JV and Mt Adrah Gold.

14.2. *The proposed Transaction will increase Sovereign's percentage ownership in the Sugec JV*

Sovereign will increase its ownership percentage in the Sugec JV, via Hudson SPC Pty Ltd, from 54.3% (pre-transaction) to 78.5% (post-transaction). This will allow Sovereign to have a greater exposure to and influence over the JV activities.

14.3. *The Transaction will provide Sovereign control over the additional Sugec JV tenements*

The Transaction will allow Sovereign to acquire EL 7679 and EL 5339 from PMR. This will allow the company and the Non-Associated Shareholders access to the future potential value created by these exploration licences, which are also subject to the funding arrangements with Sugec. Sovereign will benefit from an increased exposure to any resources identified in the Sugec Tenements. This may result in an increase in value of Sovereign in future periods.

14.4. *The Transaction will reduce corporate overheads and streamline Sugec relationship*

The restructure will allow a simpler structure in managing the Sugec JV relationship with Sugec Mining. Corporate overheads relating to the management of Hudson SPC may be reduced due to there being fewer shareholders. Sovereign will also be relieved of the obligation to consolidate the results of PMR within its statutory financial statements. A decrease in corporate expenses may have a direct benefit to the Non-Associated Shareholders. In the attempted takeover of PMR by Sovereign in 2012, Sovereign was not successful in obtaining control over 90% or more of the PMR issued shares, which would have allowed Sovereign the opportunity to compulsorily acquire the remaining PMR equity interests. From our review of the PMR share trading since that time, nothing has been noted which would indicate that Sovereign was likely to gain 100% control of PMR in the near future.

15. Disadvantages of the Proposed Transactions

Detailed below are some of the identified disadvantages of the Transaction.

15.1. *The Transactions will result in the dilution of the Shareholders interest in PMR*

The proposed Transactions will result in the Non-Associated Shareholders' interest in PMR being diluted and reduced. This may prevent the Non-Associated Shareholders from fully participating in any future increase in value of PMR's projects. This will also result in a decrease in the diversification of the Sovereign assets and a reduction in the sources of potential future value for the Non-Associated shareholders.

15.2. *Increased concentration of project risk*

At the completion of the Transactions Sovereign will have an increased exposure, by way of the increased Hudson SPC interest and the addition Sugec tenements, to exploration licenses in the New England region of New South Wales. This represents an increased concentration of project risk, as if no significant resource is proven in this area no future value may be gained from these licenses and exploration activity.

15.3. *The Non-Associated shareholders' interests in Sovereign will be diluted*

The Transactions will result in PMR being issued 1 million Sovereign shares. This will increase the total Sovereign shares on issue and dilute the existing shareholder interests in Sovereign.

16. Other Considerations

16.1. *Alternative proposal*

We are not aware of any alternative proposal that the Company has prepared or received for significant transactions involving the acquisition or disposal of assets or the raising of funds, which would be on terms more favourable than the current proposed Transactions.

16.2. *Implications of the PMR proposal not being unconditionally accepted*

If the proposed Transactions are not approved by Sovereign shareholders then it is likely that the Company will continue to incur additional corporate overhead costs. It is also possible that it may take a longer period of time to progress the Sugec JV exploration activities and as a result delay the realisation of any increase in value that may be achieved from the project.

16.3. *Taxation considerations*

This Report does not include details of taxation considerations for shareholders. We recommend that shareholders consult their own taxation adviser for detailed taxation advice before making a decision as to whether or not to accept the Transactions.

17. Sources of Information

In preparing our Report we have had access to the following principal sources of information:

- Draft Notice of General Meeting and Explanatory Memorandum prepared by Sovereign dated June 2014;
- Reviewed financial statements of Sovereign and PMR for the three months ended 31 March 2013;
- Audited financial statements of Sovereign and PMR for the years ended 31 December 2011, 31 December 2012 and 31 December 2013;
- Un-audited financial statements of the Sugec Resources Limited JV for the year ended 31 December 2013;
- Quarterly Activities & Cashflow Reports and other announcements lodged with the Australia Securities Exchange ("ASX");
- Sovereign and PMR share register and other corporate records;
- Sovereign and PMR internal management accounts and forecasts;
- Sugec Resources Limited JV internal management accounts and forecasts;
- Sugec Resources Limited Shareholders Agreement between Sugec Mining Company Pty Ltd and Hudson SPC;
- Publicly available industry and comparative company information;
- Meetings with Sovereign's management team and advisers;
- S&P Capital IQ;
- IBISWorld, *Gold Ore Mining in Australia*, March 2014;
- RSM Bird Cameron "Control Premium Study 2013";
- ASIC Regulatory Guide 74 'Acquisitions Agreed to by Shareholder';
- ASIC Regulatory Guide 76 "Related Party Transactions";
- ASIC Regulatory Guide 111 "Content of Expert Reports";
- ASIC Regulatory Guide 112 "Independence of Expert's Reports"; and
- APES 225 "Valuation Services".

We have also had access and we have interviewed and/or obtained information from Sovereign employees and advisors including Henry Kinstlinger (Company Secretary).

18. Qualifications, Declarations and Disclosures

HMJC, which is a wholly owned entity of HLB Mann Judd's New South Wales Partnership, holds an Australian Financial Services Licence under the Corporations Act 2001 and its authorised representatives are qualified to provide this Report. The authorised representatives of HMJC responsible for our Report have not in the past provided financial advice to Sovereign.

Prior to accepting this engagement, HMJC considered its independence with respect to Sovereign with reference to ASIC RG 112. In HMJC's opinion, it is independent of Sovereign.

Our Report has been prepared specifically for the shareholders of Sovereign with reference to ASIC Regulatory Guides and APES 225 Valuation Services issued by the Accounting Professional and Ethical Standards Board. It is not intended that our Report be used for any other purpose other than to accompany the Explanatory Memorandum to be sent to Sovereign shareholders.

In particular, it is not intended that our Report should be used for any purpose other than as an expression of an opinion as to whether or not the proposed Transactions are fair and reasonable to the Non-Associated Shareholders of Sovereign. HMJC disclaims any assumption of responsibility for any reliance on our Report to any person other than those for whom it was intended, or for any purpose other than that for which it was prepared.

The statements and opinions given in this Report are given in good faith and in the belief that such statements and opinions are not false or misleading. In the preparation of this Report, HMJC has relied on and considered information believed, after due inquiry, to be reliable and accurate. HMJC has no reason to believe that any information supplied to it was false or that any material information has been withheld.

Our analysis and conclusions are based on market conditions existing at the date of this Report. A limitation of our conclusion is that market conditions may change between the date of this Report and when the various aspects of the Transactions are concluded.

HMJC has evaluated the information provided to it by Sovereign and other parties, through inquiry, analysis and review, and nothing has come to its attention to indicate that the information provided was materially misstated or would not provide a reasonable basis for our Report. HMJC has not, nor does it imply that it has, audited or in any way verified any of the information provided to it.

HMJC has been indemnified by Sovereign in respect of any claim arising from HMJC's reliance on information provided by Sovereign or any of its representatives which is false, misleading or incomplete.

We provided draft copies of this Report to the Recommending Directors for their comments as to factual accuracy, as opposed to opinions, which are the responsibility of us alone. Changes made to this Report as a result of review by the Recommending Directors have not changed the methodology or conclusions reached by us.

We will receive a professional fee based on time spent in the preparation of this Report, estimated at approximately \$20,000 exclusive of GST and expenses. We will not be entitled to any other pecuniary or other benefit, direct or indirect, in connection with preparation of this Report. Our fee is not contingent upon the success or failure of the proposed Transactions. None of HMJC, its directors or any related entity or person has an interest in the promotion of the Transactions.

The principal persons responsible for the preparation of this Report are Darryl Swindells and Simon James.

Darryl Swindells, a Director and representative of HMJC and a Partner of HLB Mann Judd's New South Wales Partnership, has more than 25 years experience in providing financial advice and valuation advice and has professional qualifications appropriate to the advice being provided.

Simon James, a Director and representative of HMJC and a Partner of HLB Mann Judd's New South Wales Partnership, has more than 15 years experience in providing financial advice and valuation advice and has professional qualifications appropriate to the advice being provided.

HMJC provides the following information and disclosures:

- Neither HMJC, nor any of its directors or associates, has any interest in Sovereign.
- Neither HMJC nor HLB Mann Judd, nor any of their directors or associates, has had a previous relationship with Sovereign or PMR.

Yours faithfully

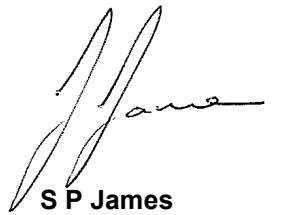
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Licensed Investment Advisor (AFSL Licence number 253134)



D K Swindells

Director and Authorised Representative



S P James

Director and Authorised Representative

APPENDIX A – Sovereign Financial Position and Historical Earnings
Financial Position

The historical financial information in Appendix A has been extracted from Sovereign's audited financial statements for the years ended 31 December 2013, 31 December 2012 and 31 December 2011 and the management accounts for the period ended 31 March 2014. We note that net assets of Sovereign decreased by \$0.32 million during the period from 31 December 2013 to 31 March 2014; the cash and cash equivalents balance has decreased by \$0.41 during the same period.

Sovereign Gold Company Limited	Mar-14 Un-audited \$	Dec-13 Audited \$	Dec-12 Audited \$	Dec-11 Audited \$
<i>Statement of Financial Position</i>				
<i>Assets</i>				
Cash and Cash Equivalents	195,087	596,311	162,780	1,413,956
Trade Debtors & Other Receivables	1,105,313	1,532,340	1,668,558	761,477
Other Current Assets	102,471	112,445	-	99,000
Plant and Equipment	32,425	35,519	33,648	39,333
Exploration and Evaluation Expenditure	8,721,307	8,783,827	3,550,454	1,956,726
Other Non-Current Assets	11,662,552	13,003,760	14,098,166	-
Financial Assets	875,950	800,000	70	-
Total Assets	22,695,105	24,864,202	19,513,676	4,270,492
<i>Liabilities</i>				
Trade & Other Payables	2,351,824	4,185,824	76,346	51,523
Short Term Provisions	10,756	25,697	9,178	-
Borrowings	-	-	-	-
Total Liabilities	2,362,580	4,211,521	85,524	51,523
Net Assets	20,332,525	20,652,681	19,428,152	4,218,969
<i>Equity</i>				
Issued Capital	25,084,419	23,683,142	21,161,248	5,382,756
Reserves	359,765	359,765	341,765	341,515
Accumulated Losses	(6,229,433)	(4,062,620)	(2,422,415)	(1,505,302)
Minority Interest	1,117,774	672,394	347,554	-
Total Equity	20,332,525	20,652,681	19,428,152	4,218,969

Source: Sovereign audited Financial Statements for the years ended 31 December 2013, 31 December 2012 and un-audited management accounts for the period ended 31 March 2014.

Historical Earnings

The historical financial information in Appendix A has been extracted from the Sovereign audited financial statements for the years ended 31 December 2013, 31 December 2012 and 31 December 2011 and the management accounts for the three month period ended 31 March 2014.

Sovereign Gold Company Limited	3mth period ended 31 Mar 2014 Unaudited	12mth Period ended 31 Dec 2013 Audited	12mth Period ended 31 Dec 2012 Audited	12mth Period ended 31 Dec 2011 Audited
	\$	\$	\$	\$
Statement of Financial Performance				
Revenue	362,769	1,432,951	344,815	184,501
Total Income	362,769	1,432,951	344,815	184,501
Expenses				
Administrative and Exploration Expenses	(1,165,151)	(3,213,928)	(1,296,526)	(1,225,537)
Finance Costs	(69,269)	(90,013)	(15,223)	(6,320)
Total Expenses	(1,234,420)	(3,303,941)	(1,311,749)	(1,231,857)
Attributable to minority equity interests	213,412	230,785	-	-
Operating (Loss)/Profit	(658,239)	(1,640,205)	(966,934)	(1,047,356)
Income tax (expense)/benefit	-	-	-	-
Net (Loss)/Profit after Tax	(658,239)	(1,640,205)	(966,934)	(1,047,356)

Source: Sovereign audited Financial Statements for the years ended 31 December 2013, 31 December 2012 and un-audited management accounts for the period ended 31 March 2014.

Income

Revenue is primarily derived from interest earned on cash held in bank accounts. In the year ended 31 December 2013 a gain was recognised on sale of an investment in the Peel Fault Gold project held by Mount Adrah, to PMR.

Administrative and Exploration expense

The administrative and exploration expenses of the Group relate to administrative activities and operational expenses that do not meet the recognition criteria to be capitalised as a component of the exploration assets within the statement of financial position.

APPENDIX B – Precious Metal Resources Financial Position and Historical Earnings

Financial Position

The historical financial information in Appendix B has been extracted from PMR's audited financial statements for the years ended 31 December 2013, 31 December 2012 and 31 December 2011 and the management accounts for the period ended 31 March 2014.

We note that net assets of PMR have decreased by \$0.40 million during the period from 31 December 2013 to 31 March 2014.

Precious Metal Resources Limited	Mar-14 Un-audited \$	Dec-13 Audited \$	Dec-12 Audited \$	Dec-11 Audited \$
Statement of Financial Position				
Assets				
Cash and Cash Equivalents	191,938	207,246	174,357	59,786
Trade Debtors & Other Receivables	180,597	493,125	1,058,383	2,420,343
Other Current Assets	799,998	799,998	-	-
Plant and Equipment	743	801	1,038	-
Exploration and Evaluation Expenditure	798,574	754,700	656,324	200,250
Financial Assets	-	72,143	70	-
Total Assets	1,971,850	2,328,013	1,890,172	2,680,379
Liabilities				
Trade & Other Payables	998,197	940,109	26,758	7,897
Short Term Provisions	10,756	25,697	9,177	6,078
Total Liabilities	1,008,953	965,806	35,935	13,975
Net Assets	962,897	1,362,207	1,854,237	2,666,404
Equity				
Issued Capital	3,666,667	3,673,965	2,873,965	2,985,422
Reserves	179,532	179,532	179,532	179,532
Accumulated Losses	(2,883,302)	(2,491,290)	(1,199,260)	(498,550)
Total Equity	962,897	1,362,207	1,854,237	2,666,404

Source: PMR audited Financial Statements for the years ended 31 December 2013, 31 December 2012 and un-audited management accounts for the period ended 31 March 2014.

Historical Earnings

The historical financial information in Appendix B has been extracted from the PMR audited financial statements for the years ended 31 December 2013, 31 December 2012 and 31 December 2011 and the management accounts for the three month period ended 31 March 2014.

Precious Metal Resources Limited	3mth period ended 31 Mar 2014 Unaudited \$	12mth Period ended 31 Dec 2013 Audited \$	12mth Period ended 31 Dec 2012 Audited \$	12mth Period ended 31 Dec 2011 Audited \$
Statement of Financial Performance				
Revenue	35,687	80,423	241,675	8,490
Total Income	35,687	80,423	241,675	8,490
Expenses				
Administrative and Exploration Expenses	(389,706)	(1,349,958)	(938,192)	(401,479)
Finance Costs	(37,993)	(22,495)	(4,193)	(392)
Share Based Payments	-	-	-	(97,246)
Total Expenses	(427,699)	(1,372,453)	(942,385)	(499,117)
Operating (Loss)/Profit	(392,012)	(1,292,030)	(700,710)	(490,627)
Income tax (expense)/benefit	-	-	-	-
Net (Loss)/Profit after Tax	(392,012)	(1,292,030)	(700,710)	(490,627)

Source: PMR audited Financial Statements for the years ended 31 December 2013, 31 December 2012 and un-audited management accounts for the period ended 31 March 2014.

Income

Revenue is primarily derived from interest earned on cash held in bank accounts.

Administrative and Exploration expense

The administrative and exploration expenses of PMR relate to administrative activities and operational expenses that do not meet the recognition criteria to be capitalised as a component of the exploration assets within the statement of financial position.

APPENDIX C**Valuation Methodologies**

In Appendix C we summarise the methodologies that were considered for the purposes of preparation of this Report.

Discounted future cash flows ("DCF")

DCF methodology is based on the generally accepted theory that the value of an asset or business depends on its future net cash flows, discounted to their present value at an appropriate discount rate (often called the weighted average cost of capital). This discount rate represents an opportunity cost of capital reflecting the expected rate of return which investors can obtain from investments having equivalent risks.

A terminal value for the asset or business is calculated at the end of the future cash flow period and this is also discounted to its present value using the selected discount rate.

Capitalisation of future maintainable earnings ("FME")

This method places a value on a business by capitalising estimated in future maintainable earnings ("FME"), at a rate that reflects business outlook, business risk, investor expectations, future growth prospects and other entity specific factors. This approach generally relies on the availability and analysis of comparable market data.

The FME approach is the most commonly applied valuation technique for businesses and is particularly applicable to entities with relatively stable earnings histories and reliable forecasts.

FME used in a valuation can be based on net profit after tax or alternatives to this such as earnings before interest and tax ("EBIT") or earnings before interest, tax, depreciation and amortisation ("EBITDA").

The capitalisation rate or "earnings multiple" is adjusted to in accordance with the selected FME base.

Net assets

Asset based methods estimate the market value of an entity's securities based on the realisable value of its identifiable net assets. Asset based approaches reflect the circumstances of the business being valued and include:

- Orderly realisation of assets
- Liquidation of assets
- Net assets of a going concern

An orderly realisation of assets approach estimates fair market value by determining the amount that would be distributed to equity holders, after payment of all liabilities including realisation costs and taxation charges that arise, assuming the entity is wound up in an orderly manner.

A liquidation approach is similar to the orderly realisation of assets method but there is an assumption that assets will be sold in a shorter time frame.

A net assets of a going concern approach estimates the going concern values of the net assets of an entity but generally does not take into account realisation costs.

APPENDIX C (continued)

Asset based methods generally disregard the possibility of an entity's value exceeding the realisable value of its assets as they do not recognise the value of intangible assets such as management, intellectual property and goodwill. They are therefore more appropriate for entities that are not profitable or have low returns on assets employed, entities that have a significant proportion of liquid assets or asset holding companies.

Quoted market prices

The quoted market price of listed securities is generally the most reliable guide to value if a company's shares are listed on a stock exchange or other market open to the public. Recent prices at which shares are bought and sold can be taken as the market value per share with allowance for public knowledge of factors and influences that impact upon the share price. Use of market pricing is particularly relevant where a security displays regular volumes of trading, creating an active market in that security.

Price of recent offers

The attributable value based on any recent genuine offers received provides strong indications of the value of the assets. We are not aware of any direct offers received by Sovereign or PMR for the Sugec Tenements other than the joint venture arrangements to which they are currently party to.

Comparable transactions

Recent genuine transactions of comparable assets in the market provides a strong indication of value that may be attributable to the assets subject to the proposed transactions. Due to the unique nature of the assets subject to the Transactions we are not aware of any directly comparable transactions. The takeover offer of PMR announced by Sovereign in August 2012 is considered to be an arms length transaction and a relevant reference point. The indicative values attributable to the Sugec Tenements by way of the joint venture agreement and other arrangements with Sugec, entered into on arm's length terms provide a reference point of the asset values.

Methodology adopted

DCF valuations require reliable forecast cash flows to be prepared, generally for five or more years. Financial projections or forecasts for the Sovereign and PMR assets are not available and it is unlikely that significant cash inflows will be received in the short term. DCF methodology is therefore not suitable for the valuation of Sovereign, PMR nor the proposed assets to be acquired.

A history of positive earnings is required for the FME methodology to be appropriate for the valuation of a company or group of assets. As Sovereign and PMR do not have a recent history of positive earnings, nor detailed forecasts of future earnings from the operations, a valuation based on positive earnings in the future is not supported. Accordingly, FME methodology is not considered appropriate for the valuation of Sovereign and PMR.

Sovereign and PMR are listed on the Australian Securities Exchange ("ASX") and, as such the Quoted Market Price basis, analysing ASX data for the recent period of trading, and price movements following company announcements on the ASX, remains an appropriate valuation methodology for the company as a whole if an active market is deemed to exist. However this method may not allow a value to be directly attributed to the PMR exploration assets proposed to be acquired.

The Sugec tenements subject to the proposed Transactions are associated with the Sugec JV and other agreements negotiated with Sugec over the two years. The indicative value of the tenements as ascribed by the Sugec agreements is considered the most accurate reference point to attributing a current value to the Sugec exploration and development assets using a Comparable Recent Transaction basis.

The indicative value of PMR shares as ascribed by Sovereigns takeover offer in 2012 is considered the most accurate reference point to attributing a current value to PMR shares using a Comparable Recent Transaction basis. The previous takeover offer allowed Sovereign to gain control over its current 78% interest in PMR reducing the volume of PMR share available for active trading on the market.

APPENDIX D**FINANCIAL SERVICES GUIDE**

Dated 30 May 2014

1. HLB Mann Judd Corporate (NSW) Pty Ltd

HLB Mann Judd Corporate (NSW) Pty Ltd ABN 94 003 918 125 (“**HMJC**” or “**we**” or “**us**” or “**our**” as appropriate) has been engaged to issue general financial product advice in the form of a Report to be provided to you.

2. Financial Services Guide

In the above circumstances we are required to issue to you, as a retail client, a Financial Services Guide (“**FSG**”). This FSG is designed to help retail clients make a decision as to their use of the general financial product advice and to ensure that we comply with our obligations as a financial services licensee.

This FSG includes information about:

- who we are and how we can be contacted;
- the services we are authorised to provide under our **Australian Financial Services Licence, No. 253134**;
- remuneration that we and/or our staff and any associates receive in connection with the general financial product advice;
- any relevant associations or relationships we have; and
- our complaints handling procedures and how you may access them.

3. Financial services we are licensed to provide

We hold an Australian Financial Services Licence which authorises us to provide reports for the purposes of acting for and on behalf of clients in relation to proposed or actual mergers, acquisitions, takeovers, corporate restructures or share issues, securities valuations or reports and to provide general financial product advice for the following classes of financial products:

- (i) debentures, stocks or bonds issued or proposed to be issued by a government;
- (ii) interests in managed investment schemes excluding investor directed portfolio services;
- (iii) securities; and
- (iv) superannuation;

to retail and wholesale clients.

We provide financial product advice by virtue of an engagement to issue a report in connection with a financial product of another person. Our report will include a description of the circumstances of our engagement and identify the person who has engaged us. You will not have engaged us directly but will be provided with a copy of the report as a retail client because of your connection to the matters in respect of which we have been engaged to report.

Any report we provide is provided on our own behalf as a financial services licensee authorised to provide the financial product advice contained in the report.

4. General financial product advice

In our report we provide general financial product advice, not personal financial product advice, because it has been prepared for the shareholder group as a whole without taking into account your personal objectives, financial situation or needs.

You should consider the appropriateness of this general advice having regard to your own objectives, financial situation and needs before you act on the advice. Where the advice relates to the acquisition or possible acquisition of a financial product and there is no statutory exemption relating to the matter, you should also obtain a product disclosure statement relating to the product and consider that statement before making any decision about whether to acquire the product.

5. Benefits that we may receive

We charge fees for providing reports. These fees will be agreed with, and paid by, the person who engages us to provide the report. Fees will be agreed on either a fixed fee or time cost basis.

Except for the fees referred to above, neither HMJC, nor any of its directors, employees or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of the report.

6. Remuneration or other benefits received by us

HMJC has no employees. All personnel who complete reports for HMJC are either partners of, or personnel employed by, HLB Mann Judd's New South Wales Partnership. None of those partners or personnel is eligible for bonuses directly in connection with any engagement for the provision of a report.

7. Referrals

We do not pay commissions or provide any other benefits to any person for referring customers to us in connection with the reports that we are licensed to provide.

8. Associations and relationships

HMJC is wholly owned by HLB Mann Judd (NSW) Pty Limited. Also, all directors of HMJC are partners in HLB Mann Judd's New South Wales Partnership. Ultimately the partners of HLB Mann Judd's New South Wales Partnership own and control HMJC.

From time to time HMJC, HLB Mann Judd (NSW) Pty Ltd or HLB Mann Judd's New South Wales Partnership may provide professional services, including audit, tax and financial advisory services, to financial product issuers in the ordinary course of their business.

9. Complaints resolution

9.1. *Internal complaints resolution process*

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial product advice. Complaints must be in writing, addressed to The Complaints Officer, HLB Mann Judd Corporate (NSW) Pty Ltd, Level 19, 207 Kent Street NSW 2000.

When we receive a written complaint we will record the complaint, acknowledge receipt of the complaint within **7 days** and investigate the issues raised. As soon as practical, and not more than **one month** after receiving the written complaint, we will advise the complainant in writing of the determination.

9.2. *Referral to external disputes resolution scheme*

A complainant not satisfied with the outcome of the above process, or our determination, has the right to refer the matter to the Financial Ombudsman Service ("FOS"). FOS is an independent organisation that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial services industry.

Further details about FOS are available at the FOS website www.fos.org.au or by contacting them directly via the details set out below.

Financial Ombudsman Service Limited
GPO Box 3, Melbourne VIC 3001
Toll free: 1300 78 08 08
Facsimile: (03) 9613 6399

10. Contact details

You may contact us using the details at the foot of page 1 of this FSG.