

Kidman Resources Limited
ABN 88 143 526 096

Quarterly Activities Report – June 2017

Corporate Details:

ASX Code: KDR / KDRO

Issued capital:

333.3 M ordinary shares
47.45 M Listed European Options

Substantial Shareholders:

Capri Holdings (9.75%)
Western Areas (5.2%)

Directors:

Non-Executive Chairman:

Peter Lester

Managing Director:

Martin Donohue

Non-Executive Director:

Brad Evans

Non-Executive Director:

David Southam

Chief Financial Officer (CFO):

Jason Eveleigh

Company Secretaries:

Justin Mouchacca
Melanie Leydin

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Highlights:

Kidman Resources Limited (ASX: KDR) (“the Company” or “Kidman”) is pleased to provide its June 2017 Quarterly Report for the Company as it focusses on the development of the Mt Holland Lithium and Gold Projects located near Southern Cross in Western Australia. Some of the key activities and milestones for the quarter included:

- Kidman defended the ownership of Lithium rights to Mt Holland Project against Marindi Metals Ltd (“Marindi”). The matter was heard in WA Supreme Court by Justice Kenneth Martin;
- Post quarter end, Justice Martin dismissed the Marindi action and Marindi advised the Australian Stock Exchange on 27 July 2017 that it had decided not to pursue an appeal;
- Technical studies into the zonation and mineralisation models for the Earl Grey pegmatite continued and extended to the wider highly prospective field. Multiple targets were identified and investigation into their prospectivity commenced; and
- Baseline studies continued during the quarter to underpin the proposed feasibility studies for the Mt Holland, Earl Grey Lithium project which is targeted for release by the end of the September quarter.
- During the June quarter the company formally engaged with SQM to undertake due diligence on the proposed formation of a 50/50 JV over the Mt Holland Lithium project to underpin a refinery located in WA which was subsequently announced during the current quarter.

CORPORATE

Marindi Metals Ltd Legal Matter

Kidman successfully defended the ownership of lithium rights in its Mt Holland project, including the Earl Grey deposit, with Supreme Court Justice Kenneth Martin handing down a judgment on 7 July 2017, which resulted in the claim by Marindi being dismissed.

The ruling by Justice Martin follows the three-day trial held from 29 to 31 May 2017 in the Supreme Court of Western Australia, when the Court dealt with the issue of whether any agreement existed with Marindi over the lithium rights to Mt Holland.

Kidman was represented by Grant Donaldson SC, instructed jointly by Maddocks and Gilbert + Tobin.

In Justice Martin's reasons for judgment, he found that there was a need for binding and enforceable heads of agreement to be first signed off between these parties as a condition precedent to the companies perfecting a binding agreement. Justice Martin also agreed with Kidman's characterisation of the early draft agreement as at best "an agreement to agree", in reference to the draft clauses within the draft exchanged and that the delineation of the mining rights that Marindi was to hold was uncertain.

The draft heads of agreement was not executed, and Justice Martin also noted "were it necessary to decide, I would deny specific performance to Marindi, upon a basis of what was a seriously prejudicial and unjust delay to Kidman". This was a reference to the significant timeline of the claimed agreement and legal action being filed by Marindi.

Agreement with Sociedad Quimica y Minera de Chile SA (SQM)

On 12 July 2017, the Company announced that it had entered into a binding letter agreement with SQM setting out the broad terms of joint venture to develop and operate the Mt Holland Lithium Project (**Project**) and committing the parties to work together towards negotiating and finalising definitive documents. Conclusion of the definitive documents is expected by 30 September 2017.

Under the proposed joint venture arrangements:

- In consideration for the acquisition of a 50% joint venture interest in the Project, SQM will make an initial cash payment of US\$30 million (A\$40 million) to the Company and will commit to sole funding an amount of US\$80 million (A\$106.67 million) in respect of the development of the Project;
- As an advance of the joint venture funding (and pending satisfaction of conditions precedent), SQM will provide a US\$21.5 million (A\$28.67 million) convertible loan facility to the Company; and
- The Company will have an option to participate for up to a 50% interest in a proposed refinery to produce lithium carbonate/hydroxide.

Under the proposed arrangements, the Company will retain all gold rights in relation to the Mt Holland tenements.

Cash at Bank

The Company's cash at bank at 30 June 2017 was \$2.55m. Outside of normal operating expenses, \$1.0m was repaid to Capri Trading pursuant to the Cash Advance Financing Facility. Other major expenses included legal fees that were incurred in relation to the successful defence of the Marindi matter. The Company is awaiting a final determination on, and an order for costs from Justice Martin. This is likely to result in proceeds being received by Kidman from Marindi.

As part of the negotiations giving rise to the transaction announced on 12 July 2017, SQM provided a short-term facility of US\$1.5 million to the Company. If the transaction as announced does not proceed to definitive documents, this loan is intended to be set off against a break fee of the same amount payable by SQM to the Company. If the transaction does proceed to definitive documents, this short-term facility will become part of the US\$21.5m convertible loan facility referred to above. The Company is working with SQM on finalising all necessary documentation and expects to be in a position to drawdown under the convertible loan facility before 30 September (see Appendix 5B). Accordingly, Kidman expects it will be in a very sound position to advance its project activities.

MT HOLLAND (Lithium)

Metallurgy

The knowledge base around metallurgical performance of the Earl Grey pegmatite was advanced considerably during the quarter.

Extensive mineral characterisation testing (130 samples from 18 diamond drill holes) were subjected to heavy liquid separation with the products then submitted for XRD mineral identification. This indicated the lithium was hosted almost exclusively in spodumene in the southern portion of the resource where initial mining will take place.

A large composite sample ~ 650kg from the diamond drilling at the southern end of the resource was delivered to Nagrom in early April for further metallurgical testing. The preliminary gravity only flowsheet to be tested was two stage dense media separation. First stage crushing to 10mm and then a second stage at 2mm resulted in several concentrate sample grades at plus 5.8%, however more work is required to optimise increased recovery from the middlings. Testwork is ongoing and further optimisation is required to increase the yields to acceptable levels.

Magnetic separation seems to consistently increase grades and reduce mass with very low Li₂O loss. Additionally, there was more flotation work undertaken to optimise grind size and reagents. Grinding to 180um appears to be the optimal particle size. Testing of the Earl Grey pegmatite material also used various flotation techniques including different design cells (column and Eriez Hydroflot cell) and also reverse flotation as methods to increase concentrate grades. Preliminary work is encouraging and more test work is required to fine tune the process.

Environmental

Following consultation with various Decision-Making Authorities (DMA's) over a six-month period, a Referral Document was prepared and submitted to the Commonwealth Department of Energy and Environment and the Western Australian Environmental Protection Authority. The Referral Document followed extensive baseline flora and fauna studies, groundwater studies, waste characterisation, site planning to locate infrastructure and detailed waste scheduling. The data was based on the presence of protected and vulnerable species in the project area under the Commonwealth EPBC Act.

Technical Studies:

A systematic programme of semi-quantitative X-ray diffraction (XRD) analysis was continued through the June quarter to aid in mapping the distribution of the two most common lithium aluminosilicate minerals at Earl Grey; spodumene (LiAlSi₂O₆) and petalite (LiAlSi₄O₁₀). This programme analysed 331 samples from 33 drill holes across the entire deposit. Existing pulps were retrieved from storage and analysed by the ALS Metallurgical laboratory in Perth, with a selection of samples also submitted to Microanalysis as an umpire laboratory check.

The results of this analysis confirmed spodumene to be the dominant Li-aluminosilicate within the Earl Grey pegmatite. Petalite was found to be restricted to the far western margin of each pegmatite body, where it co-occurs with variable amounts of spodumene. These distinct spodumene and petalite domains are not due to concentric or layered magmatic zonation as typically seen in complex pegmatites, but rather caused by variable isochemical inversion of petalite to produce spodumene-quartz intergrowth throughout most of the deposit. The Earl Grey pegmatite otherwise has a mineralogy characteristic of the albite-spodumene type of pegmatite, with a simple and relatively homogenous mineralogy consisting of albite, quartz, and microcline, with minor tourmaline and muscovite in addition to the Li-aluminosilicates.

A 3D Li-aluminosilicate distribution model was constructed utilising the XRD data, and based upon a spodumene to total spodumene and petalite ratio (i.e $\text{spd\%} / (\text{spd\%} + \text{pet\%})$). Three zones were defined from this ratio; a spodumene zone (>90% spodumene), a mixed zone (10%-90% spodumene), and a petalite zone (>90% petalite). The model, displayed in Figures 1 & 2, shows the distinct spodumene- and petalite-bearing domains across the Earl Grey pegmatite. A second batch of 215 samples is currently under analysis at ALS and expected in the next quarter, which will allow further refinement of the mineralogical model.

The mineralogical analysis of the Earl Grey pegmatite, in conjunction with a review of regional geochemical data by Kidman’s Technical Team, has significantly advanced the understanding of the Mt Holland pegmatite field. Kidman believes there is a strong opportunity for the discovery of further lithium-mineralised pegmatites within the existing land holding

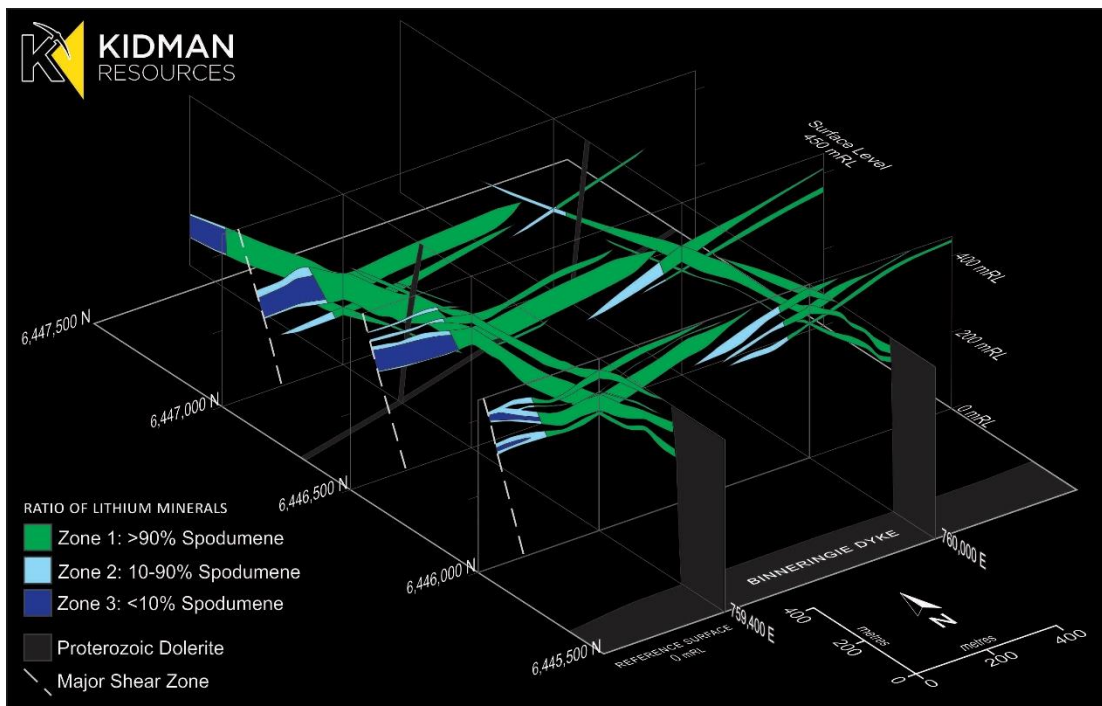


Figure 1: Composite cross section of the Earl Grey pegmatite Li-aluminosilicate mineralogy model displaying relative proportions of spodumene and petalite.

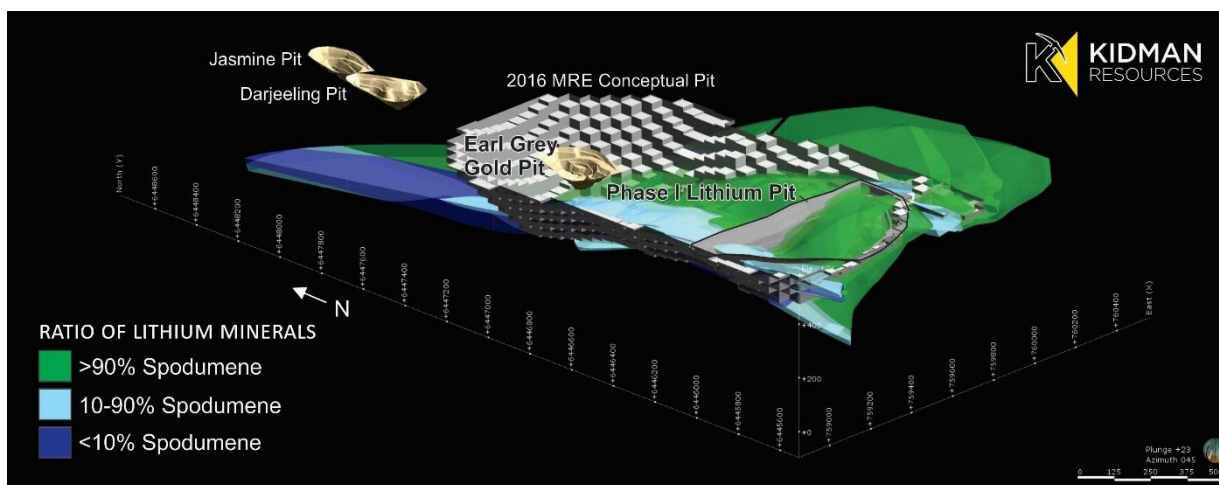


Figure 2: 3D Oblique view of the Earl Grey pegmatite Li-aluminosilicate mineralogy model displaying the 2016 MRE conceptual final pit and planned Phase I Pit shells.

BURBANKS

During the June quarter, the Company continued the sale process of Burbanks, but made the decision to close down operations at the project and focussed all attention on the Mt Holland Lithium and Gold project.

NSW & NT Projects

During the quarter, Kidman continued to review all projects in the NT and NSW with the aim of considering ways to potentially divest these assets. The aim will be to consider opportunities that may directly benefit Kidman shareholders, as it turns its focus to the Mt Holland gold and lithium project in WA. No field work was conducted on these projects during the quarter.

Kidman Tenement holding summary

Below is a listing of the tenements held by Kidman Resources Limited as at 30 June 2017:

Mining Tenement	Location	Beneficial Percentage held	Interest acquired/farm-in during the quarter	Interest disposed/farm-out during the quarter
EL 23186 – Home of Bullion	NT, Australia	100%	-	-
EL 7537 – Blind Calf	NSW, Australia	100%	-	-
EL 7538 – Wilmatha	NSW, Australia	100%	-	-
EL 7820 – Melrose	NSW, Australia	100%	-	-
EL 7821 – Lockerbie	NSW, Australia	100%	-	-
EL 7523 – Kiacatoo	NSW, Australia	100%	-	-
EL 4152 – Bogong	NSW, Australia	100%	-	-
EL 6321 – Browns Reef	NSW, Australia	100%	-	-
EL 7746 – Achilles	NSW, Australia	Right to acquire up to 90%	-	-
EL 7931 – Shepherds	NSW, Australia	Right to acquire up to 90%	-	-
EL 7891 – Tarilita	NSW, Australia	Right to acquire up to 90%	-	-
EL 8604 – Hill View	NSW, Australia	Right to acquire up to 90%	-	-
M15/0161 – Burbanks	WA, Australia	100%	-	-
M77/0477 - Van Uden North	WA, Australia	80%	-	-
M77/0478 - Van Uden South	WA, Australia	80%	-	-
M77/0522 - Van Uden North North	WA, Australia	80%	-	-
M77/0523 - Van Uden South South	WA, Australia	80%	-	-
E77/1361 – Deserts	WA, Australia	80%	-	-
E77/1535 – Cities	WA, Australia	80%	-	-
E77/1463 - Alpine	WA, Australia	0%	-	80%
E77/1582 – Aircraft	WA, Australia	80%	-	-
M77/1065 – Cheeses	WA, Australia	100%	-	-
M77/1066 – Bounty	WA, Australia	100%	-	-
M77/1067 – Razorback	WA, Australia	100%	-	-
M77/1068 – BushPig	WA, Australia	100%	-	-
M77/1080 – Twinings	WA, Australia	100%	-	-
P77/4082 – Cascadia	WA, Australia	100%	-	-
P77/4115 – Snow	WA, Australia	100%	-	-
P77/4220 – Lily	WA, Australia	100%	-	-
E77/1773 - Southern Cross	WA, Australia	100%	-	-
E77/1772 - Castle	WA, Australia	0%	-	100%
E77/1775 – Sea	WA, Australia	100%	-	-
E77/2011 – Coffee	WA, Australia	100%	-	-
E77/2080 – Battles	WA, Australia	100%	-	-
E77/2097 – Generals	WA, Australia	100%	-	-
E77/2137 – Planets	WA, Australia	100%	-	-
E77/2162 – Moons	WA, Australia	100%	-	-
E77/2167 – Golf	WA, Australia	100%	-	-
E77/2188 – Hamlet	WA, Australia	100%	-	-
E77/2305 – Michael	WA, Australia	100%	-	-

G77/0037	WA, Australia	100%	-	-
G77/0038	WA, Australia	100%	-	-
G77/0045	WA, Australia	100%	-	-
G77/0047	WA, Australia	100%	-	-
G77/0048	WA, Australia	100%	-	-
G77/0049	WA, Australia	100%	-	-
G77/0050	WA, Australia	100%	-	-
G77/0068	WA, Australia	100%	-	-
G77/0070	WA, Australia	100%	-	-
G77/0071	WA, Australia	100%	-	-
G77/0072	WA, Australia	100%	-	-
G77/0073	WA, Australia	100%	-	-
G77/0109	WA, Australia	100%	-	-
G77/0110	WA, Australia	100%	-	-
L77/0059	WA, Australia	100%	-	-
L77/0085	WA, Australia	100%	-	-
L77/0096	WA, Australia	100%	-	-
L77/0107	WA, Australia	100%	-	-
L77/0176	WA, Australia	100%	-	-
L77/0193	WA, Australia	100%	-	-
L77/0194	WA, Australia	100%	-	-
L77/0198	WA, Australia	100%	-	-
L77/0199	WA, Australia	100%	-	-
L77/0200	WA, Australia	100%	-	-
L77/0205	WA, Australia	100%	-	-
L77/0206	WA, Australia	100%	-	-
L77/0207	WA, Australia	100%	-	-
L77/0208	WA, Australia	100%	-	-
EPM18050	WA, Australia	100%	-	-
EPSX00410113	WA, Australia	100%	-	-
E77/2111 – Application	WA, Australia	100%	-	-
E77/2244 - Application	WA, Australia	100%	-	-
L77/0271 - Application	WA, Australia	100%	-	-
E77/1400	WA, Australia	100%*	-	-
E77/2099	WA, Australia	100%*	-	-
E77/1436	WA, Australia	Right to acquire 70% Lithium Rights	-	-
E77/1581	WA, Australia	Right to acquire 70% Lithium Rights	-	-
E77/2127- Application	WA, Australia	Right to acquire 70% Lithium Rights	-	-
E77/2228 - Application	WA, Australia	Right to acquire 70% Lithium Rights	-	-
E77/2235 - Application	WA, Australia	Right to acquire 70% Lithium Rights	-	-
E77/2236 - Application	WA, Australia	Right to acquire 70% Lithium Rights	-	-
E77/2261 - Application	WA, Australia	Right to acquire 70% Lithium Rights	-	-
M77/0215	WA, Australia	Right to acquire 70% Lithium Rights	-	-
M77/0216	WA, Australia	Right to acquire 70% Lithium Rights	-	-
M77/0284	WA, Australia	Right to acquire 70% Lithium Rights	-	-
M77/0285	WA, Australia	Right to acquire 70% Lithium Rights	-	-
M77/0286	WA, Australia	Right to acquire 70% Lithium Rights	-	-
M77/0324	WA, Australia	Right to acquire 70% Lithium Rights	-	-
M77/0389	WA, Australia	Right to acquire 70% Lithium Rights	-	-
M77/0458	WA, Australia	Right to acquire 70% Lithium Rights	-	-
M77/0542	WA, Australia	Right to acquire 70% Lithium Rights	-	-
M77/0550	WA, Australia	Right to acquire 70% Lithium Rights	-	-
P77/4067	WA, Australia	Right to acquire 70% Lithium Rights	-	-
E77/1734	WA, Australia	Right to acquire 70% Lithium Rights	-	-
* Transfer Pending from Western Areas to Kidman Resources.				

THE END

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