

Southern Palladium Ltd (ASX:SPD, \$0.465. Market cap A\$41.8m)
Impressive 39% increase of UG2 resource to 11.7Moz. 7E resource now 14.1Moz.
Bengwenyama ounces now total 22Moz (4E)

Investment summary: SPD has just released an impressive upgrade to its resource inventory for the UG2 Reef, well above our expectations. Drilling is ongoing, with a further resource update due in 4Q23. A pre-feasibility study has already commenced, and initial results are expected in early 2024 with the completion of drilling for a scoping study now likely in October. With nearly \$13m in the bank, SPD is fully funded through to the completion of the PFS and lodgement of a Mining Right Application, which should further validate the quality of the project.

We demonstrate below that SPD is one of the most attractive PGM pre-development opportunities globally. At an EV of A\$1.80/4E ounce, 20% cheaper than when we last reported, SPD is exceptionally inexpensive. See our comparatives chart and table at the end of this report.

SPD has released its much anticipated interim resource update, with a new resource of 11.7Moz (4E basis) or 14.1Moz (7E) in the UG2 Reef. This is an impressive upgrade, and is in part driven by the inclusion of the new discovery in the so-called Far East Block (FEB). As a reminder the FEB is an extension of the UG2 to the east, into an area where the reef was believed not to exist.

Total contained ounces on a 4E basis at the Bengwenyama project is now 22Moz (previously 18.8Moz). An update of the Merensky resource is nearly complete and will be released shortly we believe. We would expect the Merensky resource to remain largely unchanged at this stage as the focus remains on the UG2.

Resource	Tonnes (Mt)	3PGE+Au (4E)	
		Grade (g/t)	Contained PGM (Moz)
UG2 Indicated	10.76	7.65	2.56
UG2 Inferred	39.09	7.49	9.09
Merensky Inferred	110.2	2.96	10.49
Total	160.05	4.30	22.14

We were also impressed that 2.56Moz of the UG2 resource has been upgraded to Indicated status. This is a pre-requisite for eventual conversion to reserves and the publication of the project's first scoping study.

The average grade has edged down a touch (previously 7.7g/t, now 7.5g/t) over much the same orebody width (around 70cm). SPD note the absence of chromite stringers in the hanging wall and suggest that a 1m mining cut might be appropriate. This could result in an attractive reserve grade of over 5g/t. (Mines to the north have grades in a 4-4.5g/t range). The 7E grade (including the minor PGEs), reported for the first time, is an impressive 9.1g/t.

As flagged in earlier releases, SPD confirms that a Mining Right Application is to be submitted in the next quarter, a good 5 months ahead of the schedule outlined in last year's Prospectus.

The next resource upgrade is targeted for 4Q23 with an updated scoping study in early 2024. Interestingly SPD comment that one rig will now be directed at an area to the west ("The Horst Block") looking for additional shallow UG2 Reef, possibly to identify a second entry point for a faster future production ramp up. (See comments below). Finally, drilling appears to be proceeding with no interruption, with a 6th rig to be brought to site in July.

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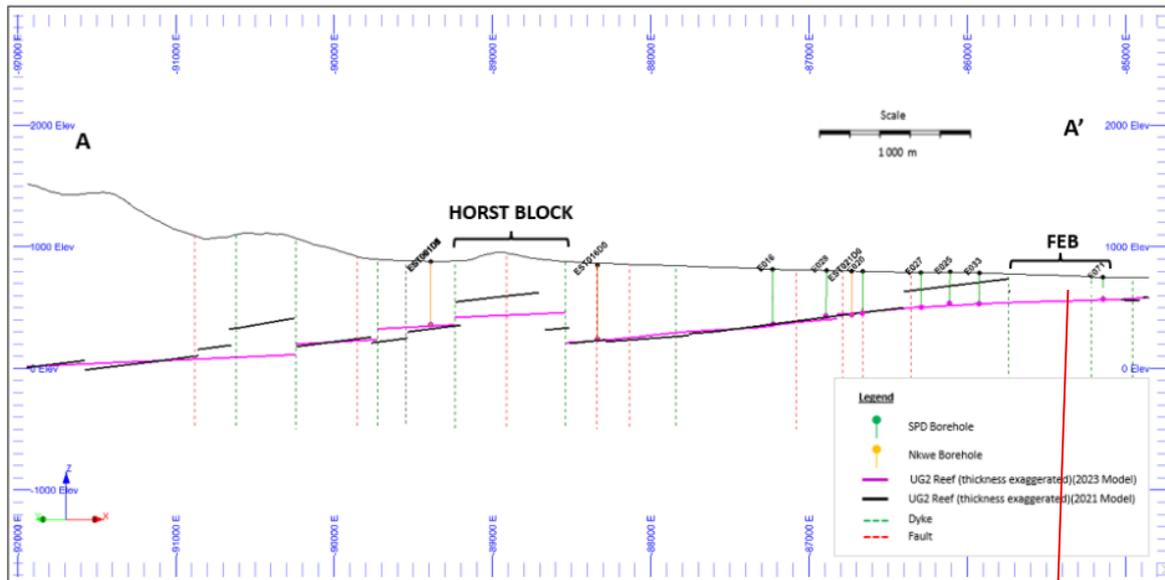
Further details...

For us, there are several key messages which emerge from this release.

- The FEB are shallow ounces, at depths of perhaps 200-300m, so these should be inexpensive ounces to extract, as illustrated in the section below.
- Complex zones of faulting and dyke intrusion expected in the East now seem to be much less significant. This suggests to us that the future mining proposition will be quite straightforward.
- The dip of the UG2 Reef in the FEB is now estimated at around 6 degrees (against previous estimates of 12 degrees). This may influence the type of mining method being considered.

The updated cross section from the current release is as follows:

Figure 2: NW-SE Cross Section of the UG2 Reef Horizon



Compare this to a section from the prospectus where the FEB was thought not to host the UG2. Of the 3.3Moz resource upgrade some 1.3Moz has been derived from the FEB:

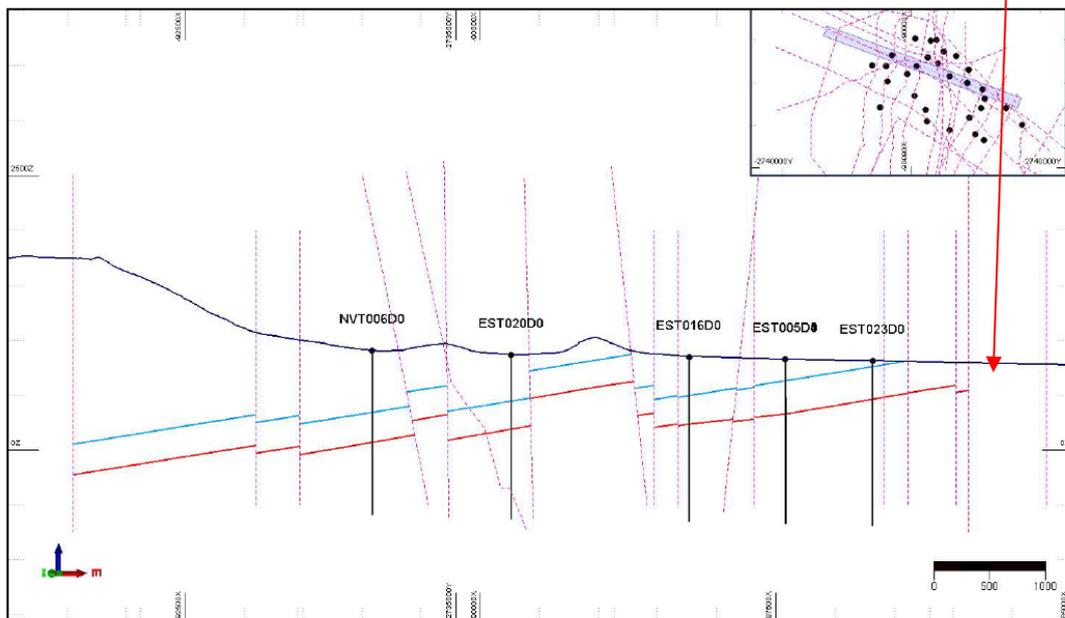


Figure 4-8: Oblique cross-section looking west showing drill continuity of Merensky (blue) and UG2 (red) reefs

Other relevant points are:

- 2.6Moz of the 11.7Moz is now at Indicated status, a much higher proportion than we'd been thinking. SPD will be looking to maximise the proportion of Indicated resource over the balance of the year to allow the release of full details of a scoping study in early 2024 (including production, cost and capex targets, together with cashflow, NPV and IRR estimates).

- As we mention above the geologists' attention has now been drawn toward other potentially shallow ounces within the "Horst Block" (shown above). This, the company says, will allow them to investigate a second entry point for a faster production ramp up, which is expected to be incorporated in the scoping study. We have to remember that the Bengwenyama project really still is an advanced exploration project, and opportunities such as that shown by the FEB might still emerge.
- The company remains focussed on an economic outcome for the project with the drill program targeting a "Payback Area", the volume of ore required to achieve approximate capital payback for the project and "reach an acceptable confidence level in our prefeasibility cashflow model."
- The only negative we can pull from this release is that a proportion of the Exploration Target has been removed due to the presence of a dome structure to the SW. This we think is immaterial to the project. The new exploration target is as follows with the UG2 target down from 45-68mt. Part of the reduction is also attributable to an upgrade from Exploration Target to Inferred Resource:

Exploration Target	3PGE+Au	
	Tonnes (Mt)	Grade (g/t)
UG Target	37-56	6.2-9.2
Merensky Target	88-133	2.2-3.4
Total	125-189	3.4-7.7

- With ongoing drilling, we would expect further increases in Indicated and Inferred Resources from the UG2 and Merensky, at the expense of Exploration Target ounces.
- A 6th rig will likely be on site in the next few weeks. Discussions with management suggest there could be another two rigs allocated to the project in August, with an aim to completing the drilling required to see an initial scoping study in the public domain by October 2024.
- Submission of a Mining Right Application (MRA) in September this year will set the 300 day approval clock ticking. Work is underway on various studies to be submitted with the MRA, including scoping study-level environmental studies, a social and labour plan and a work programme.

Comparatives

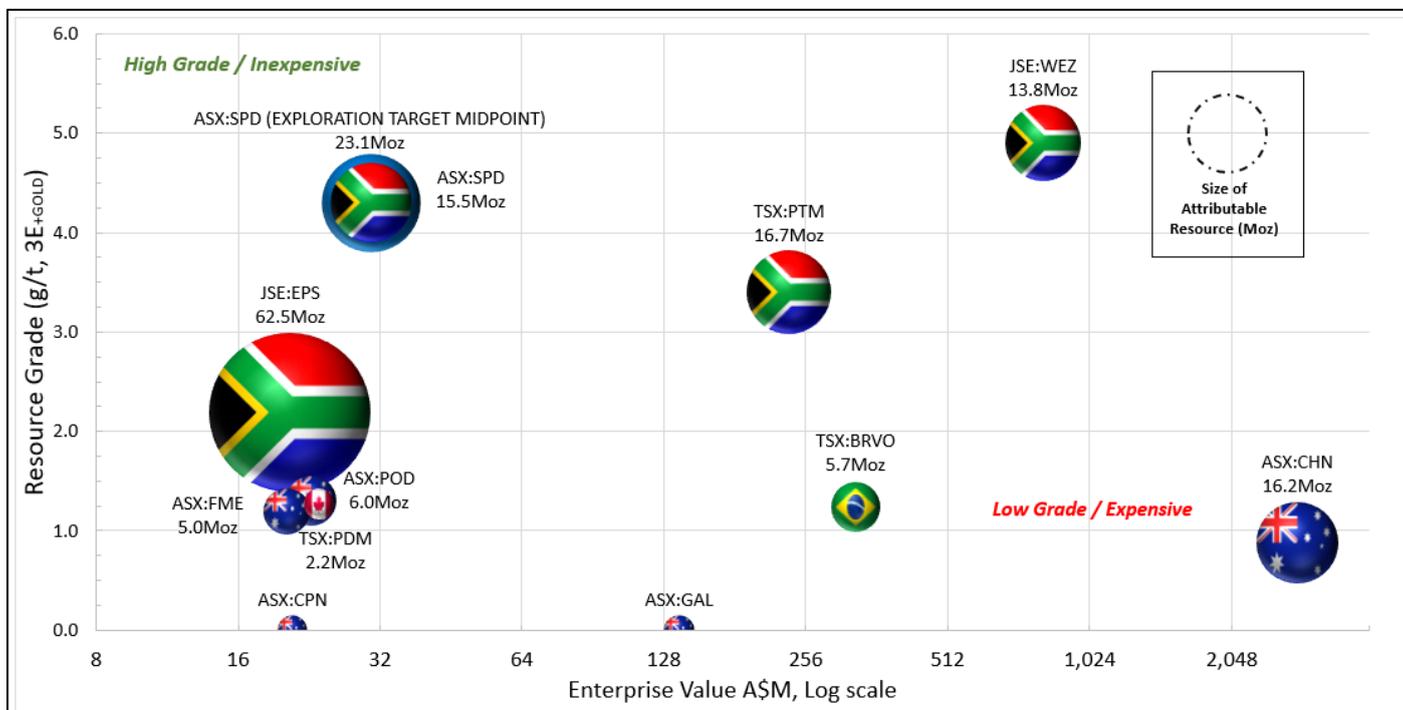
As we've said in past reports, the PGM sector is difficult to draw comparisons. We are still unable to compare on a truly like-for-like basis. But the following bubble chart continues to highlight how inexpensive SPD ounces actually are.

At an EV/oz now of A\$1.80 for the current resource base is inexpensive. Add the independently determined Exploration Target, and the figure drops to A\$1.20/oz. These ounces are less expensive than several WA PGM explorers which look to be a long way from production.

Note as well that SPD's attributable ounces (4E) now roughly equate to those held by Chalice at Julimar (15.5Moz against 16.2Moz). CHN's EV is now 90x that of SPD. Does that make sense?

SPD's strong run following its mid 2022 IPO has subsequently seen strong underperformance, seemingly due to troublesome times in South Africa, interruptions to drilling during February and weak PGM prices. The drilling issues now seem to be behind us. And at least South Africa recognises the root cause of its problems. Other than power availability, we believe the mining industry will be largely immune from future troubles, but it will take some time for the market to regain confidence.

None of this has been assisted by a broad weakness in amongst the platinum group metals themselves. This appears largely due to the general malaise in metal markets, which have correctly anticipated a slowing of global economic activity. As we discuss below, there appear to be extraneous issues which have weighed on prices. Metal balances appear to be coming back into play, with South African production under considerable pressure, and global auto stats moving into positive territory.



Name	Exchange/Ticker	Mkt Cap (A\$,M)	Cash (A\$,M)	Total Debt (A\$,M)	Enterprise Value (A\$,M)	Attributable Resource (4E,Moz)	Grade (4E,g/t)	Enterprise Value (A\$)/Resource Oz
EASTERN PLATINUM LTD	TSX:ELR	\$17.1	\$3.7	\$11.2	\$24.6	62.5	2.2	\$0.4
SOUTHERN PALLADIUM LTD (EXPLORATION TARGET)	ASX:SPD	\$41.7	\$12.9	\$0.0	\$28.8	23.1	4.3	\$1.2
SOUTHERN PALLADIUM LTD	ASX:SPD	\$41.7	\$12.9	\$0.0	\$28.8	15.5	4.3	\$1.9
PODIUM MINERALS LTD	ASX:POD	\$27.0	\$2.6	\$0.0	\$24.4	6.0	1.3	\$4.1
FUTURE METALS NL	ASX:FME	\$14.6	\$3.9	\$0.0	\$10.8	5.0	1.2	\$2.2
PALLADIUM ONE MINING INC	TSX:PDM	\$42.4	\$12.7	\$0.0	\$29.7	2.2	1.3	\$13.5
PLATINUM GROUP METALS LTD	TSX:PTM	\$216.8	\$11.1	\$1.0	\$206.6	16.7	3.4	\$12.4
BRAVO MINING CORP	TSX:BRVO	\$388.2	\$41.2	\$0.0	\$347.0	5.7	1.2	\$61.3
WESIZWE PLATINUM LTD	JSE:WEZ	\$130.8	\$18.5	\$688.7	\$801.0	13.8	4.9	\$58.0
CHALICE MINING LTD	ASX:CHN	\$2,752.6	\$150.0	\$0.0	\$2,602.6	16.2	0.9	\$160.9
GALILEO MINING LTD	ASX:GAL	\$132.4	\$17.4	\$0.0	\$115.0	-	-	-
CASPIN RESOURCES LTD	ASX:CPN	\$24.0	\$4.2	\$0.0	\$19.8	-	-	-

Data as at close of market 30/05/2023

* Caspin Resources IPO 25 November 2020 @ A20c

* Southern Palladium IPO 8 June 2022 @ A50c

* Bravo Mining Corp IPO 25 July 2022 @ CAD 1.75, Resource is estimate and Non-JORC

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