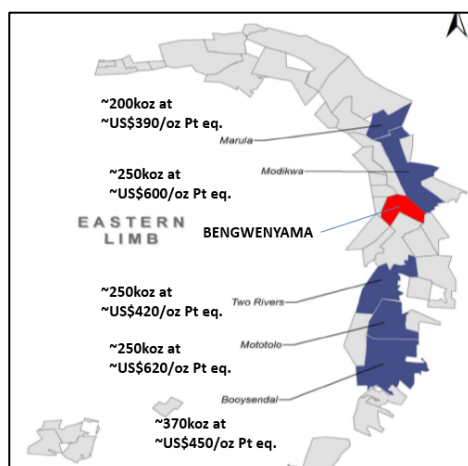


Southern Palladium Ltd (ASX:SPD, \$0.50. Market cap A\$44.9m) Plenty of catalysts in the lead up to the PFS

Investment view: Drilling of the potentially Tier 1 Bengwenyama PGM project is on-going with just under half the planned Phase 1 drilling now complete. A pre-feasibility study has already commenced, and results are now expected early 2024 with the completion of drilling now likely in September, in our view. With nearly \$13m in the bank, SPD is fully funded through to the completion of the PFS and lodgement of a Mining Right Application (MRA). We expect lodgement of the MRA also in 3Q23 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\$2.30/oz, we believe SPD as being exceptionally inexpensive. See our comparatives chart and table on the following page.

- SPD holds a 70% ownership of the 18.8Moz Bengwenyama project located on the productive Eastern Limb of the Bushveld Intrusive Complex, a dominant supplier of platinum group metals (PGMs). The PGMs are now on the “critical supply list” of most countries globally, including the US and the EU.
- The Bengwenyama deposit is considered very attractive for the potential future development:
 - It lies adjacent to two well established Tier 1 PGM mines on the Eastern Limb, Modikwa (Amplats/ARM) and Two Rivers (ARM/Implats). Most operating mines on the Eastern Limb produce in excess of 200kozpa PGM’s.
 - The deposit is characterised by its relatively shallow depth for extraction (resources are targeted at less than 500m depth) together with its relatively high grades. Reef access will be by way of declines, rather than high cost shafts.
 - The UG2 Reef (currently 8.4Moz) is likely to be the first extracted, with strong platinum co-product credits from palladium, rhodium, the minor PGMs and chromite.
 - Assuming the successful upgrade of resources to reserves, we can envisage a 2Mtpa conventional underground PGM mine producing upwards of 200kozpa PGMs at relatively low cash costs.
 - Capital intensity for a shallow underground mine and concentrator should also be relatively low.
 - The project is likely to offer conventional metallurgy with the ability to sell PGM/chromite concentrate to local refiners on well-established commercial terms.
 - In our view this is a “cookie cutter” development with many analogies within the Bushveld.
 - We have constructed what we think is a credible “what if” valuation for the project which at realistic long term PGM prices and costs generates a post-tax NPV₈ of US\$900-1000m (100% basis, unfunded). See our February 2023 report for further details.

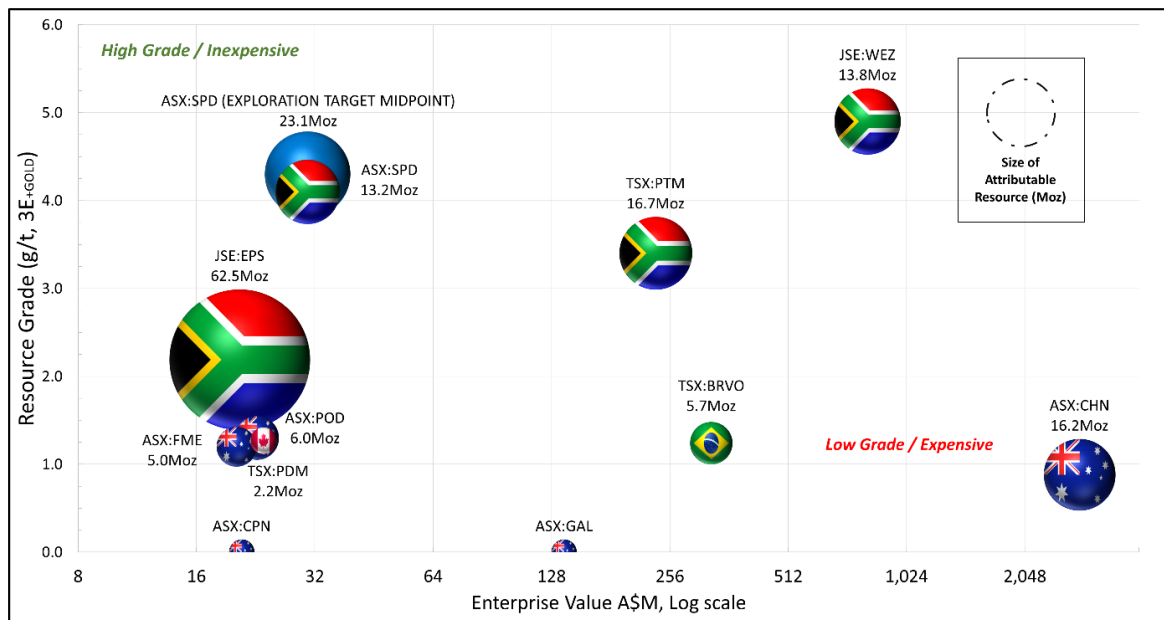


Comparatives

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. And, as we discuss below, these ounces are likely to expand with a preliminary resource upgrade due next month. At an EV/oz of A\$2.30 for the current resource base is inexpensive. Add the independently determined Exploration Target, and the figure drops to A\$1.30/oz. These are more comparable with a few WA PGM explorers which look to be a long way from production.

SPD's stellar 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	JSE:EPS	\$19.9	\$3.7	\$4.5	\$20.6	62.5	2.2	\$0.3
SOUTHERN PALLADIUM LTD (EXPLORATION TARGET)	ASX:SPD	\$44.9	\$14.2	\$0.0	\$30.7	23.1	4.3	\$1.3
SOUTHERN PALLADIUM LTD	ASX:SPD	\$44.9	\$14.2	\$0.0	\$30.7	13.2	4.1	\$2.3
PODIUM MINERALS LTD	ASX:POD	\$25.4	\$2.6	\$0.0	\$22.8	6.0	1.3	\$3.8
FUTURE METALS NL	ASX:FME	\$26.0	\$5.8	\$0.0	\$20.2	5.0	1.2	\$4.1
PALLADIUM ONE MINING INC	TSX:PDM	\$36.4	\$12.7	\$0.0	\$23.7	2.2	1.3	\$10.8
PLATINUM GROUP METALS LTD	TSX:PTM	\$245.8	\$11.1	\$1.0	\$235.7	16.7	3.4	\$14.1
BRAVO MINING CORP	TSX:BRVO	\$372.3	\$46.1	\$0.0	\$326.1	5.7	1.2	\$57.6
WESIZWE PLATINUM LTD	JSE:WEZ	\$144.9	\$18.5	\$688.7	\$815.1	13.8	4.9	\$59.1
CHALICE MINING LTD	ASX:CHN	\$2,920.0	\$97.6	\$0.0	\$2,822.4	16.2	0.9	\$174.4
GALILEO MINING LTD	ASX:GAL	\$155.1	\$17.4	\$0.0	\$137.8	-	-	-
CASPIN RESOURCES LTD	ASX:CPN	\$25.5	\$4.6	\$0.0	\$20.9	-	-	-

A busy 6-8 months ahead for SPD at Bengwenyama

We are anticipating quite a deal of news flow over the next 6-8 months as the company prepares for the completion of the pre-feasibility study for Bengwenyama. Note that this programme remains fully funded with SPD's cash balance at 30 March sitting at a comfortable A\$12.9m. The cash position in country has been enhanced with a ca. 10% decline in the AUD/ZAR exchange rate.

Key events over this period are likely to be:

- 1. First interim resource estimate.** The drilling programme has been more successful than anticipated. What was expected to be little more than a drill-out to elevate the resource status from Inferred to Indicated, SPD geologists have managed to identify what looks to be a significant addition to the UG2 resource. This discovery has been dubbed the Far East Block. In our note from early April, we speculate that this could have added over 1.5 million ounces (Moz) to the 8.4Moz UG2 resource, potentially an 18% uplift. Importantly these ounces could be quite shallow (sub 300m). We are expecting this upgrade to be released in May.
- 2. Lodgement of a Mining Right Application.** The company has flagged that it is sufficiently confident in the existing resource that it is able to complete the requisite studies for the lodgement of a Mining Right Application in 3Q23, a good 9 months earlier than was proposed in the prospectus. This sets the clock ticking for a statutory 300 day approval process. These studies include:
 - a. The Mining Work Programme,
 - b. A scoping level environmental plan; and
 - c. A social and labour plan.
- 3. Other studies to be completed.** We don't imagine the UG2 Reef at Bengwenyama to have significantly different metallurgical characteristics than that mined to the north (Modikwa) or south (Two Rivers). However ongoing metallurgical testwork is expected to be released over the next 6-8 months should continue to de-risk the project. Geotechnical studies will also be conducted in order to further de-risk the future mining operation.
- 4. Drilling update: 5 rigs now running on site.** With the discovery of the new "Far East Block" together with the unscheduled interruption to the programme 2 months ago, we believe completion of drilling will be delayed by a couple of months. SPD has recently reaffirmed that the Traditional Council (which manages business affairs for the local community) and the Royal Family are fully supportive of the project. It would be unwise to rule out further disruption, but we've been pleased that SPD management have tackled this issue quickly and through appropriate channels.
- 5. Second interim resource upgrade.** This will be completed at the completion of Stage 1 drilling, towards the end of the year we believe, but driven by drilling rates.
- 6. Completion of scoping/prefeasibility studies.** Completion of studies which can allow publication of economic outcomes depends on the conversion of a sufficient quantity of Inferred to Indicated resources, a common limit issued by the ASX. SPD has said that the PFS should be completed by early 1Q24 and we await clarification.
- 7. Power options.** This continues to be an area of concern in South Africa, with significant reliability issues from power provider Eskom. This has been well documented. We'd be very surprised if SPD isn't looking at power options to ensure sustainability of the business. We note with considerable interest that Samancor, owner of the Tubatse chrome smelter - situated close to the Bengwenyama project, has just sanctioned a 100MW solar PV plant. We look forward to updates from SPD re power sourcing as it progresses its PFS.

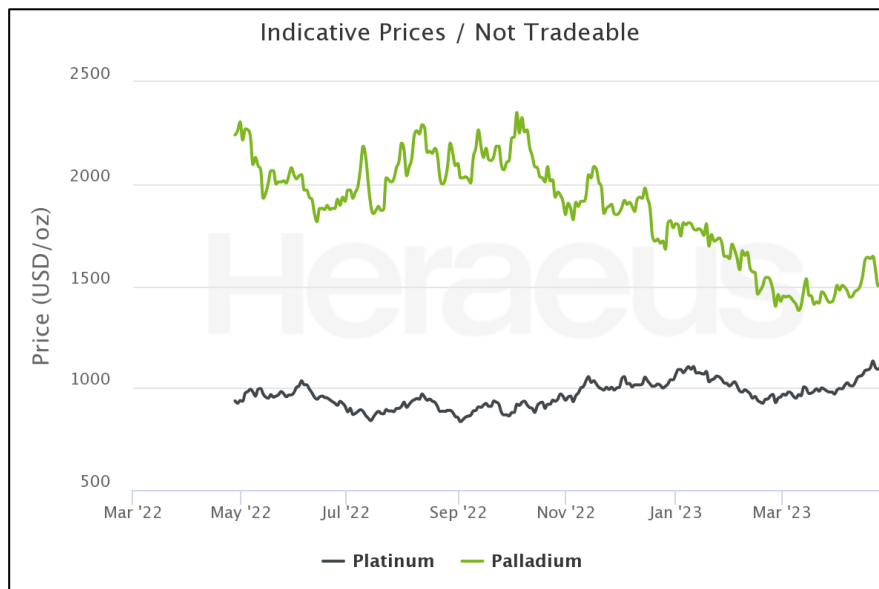


Commodity update

It's not surprising that production curtailment at the major South African mines and smelters has finally translated to the start of a price recovery for the PGMs. Troubles in the industry, largely driven by power outages, has seen refined PGM production from the largest producer, Amplats, drop by 13% YoY in the March quarter and down a remarkable 29% on the December 2022 quarter. No change to guidance as yet, but with little change to the power situation, the risk must be to the downside for South Africa's PGM production and sales.

The World Platinum Investment Council has presented a remarkably bullish case for platinum in its recently released quarterly review.

- “After two years of significant surpluses the platinum market is forecast to move to a material deficit in 2023. The change from the 776 koz surplus in 2022 to the forecast deficit of 556 koz in 2023 is over 1.3 Moz which reflects mining and recycling supply remaining close to the weak levels in 2022, up only 3% (201 koz) and strong demand growth of 24% (1,534 koz).
- Although power supply risks and operational challenges have been factored into the mining supply forecast for 2023, a worsening of electricity supply shortages in major producer South Africa and a gradual erosion of operational stability in Russia, linked to ongoing sanctions, present downside risks to supply.
- In contrast, although demand forecasts include the negative impact of inflation and lower global economic growth, downside risks are well protected as the strong demand growth results mainly from ongoing platinum for palladium substitution in automotive applications, already committed glass capacity additions, with construction to be completed in 2023, and robust bar and coin demand, while the significant outflows from ETFs and exchange stocks have largely run their course.”



Source: Heraeus

Much of the recent pain has been driven by palladium, which likely has suffered from two issues: (1) substitution by platinum in ICEs and (2) a flooding of the market (possibly through China) from Russia's Nornickel.

We continue to take a positive view of longer term pricing for the platinum group metals. The sector has not attracted the capital required to satisfy increasing global demand, which must remain supportive for pricing over the long term.

The EU in documents associated with the recent European Critical Raw Materials Act has singled out the PGMs, with lithium, nickel and the rare earths for 'trade actions'.

Metal refiner Heraeus, have just published its supply demand figures for 2022, with some interesting trends illustrating a declining surplus into 2022 (now believed to be a deficit), and for palladium and rhodium, with the majority of the last 5 years in deficit:

(koz)	Year	Supply	Demand (net recycling)	Net Supply
Platinum	2018	6130	5405	725
	2019	6105	4965	1140
	2020	4950	4100	850
	2021	6200	4885	1315
	2022	6300	5265	1035
Palladium	2018	6975	7890	-915
	2019	7180	7790	-610
	2020	6395	6825	-430
	2021	6990	6750	240
	2022	7185	7280	-95
Rhodium	2018	770	770	0
	2019	790	800	-10
	2020	630	680	-50
	2021	780	695	85
	2022	785	800	-15

Source: Heraeus

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Dr Chris Baker, an authorised representative of BSCP, certifies that the advice in this report reflects his honest view of the company. He has 29 years investment experience in wholesale capital markets. He worked as a mining analyst for brokers BZW and UBS for 11 years and has a further 16 years' experience as a mining analyst and portfolio manager with Colonial First State and Caledonia Investments. He now provides independent financial advice on a part time basis. He may own securities in companies he recommends but will declare this when providing advice. He currently owns shares in SPD. He is remunerated by BSCP but is not paid a specific fee for providing this report. BSCP are Corporate Advisors to SPD and may receive fees from SPD for services provided. BSCP, its directors and consultants may own shares and options in SPD and may, from time to time, buy and sell the securities of SPD.

BSCP was lead manager for the IPO of SPD and received fees for that service.

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