

COMPANY Kidman Resources | KDR | \$0.11/share

Date: 10 May 2016

RECOMMENDATION Restricted | Valuation Range \$0.17-\$0.58/sh

EVENT: Drilling and Exploration at Mt Holland underway – Desk Note

KEY POINTS

- KDR have announced that they are starting drilling at the Mt Holland Project, the initial focus will be on depth extensions of the Blue Vein deposit. The drill rig has mobilised to site and commenced preparations for KDR's first drilling at the project
- In addition to the work at Blue Vein KDR has commenced work on a number of other deposits and prospects within the Mt Holland Project.
- Following the recent capital raising (\$8m – *PAC Partners Lead Manager, please see disclaimer*) KDR is now well funded to start drilling at Mt Holland and also the underground development at Burbanks. As the work programs ramp up we would expect the news flow to increase.

FY 17F METRICS PER 3.76x | EV/EBITDA 2.3x | Yield 0%

LINK TO INITIATION REPORT: [KDR Initiation May 2016](#)

- The aim of the initial work program at Mt Holland is to show that the ore zone extends outside of the current resource (0.96Mt @ 6.7g/t for 208koz). Based on the results we would see additional drilling being undertaken to increase the resource at Blue Vein and extend the modelled mine life, we currently assume a 3.5 to 4 year operation based on the historic feasibility study results. The deepest drilling at Blue Vein was at 350m vertical depth and intercepted 14m at 13.64g/t gold. The analogy for Blue Vein is the main Bounty Mine, located ~4km along strike that produced 1.3Moz over a 10 year period and was mined to a depth of 1.2km.
- The Mt Holland Project contains ~1.0Moz gold inventory in a number of deposits, in addition to the drilling at Blue Vein KDR has commenced exploration at a number of other deposits within the project. These include sampling existing drilling at the Gold City prospect and also reviewing the exploration potential at Twining's and Van Uden deposits.

INVESTMENT OVERVIEW

With a healthy bank balance following the recent capital raising KDR is now well positioned to push forward with both of their Western Australian gold projects. We continue to see a number of significant value add opportunities available to KDR. These include recommencing mining and production from the Burbanks Mine and increasing the scale of the current Mt Holland resources. Risks around exploration success and also completing the acquisition of Mt Holland exist, having said that we see Mt Holland is the potential company maker for KDR. Please see our Initiation Report ([KDR Initiation May 2016](#)) for a full summary of the projects and risks.

We have valued the assets of KDR in the range of \$0.17 - \$0.58/sh, or ~1.6x to 5.5x the current share price. Based on peer comparison (EV/Resource oz & EV/EBITDA) and DCF NAV. Additional upside to our base case assumptions is possible as KDR de-risk their projects, we have not included any value from the potential lithium at Mt Holland in our range of values.

Should you have any queries, please do not hesitate to contact me on 03 8633 9862.

Andrew Shearer

PAC Partners

Level 12, 15 William Street Melbourne VIC 3000

Phone: +61 03 8633 9862

ashearer@pacpartners.com.au

www.pacpartners.com.au

Recommendation Criteria

Investment View

PAC Partners Investment View is based on an absolute 1-year total return equal to capital appreciation plus yield.

Buy	Hold	Sell
> 20%	20% - 5%	< 5%

A Speculative recommendation is when a company has limited experience from which to derive a fundamental investment view.

Risk Rating

PAC Partners has a four tier Risk Rating System consisting of: Very High, High, Medium and Low. The Risk Rating is a subjective rating based on: Management Track Record, Forecasting Risk, Industry Risk and Financial Risk including cash flow analysis.

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