

JUNE 2020 QUARTERLY REPORT

HIGHLIGHTS

Kasiya Emerging as a Globally Significant Rutile Discovery

- ❖ Exceptional high-grade rutile drill results reported throughout the period
- ❖ Significant expansion of mineralised footprint expanded to ~6.5km strike and up to 3km width
- ❖ High-grade mineralisation occurs from surface and remains open laterally in most directions
- ❖ Maiden Mineral Resource Estimate on track for Q3, 2020
- ❖ Multiple technical and supporting study work programs well underway
- ❖ Strong cash position of A\$3.6m as at the date of this report, which includes an additional A\$1.6m received from the exercise of options subsequent to the end of the quarter

Sovereign Metals Limited (Company or Sovereign) is pleased to provide its quarterly report for the period ended 30 June 2020. The Company's focus continues to be on the Kasiya Deposit (Kasiya), the Company's flagship large scale, saprolite-hosted, high-grade rutile deposit in Malawi.

Kasiya grew rapidly throughout the June Quarter and is emerging as a globally significant rutile project. It features large areas of high-grade mineralisation from surface that can be processed via a simple, conventional flowsheet to produce high-quality natural rutile.

During and subsequent to the quarter end, Sovereign reported results from 90 hand-auger holes for 918m total. The drilling reported to date shows the strike length of high-grade mineralisation of over 6.5km with the width of the mineralised envelope ranging up to ~3km. Mineralisation continues to remain open along strike to the north, south-west, south-east and open laterally to the east.

The maiden JORC Mineral Resource Estimate is on track for completion towards the end of Q3, 2020.

Sovereign's Managing Director Dr Julian Stephens commented:

"The last quarter was a company defining period for Sovereign. We have rapidly expanded the footprint of the Kasiya rutile deposit and reported what we believe to be some of the highest-grade, thickest and spatially expansive rutile drill-intercepts globally. The Company is in a strong position with the recent cash received from exercise of options, as we embark on another exciting quarter of work programs and newsflow culminating in the maiden JORC Mineral Resource at Kasiya."

ENQUIRIES

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KASIYA RUTILE DEPOSIT

During the quarter, the Company continued its exploration and resource definition drilling across the large mineralised footprint at Kasiya. The Company is targeting a maiden JORC Mineral Resource Estimate in late Q3, 2020.

To date, 109 hand-auger holes for 1,113m has been reported from Kasiya. These results show the strike length of high-grade mineralisation is over 6.5km with widths of the mineralised envelope ranging up to ~3km. Mineralisation continues to remain open along strike to the north, south-west, south-east and open laterally to the east.

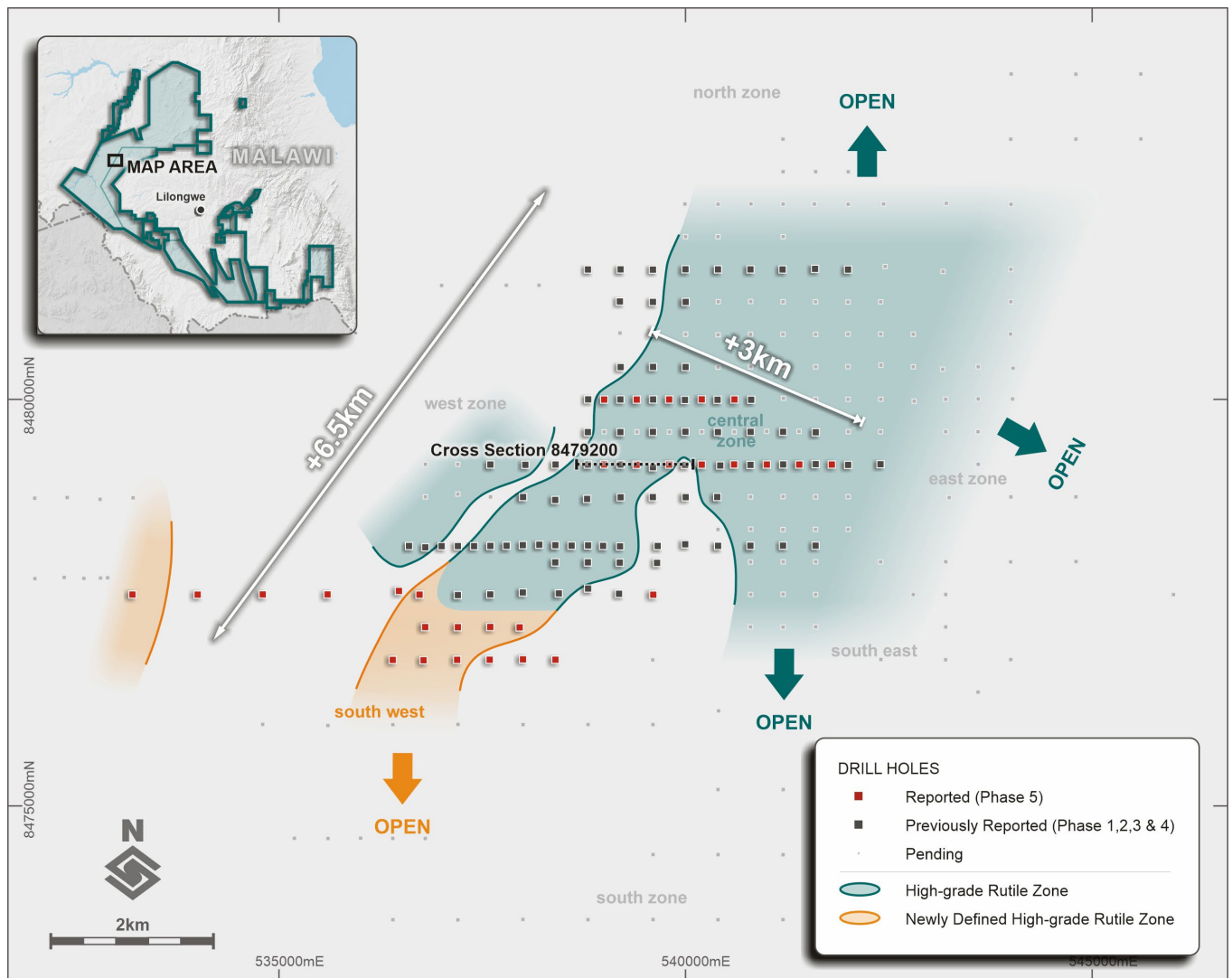


Figure 2. Drill plan showing extent of rutile mineralisation drilled to date at Kasiya

The style of mineralisation at Kasiya can be described as eluvial, otherwise known as a residual placer. This type of rutile mineralisation occurs as flat “blankets”, typically between 4 and 10m thick, draped across expansive, elevated plateaus that have not experienced any significant erosion.

This eluvial rutile mineralisation style has many similarities to bauxite (aluminium ore) having been formed by the same general weathering and volume reduction processes to leave behind the valuable, physically and chemically immobile minerals. The significant difference being that the residual rutile placer mineralisation at Kasiya is naturally unconsolidated, liberated and free-dig, unlike bauxite which generally requires blasting.

The current geological interpretation is that high-grade, free-dig rutile mineralisation is also likely to continue vertically to the base of saprolite in the areas where holes terminated in mineralisation. The depth of mineralised saprolite can be reasonably assumed from existing geological knowledge to be around 25m from surface. Deeper drilling techniques such as air-core, diamond-core or sonic will need to be employed to confirm this at Kasiya.

Key shallow hand-auger results achieved during the quarter include:

- **10m @ 1.53% rutile inc. 6m @ 1.77% inc. 3m @ 2.31% rutile from surface**
- **14m @ 1.24% rutile inc. 4m @ 1.95% rutile from surface**
- **9m @ 1.19% rutile inc. 3m @ 1.86% rutile from surface**
- **11m @ 1.37% rutile inc 5m @ 1.82% rutile from surface**
- **11m @ 1.33% rutile inc. 5m @ 1.79% rutile from surface**
- **11m @ 1.14% rutile inc. 3m @ 1.77% rutile from surface**
- **10m @ 1.12% rutile inc. 3m @ 1.66% rutile from surface**
- **13m @ 1.32% rutile inc. 4m @ 1.58% rutile from surface**
- **14m @ 1.04% rutile inc. 4m @ 1.27% rutile from surface**
- **13m @ 1.13% rutile inc. 4m @ 1.86% rutile from surface**
- **9m @ 1.00% rutile inc. 4m @ 1.46% rutile from surface**
- **12m @ 1.23% rutile inc. 3m @ 1.43% rutile from surface**
- **12m @ 1.07% rutile inc. 8m @ 1.26% rutile from surface**
- **10m @ 1.01% rutile inc. 5m @ 1.05% rutile from surface**
- **8m @ 1.01% rutile inc. 4m @ 1.50% rutile from surface**

Cross Section 8479600 in two parts

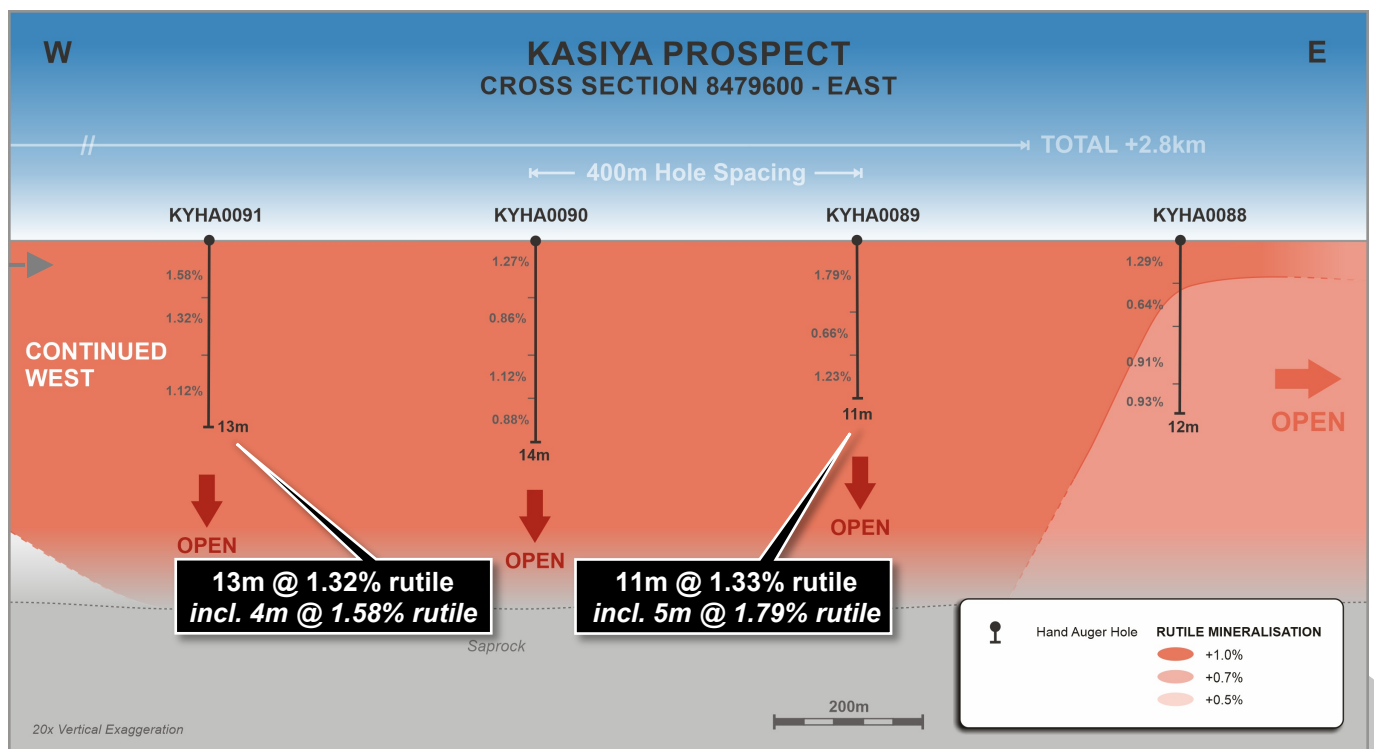
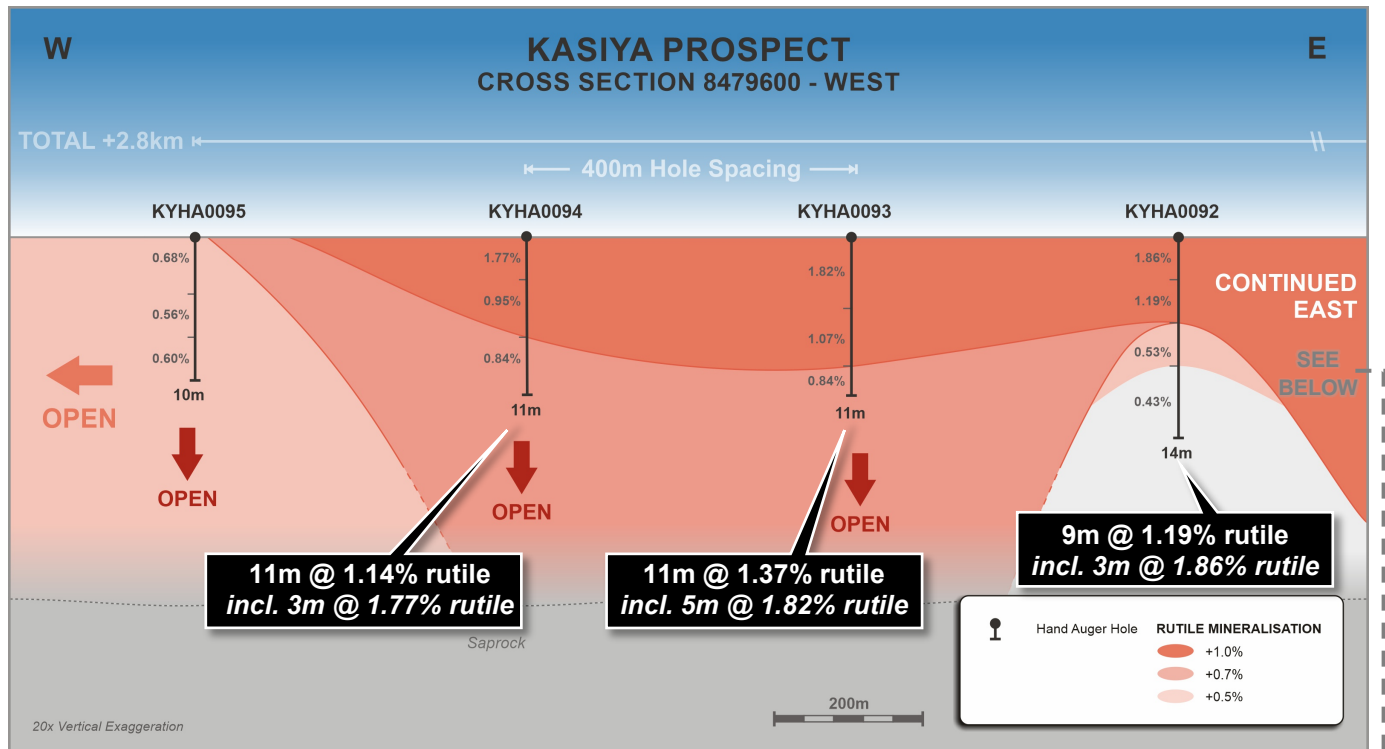


Figure 3. Cross-section of the complete drill line showing the broad high-grade mineralisation with multiple holes open at depth and mineralisation still open laterally in both directions. The width of mineralisation has necessitated breaking this cross-section into two parts.

A NEW RUTILE PROVINCE

Additional to the flagship Kasiya rutile deposit, numerous other prospects and targets have been identified by the Company. Sovereign believes it has now discovered a globally significant rutile province across its large Malawi ground holding.

The Malawi Rutile Province features two confirmed, discrete rutile mineralisation styles hosted respectively in sand and saprolite (soft, friable weathered material) which are both amenable to conventional processing. Rutile mineralisation identified to date has generally not been spatially constrained by drilling at either of the two main prospects, Kasiya (saprolite) and the Bua Channel (sand). The Company is targeting large resources that could support long-life, large-scale rutile production.

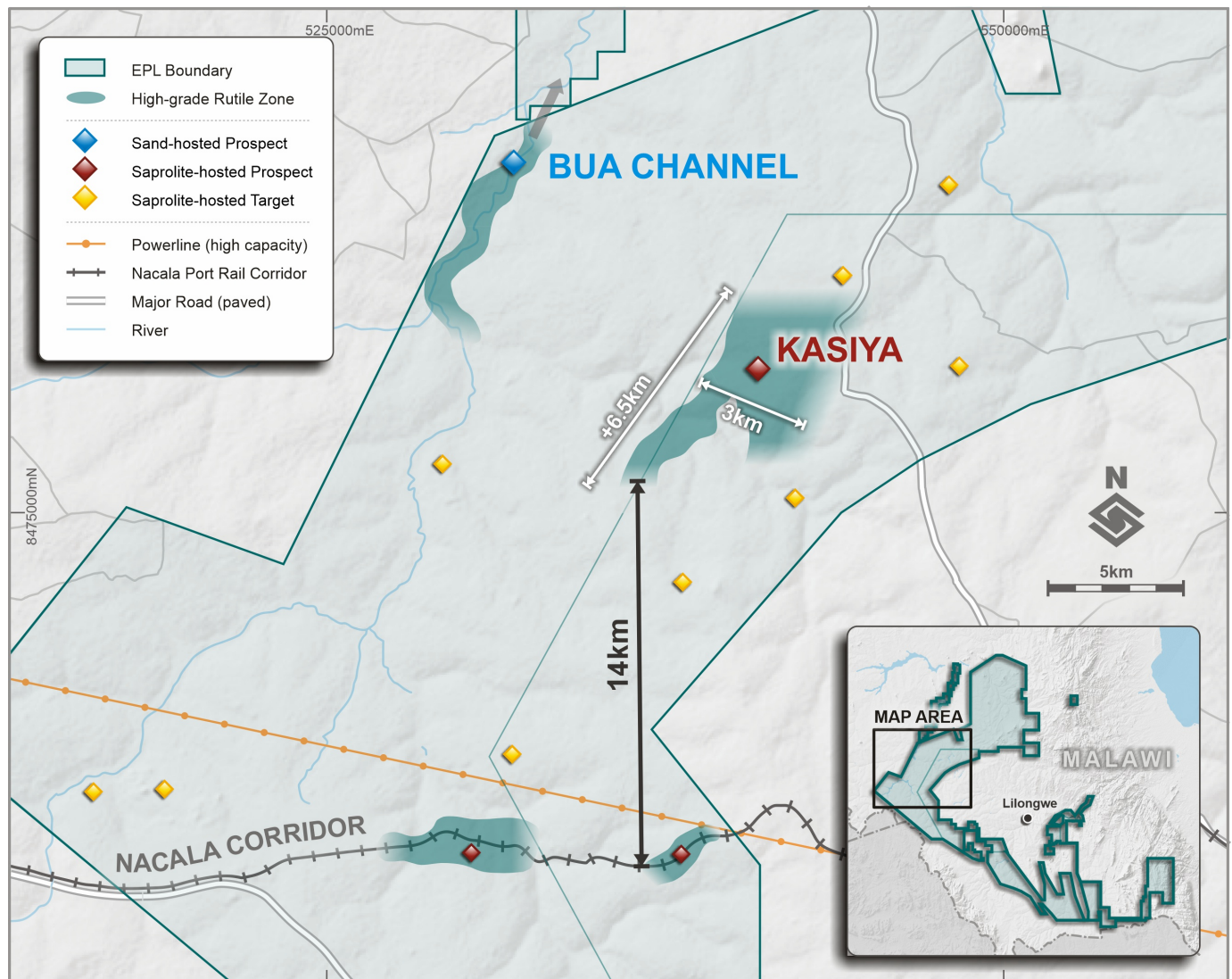


Figure 4. Map of the broader Kasiya and Bua Channel area showing the multiple rutile deposits, prospects and targets and proximity to the Nacala Rail Corridor.

Sovereign has confirmed classic sand-hosted placer style rutile mineralisation via drilling in the southern Bua Channel over approximately 8km length with widths ranging from 300m to 700m and mineralised sand thicknesses ranging from about 4m to 10m.

A significant, +40km potential extension was identified to the north by the field team and this ground was secured with a new exploration licence granted in January 2020. Planning for an air-core drilling program is underway although it is uncertain when this may be able to commence due to Covid19-related import and entry of foreigner restrictions.

FORWARD PLAN

The ongoing rutile work programs for Kasiya and the Company's other prospects within the Malawi Rutile Province include;

- ✦ Continued analyses and reporting of drill samples over the coming weeks ahead of the maiden Mineral Resource Estimate for Kasiya which is on target for late Q3, 2020;
- ✦ Step-out and regional drilling at Kasiya and the broader surrounding area to identify extensions and satellite mineralised zones;
- ✦ Bulk-scale metallurgical test-work is well advanced on a 1 tonne sample from Kasiya;
- ✦ Push-tube drilling at Kasiya to twin hand-auger holes and to obtain cored samples for specific gravity (SG) determination and initial geotechnical analysis;
- ✦ Mining and tailings studies are ongoing which will feed into a future Scoping Study
- ✦ A desktop regional targeting exercise using all available knowledge and datasets is continuing with the goal of discovering more high-grade, Kasiya-like rutile mineralisation further afield; and
- ✦ Investigation of the potential for graphite to be recovered as a by-product at Kasiya including quantitative analysis of selected drill samples and sighter metallurgical work.



Figures 5-6. Sovereign team members hand-auger drilling at Kasiya

RUTILE MARKET

Rutile is the purest, highest-grade natural form of titanium dioxide (TiO_2) and is the preferred feedstock in manufacturing titanium pigment and producing titanium metal. Titanium pigments are used in paints, coatings and plastics. Titanium also has specialty uses including in welding, aerospace and military applications.

Global supplies of natural rutile are in structural deficit, with limited new deposits forecast to come online in the short to medium term. Global supply is continuing to decline, as a number of current operations deplete reserves and mine declining ore grades.

Natural rutile has a far lower carbon footprint in comparison to its alternatives. Pigment producers favour natural rutile over higher energy and carbon intensive 'upgraded' titanium feedstocks such as synthetic rutile or titanium slag.

The rutile market fundamentals continue to be robust with current and forecast pricing remaining very strong. The world's largest rutile producer, Iluka Resources Limited achieved US\$1,246 per tonne for the first half of 2020¹.

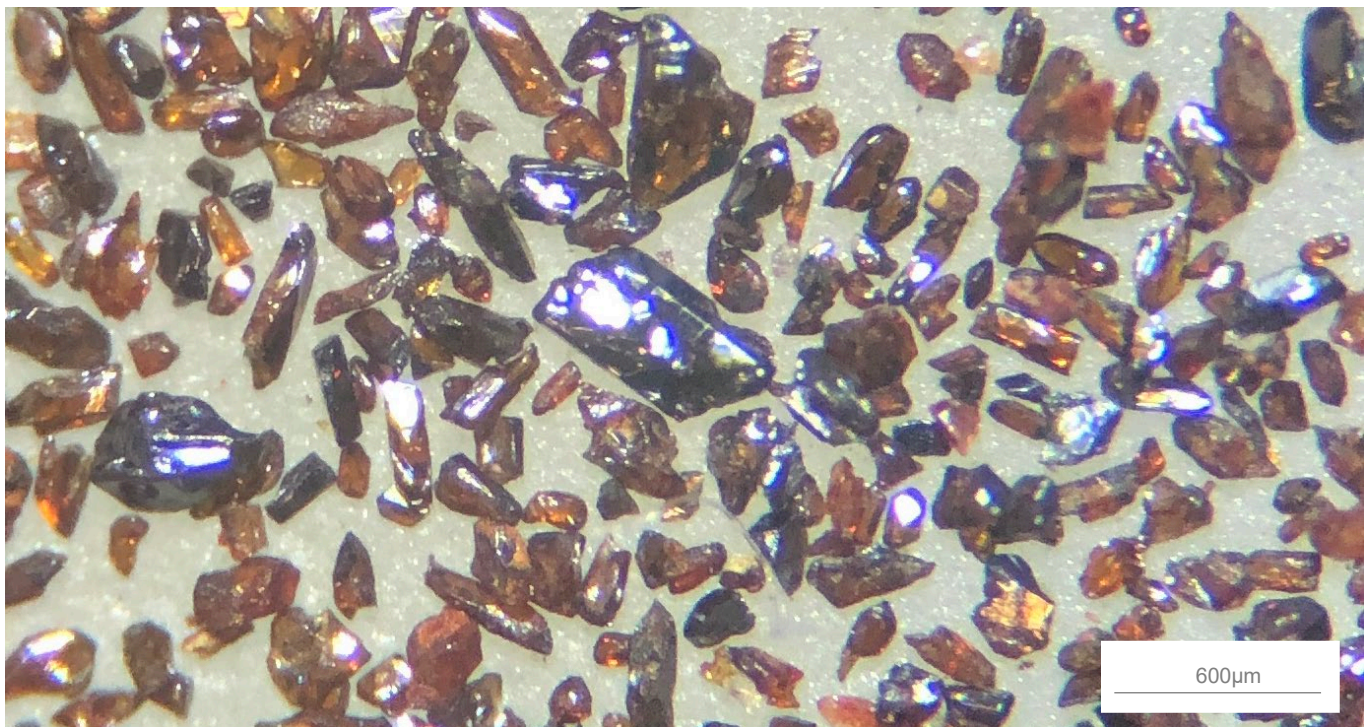


Figure 7. Photo-micrograph of Sovereign's high quality rutile concentrate.

CORPORATE

Sovereign is well positioned with A\$3.6m of cash at bank at the date of this report. The Company received an additional A\$1.6m from the exercising of unlisted options received subsequent to the end of the quarter.

The strong cash position allows the Company to continue exploration and development activities on its rutilite projects.

COVID-19 UPDATE

Sovereign is maintaining operations in Malawi on a partly reduced basis to ensure safety of staff and contractors. The Company continuously evaluates the situation for all risks to employees, communities and general operational safety and will make any required adjustments as the situation evolves, or as required by the Government of Malawi.

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 23.37% diluting interest in the tenements.

RELATED PARTY PAYMENTS

During the quarter ended 30 June 2020, the Company made payments of \$141,000 to related parties and their associates. These payments relate to existing remuneration arrangements (executive salaries, director fees and superannuation of \$91,000) and provision of serviced office facilities, company secretarial services and administration services (\$50,000).



Competent Person Statements

The information in this Announcement that relates to rutile Exploration Results are extracted from announcements dated 26 May 2020, 22 June 2020 and 13 July 2020. 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.

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.

Authorisation Statement

This announcement has been authorised for release by the Company's Board of Directors.



APPENDIX 1: SUMMARY OF MINING TENEMENTS

As at 30 June 2020, 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
	EL 0413	100%	535	Granted
	EPL 0492	100%	1,895	Granted
	EPL 0528	100%	21	Granted
	EPL 0537	100%	339	Granted
	EPL 0545	100%	54	Granted
	EL 0561	100%	125	Granted
Total			3,713	

No changes in the Company's interests occurred during the quarter.

Project Name	Permit Number	Percentage Interest	Joint Venture Partner	Status
<u>Queensland, Australia</u>				
Mt Marathon	EPM 8586	23.37%	Mount Isa Mines	Granted
Mt Avarice	EPM 8588	23.37%	Mount Isa Mines	Granted
Fountain Range	EPM 12561	23.37%	Mount Isa Mines	Granted
Corella River	EPM 12597	23.37%	Mount Isa Mines	Granted
Saint Andrews Extended	EPM 12180	23.37%	Mount Isa Mines	Granted

Beneficial percentage interests in Farm-out agreements disposed during the quarter ending 30 June 2020:

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	23.47%	0.10%	23.37%
Mt Avarice	EPM 8588	Farm out	23.47%	0.10%	23.37%
Fountain Range	EPM 12561	Farm out	23.47%	0.10%	23.37%
Corella River	EPM 12597	Farm out	23.47%	0.10%	23.37%
Saint Andrews Ext.	EPM 12180	Farm out	23.47%	0.10%	23.37%

Appendix 5B

Mining exploration entity or oil and gas exploration entity quarterly cash flow report

Name of entity

SOVEREIGN METALS LIMITED

ABN

71 120 833 427

Quarter ended ("current quarter")

30 June 2020

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
1.	Cash flows from operating activities		
1.1	Receipts from customers	-	-
1.2	Payments for		
	(a) exploration & evaluation (if expensed)	(426)	(2,863)
	(b) development	-	-
	(c) production	-	-
	(d) staff costs	(164)	(570)
	(e) administration and corporate costs	(76)	(475)
1.3	Dividends received (see note 3)	-	-
1.4	Interest received	4	38
1.5	Interest and other costs of finance paid	-	-
1.6	Income taxes paid	-	-
1.7	Government grants and tax incentives	50	50
1.8	Other – Business Development	(49)	(274)
1.9	Net cash from / (used in) operating activities	(661)	(4,094)
2.	Cash flows from investing activities		
2.1	Payments to acquire:		
	(a) entities	-	-
	(b) tenements	-	-
	(c) property, plant and equipment	(46)	(54)
	(d) exploration & evaluation (if capitalised)	-	-
	(e) investments	-	-
	(f) other non-current assets	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
2.2	Proceeds from the disposal of:		
	(a) entities	-	-
	(b) tenements	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) 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	(46)	(54)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	2,000
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	405	405
3.4	Transaction costs related to issues of equity securities or convertible debt securities	(11)	(75)
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	394	2,330

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	2,673	4,178
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(661)	(4,094)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(46)	(54)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	394	2,330
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	2,360	2,360

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	233	29
5.2 Call deposits	2,127	2,644
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)	2,360	2,673

6. Payments to related parties of the entity and their associates

- 6.1 Aggregate amount of payments to related parties and their associates included in item 1
- 6.2 Aggregate amount of payments to related parties and their associates included in item 2

Current quarter \$A'000
141
-

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments

7. Financing facilities

*Note: the term "facility" includes all forms of financing arrangements available to the entity.
Add notes as necessary for an understanding of the sources of finance available to the entity.*

- 7.1 Loan facilities
- 7.2 Credit standby arrangements
- 7.3 Other (please specify)
- 7.4 **Total financing facilities**

Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
-	-
-	-
-	-
-	-

7.5 Unused financing facilities available at quarter end

-

- 7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (Item 1.9)	(661)
8.2 Capitalised exploration & evaluation (Item 2.1(d))	-
8.3 Total relevant outgoings (Item 8.1 + Item 8.2)	(661)
8.4 Cash and cash equivalents at quarter end (Item 4.6)	2,360
8.5 Unused finance facilities available at quarter end (Item 7.5)	-
8.6 Total available funding (Item 8.4 + Item 8.5)	2,360
8.7 Estimated quarters of funding available (Item 8.6 divided by Item 8.3)	3.57

8.8 If Item 8.7 is less than 2 quarters, please provide answers to the following questions:

1. Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?

Answer: Not applicable

2. Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Answer: Not applicable

3. Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer: Not applicable

Compliance statement

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

Date: 31 July 2020

Authorised by: Company Secretary
(Name of body or officer authorising release – see note 4)

Notes

- This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
- If this quarterly cash flow 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 cash flow 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.
- If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
- If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.