

SEPTEMBER 2019 QUARTERLY REPORT

HIGHLIGHTS

Rapidly Unlocking Rutile Potential

- Focussed drilling program underway at priority “Railroad” target to delineate an initial mineral resource – first drill-results imminent.
- Extensive high-tenor soil anomaly west of Railroad shows huge potential for expansion.
- Successful metallurgical test-work achieved outstanding specification rutile product.
- A total of twelve rutile targets identified to date with regional soil sampling ongoing.
- On-site laboratory established facilitating improved turnaround time for semi-quantitative results.
- Aiming to define a strategic resource that could support long-life, large-scale rutile production.
- Rutile market fundamentals continue to be robust with current and forecast prices remaining very strong.

Graphite Marketing Initiatives Progress

- Strong response from several potential graphite offtake customers with an increased number of product samples despatched and pricing/tender negotiations underway.

Sovereign Metals Limited (“**the Company**” or “**Sovereign**”) is pleased to provide its quarterly report for the period ended 30 September 2019. The Company’s focus continues to be on the exploration and development of the highly prospective rutile mineralisation discovered across its >4,000km² strategic ground holding in Malawi, southeast Africa.

A shallow drilling program is underway at the high-priority Railroad target zone with the aim of delineating an initial mineral resource. The first quantitative drill-results from this program are imminent. Additionally, an extensive, high-tenor soil anomaly west of Railroad shows huge potential for expansion.

The Company has now identified a total of twelve rutile targets through regional soil sampling and examination of historical shallow drill samples.

The Company’s overall strategy is to define a substantial resource that can support a long-life, large scale rutile operation. Sovereign is taking a systematic and progressive approach to delineating potential mineral resources over the very large project area.

The strong indicators to date of substantial rutile mineralisation has led the Company to also commence initial technical studies on the project, specifically to investigate the most effective potential mining and processing methods.

Management is highly encouraged with results achieved to date and looks forward to presenting further exploration and mineralogical results to the market shortly.

Enquiries

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RUTILE EXPLORATION UPDATE

Saprolite-hosted Rutile

During the September quarter, the Company developed the foundations to enable it to efficiently explore and assess rutile mineralisation across its very large >4,000km² ground holding.

A key component of the exploration strategy is regional soil sampling programs in order to identify new areas of rutile mineralisation. An initial program focusing on the western project areas has already identified six new zones of rutile mineralisation, taking the total number of rutile prospects to twelve (see Figure 1). The program involved 691 soil samples taken on notionally ~10km spaced lines at ~200m sample spacing.

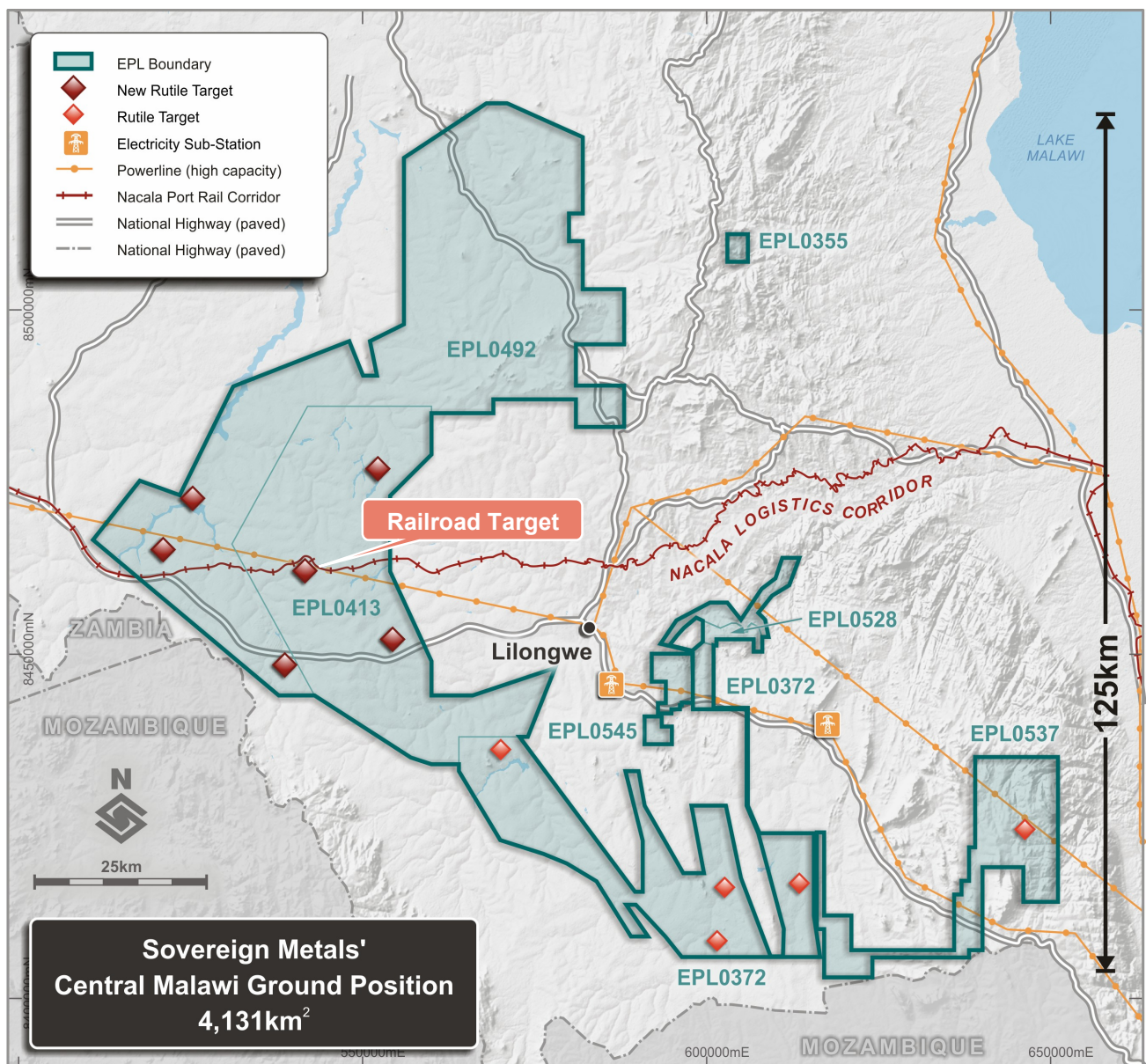


Figure 1: Project map showing newly identified rutile mineralisation zones discovered by soil sampling

The program utilised onsite wet tabling, magnetic separation and hand-held XRF analysis to identify recoverable rutile mineralisation to a semi-quantitative level. These results to-date show six new zones of surface rutile with along-line widths ranging of up to ~2.2km but with strike length and true orientation of rutile mineralisation still generally to be determined. All rutile mineralisation zones identified remain open laterally in both directions.

Soil sampling over large regional areas is ongoing in order to identify further priority targets.



Figure 2 & 3: Wet tabling soil samples on-site in Malawi

The Company has established a field laboratory on site in Malawi in order to reduce sample turnaround times for semi-quantitative results, provide additional sample selection efficiencies and facilitate exploration decisions in real-time.

Initial Shallow Drilling

Initial shallow drilling of 35 hand auger holes in total over the six targets is now complete. Hole depth was up to 17m and averaged 10m. All samples were processed through the on-site laboratory to determine which are likely to have potentially economic grades of recoverable rutile. Samples deemed to have significant recoverable rutile mineralisation were air freighted to a globally recognised Australian-based independent laboratory for quantitative mineralogical determination. Results for the high-priority Railroad target are imminent.

Next Steps

Sovereign has completed a focussed shallow drilling program to further assess the scale, grade and rutile recoverability of a number of the more encouraging areas of mineralisation. Infill and step-out drilling is now focusing on the best area of mineralisation identified so far in order to work toward an initial mineral resource. Regional soil sampling is also continuing in order to identify further priority targets.

Metallurgical test-work designed to optimise the process flowsheet and further validate commercial rutile product specifications is ongoing.

The strong indicators to date of substantial rutile mineralisation has led Sovereign to also commence technical studies, specifically to investigate the most effective mining and processing methods.

Rutile Market

The titanium dioxide (TiO₂) minerals rutile, leucosene and ilmenite are the principal feedstock for pigment production. Natural rutile is the highest-grade feedstock for manufacturing TiO₂ pigment and producing titanium metal. Titanium pigments are used in paints, coatings and plastics. Titanium also has specialty uses including welding electrodes, commercial aerospace and military applications.

According to the world's largest rutile producer, Iluka Resources Limited ("Iluka"), global supplies of natural rutile are in structural deficit¹. Iluka sees continued growth in demand for high-grade titanium feedstocks over 2019 and is physically unable to satisfy all requests for feedstock in the high-grade titanium segments of the market.

Historically, all titanium feedstock prices including rutile prices have followed US pigment prices with a six to 12-month lag. However, since 2017, as natural rutile supply tightness has emerged, rutile prices have decoupled from their historic relationship with US pigment prices. For the 15 months following the end of 2017, US pigment prices have increased by 4% whereas the rutile price has increased by 21%¹.

The rutile market fundamentals continue to be robust with current and forecast pricing remaining very strong. Current pricing is over US\$1,100/t with expected price increases of 6-8% based on tight supply conditions coupled with strong demand from the pigment and welding markets².

MALINGUNDE GRAPHITE UPDATE

Targeting Sales & Offtake

The Company has received a very strong response from potential offtake customers with numerous parties requesting samples for assessment. To date, 10+ sample batches of the Company's high-quality graphite concentrates has already been despatched to potential offtakers for their assessment and qualification. The Company is continuing to provide large quantities of product on-demand for immediate testing and qualification to groups with which it has an existing relationship and to new potential offtake customers

Sovereign is advancing discussions with a number of these Tier 1 end users and traders of graphite, particularly in the industrial space and primarily for coarser flake material. A number of these discussions have progressed on key items including pricing/tender details and potential production schedule.

Current graphite market conditions have dictated that the Company focus on obtaining offtake sales agreements and investigate project financing options. All field and laboratory activities related to the Definitive Feasibility Study (DFS) are now complete. However, the remaining desktop work on detailed mining, engineering and infrastructure design has been put on hold for the time being until commercial agreements on product sales and more certainty around financing options is obtained.

CORPORATE

As at 30 September 2019, Sovereign had cash reserves of A\$2.66 million.

CARPENTARIA JOINT VENTURE

Mount Isa Mines Limited (MIM), a Glencore plc Company, continues to manage and sole fund exploration on all tenements comprising the Carpentaria Joint Venture (**CJV**). Sovereign currently holds a 24.43% diluting interest in the tenements.

BACKGROUND

Sovereign Metals controls a large ground package of over 4,000km² in Malawi. The highly strategic and prospective ground package contains significant zones of rutile mineralisation and the Malingunde saprolite-hosted graphite project.

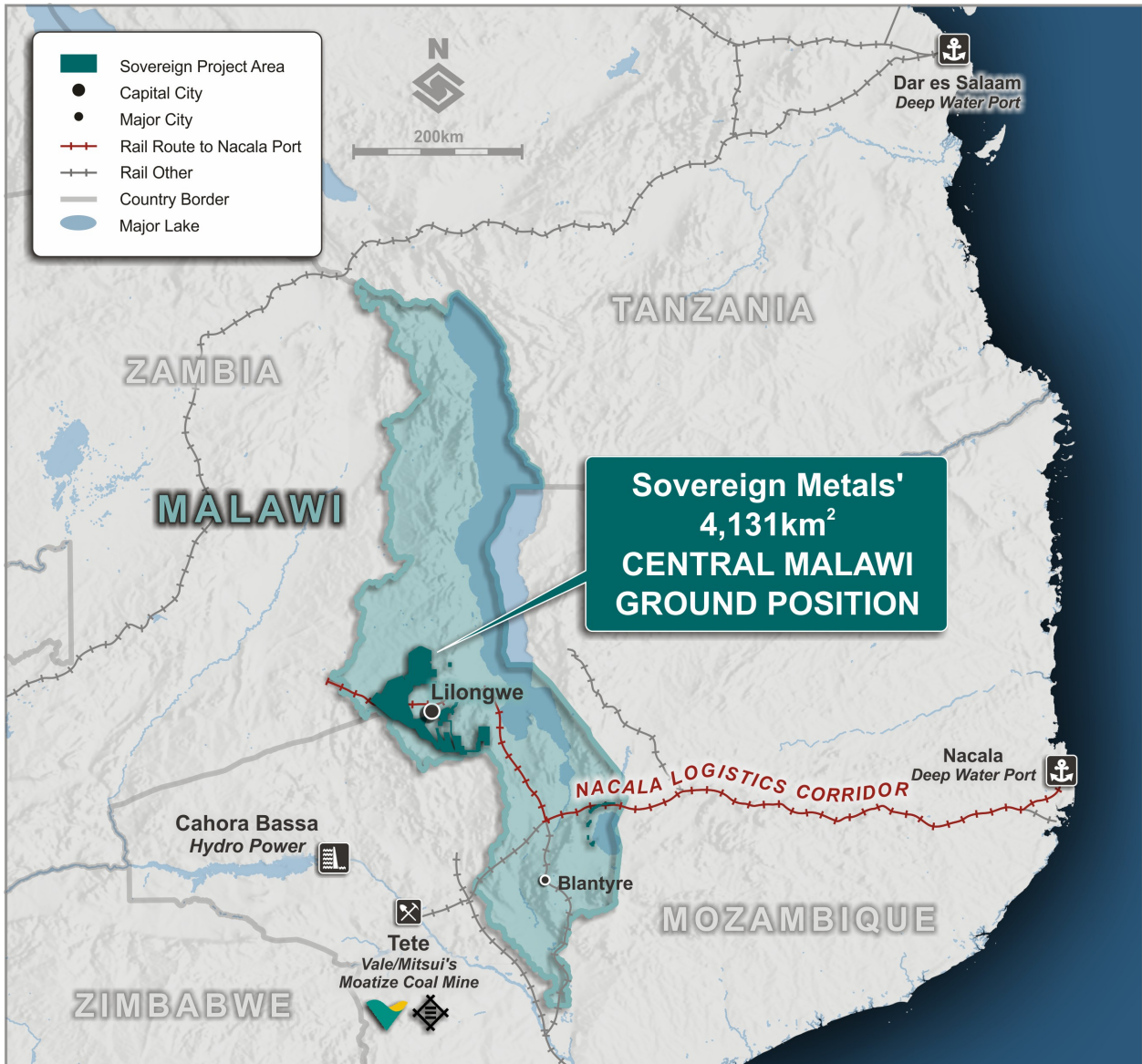
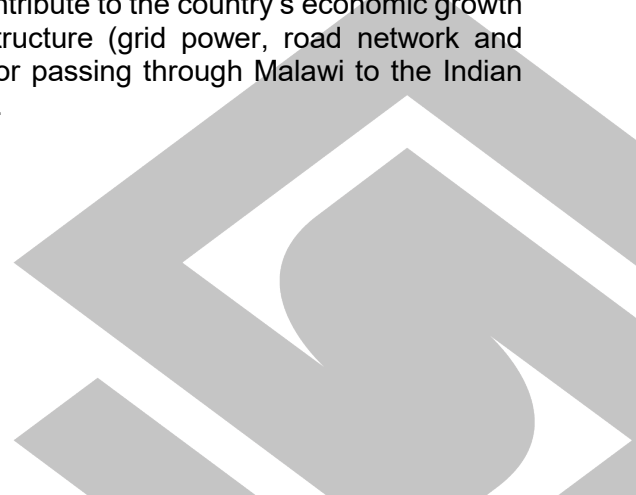


Figure 4: Project map showing Sovereign's significant ground position in Malawi

The world-class projects are located in Malawi, a stable, transparent jurisdiction, increasingly attracting international investment with significant potential for mining to contribute to the country's economic growth and development. The country hosts excellent existing infrastructure (grid power, road network and established labour pool) as well as the Nacala Logistics Corridor passing through Malawi to the Indian Ocean (Nacala Port) providing a low-cost transportation solution.



Competent Person Statements

The information in this Announcement that relates to Exploration Results and QEMSCAN results are extracted from announcements dated 7 November 2018, 24 January 2019, 24 June 2019, 7 August 2019 and 23 September 2019. These announcements are available to view on www.sovereignmetals.com.au. The information in the original ASX Announcements that related to Exploration Results was based on, and fairly represents, information compiled by Dr Julian Stephens, a Competent Person who is a member of the Australasian Institute of Geoscientists (AIG). Dr Stephens is the Managing Director of Sovereign Metals Limited and a holder of shares and options in Sovereign Metals Limited. Dr Stephens has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity being undertaken, to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. The Company confirms that it is not aware of any new information or data that materially affects the information included in the original market announcements. The Company confirms that the form and context in which the Competent Person's findings are presented have not been materially modified from the original market announcements.

The information in this report that relates to Metallurgical Results (rutile) is extracted from an announcement on 24 June 2019. This announcement is available to view on www.sovereignmetals.com.au. The information in the original announcement that related to Metallurgical Results was based on, and fairly represents, information compiled by Mr Gavin Diener, a Competent Person who is a member of the AusIMM. Mr Diener is the Chief Operating Officer of TZMI, an independent mineral sands consulting company and is not a holder of any equity type in Sovereign Metals Limited. Mr Diener has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity being undertaken, to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. The Company confirms that it is not aware of any new information or data that materially affects the information included in the original market announcements. The Company confirms that the form and context in which the Competent Person's findings are presented have not been materially modified from the original market announcement.

Forward Looking Statement

This release may include forward-looking statements, which may be identified by words such as "expects", "anticipates", "believes", "projects", "plans", and similar expressions. These forward-looking statements are based on Sovereign's expectations and beliefs concerning future events. Forward looking statements are necessarily subject to risks, uncertainties and other factors, many of which are outside the control of Sovereign, which could cause actual results to differ materially from such statements. There can be no assurance that forward-looking statements will prove to be correct. Sovereign makes no undertaking to subsequently update or revise the forward-looking statements made in this release, to reflect the circumstances or events after the date of that release.

References

1. Iluka Resources Limited. Ruidow Titanium Conference Presentation May 2019.
2. Iluka Resources Limited. Quarterly Review 30 June 2019.



Appendix 1: Summary of mining tenements

As at 30 September 2019, the Company had an interest in the following tenements:

Project Name	Permit Number	Percentage Interest	Area (km ²)	Status
<u>Malawi</u>				
Central Malawi Ground Holdings	EPL 0372	100%	732	Granted
	EPL 0355	100%	12	Granted
	EPL 0413	100%	1,077	Granted
	EPL 0492	100%	1,895	Granted
	EPL 0528	100%	21	Granted
	EPL 0537	100%	339	Granted
	EPL 0545	100%	54	Granted
	Total		4,131	

Project Name	Permit Number	Percentage Interest	Joint Venture Partner	Status
<u>Queensland, Australia</u>				
Mt Marathon	EPM 8586	24.43%	Mount Isa Mines	Granted
Mt Avarice	EPM 8588	24.43%	Mount Isa Mines	Granted
Fountain Range	EPM 12561	24.43%	Mount Isa Mines	Granted
Corella River	EPM 12597	24.43%	Mount Isa Mines	Granted
Saint Andrews Extended	EPM 12180	24.43%	Mount Isa Mines	Granted

Beneficial percentage interests in Farm-out agreements disposed during the quarter ending 30 September 2019:

Project Name	Permit Number	Type of change	Interest at beginning of quarter	Interest disposed of during quarter	Interest at end of quarter
<u>Carpentaria JV:</u>					
Mt Marathon	EPM 8586	Farm out	24.67%	0.24%	24.43%
Mt Avarice	EPM 8588	Farm out	24.67%	0.24%	24.43%
Fountain Range	EPM 12561	Farm out	24.67%	0.24%	24.43%
Corella River	EPM 12597	Farm out	24.67%	0.24%	24.43%
Saint Andrews Ext.	EPM 12180	Farm out	24.67%	0.24%	24.43%

Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10, 01/05/13, 01/09/16

Name of entity

SOVEREIGN METALS LIMITED

ABN

71 120 833 427

Quarter ended ("current quarter")

30 September 2019

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	-	-
1.2 Payments for		
(a) exploration & evaluation	(1,230)	(1,230)
(b) development	-	-
(c) production	-	-
(d) staff costs	(113)	(113)
(e) administration and corporate costs	(136)	(136)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	20	20
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Research and development refunds	-	-
1.8 Other (provide details if material)		
Business Development	(56)	(56)
1.9 Net cash from / (used in) operating activities	(1,515)	(1,515)
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(3)	(3)
(b) tenements	-	-
(c) investments	-	-
(d) other non-current assets	-	-

Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
2.2 Proceeds from the disposal of:		
(a) property, plant and equipment	-	-
(b) tenements (see item 10)	-	-
(c) investments	-	-
(d) other non-current assets	-	-
2.3 Cash flows from loans to other entities	-	-
2.4 Dividends received (see note 3)	-	-
2.5 Other (provide details if material)	-	-
2.6 Net cash from / (used in) investing activities	(3)	(3)
3. Cash flows from financing activities		
3.1 Proceeds from issues of shares	-	-
3.2 Proceeds from issue of convertible notes	-	-
3.3 Proceeds from exercise of share options	-	-
3.4 Transaction costs related to issues of shares, convertible notes or options	-	-
3.5 Proceeds from borrowings	-	-
3.6 Repayment of borrowings	-	-
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	-	-
3.9 Other (provide details if material)	-	-
3.10 Net cash from / (used in) financing activities	-	-
4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of period	4,178	4,178
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(1,515)	(1,515)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(3)	(3)
4.4 Net cash from / (used in) financing activities (item 3.10 above)	-	-
4.5 Effect of movement in exchange rates on cash held	-	-
4.6 Cash and cash equivalents at end of period	2,660	2,660

5. Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1 Bank balances	45	29
5.2 Call deposits	2,615	4,149
5.3 Bank overdrafts	-	-
5.4 Other (provide details)	-	-
5.5 Cash and cash equivalents at end of quarter (should equal item 4.6 above)	2,660	4,178

6. Payments to directors of the entity and their associates	Current quarter \$A'000
6.1 Aggregate amount of payments to these parties included in item 1.2	84
6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3	-
6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2	

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

7. Payments to related entities of the entity and their associates	Current quarter \$A'000
7.1 Aggregate amount of payments to these parties included in item 1.2	-
7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3	-
7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2	

Not applicable

8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities	-	-
8.2 Credit standby arrangements	-	-
8.3 Other (please specify)	-	-
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

Not applicable

9. Estimated cash outflows for next quarter	\$A'000
9.1 Exploration and evaluation	540
9.2 Development	-
9.3 Production	-
9.4 Staff costs	125
9.5 Administration and corporate costs	125
9.6 Other (provide details if material)	-
9.7 Total estimated cash outflows	790

10. Changes in tenements (items 2.1(b) and 2.2(b) above)	Tenement reference and location	Nature of interest	Interest at beginning of quarter	Interest at end of quarter
10.1 Interests in mining tenements and petroleum tenements lapsed, relinquished or reduced	EPM 8586 EPM 8588 EPM 12561 EPM 12597 EPM 12180	Reduction of interest in accordance with terms of joint venture agreement.	24.67%	24.43%
10.2 Interests in mining tenements and petroleum tenements acquired or increased	EPL0545	Direct Interest	-	100%

Compliance statement

- This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- This statement gives a true and fair view of the matters disclosed.

[lodged electronically without signature]

Sign here:
(Company secretary)

Date: 31 October 2019

Print name: Lachlan Lynch.....

Notes

- The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
- If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, AASB 6: Exploration for and Evaluation of Mineral Resources and AASB 107: Statement of Cash Flows apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standards apply to this report.
- Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.