

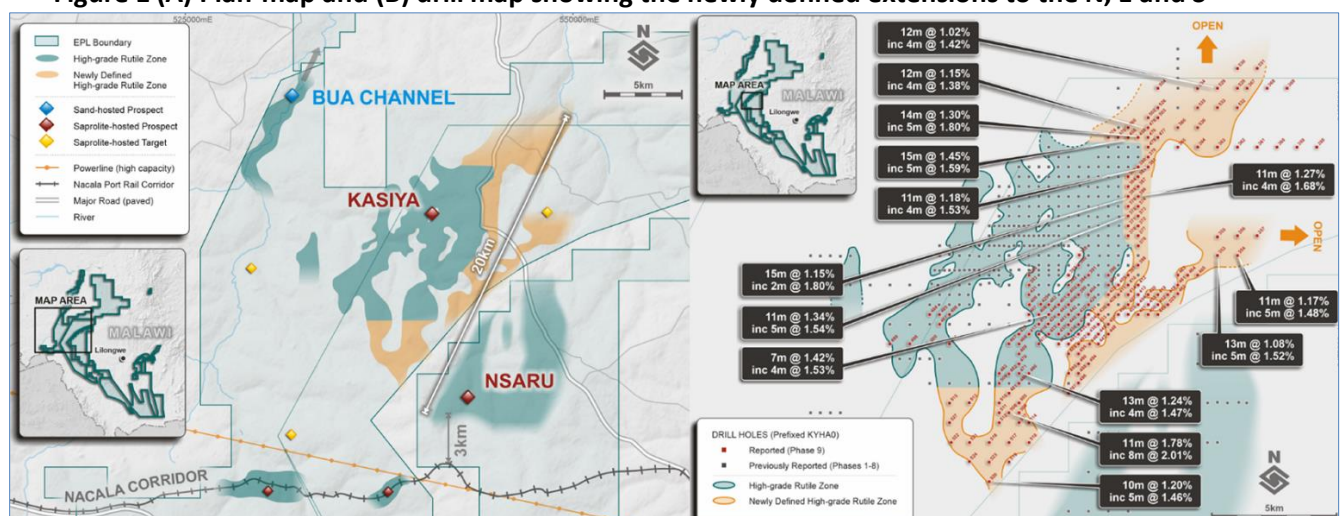
Ticker: SVM AU **Net cash:** A\$10m **Project:** Kasiya / Nsaru, Malingunde
Market cap: A\$252m **Price:** A\$0.61/sh **Country:** Malawi
RECOMMEND. (unc): BUY **TARGET** (unch): A\$0.95/sh **RISK RATING:** SPECULATIVE

Our bottom up drilled resource at Kasiya approached ~300Mt in 4Q20, with undrilled potential close to 1Bt over ~6km² and 17km², respectively. The company has now defined Kasiya over 89km² (not all of this will make the current-quarter maiden MRE) with another ~25km² at Nsaru. **This is an absolute monster to the extent we have 'stopped counting'.** For context, we think production scaling could be anywhere from 5-20Mtpa ROM feed for early-years production anywhere from 75-300ktpa, with a mine life >50 years conceivable. Given the market size of ~600ktpa for rutile approaches 3Mtpa including converted ilmenite and other high-CO₂ variants (synthetic rutile, chloride slag, upgraded slag). We can only describe this as a disruptive asset, from ESG and supply demand. This is where it starts to get fun – there is no competition to rutile for low-CO₂ (rutile wins), but on overall supply, the lowest cash cost wins, hence hits like 8m @ 2% and 5m @ 1.8% in the latest 200 holes exemplify the high-grade starter potential. We previously expected 20-40Mt @ 1.5% but see potential to beat this, all pointing to the biggest, and the lowest cost. Any investor holding a mineral sands stock right now should at the very least be hedging that position with shares in Sovereign in our view. **We maintain our BUY rating and A\$0.95/sh PT** based on 5% in-situ valuation (ie US\$65/t rutile vs. ~US\$1,300/t spot) over a nominal 500Mt. Post maiden MRE, we anticipate moving to a DCF valuation, but we can't stress enough the strategic premium this asset deserves already, with upcoming catalysts of a maiden Kasiya resource, followed by Nsaru, and a scoping study this year, while metallurgical work and off-take discussions continue in parallel.

Kasiya ~35% bigger, extension drilling returns 11m @ 1.8% rutile ahead of imminent maiden MRE

Sovereign's Phase 3 drilling (204 auger holes, 1,797m) at Kasiya has expanded the mineralized envelope by ~35% to 89km² with high-grade rutile extensions to the north of **12m @ 1.0%**, **11m @ 1.2%** to the east, **13m @ 1.2%** rutile to the south (Figure 1). The top 4-5m from surface continues to intersect higher grades, >1.5% rutile, with highlights of **8m @ 2.0%**, **5m @ 1.8%** and **4m @ 1.7%** rutile. Sovereign has now reported a total ~114km² drilled area of high-grade rutile mineralization (**Kasiya 89km² + Nsaru 25km²**), which will see a large portion of Kasiya's 89km² form the basis of the **maiden MRE** expected in the coming weeks upon receipt of the final batch of pending assays. Further infill drilling is required before the peripheral zones at Kasiya and Nsaru can be brought into the MRE. Additional **next steps** will be the commencement of a **scoping study** following the maiden MRE and related including (i) metallurgical test work (ii) mining method optimization studies (iii) tailings disposal and design, and (iv) graphite by-product review.

Figure 1 (A) Plan-map and (B) drill map showing the newly defined extensions to the N, E and S



Source: Sovereign Metals

Why we like Sovereign Metals

1. Pure rutile deposit increases margin, addresses downstream ESG requirements
2. Unique metallogenesis drives large grain size and premium low-deleterious product
3. On hydropower, hydro mineable, on modern rail to deep-water port with allocation
4. PFS-level Malingunde graphite project adds diversification and second pillar to value
5. Potential 'province scale' discovery with 4,000km² of unique geology largely undrilled

Catalysts

1. **2Q21**: Kasiya infill, Nsaru definition drilling
2. **1H21**: Maiden JORC compliant resource estimate for Kasiya
3. **2H21**: SCPe PEA

Research

Brock Salier (London) M: +44 7400 666 913 bsalier@sprott.com

Justin Chan (London) M: +44 7554 784 688 jchan@sprott.com

Brandon Gaspar (Toronto) M: +1 437 533 3142 bgaspar@sprott.com

Kasiya in-situ value @ 500Mt (US\$bn)	6.2	Basic shares on issue (m)	413
Kasia @ 5% insitu value (US\$m)	310	Dilutive options and RSUs (m)	50.2
Kasiya asset valuation (A\$m)	407	Average strike (A\$/sh)	0.25
Plus cash on hand (A\$m)	8.9	Fully diluted shares (m)	464
Nominal graphite valuation (A\$m)	10.0	SCP NAV/sh (A\$/sh)	0.95
Plus cash from dilutive options (A\$m)	12.4	Recommendation	BUY
Sovereign group NAV (A\$m)	438	Price target (A\$/sh):	0.95

Source: SCP resource estimate, spot rutile from TiPMC (BBG: RLWWSPNA INDEX)

DISCLOSURES & DISCLAIMERS

This research report (as defined in IIROC Rule 3400) is issued and approved for distribution in Canada by Sprott Capital Partners LP ("SCP"), an investment dealer who is a member of the Investment Industry Regulatory Organization of Canada ("IIROC") and the Canadian Investor Protection Fund ("CIPF"). The general partner of SCP is Sprott Capital Partners GP Inc. and SCP is a wholly-owned subsidiary of Sprott Inc., which is a publicly listed company on the Toronto Stock Exchange under the symbol "SI". Sprott Asset Management LP ("SAM"), a registered investment manager to the Sprott Funds and is an affiliate of SCP. This research report is provided to retail clients and institutional investors for information purposes only. The opinions expressed in this report are the opinions of the author and readers should not assume they reflect the opinions or recommendations of SCP's research department. The information in this report is drawn from sources believed to be reliable but the accuracy or completeness of the information is not guaranteed, nor in providing it does SCP and/or affiliated companies or persons assume any responsibility or liability whatsoever. This report is not to be construed as an offer to sell or a solicitation of an offer to buy any securities. SCP accepts no liability whatsoever for any loss arising from any use or reliance on this research report or the information contained herein. Past performance is not a guarantee of future results, and no representation or warranty, expressed or implied, is made regarding future performance of any security mentioned in this research report. The price of the securities mentioned in this research report and the income they generate may fluctuate and/or be adversely affected by market factors or exchange rates, and investors may realize losses on investments in such securities, including the loss of investment principal. Furthermore, the securities discussed in this research report may not be liquid investments, may have a high level of volatility or may be subject to additional and special risks associated with securities and investments in emerging markets and/or foreign countries that may give rise to substantial risk and are not suitable for all investors. SCP may participate in an underwriting of, have a position in, or make a market in, the securities mentioned herein, including options, futures or other derivatives instruments thereon, and may, as a principal or agent, buy or sell such products.

DISSEMINATION OF RESEARCH:

SCP's research is distributed electronically through email or available in hard copy upon request. Research is disseminated concurrently to a pre-determined list of clients provided by SCP's Institutional Sales Representative and retail Investment Advisors. Should you wish to no longer receive electronic communications from us, please contact unsubscribe@sprott.com and indicate in the subject line your full name and/or corporate entity name and that you wish to unsubscribe from receiving research.

RESEARCH ANALYST CERTIFICATION:

Each Research Analyst and/or Associate who is involved in the preparation of this research report hereby certifies that:

- The views and recommendations expressed herein accurately reflect his/her personal views about any and all of the securities or issuers that are the subject matter of this research report;
- His/her compensation is not and will not be directly related to the specific recommendations or view expressed by the Research analyst in this research report;
- They have not affected a trade in a security of any class of the issuer within the 30-day period prior to the publication of this research report;
- They have not distributed or discussed this Research Report to/with the issuer, investment banking group or any other third party except for the sole purpose of verifying factual information; and
- They are unaware of any other potential conflicts of interest.

UK RESIDENTS:

Sprott Partners UK Limited ("Sprott") is an appointed representative of PillarFour Securities LLP which is authorized and regulated by the Financial Conduct Authority. This document has been approved under section 21(1) of the FMSA 2000 by PillarFour Securities LLP ("PillarFour") for communication only to eligible counterparties and professional clients as those terms are defined by the rules of the Financial Conduct Authority. Its contents are not directed at UK retail clients. PillarFour does not provide investment services to retail clients. PillarFour publishes this document as non-independent research which is a marketing communication under the Conduct of Business rules. It has not been prepared in accordance with the regulatory rules relating to independent research, nor is it subject to the prohibition on dealing ahead of the dissemination of investment research. It does not constitute a personal recommendation and does not constitute an offer or a solicitation to buy or sell any security. Sprott and PillarFour consider this note to be an acceptable minor non-monetary benefit as defined by the FCA which may be received without charge. This is because the content is either considered to be commissioned by Sprott's clients as part of their advisory services to them or is short term market commentary. Neither Sprott nor PillarFour nor any of its directors, officers, employees or agents shall have any liability, howsoever arising, for any error or incompleteness of fact or opinion in it or lack of care in its preparation or publication; provided that this shall not exclude liability to the extent that this is impermissible under the law relating to financial services. All statements and opinions are made as of the date on the face of this document and are not held out as applicable thereafter. This document is intended for distribution only in those jurisdictions where PillarFour is permitted to distribute its research.

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by Sprott Capital Partners LP ("SCP"), a company authorized to engage in securities activities in Canada. SCP is not a registered broker/dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through Sprott Global Resource Investments Ltd. ("SGRIL"), a broker dealer in the United States registered with the Securities Exchange Commission ("SEC"), the Financial Industry Authority ("FINRA"), and a member of the Securities Investor Protection Corporation ("SIPC"). Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through SCP.

SGRIL accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to a U.S. person other than a major U.S. institutional investor. The analyst whose name appears in this research report is not licensed, registered, or qualified as a research analyst with FINRA and may not be an associated person of SGRIL and, therefore, may not be subject to applicable restrictions under FINRA Rule 2241 regarding communications by a research analyst with a subject company, public appearances by the research

analyst, and trading securities held by a research analyst account. To make further inquiries related to this report, United States residents should contact their SGRIL representative.

Analyst Certification/Regulation AC

The analyst and associate certify that the views expressed in this research report accurately reflect their personal views about the subject securities or issuers. In addition, the analyst and associate certify that no part of their compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

Sprott Capital Partners Explanation of Recommendations: Should SCP issue research with recommendations, the research rating guidelines will be based on the following recommendations:

BUY: The stocks total returns are expected to be materially better than the overall market with higher return expectations needed for more risky securities markets

NEUTRAL: The stock's total returns are expected to be in line with the overall market

SELL: The stocks total returns are expected to be materially lower than the overall market

TENDER: The analyst recommends tendering shares to a formal tender offering

UNDER REVIEW: The stock will be placed under review when there is a significant material event with further information pending; and/or when the research analyst determines it is necessary to await adequate information that could potentially lead to a re-evaluation of the rating, target price or forecast; and/or when coverage of a particular security is transferred from one analyst to another to give the new analyst time to reconfirm the rating, target price or forecast.

NOT RATED ((N/R): The stock is not currently rated

Research Disclosure		Response
1	SCP and its affiliates collectively beneficially owns 1% or more of any class of the issuer's equity securities ¹	YES
2	The analyst or any associate of the analyst responsible for the report or recommendation or any individual directly involved in the preparation of the report holds or is short any of the issuer's securities directly or through derivatives	NO
3	An SCP partner, director, officer or analyst involved in the preparation of a report on the issuer, has during the preceding 12 months provided services to the issuer for remuneration other than normal course investment advisory or trading execution services	NO
4	SCP has provided investment banking services for the issuer during the 12 months preceding the date of issuance of the research report or recommendation	YES
5	Name of any director, officer, employee or agent of SCP who is an officer, director or employee of the issuer, or who serves in an advisory capacity to the issuer	NO
6	SCP is making a market in an equity or equity related security of the issuer	NO
7	The analyst preparing this report received compensation based upon SCP's investment banking revenue for the issuer	NO
8	The analyst has conducted a site visit and has viewed a major facility or operation of the issuer	NO
9	The analyst has been reimbursed for travel expenses for a site visit by the issuer	NO

Sprott Capital Partners Equity Research Ratings:

Summary of recommendations as of May 2021	
BUY:	38
HOLD:	0
SELL:	0
UNDER REVIEW:	0
TENDER:	0
NOT RATED:	0
TOTAL	38

¹ As at the end of the month immediately preceding the date of issuance of the research report or the end of the second most recent month if the issue date is less than 10 calendar days after the end of the most recent month