

DECEMBER 2020 QUARTERLY REPORT

Sovereign Metals Limited (Company or Sovereign) is pleased to provide its quarterly report for the period ended 31 December 2020. The Company's primary focus was on the very large and high-grade Kasiya Rutile Deposit ("Kasiya") in Malawi.

HIGHLIGHTS

- Working towards a substantial maiden rutile Mineral Resource Estimate (**MRE**) at Kasiya which is expected in the March quarter.
- Continued resource definition and regional exploration drilling is ongoing with teams deployed across Kasiya and other regional rutile prospects.
- A significant number of sample batches are in various stages of completion, including some that are well advanced, with results to be reported throughout the quarter.
- Mining and tailings studies continue and will feed into a future Scoping Study.
- Preparations for feasibility level variability metallurgical test-work have commenced with a significant samples obtained.
- Very positive feedback from rutile product sample assessment by major industry end-users.
- Commencement of metallurgical test-work on rutile tailings to assess the potential for a by-product from Kasiya.
- Recent improvements in the graphite market have led the Company to re-examine its PFS-level low cost Malingunde Graphite Project. A focus will be on sustainability with Sovereign already demonstrating the ability to produce a range of premium-quality graphite products, providing the potential to sell into the rapidly growing lithium-ion battery markets.

Sovereign's Managing Director Dr Julian Stephens commented:

"It was another productive quarter for Sovereign as we continued with a number of different work fronts, with the primary focus on defining the maiden resource for rutile at Kasiya. In addition to this, Sovereign has front-run a number of other work programs to accelerate the Scoping Study. The Company continues to have the view that Kasiya is a globally significant rutile deposit".

ENQUIRIES

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KASIYA RUTILE DEPOSIT

During the quarter, the Company continued its exploration and resource definition drilling programs across the large mineralised footprint at Kasiya.

Continued resource definition and regional exploration drilling is ongoing with multiple drill teams active across Kasiya and other regional prospects. Over the period, a total of 274 hand-auger holes for 2,000m and 36 core (push-tube) holes were completed for 437m. Sample preparation, processing and assaying is well underway and results are scheduled to be released over the coming weeks.

Results reported to date from Kasiya show the strike length of high-grade mineralisation is over 16km with widths of the mineralised envelope ranging up to ~6km. The total mineralised footprint total is now 66km² with mineralisation remaining open along strike to the north, south-west, south-east and laterally to the east. It is expected that more than half of the mineralised envelope has seen sufficient drilling to be included in the maiden MRE.

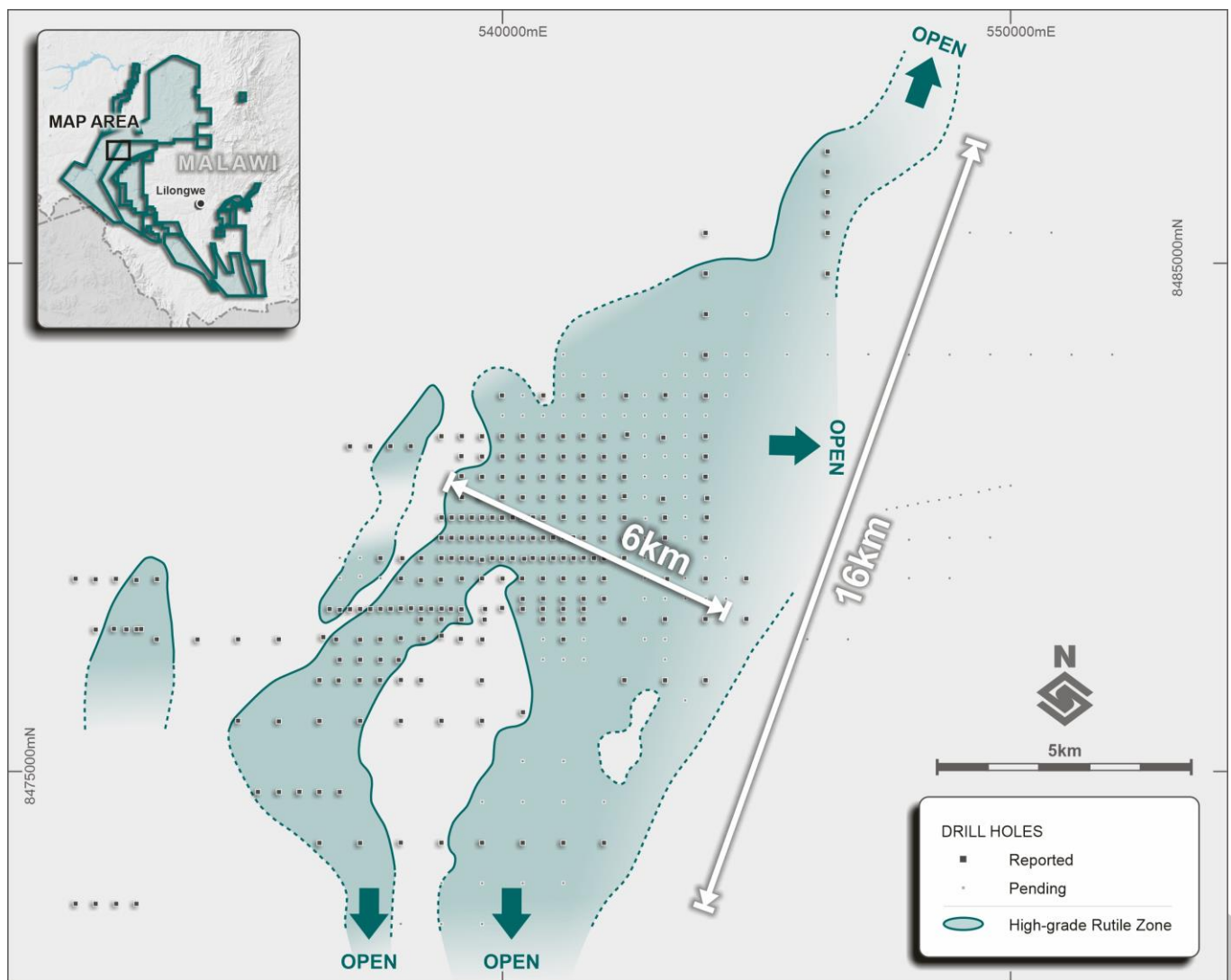


Figure 1. Drill plan showing extent of rutile mineralisation drilled to date at Kasiya.

Kasiya is a saprolite-hosted rutile deposit, otherwise known as an eluvial deposit. Rutile enrichment occurs in the top ~8 metres from surface. In most cases, drill depth has been restricted by the hand-auger drilling equipment capacity and it is assumed that free-dig rutile mineralisation should continue vertically to the base of saprolite estimated at approximately 25m depth from surface.

The drill results reported to date, along with additional drilling completed during the quarter, will be incorporated into the maiden Mineral Resource Estimate (MRE) for Kasiya which is expected in the next few months.

REGIONAL EXPLORATION

Drill results achieved to date validate the Company's geological exploration model and have delivered results providing a step-change in the size of Kasiya.

The geological exploration model has also identified a number of high-priority regional targets. The Company has mobilised drill teams across a number of high-priority targets within its large tenement package. A significant number of results of regional drilling are near completion and are expected to be announced progressively over the coming weeks.

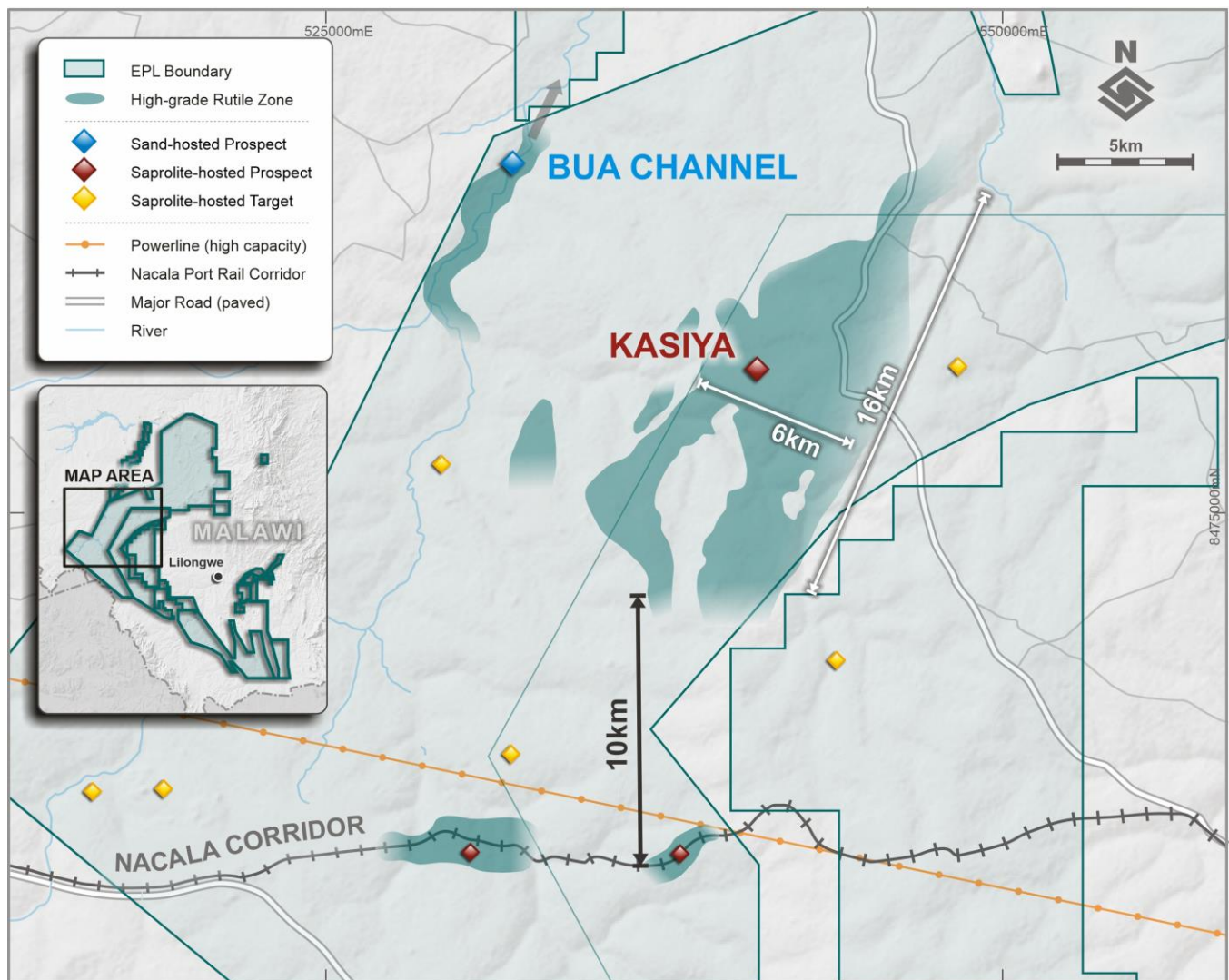


Figure 2. Map of the broader Kasiya and Bua Channel area showing the multiple rutile deposits, prospects and targets and proximity to the Nacala Rail Corridor.

CORE DRILLING

The Company successfully completed a core (push-tube) drilling program across the central areas of the Kasiya mineralised footprint. The objective of the core drilling program was to twin a number of hand-auger holes to gather geological, geotechnical, density and other data to underpin potential future Indicated and Measured resources.

The core drilling program included 36 holes for a total of 437m. The samples have been prepared and despatched to Perth for final analyses.



Figure 3. Push-tube core drilling at Kasiya.

METALLURGY PROGRAM

The Company has commenced a feasibility level variability metallurgy program to build on the previous outstanding results that produced a product with ~96% TiO₂ at ~98% recovery with a d₅₀ sizing of 145µm.

A full assessment for a range of end-use markets is planned as part of Sovereign's upcoming Scoping Study. The premium specifications of the product should allow Sovereign the flexibility to work with major customers and adapt to their different needs and requirements. The Company has a number of requests for product samples and has provided samples to multiple major industry end-users for assessment with positive feedback received.

The scope of the new planned program is to assess representative mineralisation extracted from Kasiya based on different regolith units.

The samples have been extracted and prepared for transportation to Australia where the program will be undertaken.

COVID-19 IMPACT AND RESPONSE

The Company is proactively managing the potential impact of Covid-19 with the health and safety of our employees, contractors, local communities and other stakeholders being the highest priority.

In late 2020, the Covid-19 situation in Malawi deteriorated with the South African strain of the virus detected in the country. In early January 2021, the Government of Malawi declared a state of emergency, leading to implementation of preventative guidelines and restrictions across Malawi. The Company is continuously reviewing the situation and actively amending operations to comply with Government guidelines and restrictions ensuring the health and safety of all members.

FORWARD PLAN

Sovereign's view is that it has discovered a potentially globally significant rutile deposit at Kasiya in Malawi. Ongoing work programs for Kasiya and the other prospects within the Company's large ground package include;

- ◆ A maiden Mineral Resource Estimate for Kasiya, expected to cover more than half of the extensive 66km² mineralised footprint;
- ◆ Continued step-out and extensional drilling at Kasiya and the broader surrounding area to identify extensions and discover new regional mineralised zones;
- ◆ Mining and tailings studies continue and will feed into a future Scoping Study;
- ◆ Metallurgical test-work commencement on three separate samples representative of the different regolith units from Kasiya;
- ◆ Investigation and further test-work for a potential coarse-flake graphite by-product from Kasiya; and
- ◆ Re-examination of the Company's Malingunde Graphite Project in light of renewed market interest for graphite, particularly related to sustainability.





Figure 4: Drone photograph of the push-tube core rig in action 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\$1,220 per tonne for rutile sold in 2020¹.

Reference: 1. Iluka Resources Limited (ASX:ILU) – Quarterly Review to 31 December 2020

CORPORATE

Sovereign is well positioned with A\$2.3m of cash at bank at the end of the period. The strong cash position allows the Company to continue exploration and development activities on its rutile projects.

RELATED PARTY PAYMENTS

During the quarter ended 31 December 2020, the Company made payments of \$207,000 to related parties and their associates. These payments relate to existing remuneration arrangements (executive salaries, director fees and superannuation of \$149,000), business development services (\$13,000) and provision of serviced office facilities, company secretarial services and administration services (\$45,000).

CARPENTARIA JOINT VENTURE

In December 2020, Sovereign agreed terms with Renegade Exploration Limited (RNX) to divest its Joint Venture Interest in the Carpentaria Joint Venture Agreement (Carpentaria JVA) with Mount Isa Mines Limited (MIM), a subsidiary of Glencore plc.

Sovereign divested its interest of ~23% in the Carpentaria JVA on the following terms:

- Immediate payment of \$100,000 or the issue of 15m Renegade shares at Sovereign's election;
- On the twelve-month anniversary the payment of \$100,000 or the issue of 10m Renegade shares; and
- On the twenty-four-month anniversary the payment of \$150,000 or the issue of 10m Renegade shares.

Sovereign can elect to receive cash, shares or a combination of both. Any shares issued will be subject to a three month escrow period.

MINING EXPLORATION EXPENDITURES

During the quarter, the Company made the following payments in relation to mining exploration activities:

Activity	A\$000
Drilling	(122)
Assaying and Metallurgical Testwork	(50)
Studies	(54)
Consultants	(5)
Field Supplies, Equipment, Vehicles	(35)
Tenement Rents	(54)
Malawi Operations - Site Office and Personnel	(207)
Total as reported in Appendix 5B	(527)

Competent Person Statements

The information in this Announcement that relates to rutile Exploration Results are extracted from announcements dated 4 August 2020 and 21 September 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.

The information in this report that relates to Metallurgical Results (rutile) is extracted from an announcement on 9 September 2020. 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.

Authorisation Statement

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



APPENDIX 1: SUMMARY OF MINING TENEMENTS

As at 31 December 2020, the Company had an interest in the following tenements:

Permit Number	Percentage Interest	Area (km ²)	Status	Expiry
<u>Malawi</u>				
EL 0413	100%	535	Granted ¹	21/09/2021
EL 0561	100%	125	Granted	15/09/2023
EL 0582	100%	285	Granted ²	15/09/2023
EPL (EL) 0355	100%	12	Granted ¹	14/06/2021
EPL (EL) 0372	100%	732	Granted ¹	13/03/2022 ³
EPL (EL) 0492	100%	1,895	Granted ¹	29/01/2023 ³
EPL (EL) 0528	100%	21	Granted ¹	27/11/2021
EPL (EL) 0537	100%	339	Granted ^{1,4}	17/03/2022
EPL (EL) 0545	100%	54	Granted ¹	12/05/2022

Notes

1. A new Mines and Mineral Act came into effect in late 2019 replacing the Mines and Mineral Act 1981. Under the new Mines and Minerals Act 2019 (**Act**), Exclusive Prospecting Licences (**EPLs**) are required to be converted into Exploration Licences (**ELs**) and to be held in a Malawi-registered company.

The Company has received written confirmation that the Mineral Resource Committee (**MRC**) has approved the conversion of the Company's EPLs to ELs (where applicable) and the transfer to the Company's Malawi subsidiary (where applicable).

Formal documentation to register the ELs has been delayed due to the impact of Covid-19 on Government functions in Malawi.

2. Granted during the quarter.
3. Notification of renewal received with formal documentation pending.
4. Notification of 100% relinquishment received with formal documentation pending.

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")

31 December 2020

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
1.	Cash flows from operating activities		
1.1	Receipts from customers	-	-
1.2	Payments for		
	(a) exploration & evaluation	(527)	(1,058)
	(b) development	-	-
	(c) production	-	-
	(d) staff costs	(265)	(382)
	(e) administration and corporate costs	(120)	(222)
1.3	Dividends received (see note 3)	-	-
1.4	Interest received	3	10
1.5	Interest and other costs of finance paid	-	-
1.6	Income taxes paid	-	-
1.7	Government grants and tax incentives	12	50
1.8.1	Other – R&D Tax Refund	107	107
1.8.2	Other – Business Development	(78)	(128)
1.9	Net cash from / (used in) operating activities	(868)	(1,623)
2.	Cash flows from investing activities		
2.1	Payments to acquire or for:		
	(a) entities	-	-
	(b) tenements	-	-
	(c) property, plant and equipment	-	(14)
	(d) exploration & evaluation	-	-
	(e) investments	-	-
	(f) other non-current assets	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 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	-	(14)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	1,596
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	(21)
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	-	1,575

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	3,166	2,360
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(868)	(1,623)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	-	(14)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	-	1,575

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

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	2,298	2,298

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	46	112
5.2	Call deposits	2,252	3,054
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)	2,298	3,166

6.	Payments to related parties of the entity and their associates	Current quarter \$A'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	207
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-
<i>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.</i>		

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

7.	Financing facilities <i>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.</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1	Loan facilities	-	-
7.2	Credit standby arrangements	-	-
7.3	Other (please specify)	-	-
7.4	Total financing facilities	-	-
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)	(868)
8.2	(Payments for exploration & evaluation classified as investing activities) (item 2.1(d))	-
8.3	Total relevant outgoings (item 8.1 + item 8.2)	(868)
8.4	Cash and cash equivalents at quarter end (item 4.6)	2,298
8.5	Unused finance facilities available at quarter end (item 7.5)	-
8.6	Total available funding (item 8.4 + item 8.5)	2,298
8.7	Estimated quarters of funding available (item 8.6 divided by item 8.3)	2.65
	<i>Note: if the entity has reported positive relevant outgoings (ie a net cash inflow) in item 8.3, answer item 8.7 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.7.</i>	
8.8	If item 8.7 is less than 2 quarters, please provide answers to the following questions:	
8.8.1	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	
8.8.2	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	

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

8.8.3 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

Note: where item 8.7 is less than 2 quarters, all of questions 8.8.1, 8.8.2 and 8.8.3 above must be answered.

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: 29 January 2021

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

Notes

1. 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.
2. 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.
3. 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.
4. 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".
5. 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.