

Appendix 4E



Heemskirk Consolidated Limited ABN 18 106 720 138

Preliminary Final Report

Results for announcement to the market

For the Financial Year Ended 30 September 2016

(previous corresponding period 30 September 2015)

			2016 \$'000	2015 \$'000
Revenue from ordinary activities	Up	42%	317	224
Loss after tax attributable to members	Down	8%	4,820	5,244

Net Tangible Assets Per Share

	2016	2015
Net tangible asset backing per share (cents per share)	4.91	10.22

Dividends

The Directors have determined that no dividends will be paid for the year ended 30 September 2016.

Review of operations

A review of the consolidated entity's operations during the year ended 30 September 2016 and results of those operations are included in the Heemskirk Consolidated Limited 30 September 2016 Directors' report set out on pages 5 to 8.

Additional Appendix 4E disclosure requirements can be found in the Directors' report and the 30 September 2016 financial statements and accompanying notes.

This report is based on financial statements that have been audited.



Heemskirk Consolidated Limited

ASX: 'HSK'

Annual Financial Report

For the year ended 30 September 2016

Heemskirk Consolidated Limited

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Directors' report for the year ended 30 September 2016



Your Directors submit their report for the year ended 30 September 2016.

Directors

The names and details of the Directors of the Company in the office during the year and until the date of this report are set out below. Directors were in office for the entire year unless otherwise stated.

Names, qualifications, experience and special responsibilities

Garry Cameron (Non-Executive Chairman)

BBus(A/c), BEc(Hons), MEd, FAICD, FCPA

Garry was Managing Director of a listed property group for 10 years and prior executive roles include Executive Director Finance for Telstra. He is currently a Non-Executive Chairman of Infrastructure Specialist Asset Management Limited. He was previously a Non-Executive Director with ANZ Specialist Asset Management Ltd. The ANZ roles over the past nine years have been in funds management of energy and infrastructure projects particularly focused on large coal, gas and biofuels projects from exploration to delivery.

Garry formerly held Non-Executive Director roles in the oil and gas sector, superannuation funds management, a retirement village developer and operator, and a contract labour services company.

Garry was recognised in 1992 on the Australia Day Honours list for his contributions to the Finance and Telecommunications industries.

Garry joined the Board on 24 February 2011 and was appointed Chairman on 20 March 2014.

John Taylor (Non-Executive Director)

BE(Chem), MBA, FIChemE

John was Managing Director of Outotec Australasia Pty Ltd (previously Outokumpu Technology and prior to that, Lurgi (Australia) Pty Ltd) for 18 years. He has held senior positions in management, process engineering and plant construction, primarily in the mining, minerals processing and environmental sectors.

John was previously a Non-Executive Director of listed companies KGL Resources Limited, Ticor Ltd, The Environmental Group Ltd and Ausmelt Ltd.

He is a part time consultant to Outotec South East Asia Pacific.

John joined the Board on 9 May 2011.

Directors' report for the year ended 30 September 2016



Peter Maxwell John McKenna (Non-Executive Director - appointed 23 March 2016)

BE (Civil)(Hons), GAICD, FIEAust, CP Eng, F Fin, MAusIMM

Peter has worked in the mining, resource and infrastructure industries for nearly 40 years and has over 20 years of board level experience.

Peter brings governance experience of major resource and infrastructure projects, research and development organisations and international representative offices.

Peter was previously a Non-Executive Director of Cooperative Research Centre for Mining and an Advisory Board Member of North West Rail Link project, Sydney. He also has executive Board experience at Glencore Coal (previously Xstrata Coal), MPE and Prodeco S.A (Colombia).

Peter joined the Board on 23 March 2016.

Peter Bird (Retired Managing Director – retired 30 April 2016)

BSc(Hons), MAICD, AFin

Peter has worked in the resource industry for over 20 years. He brought operational and corporate experience combined with a strong understanding of company analysis and global investment markets.

Peter is a geologist and has held technical, management, investment and human resource positions with major companies such as Western Mining Corporation Limited, Merrill Lynch Equities and Newmont Mining Corporation and executive positions with Normandy Mining Limited and Newcrest Mining Limited. Peter was previously a Non-Executive Chairman of Excelsior Gold Limited.

Peter is a Founding Director of the Company and was appointed Managing Director on 1 December 2011. Peter retired on 30 April 2016.

Interests in the shares and options of the Company and related bodies corporate

As at the date of this report, the interests of the directors in the shares and options of Heemskirk Consolidated Limited were:

	Number of ordinary shares
G. Cameron	575,000
J. Taylor	2,428,572
P. McKenna	-
P. Bird ⁽¹⁾	6,199,325

(1) Closing balance represents the balance at date of departure.

Directors' report for the year ended 30 September 2016



Company Secretary

Andrew Metcalfe

Andrew was appointed Company Secretary on 27 August 2014 and resigned on 28 October 2016.

Trish Hally

Trish was appointed Company Secretary on 28 October 2016.

Dividends

During the year, no dividends were paid in respect of the 2015 year and no dividend has been declared in respect of the 2016 year.

Principal Activities

The principal activities during the year was the development and construction of the Moberly Project.

Moberly Project ("the Project")

The Project is located near the town of Golden, in south-eastern British Columbia, about 260 kms west of Calgary, Canada. It is a high-quality silica project, with a granted mine lease and a freehold plant site.

The Moberly silica operation has mined and processed high purity silica sand for a diverse number of industrial applications since 1983. Our SILWITE® products have a purity ranging from 99.15% to 99.55% SiO₂, well exceeding the requirements for silica sand raw material in flint grade glass, ceramic and foundry grades. Our products have extremely low iron oxide content and therefore in these applications will not interfere with the colour of the ultimate end product.

The Project is scheduled to produce high-quality American Petroleum Institute (API) standard specification proppant (Mount Moberly White™). Construction completion, commissioning and first production is expected in Q3 2017.

The Project's Competent Person estimated Measured and Indicated resources of 37.5 million tonnes of silica with 70% recovery to 30# to 140# frac sand products¹, the Stage One Moberly Project has a nameplate production output capacity of 300,000 tonnes per annum.

¹ Please see the ASX Announcement titled Heemskirk Mineral Reserves and Ore Reserves – 30 September 2016 dated 23 November 2016 for the full announcement of the Mineral Resources and Ore Reserves at Moberly, estimated by Competent Person Malcolm Ward FAusIMM. Heemskirk confirms that it is not aware of any new information or data that materially affects the information included in that market announcement. And also confirms that all material assumptions and technical parameters underpinning the estimates in that market announcement continue to apply and have not materially changed.

Directors' report for the year ended 30 September 2016



The Project has a mine life well beyond the current 20-year mine plan, with a strong product demand. It is a simple, scalable project – with the attraction of import replacement supply for Western Canadian petroleum industry customers.

Independent tests have verified that the project, as designed can produce American Petroleum Institute (API) specification 30/40, 30/50, 40/70 and 100 mesh Frac sands capable of meeting the requirements of exploration and development companies operating in Canada and Northern USA.

Located approximately 700kms from Grand Prairie, Alberta, an oil and gas hub, Moberly is well situated to provide a logistical advantage to its customers in the Western Canadian Sedimentary Basin (WCSB). Trucks can travel between Moberly and almost any wellsite in the WCSB in one day if the rail lines are busy or disrupted.

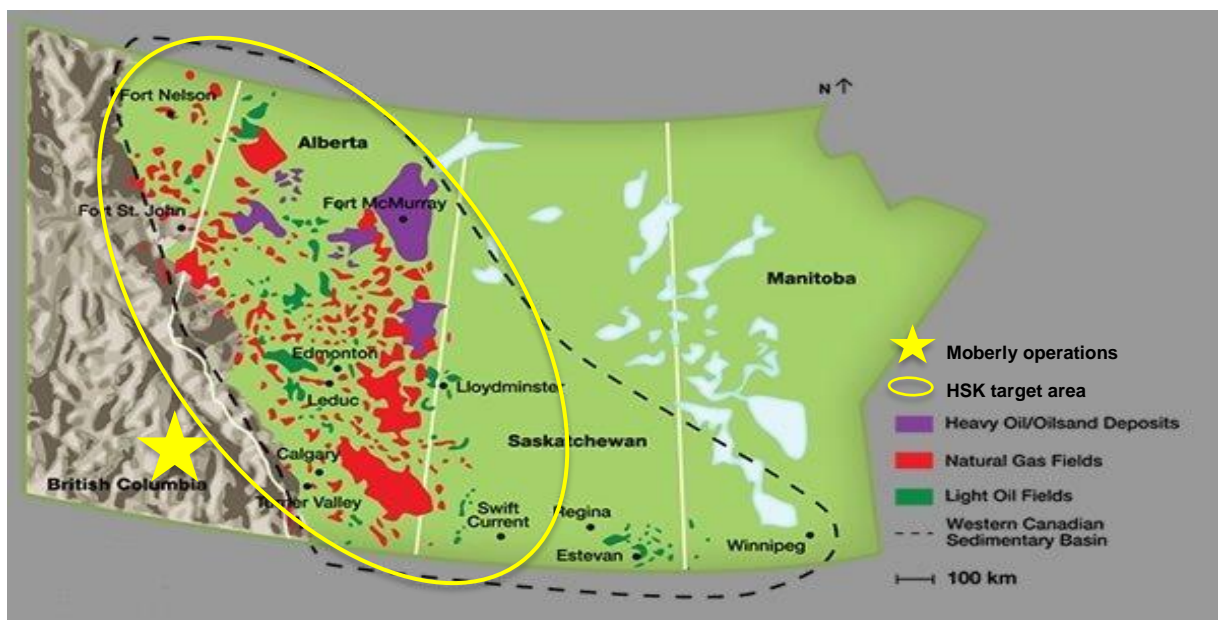


Figure 1: Moberly location in the WCSB - North American Areas of Use

Directors' report for the year ended 30 September 2016



Figure 2: Layout of proposed plant at existing Moberly Plant Site

Operating and financial review

In the 12 months to 30 September 2016, the Company has made significant progress in relation to the development of the Moberly Project.

Key milestones achieved in 2016

- Finalisation of construction costs associated with development of Stage One of the Project;
- Raised \$9.926 million via a fully underwritten 10 for 7 Rights Issue;
- Satisfied the conditions precedent to drawing down Stage One funding for the Project;
- Commenced full construction of Stage One of the Project;
- Completed construction of the mine haul road; and
- Restructured operations to align to Company Strategy.

Review of operations

In January 2016, the Company completed a \$9.926 million capital raising via a fully underwritten 10 for 7 Renounceable Rights Issue at \$0.03 per share to satisfy conditions precedent to the Stage One drawdown of the Taurus Funds Management debt facility and working capital needs.

The completion of the capital raising satisfied all conditions precedent associated with Stage One drawdown of the USD40 million debt facility. This has allowed the release of USD25 million for the construction of the Stage One 300,000 tonnes per annum Moberly plant and ancillary infrastructure

Directors' report for the year ended 30 September 2016



which began in late February 2016. As at 30 September 2016, the Company had drawn down USD10 million of the USD25 million debt facility.

Construction of the mine haul road, equipment procurement and building of the load-out facility was completed during the year and the mining and hauling of silica sand from the mine site to the plant commenced to ensure a sufficient stockpile of raw material is available for commissioning and when full production commences. Work on the evaluation of Stage Two expansion of the Project has also been initiated.

During the second half of the year a detailed review of Moberly Project equipment and construction drawings was undertaken by the Company and its engineering contractor. This review identified a range of refinements and modification recommendations in respect of equipment selection and options. As a result of these recommendations, a schedule review was then undertaken with the construction contractor. Construction completion, commissioning and first production is expected by Q3 2017.

In the most recent annual estimation of the Company's reserves and resources (as at 30 September 2016²) the Company's Competent Person estimated the same quantity of in situ mineral resources as at 30 September 2015³ which itself comprised a slight increase in tonnage and recovery over the prior year.

The Company also restructured its Corporate activities to align better with the construction of the Moberly Project and ongoing business operations. In March 2016, Mr Peter McKenna was appointed as a Non-Executive to complement the skill set of the Board. In April 2016, Mr Peter Bird stepped aside as Managing Director and Mr Mark Connors, the President of the Group's Canadian operations was appointed Acting Chief Executive Officer of Heemskirk Consolidated.

² Please see the ASX Announcement titled Heemskirk Mineral Reserves and Ore Reserves – 30 September 2016 dated 23 November 2016 for the full announcement of the Mineral Resources and Ore Reserves at Moberly, estimated by Competent Person Malcolm Ward FAusIMM as at 30 September 2016. Heemskirk confirms that it is not aware of any new information or data that materially affects the information included in that market announcement. And also confirms that all material assumptions and technical parameters underpinning the estimates in that market announcement continue to apply and have not materially changed.

³ Please see the ASX Announcement titled Annual Statutory Update dated 15 December 2015 for the full announcement of the Mineral Resources and Ore Reserves at Moberly, estimated by Competent Person Malcolm Ward FAusIMM as at 30 September 2015. This report has been superseded by the one noted above.

Directors' report for the year ended 30 September 2016



Operating results for the year

The Heemskirk Group reported a net loss after income tax of \$4.820 million for the year ended 30 September 2016, a decrease of 8.5% from the prior year. The Group's loss includes recognition of the following key items of revenues and expenses:

- \$1.285 million net gain on USD:CAD foreign currency forward contracts;
- \$1.694 million realised loss on the sale of 2.529 million shares in Almonty Industries Inc (Almonty) (TSXV: All); and
- \$4.023 million employment and other overhead costs, including restructuring costs of \$0.484 million.

Foreign currency forward contracts were put in place to manage the exposure to USD:CAD currency risks during the construction of the Moberly Project. The loan proceeds from the Taurus Funds Management secured debt facility are drawn in United States Dollars ("USD") and majority of the construction payments will be made in Canadian dollars ("CAD"). At 30 September 2016, the Group had in place forward contracts to sell USD16.4 million and receive CAD at weighted average exchange rate of 1 USD = 1.37 CAD. The average USD:CAD forward rate at 30 September 2016 was 1 USD = 1.31 CAD.

The Group continued to take advantage of market opportunities to dispose of its investments in Almonty. The average price received on the sale of the Almonty shares was \$0.33 per share. The shares were received as part payment for the sale of Heemskirk's Los Santos Mine Tungsten Mine to Almonty in April 2011. At year end, the Company holds 2.924 million shares in Almonty with a market value of \$0.787 million (2015: \$3.365 million).

Employee and other overhead costs include costs incurred to support the development of the Project and satisfy the Company's regulatory and other compliance obligations. Compared to 2015, total costs for the Group fell by 7.4% to \$4.023 million largely due to a reduction in legal, due diligence and consultancy fees relating to the development of the Project.

The restructuring of corporate activities resulted in redundancies of \$0.484 million being recognised and paid during the year. Employment costs will reduce materially in 2017. An impairment expense of \$0.151 million relating to the Founders' loan was also recorded. Refer to Note 24(c) for further details relating to the Founders' loan.

	2016 \$'000s	2015 \$'000s	Change \$'000s	Change %
Employment costs	2,392	2,195	197	9.0%
Corporate costs	876	1,072	(196)	(18.3%)
Consultants and advisory expense	755	1,079	(324)	(30.0%)
Total costs	4,023	4,346	(323)	(7.4%)

Financing costs were down 34.5% to \$0.187 million following the redemption of the convertible notes in March 2015. The costs incurred in 2016 represents the fair value expense on the options issued under the secured debt facility.

Directors' report for the year ended 30 September 2016



Financial position

The net assets of the Company increased by \$3.952 million to \$27.617 million at year end. The increase reflects the capital raising, current year's loss after tax and foreign currency translation losses arising from the strengthening of the AUD against the CAD.

Cash and cash equivalents increased by \$7.331 million to \$13.305 million. During the year, the Company raised capital of \$9.696 million, net of transaction costs through a 10 for 7 fully underwritten Rights Issue.

Proceeds of \$13.224 million (USD10.0 million) were received from the draw downs of the secured debt facility and progress payments of \$11.768 million were made relating to the construction of the Moberly Project.

Operating cash outflows include \$0.824 million for the mining and hauling of silica sand from the mine to the plant during the year.

	2016 \$'000s	2015 \$'000s
Net cash at beginning of year	5,974	12,101
Net cash from operating activities	(4,423)	(4,954)
Net cash from investing activities	(10,994)	(3,699)
Net cash from financing activities	22,569	2,422
Net increase/(decrease) in cash held	7,152	(6,231)
Net foreign exchange differences	179	104
Net cash at end of year	13,305	5,974

Net debt/(cash) position at 30 September 2016 was \$1.328 million (2015: (\$5.890 million)). Refer to Note 17 for details of the secured debt facility.

	2016 \$'000s	2015 \$'000s
Borrowings	14,633	84
Less: cash and cash equivalents	(13,305)	(5,974)
Net debt/(cash)	1,328	(5,890)

Directors' report for the year ended 30 September 2016



Safety

The Company places paramount importance on the health and safety of the Heemskirk workforce. Safety policies and reporting procedures are under constant review at the Company's operations and offices in order to identify areas of improvement and effect changes accordingly.

At the Heemskirk operations, all new staff must undertake a formal induction program. In addition to the formal reporting and recording process, all safety incidents are reviewed and where appropriate, additional safety procedures and measures are implemented with the objective of preventing recurrence and mitigating future injuries.

Our Strategy

Our shorter-term strategy is to complete efficiently the construction and commissioning of the Moberly Project. More broadly, our strategy is to be the dominant quality producer of silica sand for the glass, cement and oil & gas markets in Canada and North America.

Outlook for 2017

We are looking to 2017 with ongoing commitment to complete the Moberly Project and will be investigating and putting in place a number of strategic actions to support the broader long term strategy. In Q3 2017, we expect first production at the Project.

Short-term

Our short-term focus will be to:

- Reduce discretionary spending - continue to focus on group overheads whilst supporting the construction and development of the Project;
- Secure customer offtake agreements; and
- Prepare for operational readiness including:
 - Mining and hauling – ensure sufficient raw material is on site for commissioning and production;
 - Logistics – lock in shipping contracts so that freight is ready for first shipment and take advantage of Project's closer proximity to the Western Canadian Sedimentary Basin;
 - Management team – put in place a management team that is ready for commissioning and first production; and
 - Systems – ramp up procedures and systems ready for operation.

Long-term

The Company entered into a USD40 million two-tranche secured debt facility agreement to fund the construction of the Project. As part of the debt facility agreement executed with Taurus Funds Management, USD15 million will be available in Tranche Two to complete an expansion of the Project (Stage Two) once Stage One has been successfully completed.

The Company has commenced an engineering scoping study to investigate options and optimal expansion capacity of the Moberly Project.

Directors' report for the year ended 30 September 2016



Market insight

A range of industry reports has pointed to a favourable turnaround in North American frac sand demand and pricing over the next few years with a rise in expected sand consumption as more oil and gas producers are drilling longer horizontal wells with multiple fracking stages. Moberly's high purity silica allows the Group to pursue customers in the Industrial Minerals markets including glass manufacturing and traffic paint. Heemskirk's Moberly Project is well positioned, and forecast first production of Q3 2017 is well timed.

Key business risks

The Group is exposed to multiple risks relating to conduct of its business and operations. The following list of risks are not meant to represent an exhaustive list.

Key risks that may impact the Group's business strategy and prospects for the future financial year include:

- Construction risks - completion of the Moberly Project involves a number of typical construction risks including the failure to obtain necessary approvals, employee or equipment shortages, higher than budgeted construction costs, insolvency events and project delays, which may impact the commerciality and economics of the project. There are also risks associated with ensuring contractors and subcontractors perform their contractual obligations to the Company and do not withdraw from their contractual arrangements.
- Debt funding risk - Heemskirk has entered into financing commitments pursuant to which financiers have agreed to provide debt financing for the Moberly Project construction on certain terms and conditions. If certain events occur (e.g. insolvency, non-compliance with bank covenants etc.), the financiers may terminate the debt financing agreement. Termination of the debt financing agreement would have an adverse impact on Heemskirk's sources of funding for the Moberly Project. The financiers have obtained security interests over Heemskirk's assets to secure the funding, there is a risk that the financiers could enforce this security if Heemskirk defaults on its debt funding arrangement.
- Production and cost estimates - costs of production may be affected by a variety of factors, including changing waste-to-ore ratios, product recoveries, labour costs, general inflationary pressures and currency exchange rates. Unforeseen production cost increases could result in Heemskirk not realising its development plans or in such plans costing more than expected or taking longer to realise than expected.
- Foreign exchange risk - Heemskirk is an Australian business that reports in Australian dollars. The majority of its revenue is derived from the sale of frac sand in Canadian dollars and funding for the Moberly Project is received in US dollars. Costs are mainly incurred by the businesses in both Australian and Canadian dollars therefore events in the CAD/USD, CAD/AUD and AUD/USD exchange rates may adversely or beneficially affect Heemskirk's results of operations and cash flows. The risks associated with such fluctuations and volatility may be minimised by any currency hedging Heemskirk may undertake although there is no assurance as to the efficacy of such currency hedging.

Directors' report for the year ended 30 September 2016



- Industry risks - international oil and gas prices have fluctuated widely in recent years and may continue to fluctuate significantly in the future. Fluctuations in oil and gas prices and, in particular, a material decline in the price of oil or gas may have a material adverse effect on the Company's business, financial condition and results of operations. Diversity of the Group's high purity silica into other industrial mineral applications like glass will help reduce negative exposure to one market segment.
- Sovereign - risk relating to changes to the expected fiscal, tax and regulatory environment in jurisdictions that the Group does business.
- Health, Safety and Environmental - risks which are recognised as being of critical importance in ensuring Heemskirk continues to build and operate a sustainable business and which remain a key priority for the Company.

Significant changes in the state of affairs

There have been no significant changes in the state of affairs of the consolidated entity during the financial year, other than the items disclosed in the Operating and Financial review.

Significant events after the balance date

There are no other significant subsequent events occurring after balance date.

Likely Developments and expected results

In general terms, the review of operations of the Company gives an indication of likely developments and the expected results of the operations.

Environmental Compliance

The Company holds licences issued by the relevant environmental protection authorities in Canada. These licences specify limits and regulate the management of mining and processing operations.

The Company has permits to enable the Moberly Project to proceed and these are being amended progressively as required to maintain compliance. No material issues have arisen to date.

There have been no significant known breaches of the Company's licence conditions.

Options granted and shares issued on the exercise of options

At 30 September 2016, there are 3,152,430 options that have been issued and are exercisable. A further 9,457,288 options will vest pro rata for amounts drawn under the secured debt facility with Taurus Funds Management Limited.

Indemnification and insurance of Directors and Officers

The Company has entered into agreements to indemnify all of the Directors named in this report and the Company Secretary against all liabilities to persons (other than the Company), which arise out of the

Directors' report for the year ended 30 September 2016



performance of their normal duties as Directors or Executive Officers unless the liability relates to conduct involving a lack of good faith. The Company has agreed to indemnify the Directors and the Company Secretary against all costs and expenses incurred in defending an action that falls within the scope of the indemnity and any resulting payments.

Since the close of the financial year, the Company has paid a premium for an insurance policy for the benefit of the Directors and the Officers of the Company. In accordance with common commercial practice, the insurance policy prohibits disclosure of the nature of the liability insured against and the amount of the premium.

Indemnification of Auditors

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made under this indemnity to Ernst & Young during or since the end of the financial year.

Directors' report for the year ended 30 September 2016



Remuneration Report

This Remuneration Report outlines the Director and Executive remuneration arrangements of the Company in accordance with the requirements of Section 300A of the Corporations Act 2001 for the year ended 30 September 2016.

For the purpose of this report, Key Management Personnel (KMP) of the Company are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company, directly or indirectly, including any Director (whether Executive or otherwise) of the Parent Company.

Non-Executive Directors (NEDs)

Garry Cameron	Non-Executive Chair
John Taylor	Non-Executive Director
Peter McKenna	Non-Executive Director

Executive Director

Peter Bird	Former Managing Director (retired 30 April 2016)
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Other KMP

Mark Connors	Acting Chief Executive Officer (appointed 14 April 2016) and President of Heemskirk Canada Limited
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Remuneration Policy

During the year ended 30 September 2016, the Group did not have a separately established nomination or remuneration committee. Considering the size of the Company, the number of directors and the Company's stage of its development, the Board are of the view that these functions can be efficiently performed with full Board participation.

The remuneration policies of the Heemskirk Group have been designed in accordance with the Company's size and structure with consideration given to the global mining industry in which it operates.

The Company aims to reward its executives with a level of remuneration commensurate with their position and responsibilities within the Company so as to:

- Reward executives for company, business unit and individual performance against targets set by reference to appropriate benchmarks;
- Align the interest of executives with those of shareholders;
- Link rewards with the strategic goals and performance of the Company; and
- Ensure total remuneration is competitive by market standards.

Directors' report for the year ended 30 September 2016



Use of remuneration consultants

From time to time the Board seeks external remuneration advice in order to ensure it is fully informed when making remuneration decisions.

Remuneration consultants are engaged by, and report directly to, the Board. In selecting remuneration consultants, the Board considers potential conflicts of interest and requires independence from the Group's key management personnel and other executives as part of their terms of engagement.

During the year, the Company engaged Hay Group to provide external benchmarking data in relation to all Directors' remuneration. The report from March 2016 noted that there was a significant variation between the highest and lowest paid Non-Executive Directors for peer group listed resources organisations. Heemskirk is paying a total fee to Non-Executive Directors that is just below the peer group median. Hay Group was paid a total of \$12,300 for these services during the year. No actual remuneration recommendations were provided by Hay Group.

Non-executive director (NED) remuneration

The Board seeks to set aggregate remuneration at a level which provides the Company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

Fees paid to NEDs reflect the demands made, and responsibilities of, NEDs in discharging their duties. The fees are fixed and no part of remuneration is tied to the Company's performance. Each NED receives a fee for being a director of the Company.

The current maximum aggregate sum for NEDs is \$500,000 per annum. This provides the Board with scope to appoint new NEDs in the future. It is not intended to distribute this full amount by way of fees in the current year.

In accordance with the Constitution, Directors are permitted to be paid additional fees for special services on execution. No such fees were paid during the year. Directors are also entitled to be reimbursed for all business related expenses, including travel on Company business as may be incurred in the discharge of their duties. Such reimbursements are not included in the remuneration cap.

The table below summarises the Board fees payable to NEDs for 30 September 2016 (inclusive of superannuation).

Board fees	
Chairman	\$98,324
Non-executive Directors	\$63,910

Total board fees paid for the year ended 30 September 2016 was \$195,736 (2015: \$188,864). A breakdown of remuneration of NEDs for the year ended 30 September 2016 is detailed in Table 1, page 19 of this report.

The shares held in the company by each Director are detailed in Table 2, page 20 of this report.

Directors' report for the year ended 30 September 2016



Executive remuneration

Executive remuneration consists of fixed and variable remuneration as outlined below.

(i) *Fixed remuneration – remuneration that is “not at risk”*

Fixed remuneration consists of base salary, superannuation and other non-monetary benefits and is benchmarked annually against industry and job role comparator groups. Personal performance will influence the changes in Fixed Remuneration.

The level of fixed remuneration is set so as to provide a base level of remuneration which is appropriate to the position and is competitive in the market.

In determining the fixed remuneration payable for each subsequent financial year, the Board will have regard to the performance of both the Company and the performance of the relevant individuals.

The remuneration of the Company's Executives for the year ended 30 September 2016 is detailed in Table 1, page 19 of this report.

(ii) *Variable remuneration - remuneration that is “at risk”*

The payment of Variable Remuneration is subject to performance measures which are linked to personal objectives and company strategy to align remuneration with the Company's objectives. The performance measures are subdivided into Personal Performance as determined by the annual Staff Review and Company Performance as determined by the performance of the Company versus appropriate measures. Performance against these measures determines the amount of Variable Remuneration paid on an annual basis. As with Fixed Remuneration, the variable component is benchmarked annually against industry and job role comparator groups.

Variable Remuneration can be subdivided into Short Term Incentives (STI) and Long Term Incentives (LTI).

STI – Short Term Incentives

Short term performance as a basis for compensation will involve a performance evaluation period of 12 months, beginning in October each year.

In structuring the annual incentive, the Company will first determine the business objectives for the next 12 months within the context of a broader 3-5 year strategic plan. Next, appropriate internal performance measures or Key Performance Indicators are agreed. The nature of the compensation is in the form of cash.

The total potential STI available is set at a level so as to provide sufficient incentive to executives to achieve the operational targets and such that the cost to the Company is reasonable in the circumstances.

Actual STI payments awarded to each executive depends on the extent to which specific targets set at the beginning of the financial year are met. The targets consist of a number of key performance

Directors' report for the year ended 30 September 2016



indicators (KPIs) covering both financial and non-financial (such as safety), corporate and individual measures of performance. The targets include NPAT and completion of key objectives. These measures were chosen as they represent the key drivers for the short term success of the business and provide a framework for delivering long term value.

The annual STI payments available for executives across the Company is subject to the approval of the Board. On an annual basis, after consideration of performance against KPIs, the Board determines the amount, if any, of the short term incentive to be paid to each executive. This process usually occurs within three months after the reporting date. Payments made are delivered as a cash bonus in the following reporting period. Other KMP STI payments are up to 10 - 50% of base pay.

The following table outlines the business unit performance in relation to the 2015 year.

	Performance measure	Performance versus budget 2015
Executive - Australia	TSR, EPS, achieving budget targets, share price	Under performed
Executive – Canada	Achieving budget targets	Under performed

The following table outlines the proportion of maximum STI that was earned and forfeited in relation to the 2015 year for each Executive.

	Proportion of maximum cash bonuses earned in 2015	Proportion of maximum cash bonuses forfeited in 2015
P. Bird	9%	91%
M. Connors	7%	93%

The cash bonuses related to 2016 have yet to be decided and approved by the Board of Directors.

In recognition of the funding milestone achieved and commencement of construction of the Moberly Project, the Board of Directors approved and paid cash bonuses of \$0.070 million to Executives in 2016. The Board regard these as key milestones to progress the development of the Moberly Project.

Directors' report for the year ended 30 September 2016



LTI - Long Term Incentives

The objective of long term incentives is to encourage staff and executive performance to deliver sustained shareholder value. The Company Long Term Incentive (LTI) scheme is designed to reward participants for implementation of the strategic plan and to align the long term interests of the shareholders, senior executive management and the Company by linking a portion of participating employees' remuneration at risk to the Company's future performance. The Heemskirk Consolidated Employee Share Purchase Plan (the Plan) is designed to achieve this outcome.

The Plan involves the issue of shares in the Company. While Plan shares are "restricted shares", they may not be sold or transferred, mortgaged, hedged (or otherwise encumbered) or otherwise dealt with by a participant. The Plan is part of an executive's "at risk" salary component and issues may be made annually. Under the terms of the Plan an initial share allocation may be made after completion of a qualifying period of 12 months. The Company has adopted a four year vesting period for Shares issued under the Plan, Year 1 - 25%, Year 2 - 25%, Year 3 - 25%, and Year 4 - 25%.

Under the Plan an interest free loan is made to the Executive to fund the acquisition of shares in the Company. Net dividends are required to be applied to the loan reduction and the loan balance must be paid out from share sale proceeds. If the share sale proceeds are less than the value of the loan, the Executive pays the balance of the loan. If the loan balance is not retired, the employee is unable to receive any benefit from the shares. If an Executive leaves prior to vesting of shares then the shares are forfeited and the loan is cancelled. While Plan shares are "restricted shares", they may not be sold or transferred, mortgaged, hedged (or otherwise encumbered) or otherwise dealt with by a participant.

Canadian Executives receive the right to acquire shares under the Plan rather than having the shares issued to them. The right to acquire is permitted after each vesting date.

An issue of shares to the Managing Director is a result of executing KPIs from the Company's strategic plan and payments are up to 44% of base pay. Any issue to the Managing Director is subject to shareholder approval. Other KMP LTI payments are up to 10-50% of base pay.

KPIs are linked to the strategic plan with key milestones incorporating organic growth, key developments, acquisitions and divestments. For example, key deliverables in relation to developing the Moberly Project features prominently in the executive KPIs. On an annual basis, after consideration of performance against KPIs, the Board determines the amount, if any, of the long term incentive to be paid to each executive. This process usually occurs within three months after the reporting date.

Directors' report for the year ended 30 September 2016



The following table outlines the proportion of maximum LTI that was earned and forfeited in relation to the 2015 year for each Executive.

	Proportion of maximum LTI earned in relation to 2015	Proportion of maximum LTI forfeited in relation to 2015
P. Bird	2%	98%
M. Connors	7%	93%

The LTI related to 2016 have yet to be decided and approved by the Board of Directors.

Relationships of Incentives to Company's Performance

At risk LTIs for Other KMP are based on Company performance on net profit after tax and individual KPIs. At risk LTIs for the Managing Director are based on the execution of the Company's strategic plan.

Heemskirk's Financial Performance:

Year Ended 30 September	2012	2013	2014	2015	2016
Net Profit After Tax (NPAT) (\$m)	(2.2)	(3.9)	(2.4)	(5.2)	(4.8)
Basic Earnings Per Share (EPS) ⁽¹⁾ (cents)	(2.20)	(2.54)	(3.48)	(3.11)	(1.04)
Dividend declared (cents)	0	0	0	0	0
Share Price at 30 Sep (cents)	12.5	6.5	14.0	8.8	4.5
Share Price increase/(decrease) ⁽²⁾ (cents)	1.5	(6.0)	7.5	(5.2)	(4.3)

(1) Basic EPS is calculated as net profit after tax from continuing operations divided by weighted average number of ordinary shares.

(2) Share Price movement during the financial year

Termination provisions

For Other KMP, remuneration and other terms of employment are formalised in an employment contract that can be terminated with notice. This agreement provides for an annual review of annual base pay, provision of performance related cash bonuses, other benefits and participation in the Long Term Incentive Plan. The contract provides for notice of six months for resignation by the executive or termination by the Company. In the event that the contract is terminated for cause, there is no notice period provided.

Upon cessation of employment, any unvested or exercisable LTI are forfeited, unless otherwise determined by the Board.

The treatment of vested and exercisable LTI will be determined by the Share Plan with reference to the circumstances of cessation.



Directors' report for the year ended 30 September 2016

Table 1 Compensation of Directors and other KMP for the year ended 30 September

		Fixed Remuneration				Variable Remuneration		Total remuneration	Performance related
		Short term		Post employment		STI	LTI ⁽¹⁾		
		Salary & fees	Non-monetary	Super-annuation	Termination benefits				
		\$	\$	\$	\$	\$	%		
Non-Executives									
G. Cameron	2016	89,794	-	8,530	-	-	-	98,324	-
	2015	89,794	-	8,530	-	-	-	98,324	-
J. Taylor	2016	58,366	-	5,544	-	-	-	63,910	-
	2015	58,366	-	5,544	-	-	-	63,910	-
P. McKenna	2016	30,595	-	2,907	-	-	-	33,502	-
(appointed 23 Mar 2016)	2015	-	-	-	-	-	-	-	-
L. Hansen	2016	-	-	-	-	-	-	-	-
(retired 26 Feb 2015)	2015	24,319	-	2,311	-	-	-	26,630	-
Executives									
P. Bird	2016	419,582	13,545	23,473	450,000	63,650	142	970,392	6.6%
(retired 30 Apr 2016)	2015	416,861	14,355	18,783	-	43,000	-	493,000	8.7%
M. Connors	2016	327,911	7,186	19,590	-	30,636	314	385,637	8.0%
	2015	307,765	7,403	16,838	-	43,384	6,907	382,297	13.2%
Total	2016	926,248	20,731	60,044	450,000	94,286	456	1,551,765	6.1%
	2015	897,105	21,758	52,006	-	86,384	6,907	1,064,160	8.8%

(1) Fair value of LTI granted to Executive



Directors' report for the year ended 30 September 2016

Table 2 Shareholding of Directors and other KMP

	Balance at 1 October 2015				Net change				Balance at 30 September 2016			
	Ordinary shares	Class A ⁽¹⁾	Class B ⁽²⁾	Employee Shares / rights ⁽³⁾	Ordinary shares	Class A ⁽¹⁾	Class B ⁽²⁾	Employee Shares / rights ⁽³⁾	Ordinary shares	Class A ⁽¹⁾	Class B ⁽²⁾	Employee Shares / rights ⁽³⁾
Non-Executives												
G. Cameron	275,000	-	-	-	300,000	-	-	-	575,000	-	-	-
J. Taylor	1,000,000	-	-	-	1,428,572	-	-	-	2,428,572	-	-	-
P. McKenna	-	-	-	-	-	-	-	-	-	-	-	-
L. Hansen ⁽⁴⁾	268,466	100,000	500,000	-	-	-	-	-	268,466	100,000	500,000	-
Executives												
P. Bird ⁽⁴⁾	6,032,659	-	-	150,000	166,666	-	-	75,000	6,199,325	-	-	225,000
M. Connors	-	-	-	259,349	-	-	-	221,443	-	-	-	480,792
Total	7,576,125	100,000	500,000	409,349	1,895,238	-	-	296,443	9,471,363	100,000	500,000	705,792

(1) \$0.25 Partly Paid ordinary shares

(2) \$0.50 Partly Paid ordinary shares

(3) Reserved and vested Shares or Rights held under the Employee Share Plan

(4) Closing balance represents the balance at date of departure

Directors' report for the year ended 30 September 2016



Table 3 No. of LTIs held and granted

	Opening balance at 1 Oct 15	Shares/rights granted during the year	Shares/rights lapsed during the year	Closing balance at 30 Sep 16	Vested shares/rights	Unvested shares/rights
Executive						
P. Bird	300,000	61,540	(136,540)	225,000	225,000	-
M. Connors ⁽¹⁾	961,512	146,252	-	1,107,764	480,792	626,972

(1) Grants to Mr Connors are rights which are exercisable after each vesting date.

Table 4 LTI movements during the year ⁽¹⁾

	Grant date	Fair value per share / right at grant date (€)	First vesting date	Final vesting date	Exercise price (€)	No. of shares / rights granted	No. of shares / rights vested	No. of shares / rights lapsed
Executive								
P. Bird ⁽²⁾	1 Mar 13	2.25	1 Mar 14	1 Mar 17	12.00	-	75,000	(75,000)
	1 Mar 16	2.60	1 Mar 17	1 Mar 21	6.50	61,540	-	(61,540)
M. Connors ⁽³⁾	1 Mar 13 ⁽⁴⁾	2.25	1 Mar 14	1 Mar 17	12.00	-	43,988	-
	1 Mar 14 ⁽⁴⁾	1.34	1 Mar 15	1 Mar 18	6.52	-	95,633	-
	1 Mar 15	2.11	1 Mar 16	1 Mar 19	12.69	-	81,822	-
	1 Mar 16	2.60	1 Mar 17	1 Mar 21	6.50	146,252	-	-

(1) At the date of this report, there has been no repayment of LTI loans or dividends applied against loans.

(2) Represents balance at date of departure.

(3) Grant to Mr Connors are rights which are exercisable after each vesting date.

(4) Granted prior to Mr Connors becoming a KMP.

Table 5 LTI fair value movements during the year

	Fair value of shares / rights granted \$	Fair value of shares / rights exercised \$	Fair value of shares / rights forfeited \$	Remuneration consisting of shares / rights granted during the year %
Executive				
P. Bird	142	-	-	0.01%
M. Connors	314	-	-	0.08%

Directors' report for the year ended 30 September 2016



Employment contracts

Remuneration arrangements for executives are formalised in employment agreements. Details of these contracts are provided below.

Former Managing Director (MD)

The MD was employed under an ongoing contract which could be terminated with notice by either the MD or the Company.

Under the terms of the contract as disclosed to the ASX on 1 December 2011 the MD:

- received a fixed remuneration of \$450,000 per annum (inclusive of superannuation);
- the target STI opportunity was up to 33% of his fixed remuneration; and
- was eligible to participate in the Company's LTI plan on terms determined by the Board up to 44% of his fixed remuneration, subject to receiving any required or appropriate shareholder approval.

Due to an internal company restructure, in April 2016 Mr Bird stepped aside as MD. Mr Bird received a redundancy payment of \$0.450 million in accordance with the terms of his employment contract.

Termination provisions

The Managing Director's termination provisions were as follows:

	Notice Period	Payment in lieu of notice	Treatment of STI on termination	Treatment of LTI on termination
Resignation	6 months	6 months	Unvested awards forfeited	Unvested awards forfeited
Termination for cause	None	None	Unvested awards forfeited	Unvested awards forfeited
Termination without cause	12 months	12 months	Unvested awards forfeited	Unvested awards forfeited

All other executives are employed on individual open ended employment contracts that set out the terms of their employment.

Directors' report for the year ended 30 September 2016



Founders' Plan (Executive loan)

On 28 July 2010 the Company announced that it had agreed to terminate the Founders' Plan and settlement terms were agreed. This action had the full support of the Founders and the then Heemskirk Board. The settlement provided for all outstanding partly paid shares held by the Founders to be paid upon execution.

In conjunction with the Founders' Plan settlement, loan facilities were made available to the Founders to assist with discharging any Australian taxation liability as a result of the settlement. The drawdown of the facility as at 30 September 2016 was \$0.382 million (2015: \$0.345 million).

The loan facility is interest-bearing at market rates and repayable by cash or a predetermined number of pledged Company shares at a value of 50 cents per share plus termination payments. Any shortfall in repayments after cash or from the sale of the pledged Company shares will be forgiven and treated as an expense. The Company has recognised in the accounts a potential shortfall in relation to the loan of \$0.347 million (2015: \$0.196 million) as at 30 September 2016.

Directors' Meetings

The number of Board meetings of directors held during the year and the number of meetings attended by each director were as follows:

- A *Number of Board meetings held during the time the Director held office during the period*
B *Number of Board meetings attended*

	A	B
G. Cameron	16	16
P. Bird ⁽¹⁾	11	11
J. Taylor	16	16
P. McKenna	7	7

(1) Mr Bird stepped aside as Managing Director on 14 April 2016.

Corporate Governance Statement

The Board is committed to following the ASX Corporate Governance Council Corporate Governance Principles and Recommendations (ASX Recommendations). The Board and Management regularly review the Company's policies and practices to ensure that the Company continues to maintain and improve its governance standards by following the eight ASX Corporate Governance Principles.

The Corporate Governance Statement, Appendix 4G and details of the Company's key corporate governance policies are available on the Company's website www.heemskirk.com in the Corporate Governance section.

Directors' report for the year ended 30 September 2016



Rounding of Amounts

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated in accordance with the ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191.

Auditor independence and non-audit services

The directors received an independence declaration from the auditors of Heemskirk Consolidated Limited. Refer to page 25 of the Directors' report.

Details of the amounts paid or payable to the external auditors of the Company, Ernst & Young, for audit and non-audit services provided during the year are disclosed in Note 23 of the Financial Report.

The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Signed in accordance with a resolution of the Directors.

A handwritten signature in black ink, appearing to read 'G. Cameron', with a large, sweeping flourish extending to the right.

G. Cameron
Chairman

Melbourne, 24 November 2016

A handwritten signature in black ink, appearing to read 'J. Taylor', with several distinct loops and a trailing flourish.

J. Taylor
Non-Executive Director

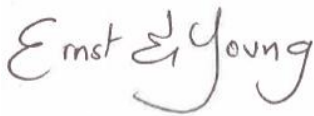
Melbourne, 24 November 2016

Independence Declaration to the Directors of Heemskirk Consolidated Limited

As lead auditor for the audit of Heemskirk Consolidated Limited for the financial year ended 30 September 2016, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Heemskirk Consolidated Limited and the entities it controlled during the financial year.



Ernst & Young



Michael Collins
Partner
24 November 2016

Consolidated statement of comprehensive income

for the year ended 30 September 2016

	Note	2016 \$'000	2015 \$'000
Interest income		142	107
Sale of goods		175	117
Total revenue		317	224
Cost of sales		-	(52)
Gross profit		317	172
Realised loss on sale of investments		(1,694)	(48)
Fair value gain/(loss) on equity investments		13	(519)
Net loss on equity investments		(1,681)	(567)
Gain/(loss) on foreign exchange		(167)	6
Gain on forward currency contracts	12	1,285	-
Other income		49	78
Total other expenses		(514)	(483)
Depreciation and amortisation expense		(425)	(331)
Employee benefits expense	5	(2,241)	(2,195)
Corporate costs		(876)	(1,072)
Consultants and advisory expense		(755)	(1,079)
Finance costs		(187)	(285)
Impairment expense		(164)	(22)
Loss before income tax		(4,845)	(5,295)
Income tax benefit	6	25	51
Loss after income tax		(4,820)	(5,244)
Other comprehensive income:			
<i>Items that will be subsequently reclassified to the income statement:</i>			
Gain/(loss) on foreign currency translation		(1,098)	502
Other comprehensive income/(loss) for the year, net of tax		(1,098)	502
Total comprehensive loss for the year		(5,918)	(4,742)

		cents	cents
<i>Loss per share</i>			
Basic loss per share (cents)	7	(1.04)	(3.11)
Diluted loss per share (cents)	7	(1.04)	(3.11)

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated statement of financial position

as at 30 September 2016

	Note	2016 \$'000	2015 \$'000
Current assets			
Cash and cash equivalents	8	13,305	5,974
Trade and other receivables	9	327	263
Inventories	10	2,116	1,398
Other financial assets	11	894	3,402
Derivative financial asset	12	976	-
Other current assets		97	236
Total current assets		17,715	11,273
Non-current assets			
Property, plant and equipment	14	4,835	4,380
Mine development	15	22,587	7,461
Deferred tax assets	6	18	7
Other non-current assets	13	-	1,974
Total non-current assets		27,440	13,822
Total assets		45,155	25,095
Current liabilities			
Trade and other payables	16	4,224	957
Interest bearing liabilities	17	908	19
Provisions	18	152	286
Total current liabilities		5,284	1,262
Non-current liabilities			
Deferred tax liabilities	6	40	63
Interest bearing liabilities	17	11,916	65
Provisions	18	298	40
Total non-current liabilities		12,254	168
Total liabilities		17,538	1,430
Net assets		27,617	23,665
Equity			
Contributed equity	19	97,532	87,836
Reserves		1,060	1,984
Retained earnings/(losses)		(70,975)	(66,155)
Total equity		27,617	23,665

The above statement of financial position should be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity

for the year ended 30 September 2016

	Issued capital \$'000	Retained earnings \$'000	Asset revaluation reserve \$'000	Foreign currency translation reserve \$'000	Share based payment reserve \$'000	Total Equity \$'000
Balance as at 1 October 2014	81,184	(60,911)	270	384	235	21,162
Loss for the year ended 30 September 2015	-	(5,244)	-	-	-	(5,244)
Other comprehensive income	-	-	7	495	-	502
Total comprehensive income	-	(5,244)	7	495	-	(4,742)
Transactions with owners in their capacity as owners						
Shares converted and issued during the period	7,032	-	-	-	-	7,032
Transaction costs on issued capital, net of tax	(380)	-	-	-	-	(380)
Employee share based payments	-	-	-	-	16	16
Other share based payments	-	-	-	-	577	577
Balance as at 30 September 2015	87,836	(66,155)	277	879	828	23,665
Loss for the year ended 30 September 2016	-	(4,820)	-	-	-	(4,820)
Other comprehensive income	-	-	-	(1,098)	-	(1,098)
Total comprehensive income	-	(4,820)	-	(1,098)	-	(5,918)
Transactions with owners in their capacity as owners:						
Issue of share capital	9,926	-	-	-	-	9,926
Transaction costs on issued capital, net of tax	(230)	-	-	-	-	(230)
Employee share based payments	-	-	-	-	1	1
Other share based payments	-	-	-	-	173	173
Balance as at 30 September 2016	97,532	(70,975)	277	(219)	1,002	27,617

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated statement of cash flows

for the year ended 30 September 2016

	Note	2016 \$'000	2015 \$'000
Operating activities			
Receipts from customers		188	327
Payments to suppliers and employees		(4,754)	(4,291)
Interest received		131	107
Income tax received/(paid)		12	(784)
Finance costs paid		-	(313)
Net cash flows used in operating activities	8(a)	(4,423)	(4,954)
Investing activities			
Cash deposit for bank guarantees		-	82
Proceeds from the sale of equity investments		826	176
Proceeds from the sale of property, plant and equipment		35	30
Purchases of property, plant and equipment		(87)	(2,590)
Mine development expenditure		(11,768)	(1,397)
Net cash flows used in investing activities		(10,994)	(3,699)
Financing activities			
Proceeds from issue of share capital, net of transaction costs		9,696	5,575
Proceeds from borrowings		13,224	-
Convertible notes redemption		-	(2,739)
Finance leases		(144)	-
Borrowing costs paid		(207)	(414)
Net cash flows from financing activities		22,569	2,422
Net increase/(decrease) in cash and cash equivalents		7,152	(6,231)
Cash and cash equivalents at beginning of year		5,974	12,101
Net foreign exchange differences		179	104
Cash and cash equivalents at end of year	8	13,305	5,974

The above statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the Consolidated Financial Statements

for the year ended 30 September 2016

1. Corporate Information

The consolidated financial statements of Heemskirk Consolidated Limited and its subsidiaries (collectively, the Group) for the year ended 30 September 2016 were authorised for issue in accordance with a resolution of the directors on 24 November 2016.

Heemskirk Consolidated Limited (the Company) is a for profit company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange. The Group's principal activity is the development of the Moberly Project.

2. Significant accounting policies

2.1 Basis of preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards. The financial report has also been prepared on a historical cost basis, except for derivative financial instruments, equity investments and land, which have been measured at fair value.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated in accordance with the ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191.

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

Compliance with IFRS

The financial report complies with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

New and amended standards and interpretations

The following standards and interpretations which became effective and were applied for the first time during the year ended 30 September 2016 were assessed to have no material impact on the Company:

AASB 2013-9 Amendments to Australian Accounting Standards - Conceptual Framework, Materiality and Financial Instruments

AASB 2015-3 Amendments to Australian Accounting Standards arising from the withdrawal of AASB 1031 Materiality

New Accounting Standards and Interpretations not yet adopted

The following recently issued standards and interpretations which are not yet effective and have not been applied, however the Company is in the process of assessing their impact.

AASB 9 Financial Instruments

AASB 9 (December 2014) is a new standard which replaces AASB 139. This new version supersedes AASB 9 issued in December 2009 (as amended) and AASB 9 (issued in December 2010) and includes a model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting.

Notes to the Consolidated Financial Statements

for the year ended 30 September 2016

2.1 Basis of preparation (continued)

AASB 9 is effective for annual periods beginning on or after 1 January 2018. However, the Standard is available for early adoption. The own credit changes can be early adopted in isolation without otherwise changing the accounting for financial instruments.

AASB 2014-4 Clarification of Acceptable Methods of Depreciation and Amortisation

AASB 116 Property Plant and Equipment and AASB 138 Intangible Assets both establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset.

The IASB has clarified that the use of revenue based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes that use of an asset generally reflects factors other than the consumption of economic benefits embodied in the asset.

The amendment also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. The presumption, however, can be rebutted in certain limited circumstances.

This Standard applies to annual reporting periods beginning on or after 1 January 2016. Earlier application is permitted.

AASB 15 Revenue from Contracts with Customers

AASB 15 specifies the accounting treatment for revenue arising from contracts with customers (except for contracts within the scope of other accounting standards such as leases or financial instruments). The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

AASB 2015-8 amended the AASB 15 effective date so it is now effective for annual reporting periods commencing on or after 1 January 2018. Early application is permitted.

AASB 16 Leases

The key features of AASB 16 are as follows:

Lessee accounting

- Lessees are required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.
- A lessee measures right-of-use assets similarly to other non-financial assets and lease liabilities similarly to other financial liabilities.
- Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease.
- AASB 16 contains disclosure requirements for lessees.

The new standard will be effective for annual periods beginning on or after 1 January 2019. Early application is permitted, provided the new revenue standard, AASB 15 Revenue from Contracts with Customers, has been applied or is applied at the same date as AASB 16.

Notes to the Consolidated Financial Statements

for the year ended 30 September 2016

2.1 Basis of preparation (continued)

AASB 2016-2 Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 107

This Standard amends AASB 107 Statement of Cash flows (August 2015) to require entities preparing financial statements in accordance with Tier 1 reporting requirements to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

IFRS 2 Classification and Measurement of Share-based Payment Transactions [Amendments to IFRS 2]

This standard amends to IFRS 2 Share-based Payment, clarifying how to account for certain types of share based payment transactions. The amendments provide requirements on the accounting for:

- The effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments.
- Share-based payment transactions with a net settlement feature for withholding tax obligations.
- A modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of Heemskirk Consolidated Limited and its subsidiaries as at 30 September 2016.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- the ability to use its Power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights to an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee:

- the contractual arrangement with the other vote holders of the investee
- rights arising from other contractual arrangements
- the Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Accounting policies of subsidiaries are consistent with the Group. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Notes to the Consolidated Financial Statements

for the year ended 30 September 2016

2.3 Summary of significant accounting policies

(a) Foreign currency translation

Functional and presentation currency

The functional currency of each of the Company's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars, which is the parent entity's functional and presentation currency. The functional and presentation currency of the overseas subsidiaries is Canadian dollars.

Group companies

On consolidation, the assets and liabilities of foreign operations are translated into Australian dollars at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in other comprehensive income.

Foreign currency transactions

Transactions denominated in foreign currencies are initially recorded in the functional currency rate ruling at the date of the underlying transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All exchange differences are recognised in the statement of profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Net investment in foreign operations

Exchange differences arising from the transaction of the net investment in foreign operations are disclosed within the translation reserve and recognised in other comprehensive income and expense. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

(b) Impairment of assets

The carrying amounts of all assets are reviewed yearly to determine whether there is an indication of impairment.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units - CGUs).

Notes to the Consolidated Financial Statements

for the year ended 30 September 2016

2.3 Summary of significant accounting policies (continued)

(c) Revenue recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Risks and rewards of ownership are considered passed to the buyer at the time of delivery of the goods to the customer.

Interest income

Revenue is recognised as interest accrues using the effective interest method. Revenue is recognised when the Company's right to receive payment is established.

(d) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cashflows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cashflows.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

(e) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

(f) Income tax

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Notes to the Consolidated Financial Statements

for the year ended 30 September 2016

2.3 Summary of significant accounting policies (continued)

Deferred tax

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Notes to the Consolidated Financial Statements

for the year ended 30 September 2016

2.3 Summary of significant accounting policies (continued)

(g) Derivative financial instruments and hedge accounting

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in the statement of comprehensive income immediately unless the derivative is designated and effective as a hedging instrument, in which event, the timing of recognition in the statement of comprehensive income depends on the nature of the hedge relationship.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to the income statement, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income.

(h) Provisions for restoration

The Company is required to decommission and rehabilitate mines and processing sites at the end of their producing lives to a condition acceptable to the relevant authorities.

The expected cost of any approved decommissioning or rehabilitation program, discounted to its net present value, is provided when the environmental disturbance occurs. The cost is capitalised when it gives rise to future benefits, whether the rehabilitation activity is expected to occur over the life of the operation or at the time of closure. The capitalised cost is amortised over the life of the operation and the increase in the net present value of the provision for the expected cost is included in financing expenses. Expected decommissioning and rehabilitation costs are based on the discounted value of the estimated future cost of detailed plans prepared for each site. Where there is a change in the expected decommissioning and restoration costs, the value of the provision and any related asset are adjusted and the effect is recognised in the statement of comprehensive income on a prospective basis over the remaining life of the operation.

(i) Exploration, evaluation and feasibility expenditure

Exploration and evaluation expenditure related to areas of interest is capitalised and carried forward to the extent that:

- Rights to the tenure of the area of interest are current; and
- Costs are expected to be recouped through successful development and exploitation of the area of interest or alternatively by sale; or
- Where activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, active and significant operations in, or in relation to, the area are continuing.

Such expenditure consists of an accumulation of acquisition costs and direct net exploration and evaluation costs incurred by or on behalf of the Company, together with an appropriate portion of directly related overhead expenditure.

Feasibility expenditure represents costs related to the preparation and completion of a feasibility study to enable a development decision to be made in relation to an area of interest.

Notes to the Consolidated Financial Statements

for the year ended 30 September 2016

2.3 Summary of significant accounting policies (continued)

At the commencement of production, all past exploration, evaluation and feasibility expenditure in respect of an area of interest is transferred to mine development where it is amortised over the life of the area of interest to which they relate.

When an area of interest is abandoned or the directors decide it is not commercial, any accumulated costs in respect of that area are written off in the year the decision is made. Each area of interest is reviewed at the end of each reporting period and accumulated costs written off to the extent they are not expected to be recoverable in the future.

(j) Mine under construction

Expenditure incurred in constructing a mine is accumulated separately for each area of interest in which economically recoverable reserves have been identified. This expenditure includes direct costs of construction, borrowing costs capitalised during construction and an appropriate allocation of attributable overheads. Once a development decision has been taken, all aggregated costs of construction are transferred to non-current assets as either mine development or buildings, plant and equipment as appropriate.

(k) Mine development

Mine development represents the expenditure incurred in preparing mines for production, and includes stripping and waste removal costs net of revenue recognised before commissioning date. Such expenditure comprises net direct costs and an appropriate allocation of directly related overhead costs.

All expenditure incurred prior to commencement of production from the development property is carried forward to the extent to which it is probable associated future economic benefits will flow to the Company.

When further development expenditure is incurred in respect of the mine property after commencement of production, such expenditure is carried forward as part of the cost of mine property only when future economic benefits are probable, otherwise the expenditure is classified as part of the cost of production and expensed as incurred. Such capitalised development expenditure is added to the total carrying value of mine development being amortised.

The net carrying values of mine development expenditure carried forward are reviewed yearly by directors to determine whether there is any indication of impairment. The carrying value of mine development will be amortised in full by the completion of the mine.

The Company defers mining costs incurred during the production stage of its operations, initially as part of determining the cost of mine development and then to inventories. Deferred mining costs for a mine are amortised over the life of the mine against inventories on a unit-of-production basis taking in to consideration the total remaining cost of developing the mine over its life. The life of mine is based on economically recoverable reserves of each mine. The deferred mining costs in inventories are released to the statement of comprehensive income as an amortisation expense.

The life of mine is a function of an individual mine's design, therefore changes to that design will generally result in changes to the amortisation rate. Changes in other technical or economic parameters that impact reserves will also have an impact on the life of mine even if they do not affect the mine's design. Changes to the life of mine are accounted for prospectively.

Notes to the Consolidated Financial Statements

for the year ended 30 September 2016

3. Significant accounting judgements, estimates and assumptions

In applying the Company's accounting policies management continually evaluates judgements, estimates and assumptions based on experience and other factors, including expectations of future events that may have an impact on the Company. All judgements, estimates and assumptions made are believed to be reasonable based on the most current set of circumstances available to management. Actual results may differ from the judgements, estimates and assumptions. Significant judgements, estimates and assumptions made by management in the preparation of these financial statements are outlined below.

(a) Determination of mineral resources and ore reserves

The determination of reserves impacts the accounting for asset carrying values, depreciation and amortisation rates, deferred stripping costs and provisions for restoration. The Company estimates its mineral resources and ore reserves in accordance with the Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves 2004 (the "JORC code"). The information on mineral resources and ore reserves was prepared by or under the supervision of Competent Persons as defined in the JORC code. The amounts presented are based on the mineral resources and ore reserves determined under the JORC code.

There are numerous uncertainties inherent in estimating mineral resources and ore reserves and assumptions that are valid at the time of estimation may change significantly when new information becomes available.

Changes in the forecast prices of commodities, exchange rates, production costs or recovery rates may change the economic status of reserves and may, ultimately, result in the reserves being restated.

(b) Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences and losses when management considers that it is probable that future taxable profits will be available to utilise those temporary differences.

(c) Mine development costs

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an impairment trigger exists, the recoverable amount of the cash generating unit ("CGU") is determined. The Company considers the relationship between its market capitalisation and its book value, among other factors, when reviewing for indicators of impairment. As at 30 September 2016, the market capitalisation of the Company was below the book value of its net assets, indicating a potential trigger for impairment of assets.

In February 2016, the company secured funding in the form of both debt and equity to support the development of the Moberly Project and executed a construction contract to commence construction of the plant and ancillary infrastructure. This has provided further clarity over the capital development cost of the asset. The reserves and resource estimates of this project have been extended and the Directors remain confident in relation to the expected operating costs of the asset. Further, the Company continues to observe a strong demand for frac sand of the nature expected from this project, and have identified further markets for the product. These circumstances continue to support the assumption that have underpinned the development of this project.

Notes to the Consolidated Financial Statements

for the year ended 30 September 2016

3. Significant accounting judgements, estimates and assumptions (continued)

The Company has performed a detailed assessment of carrying value and adopted a post tax discount rate of 11.2 per cent in determining the recoverable amount of the asset. A break even discount rate of 15.8 per cent was identified through this assessment. Pursuant to the detailed assessment, no impairment adjustment was required at 30 September 2016.

It remains the Directors view that significant value exists in the Moberly Project and the recoverable amount of this project is expected to significantly exceed its carrying amount. Analysis performed during the period has not identified any matter that indicates to the Directors that there is a deterioration in the expected value of this project and the Directors remain confident that the fundamentals underpinning the development of this project remain strong.

In the directors' judgement, a reasonably possible change in the assumptions used to determine recoverable amount would not lead to the carrying value of the Project exceeding its recoverable amount. Refer to Note 15 for details on the methodology and assumptions used.

4. Segment information

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments has been identified as the Chief Executive Officer of Heemskirk Consolidated Limited.

During the year ended 30 September 2016, the structure of financial information provided to the Chief Executive Officer has changed. For management purposes, the Group is organised into one main operating segment, which involves the development of the Project. The segments of Canada, Portfolio and Corporate are no longer presented. All of the Group's activities are interrelated, and discrete financial information is reported to the Acting CEO (Chief Operating Decision Maker) as a single segment. Accordingly, all significant operating decisions are based upon analysis of the Group as one segment. The financial results from this segment are equivalent to the financial statements of the Group as a whole.

Notes to the Consolidated Financial Statements

for the year ended 30 September 2016

	2016 \$'000	2015 \$'000
5. Employee benefits expenses		
Superannuation expense	56	60
Share based payment expense	1	16
Salaries	2,184	2,119
	2,241	2,195
6. Income tax		
(a) Income tax expense comprises:		
<i>Current income tax</i>		
Current income tax benefit	(1,178)	(970)
Under (over) provision from previous years	5	(31)
Tax expense related to an increase in unrecognised tax benefits	1,178	956
	5	(45)
<i>Deferred tax expense</i>		
Relating to origination and reversal of temporary differences	369	(328)
Under (over) provision from previous years	(101)	3
Tax expense related to an increase in unrecognised tax benefits	(298)	319
	(30)	(6)
Income tax benefit reported in the statement of comprehensive income	(25)	(51)
(b) Numerical reconciliation between loss before tax and tax (expense) / benefit		
Accounting loss before tax	(4,845)	(5,295)
Prima facie taxation benefit at 30% (2015: 30%)	(1,453)	(1,589)
<i>Decrease (increase) in income tax benefit due to:</i>		
Impact of different foreign tax rates	114	144
Capital losses not recognised	508	404
Over provided for in prior years	(94)	(30)
Derecognition (Recognition) of temporary differences and tax losses	880	1,050
Foreign exchange (gains) losses and other translation adjustments	20	(30)
Income tax benefit	(25)	(51)

Notes to the Consolidated Financial Statements

for the year ended 30 September 2016

	2016 \$'000	2015 \$'000
6. Income tax (continued)		
(c) Deferred tax relates to the following:		
<i>Deferred tax liabilities:</i>		
Mine development	(244)	(353)
Land	(40)	(43)
Accelerated depreciation: plant and equipment, motor vehicles	(211)	(192)
Prepayments	-	(30)
Offset by deferred tax assets	455	555
Deferred tax liability recognised	(40)	(63)
<i>Deferred tax assets:</i>		
Property, plant and equipment	7	7
Mine development	29	34
Inventory	3	2
Borrowing and legal costs	24	51
Deferred tax assets offset by deferred tax liabilities	(455)	(555)
Deferred tax assets brought to account	410	468
Deferred tax asset recognised	18	7
(d) Reconciliation of deferred tax liabilities, net		
As of 1 October	(56)	(2)
Charged to income	34	6
Charged to equity	-	(43)
Other payments/tax losses not recognised	-	(17)
As at 30 September	(22)	(56)

The Group offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

(e) Tax Losses

The Company has an unrecognised deferred tax benefit relating to capital and income tax losses of \$14.056 million (2015: \$13.997 million). The Company recognises the benefit of tax losses only to the extent of anticipated future taxable income or gains in relevant jurisdictions.

Notes to the Consolidated Financial Statements

for the year ended 30 September 2016

6. Income tax (continued)

The gross amount of estimated tax losses carried forward that have not been tax effected expire as follows:

	Australia \$'000	Canada \$'000	Total \$'000
Year of expiry			
<i>Income tax losses</i>			
Not later than twenty years	-	8,184	8,184
Unlimited	35,835	-	35,835
	35,835	8,184	44,019
<i>Capital tax losses</i>			
Unlimited	3,652	-	3,652
	3,652	-	3,652
Gross amount of tax losses not recognised	39,487	8,184	47,671
Tax effect of total losses not recognised	11,846	2,210	14,056

(f) Tax Consolidation

Heemskirk Consolidated Limited and its 100% owned Australian resident subsidiaries formed a tax consolidated group with effect from 27 July 2005. Heemskirk Consolidated Limited is the head entity of the tax consolidated group. Members of the tax consolidated group have entered into a tax sharing agreement that provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement on the basis that the possibility of default is remote.

Nature of the tax funding agreement

Members of the tax consolidated group have entered into a tax funding agreement. Under the funding agreement the funding of tax within the group is based on accounting profit, which is not an acceptable method of allocation under AASB Interpretation 1052.10. The tax funding agreement requires payments to/from the head entity to be recognised via an inter-entity receivable (payable) which is at call. To the extent that there is a difference between the amount charged under the tax funding agreement and the allocation under AASB Interpretation 1052, the head entity accounts for these as equity transactions with the subsidiaries.

The amounts receivable or payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

Notes to the Consolidated Financial Statements

for the year ended 30 September 2016

7. Earnings Per Share (EPS)

Basic EPS is calculated by dividing the profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS is calculated by dividing the profit attributable to ordinary equity holders of the parent (after adjusting for interest on the convertible preference shares) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

The following tables reflect the income and share data used in the basic and diluted EPS computations:

	2016 \$'000	2015 \$'000
Loss used in calculating basic EPS	(4,820)	(5,244)
Tax effect interest on unsecured convertible notes - liability ⁽¹⁾	-	98
Loss adjusted for the effects of dilution	(4,820)	(5,146)

(1) Because diluted earnings per share is increased when taking the unsecured convertible notes into account, these are anti-dilutive and as such are excluded from the calculation of diluted earnings per share.

	2016 Thousands	2015 Thousands
Weighted average number of ordinary shares for Basic EPS ⁽¹⁾	461,944	168,492
Weighted average number of ordinary shares for the effect of dilution ⁽¹⁾	461,944	168,492

(1) The weighted average number of shares takes into account the weighted average effect of changes in treasury share transactions during the year.

For fully diluted loss per share, the weighted average number of ordinary shares on issue is adjusted to assume conversion of dilutive potential ordinary shares. The Group's potentially dilutive securities consist of share options.

At 30 September 2016, as the 3.152 million (2015: nil) share options outstanding are out of the money, they are anti dilutive and there is no impact on the loss per share calculation. These share options could potentially dilute basic EPS in the future.

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of authorisation of these financial statements.

Notes to the Consolidated Financial Statements

for the year ended 30 September 2016

	2016 \$'000	2015 \$'000
8. Cash & Cash Equivalents		
Cash at bank and in hand ⁽¹⁾	11,455	5,974
Short term deposit ⁽²⁾	1,850	-
	13,305	5,974

(1) Cash at bank earns interest at floating rates based on daily bank deposit rates. The Group has in place letters of credits totalling \$0.149 million with the Government of Canada in relation to the issue of the mining and agricultural permits of the Moberly Mine.

(2) The Group has pledged \$1.602 million of its short term deposit to fulfil collateral requirements.

Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with a maturity of three months or less. The carrying amounts of cash and cash equivalents represents fair value.

(a) Cash flow reconciliation

Net loss after income tax	(4,820)	(5,244)
<i>Non-cash items:</i>		
Depreciation, amortisation and impairments	438	354
Foreign exchange gains	(11)	(105)
Share based payments	174	16
Non cash expenses	121	102
Net fair value (gains) losses on equity investments	(13)	519
Net fair value gain on derivative instruments	(1,285)	-
<i>Items presented as investing or financing activities:</i>		
Net losses on equity investments	1,692	48
Net (profit) loss on disposal of fixed assets	(35)	7
<i>Changes in assets and liabilities:</i>		
(Increase) decrease in trade debtors	-	16
(Increase) decrease in other assets	138	102
(Increase) decrease in inventories	(718)	(1)
Increase (decrease) in trade creditors	126	(129)
(Increase) decrease in other receivables	(65)	108
Increase (decrease) in accruals and provisions	(132)	26
Increase (decrease) in income taxes payable	-	(783)
(Increase) decrease in deferred tax assets	(11)	5
Increase (decrease) in deferred taxes payable	(22)	5
Net cash used in operating activities	(4,423)	(4,954)

Notes to the Consolidated Financial Statements

for the year ended 30 September 2016

2016
\$'000

2015
\$'000

9. Trade and Other Receivables

Current

Trade receivables	2	3
Goods and services tax	281	81
Other debtors ⁽¹⁾	44	179
	327	263

(1) Other debtors includes employee loan receivable and a provision for impairment loss. Refer to Note 24(c) for details.

These financial assets are initially measured at fair value. After initial recognition, these assets are measured at amortised cost, using the effective interest method. Gains and losses are recognised in profit or loss when these assets are derecognised or impaired, as well as through the amortisation process.

At 30 September 2016, no trade or other receivables were past due. Refer to Note 21(c) for the Group's material credit risk exposure.

10. Inventories

Current

Raw materials and stores - at cost	2,116	1,396
Finished goods - at net realisable value ⁽¹⁾	-	3
	2,116	1,399

(1) Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated costs necessary to make the sale.

Inventories are measured at the lower of cost and net realisable value. The cost of manufactured products includes direct materials, direct labour and an appropriate portion of variable and fixed overheads. Overheads are applied on the basis of normal operating capacity. Costs are assigned on the basis of weighted average costs. The costs of mining stocks include direct materials, direct labour, transportation costs and variable and fixed overhead costs relating to mining activities.

Materials and supplies are valued at the lower of cost and net realisable value. Any provision for obsolescence is determined by reference to specific stock items identified. A regular and ongoing review is undertaken to establish the extent of surplus items and a provision is made for any potential loss on their disposal.

Inventories recognised as an expense for the year ended 30 September 2016 totalled \$nil (2015: \$0.052 million). This expense has been included in the cost of sales line item as a cost of inventories.

Inventory write-downs recognised as an expense totalled \$0.011 million (2015: \$nil).

Notes to the Consolidated Financial Statements

for the year ended 30 September 2016

2016
\$'000

2015
\$'000

11. Other financial assets

Current

Listed equity investments ⁽¹⁾	894	3,402
	894	3,402

(1) Listed equity investments are categorised as Level 1 in the fair value hierarchy. Fair value of this approach is determined by reference to quoted market bid prices at the close of business on the balance sheet date. Realised gains or losses are included in the statement of comprehensive income. The Company recognises unrealised gains and losses of equity investments in the statement of comprehensive income under the "fair value through profit and loss" approach.

12. Derivative financial assets

Current

Foreign currency forward contracts ⁽¹⁾	976	-
	976	-

(1) The foreign currency forward contracts are valued at level 2 on the fair value hierarchy. The fair value of foreign currency forward contracts are calculated by reference to forward exchange market rates for contracts within similar maturity profiles at the time of valuation. The unrealised gain in fair value of \$0.976 million was caused by movements in the USD:CAD forward exchange rates between the date of the instruments being taken out and at 30 September 2016 and has been recognised in the statement of comprehensive income. There have been no transfers between categories at any time during the current or previous comparative period.

The Group entered into foreign currency forward contracts to manage USD:CAD exchange risks. The secured debt facility is denominated and drawn in United States Dollars ("USD") and the majority of construction payments will be incurred in Canadian Dollars ("CAD"). The Group has in place foreign currency forward contracts to sell USD16.4 million and receive CAD at a weighted average exchange rate of 1 USD = 1.37 CAD. The maturity dates range from October 2016 to February 2017. The foreign currency forward contracts are secured in part by the term deposit of \$1.850 million and will be released as these contracts mature.

The Group recorded a net fair value gain of \$1.285 million (2015: nil) on foreign currency forward contracts during the year. Realised gains of \$0.309 million (2015: nil) on delivered foreign currency forward contracts have been recognised in the statement of comprehensive income.

13. Other non-current assets

Non-current

Deferred borrowing costs	-	1,974
	-	1,974

In 2015, deferred borrowing costs represented the initial and prepaid costs of establishing the Taurus secured debt facility for the Moberly Project including legal, advisory fees and share based payment expenses on the fair value of 12.609 million options and the 2% arrangement fee totalling USD0.800 million (AUD1.077 million) which was paid via an issue of 10.773 million HSK fully paid ordinary shares. In 2016, these deferred borrowing costs have been recognised against proceeds drawn under the facility. Refer to Note 17 for details of the debt facility.

Notes to the Consolidated Financial Statements

for the year ended 30 September 2016

14. Property, plant and equipment

	Freehold land	Buildings	Plant & Equipment (2)	Other ⁽²⁾	Construction in progress (1), (2),(3)	Total
At 30 September 2015						
<i>Net of accumulated depreciation:</i>						
At 1 October 2014	406	544	989	48	-	1,987
Additions	7	-	5	181	2,482	2,675
Disposals at written down value	-	-	(37)	(1)	-	(38)
Depreciation charge for the year	-	(39)	(206)	(66)	-	(311)
Foreign exchange fluctuations	15	20	31	1	-	67
Closing balance	428	525	782	163	2,482	4,380
<i>Net carrying amount:</i>						
Cost or fair value	428	800	2,422	469	2,482	6,601
Accumulated depreciation	-	(275)	(1,640)	(306)	-	(2,221)
Closing balance	428	525	782	163	2,482	4,380
At 30 September 2016						
<i>Net of accumulated depreciation:</i>						
At 1 October 2015	428	525	782	163	2,482	4,380
Additions	-	-	499	131	533	1,163
Disposals at written down value	-	(4)	(3)	(2)	-	(9)
Depreciation charge for the year	-	(59)	(255)	(91)	-	(405)
Foreign exchange fluctuations	(27)	(32)	(55)	(8)	(172)	(294)
At 30 September 2016	401	430	968	193	2,843	4,835
<i>Net carrying amount:</i>						
Cost or fair value	401	706	2,596	502	2,843	7,048
Accumulated depreciation	-	(276)	(1,628)	(309)	-	(2,213)
Closing balance	401	430	968	193	2,843	4,835

(1) Assets under construction include expenditure related to the construction of the Moberly Project.

(2) Other equipment with a carrying amount of \$0.989 million (2015: \$0.074 million) are pledged as securities for interest bearing liabilities as disclosed in Note 17.

(3) Construction in progress expenditure was included in Plant & Equipment in 2015. This has been restated.

Notes to the Consolidated Financial Statements

for the year ended 30 September 2016

14. Property, plant and equipment (continued)

Finance leases

Leased assets and assets under hire purchase contracts are pledged as security for the related finance lease and hire purchase liabilities.

Freehold land

Following initial recognition at cost, freehold land is carried at a revalued amount. Fair value is the price that could be received to sell an asset or paid to transfer a liability in an ordinary transaction between market participants at the measurement date.

The valuation method used in determining fair value is the direct comparison approach. Fair value determined using this approach is compared against market transactions of similar parcels of land and then adjusted for characteristics specific to the site being valued. Freehold land is categorised as level 3 in the fair value hierarchy as adjustments made to the price per acre are unobservable. The price per acre based on the last independent valuation was determined as CAD0.005 million. A change in this value would have a corresponding impact on fair value.

Any revaluation increment is credited to the asset revaluation reserve included in the equity section of the balance sheet, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the statement of comprehensive income, in which case the increase is recognised in the statement of comprehensive income.

Any revaluation decrease is recognised in the statement of comprehensive income, except that a decrease offsetting a previous revaluation increase for the same asset is debited directly to the asset revaluation reserve to the extent of the credit balance existing in the revaluation reserve for that asset.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the statement of comprehensive income. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to statement of comprehensive income.

Property, plant and equipment, buildings and other

Each class of property, plant and equipment, buildings and other is measured at cost less, where applicable, any accumulated depreciation and impairment losses.

The carrying values are reviewed for impairment annually, with recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired. The recoverable amount is assessed on the basis of the expected net cashflows that will be received from the assets employed and subsequent disposal. The expected net cashflows have been discounted to their present values in determining recoverable amounts.

An asset's carrying amount is immediately written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Notes to the Consolidated Financial Statements

for the year ended 30 September 2016

14. Property, plant and equipment (continued)

Depreciation

Items of plant and equipment and other, including buildings but excluding freehold land, are depreciated/amortised over their estimated useful lives.

The Company uses the unit-of-production basis when depreciating mine specific assets which results in a depreciation/amortisation charge proportional to the depletion of the anticipated remaining life of mine production. Each item's economic life has due regard to both its physical life limitations and to present assessments of economically recoverable reserves of the mine property at which it is located.

The remainder of assets but excluding freehold land, is depreciated on a straight line basis over their useful lives of 3 - 20 years, commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The assets' residual values and useful lives are reviewed and adjusted if appropriate, at each balance sheet date.

Notes to the Consolidated Financial Statements

for the year ended 30 September 2016

15. Mine development

	Exploration & evaluation	Mine development	Total
At 30 September 2015			
<i>Net of accumulated amortisation:</i>			
At 1 October 2014	5,188	242	5,430
Additions	-	1,764	1,764
Transfer to Mine development	(5,258)	5,258	-
Amortisation charge for the year	-	(20)	(20)
Foreign exchange fluctuations	70	217	287
Closing balance	-	7,461	7,461
<i>Net carrying amount:</i>			
Cost	-	7,631	7,631
Accumulated amortisation	-	(170)	(170)
Closing balance	-	7,461	7,461
At 30 September 2016			
<i>Net of accumulated depreciation:</i>			
At 1 October 2015	-	7,461	7,461
Additions	-	15,126	15,126
Capitalised borrowing costs	-	927	927
Amortisation charge for the year	-	(19)	(19)
Foreign exchange fluctuations	-	(908)	(908)
At 30 September 2016	-	22,587	22,587
<i>Net carrying amount:</i>			
Cost	-	22,787	22,787
Accumulated amortisation	-	(200)	(200)
Closing balance	-	22,587	22,587

Mine development include expenditure relating to the construction of the Moberly Project plant and ancillary infrastructure.

Capitalised borrowing costs

The Group commenced the construction of the Moberly Project plant and ancillary infrastructure in late February 2016. The Project is expected to be completed by Q3 2017. The carrying amount of the Moberly Project at 30 September 2016 was \$25.670 million (2015: \$12.495 million). The Moberly Project is financed by a third party under a secured debt facility arrangement.

Notes to the Consolidated Financial Statements

for the year ended 30 September 2016

15. Mine development (continued)

The amount of borrowing costs capitalised during the year ended 30 September 2016 was \$0.927 million (2015: \$nil). The rate used to determine the amount of borrowing costs eligible for capitalisation was 7.8 percent which is the effective interest rate of the specific borrowing.

Impairment

In accordance with the Group's accounting policies and processes, the Group performs its impairment testing annually at 30 September. Cash generating units ("CGUs") are reviewed at each reporting period to determine whether there is an indication of impairment. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made.

During the year the Group performed a detailed impairment assessment of the Mining Canada Cash Generating Unit ("CGU"). This was triggered by the Consolidated entity's market capitalisation remaining below its net assets value at certain times during the financial year. Pursuant to the detailed assessment, no impairment adjustment was required at 30 September 2016.

(i) Methodology

An impairment is recognised when the carrying amount exceeds the recoverable amount. The recoverable amount of each CGU has been estimated using its fair value less costs of disposal ("Fair Value") basis. The costs of disposal have been estimated by management based on prevailing market conditions.

The assessment of fair value was performed using an internal valuation, based on discounted cash flows of a twenty year operating life, estimated production levels, revenue and production costs and a real post tax discount rate of 11.2 percent (2015: 9.6 per cent).

Key assumptions:

(i) Revenues - Frac sand revenue price received is based on the price expected in current market based on product specifications, plant location and customer type and feedback on pricing.

(ii) Production, operating and capital costs - Production rate is based on a nameplate production output capacity of 300,000 metric tonnes over an operating life of 20 years. Operating costs were based on the engineering specifications of the plant flow sheet and estimates of labour and energy costs. Capital costs to complete the development of the Project is approximately CAD26 million. This takes into account contingencies and the CAD exchange rates versus the USD.

(iii) Discount rate - The 11.2 percent post tax discount rate was adopted to reflect the rate that would be applied by a market participant in considering the value of the CGU. Assuming nil terminal value and an operating life of 20 years the breakeven discount rate for the project, at which recoverable amount is equal to carrying amount, is 15.8 percent.

Significant judgements and assumptions are required in making estimates of fair value. This is particularly so in the assessment of long life assets. It should be noted that the CGU fair values are subject to variability in key assumptions including, but not limited to, oil prices, currency exchange rates, discount rates, production profiles and operating and capital costs. A change in one or more of the assumptions used to estimate fair value could result in a change in a CGU's fair value.

Notes to the Consolidated Financial Statements

for the year ended 30 September 2016

	2016 \$'000	2015 \$'000
16. Trade and other payables		
Current		
Trade payables	95	227
Sundry creditors and accrued expenses	977	730
Payables relating to the Moberly Project	3,152	-
	4,224	957

Trade payables and other payables are carried at amortised cost. They represent liabilities for goods and services provided to the Company prior to the end of the financial year that are unpaid and arise when the Company becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are non-interest bearing, unsecured and are normally settled on 30 to 45 day terms.

17. Interest bearing liabilities

Current

Secured Liabilities

Obligations under finance leases and hire purchase contracts	315	19
Debt facility	593	-
Total current interest bearing liabilities	908	19

Non-current

Secured Liabilities

Obligations under finance leases and hire purchase contracts	652	65
Debt facility	13,073	-
Total secured	13,725	65
Deferred borrowing costs	(1,809)	-

Total non-current interest bearing liabilities	11,916	65
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Total interest bearing liabilities	12,824	84
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Refer to Note 22(b) for details on finance leases.

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Fees paid on the establishment of loan facilities that are yield related are included as part of the carrying amount of the loans and borrowings.

Notes to the Consolidated Financial Statements

for the year ended 30 September 2016

17. Interest bearing liabilities (continued)

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs are recognised as an expense when incurred, except when they are included in the costs of qualifying assets.

Debt Facility

On 15 July 2015, the Company entered into a USD40.0 million secured debt facility with Taurus Funds Management Limited to fund the construction of the Moberly Project. The facility is available in two tranches. Tranche 1 (USD25.0 million) funds the construction of the 300,000 tpa Moberly plant and ancillary infrastructure (phase 1) and tranche 2 (USD15.0 million) will be available to complete an expansion of the Project, once phase 1 has been successfully completed.

The debt facility bears interest at 10% per annum, an arrangement fee of 2% of the facility amount, a commitment fee of 2% per annum on undrawn amounts at each phase, an issue of 25.219 million options and 2% Free on Train Gross Revenue Royalty, ex Plant Price. The facility is secured over a first charge over the Group's assets. The facility maturity date is 31 August 2020.

On 15 July 2015, the Company paid the arrangement fee of 2% of the facility amount totalling USD0.800 million (AUD \$1.077 million) via an issue of 10.773 million HSK fully paid ordinary shares. During the year ended 30 September 2016, 3.152 million options vested on the drawdown of funds. A further 9.457 million options are expected to vest pro rata on further amounts drawn. Refer to Note 19 for details on share based payments.

In February 2016, the conditions precedent associated with the tranche 1 USD25.0 million was satisfied and was available for draw down. As at 30 September 2016, the Group had drawn USD10.0 million (AUD13.073 million) of the USD25.0 million facility.

Notes to the Consolidated Financial Statements

for the year ended 30 September 2016

18. Provisions

	2016	2015
	\$'000	\$'000
Current		
Long service leave	20	104
Annual leave	132	182
	152	286
Non-current		
Long service leave	4	3
Restoration ⁽¹⁾	294	37
	298	40

(1) The Group has an obligation to undertake restoration work when environmental disturbance is caused by the development or ongoing production of a mining property. A provision is recognised for the present value of such costs, based on management's best estimate of the legal and constructive obligations incurred. Future restoration costs are reviewed annually and any changes in the estimate are reflected in the present value of the restoration provision at the reporting date, with a corresponding change in the cost of the associated asset.

Movement in restoration provision:

	\$'000
Opening balance	37
Additional provisions recognised	256
Unwinding of discount	3
Exchange fluctuations	(2)
Closing balance	294

The increase in restoration provision is driven by the change in the discount rate used in the calculation of the provision. The discount rate used at 30 September 2016 was 1.7 per cent (2015: 8.6 per cent).

Notes to the Consolidated Financial Statements

for the year ended 30 September 2016

		2016 \$'000	2015 \$'000
19. Contributed Equity			
Fully paid ordinary shares	(a)	96,033	86,356
Reserved shares	(b)	(520)	(539)
Class A \$0.25 ordinary shares (paid to \$0.01)	(c)	1	1
Class B \$0.50 ordinary shares (paid to \$0.01)	(d)	15	15
Convertible notes - unsecured ⁽¹⁾		2,003	2,003
		97,532	87,836

(1) The unsecured convertible notes issued contained both an equity and a debt component. All unsecured convertible notes have been converted or redeemed at 30 September 2016. The balance of \$2.003 million represents the component of the notes recognised directly in equity.

Issued ordinary share capital is classified as equity and is recognised at the fair value of the consideration received by the Company. Any transaction costs arising on the issue of ordinary shares and the associated tax are recognised directly in equity as a reduction of the share proceeds received.

(a) Fully paid ordinary shares

	Shares thousands	\$'000
At 1 October 2014	154,439	79,757
Convertible notes converted	5,667	-
Loan arrangement fee, paid in shares	10,773	1,077
Private placement to sophisticated investors	13,259	1,326
Options exercised by Taurus Funds Management	8,751	768
1 for 5 Rights Issue	38,599	3,861
Reserved shares quoted - vested shares in employee share plan trust	110	(53)
Capital raising costs	-	(380)
At 30 September 2015	231,597	86,356
10 for 7 Rights Issue	330,855	9,926
Reserved shares quoted - vested shares in employee share plan trust	183	(19)
Capital raising costs	-	(230)
At 30 September 2016	562,635	96,033

Options

As at 30 September 2016 there were 3.152 million options outstanding expiring on 15 July 2020 with a strike price of \$0.0878 (2015: nil).

Notes to the Consolidated Financial Statements

for the year ended 30 September 2016

19. Contributed Equity (continued)

Voting and other rights

At meetings of members each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands. Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.

When managing capital, the Board's objective is to ensure the Company continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. The Board also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity.

(b) Reserved shares

	Shares thousands	\$ '000
At 1 October 2014	1,755	(592)
Reserved shares quoted - vested shares in employee share plan trust	(110)	53
At 30 September 2015	1,645	(539)
Reserved shares quoted - vested shares in employee share plan trust	(183)	19
At 30 September 2016	1,462	(520)

The Company's own equity instruments are reacquired for later use in employee share-based payment arrangements and are deducted from equity. No gain or loss is recognised in the statement of comprehensive income on purchase, sale, issue or cancellation of the Company's own equity instruments.

Vesting

The employee shares issued are under the terms described in Note 20(b).

Voting and other rights

Employee shares participate in dividends on the same basis as holders of ordinary shares and the proceeds on winding up of the parent entity in proportion to the number of shares held, carry the right to participate in new issues of securities to holders of ordinary shares on the same basis as holders of ordinary shares and do not have the right to vote at meetings of members of the parent entity.

Notes to the Consolidated Financial Statements

for the year ended 30 September 2016

19. Contributed Equity (continued)

	Shares thousands	\$ '000
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(c) Class A \$0.25 Partly Paid ordinary shares ⁽¹⁾

At 30 September 2016	100	1
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(1) Each partly paid share was issued at 1 cent and as at 30 September 2016 has an unpaid amount of 24 cents (2015: 24 cents).

(d) Class B \$0.50 Partly Paid ordinary shares ⁽²⁾

At 30 September 2016	1,500	15
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(2) Each partly paid share was issued at 1 cent and as at 30 September 2016 has an unpaid amount of 49 cents (2015: 49 cents).

Dividends Paid and Proposed

No dividends were declared or paid during both the 2015 and 2016 financial years. The amount of franking credits available for subsequent financial years at 30 September 2016 is \$0.777 million (2015: \$0.777 million).

Notes to the Consolidated Financial Statements

for the year ended 30 September 2016

2016
\$'000

2015
\$'000

20. Share Based Payments

(a) Recognised share-based payments⁽²⁾

Employee Share Plan Expense	1	16
Shares and options issued under the terms of the Taurus Secured Debt Facility ⁽¹⁾	173	1,655
	174	1,671

(1) Fair Value expense recognised in Deferred Borrowing Costs. See Note 13 for more details.

(2) Total costs recognised in the Share Based Payment Reserve in Equity.

(b) Types of share-based payment

Employee Share Plan ("ESP")

Shares may be granted to employees, with more than 12 months' service, to align interests with those of share holders to increase the value of the Company's shares. Under the terms of grant, the share price was set by reference to the 5 day VWAP after the release of the Company's annual financial results. The shares were issued as restricted securities. There are no ongoing performance hurdles governing vesting other than the continued employment of the employee. Subject to that continuing employment, the shares issued vest automatically on the anniversary of the issue date at the rate of 25% each year.

If an employee ceases employment prior to the vesting of the shares, the unvested shares are forfeited unless cessation of employment is due to death. In the event of a change of control, the vesting period dates may be brought forward to the date of the change of control and awards will vest subject to performance over this shortened period.

Employee Share Loans ("ESL")

Under the ESP an interest free loan is made to the employee to fund the acquisition of shares in the Company. 70% of dividends are required to be applied to the loan reduction and the loan balance must be paid out from share sale proceeds. If the share sale proceeds are less than the value of the loan, the employee pays the balance of the loan. If the loan balance is not retired, the employee is unable to receive any benefit from the shares. If an employee leaves prior to vesting of shares then the shares are forfeited and the loan is cancelled.

Shares and Options issued under the terms of the Taurus Secured Debt Facility ("the Facility")

(i) Shares

On 15 July 2015, under the terms of the Facility, the Company issued 10.772 million shares as consideration for the Loan arrangement fee of \$1.077 million (USD0.800 million). The fair value of the loan arrangement fee is the consideration settled.

(ii) Options

On 15 July 2015, under the terms of the Facility, the Company issued 25.219 million options to Taurus Funds Management. Of the 25.219 million options issued, 15.762 million options have vested of which 8.750 million options were exercised on 24 July 2015. The remaining 9.457 million options will vest pro rata on additional amounts drawn against the debt facility. The strike price of the options is \$0.0878, a 25% premium to the 10 day VWAP prior to the date of signing the agreement.

Notes to the Consolidated Financial Statements

for the year ended 30 September 2016

20. Share Based Payments (continued)

Each option entitles the holder to acquire one fully paid ordinary share in the capital of the Company and will not be quoted on the Australian Securities Exchange or any other stock exchange without the approval of the Option Holder. The options have an expiry date of 5 years from 15 July 2015. An Option is exercisable by the Option Holder giving written notice to the Company accompanied by payment of the exercise price for each Option, directly to the Lender as a prepayment or repayment by the Company to the extent required under the Loan Agreement, unless otherwise agreed by the Option Holder.

Shares will be issued following valid exercise of the Options will be issued and allotted within 10 Business Days of the exercise date provided all documents and payments have been received and will rank equally with all other Shares on issue.

There are no participating rights or entitlements inherent in the Options and the holder will not be entitled to participate in new issues of capital offered to the shareholders during the currency of the Options. However, the Company will ensure that the record date will be at least 10 Business Days after the Company has notified the Option Holder of the issue so that the holder may exercise its Options held at that time before the date for determining entitlements to participate in any such issues.

In the event of any reorganisation of the issued capital of the Company, the the rights of the option holder will be changed to the extent necessary to comply with the applicable ASX Listing Rules in force at the time of the reorganisation.

If prior to the expiry date of the Options, the Company makes a pro rata bonus issue of shares and an Option is not exercised before the record date to determine entitlements to that bonus issue, the number of Shares to be issued on exercise of the Option is the number of Shares that would have otherwise been issued upon exercise of the Option, plus the number of Shares which would have been issued to the Option Holder if the Option has been exercised before the record date for the bonus issue, with all new Shares so issued ranking equally in all respects with the other Shares on issue.

(c) Summary of shares and options granted

The following table illustrates the number (No.) and weighted average issue prices (WAIP) of, and movements in, shares, rights and options issued during the year:

	No.	WAIP
<i>Options</i>		
At 1 October 2014	-	-
Granted during the year	25,219,435	0.09
Exercised during the year	(8,750,000)	0.09
At 30 September 2015	16,469,435	0.09
At 30 September 2016	16,469,435	0.09

(1) Of the 16.469 million options outstanding, 3.152 million have been issued and is exercisable. 9.457 million options are expected to vest pro rata for amounts drawn on the Facility. Refer to Note 17 for details of the secured debt facility.

Notes to the Consolidated Financial Statements

for the year ended 30 September 2016

20. Share Based Payments (continued)

	No.	WAIP
<i>Employee Share Plan - Shares</i>		
At 1 October 2014	778,989	0.17
Granted during the year	99,876	0.07
Expired during the year	(308,849)	-
Sold as employee exercise during the year	(30,000)	-
At 30 September 2015	540,016	0.12
Granted during the year	307,708	0.07
Expired during the year	(166,044)	-
At 30 September 2016	681,680	0.10
<i>Employee Share Plan - Rights</i>		
At 1 October 2014	1,184,554	0.01
Granted during the year	366,794	0.02
Expired during the year	(301,238)	0.01
At 30 September 2015	1,250,110	0.02
Granted during the year	248,384	0.07
Expired during the year	(216,456)	-
At 30 September 2016	1,282,038	0.10

The weighted average of the remaining contractual life of ESP shares and rights granted is 2.5 (2015: 2.1) years.

(c) Weighted average fair value

The provision of the non-recourse loan has required that the ESP shares issued be treated as if the issue was a grant of options on the relevant date.

(e) Fair Value pricing model

Employee Share Plan

The fair value of the equity-settled ESP shares issued is estimated as at the date of grant using a Binomial Model taking into account the terms and conditions upon which the shares were issued. The model takes into account the historic share price volatilities and implied dividend yields.

Notes to the Consolidated Financial Statements

for the year ended 30 September 2016

2016
\$'000

2015
\$'000

20. Share Based Payments (continued)

The following table lists the key assumptions to the model used for the year ended 30 September:

Forecast dividend yield (%)	0.00	0.00
Expected volatility (%)	72.00	77.00
Risk-free interest rate (%)	2.01	1.98
Expected life (years)	4.00	4.00
Employee exit rate (%)	50.00	53.00
Exercise multiple (times)	1.00	1.00
Issue price (\$)	0.03	0.10
Weighted average share price at measurement date (\$)	0.00	0.04

Forecast dividend has been based on dividend history over the previous 3 years. The rate assumed is an expected average over the four-year period and is based on market yields generally found in resource-based operating companies. This may not necessarily be an outcome as the Company has not announced a stated dividend policy. The expected volatility was determined using an historical sample of 80 week-end Company share prices. The resulting expected volatility therefore reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. The expected life of the option is equivalent to the maximum period when all shares will vest. Accordingly there is no discount for vesting shares during the term. As the shares have been issued, and not subject to further election to exercise the exercise multiple has been taken as a 1:1 (2015: 1:1) relationship.

Options issued under the terms of the Facility

The fair value of the options issued is estimated as at the date of grant using a Black Scholes option-pricing model taking into account the terms and conditions upon which the options were granted. The 25.219 million options granted on 15 July 2015 were valued using the following average assumptions:

Forecast dividend yield (%)	Nil
Expected volatility (%)	77.00
Risk-free interest rate (%)	1.98
Expected life of options (years)	5.00
Options exercise price (\$)	0.09
Weighted average share price at measurement date (\$)	0.07

Notes to the Consolidated Financial Statements

for the year ended 30 September 2016

21. Financial Risk Management Objectives and Policies

The Company's principal financial instruments comprise of equity investments, cash deposits and interest bearing liabilities.

The main purpose of these financial instruments is to provide cash flow and funding for the Company's operations and the construction of the Moberly Project. The Company has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. The Company also enters into derivative transactions when required. The purpose is to manage the currency and commodity risk arising from the Company's operations and its source of finance.

The main risks arising from the Company's financial instruments are cash flow interest rate risk, foreign currency risk, credit risk, liquidity risk and price risk.

Risk Exposures and Responses

(a) Interest rate risk

The Company's policy is to manage its finance costs using a mix of fixed and variable rate debt.

The Company's exposure to the risk of changes in market interest rates relates primarily to the cash at bank and in hand with a floating interest rate. Interest bearing liabilities issued at fixed rates does not expose the Company to fair value interest rate risk because it is recorded at amortised costs. At the end of the year, 100% of the interest bearing liabilities was at fixed rates.

At balance date, the Company had the following mix of financial assets exposed to interest rate risk:

	2016 \$'000	2015 \$'000
Cash and cash equivalents	13,305	5,974
	13,305	5,974

At 30 September 2016, if rates had increased/(decreased) by 100 basis points, with all other variables held constant, post tax profit would have been affected by \$0.093 million/(\$0.093 million), (2015: \$0.042 million/(\$0.042 million)).

(b) Foreign currency risk

The Company undertakes transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. The majority of the Company's revenues and costs are denominated in AUD and CAD dollars.

The Company's balance sheet can be affected by movements in the AUD/CAD and CAD/USD exchange rates.

Notes to the Consolidated Financial Statements

for the year ended 30 September 2016

21. Financial Risk Management Objectives and Policies (continued)

Approximately 0% (2015: 5%) of costs are denominated in currencies other than the functional currency of the individual entities.

Measuring the exposure to foreign exchange risk is achieved by regularly monitoring and performing sensitivity analysis on the Company's financial position.

At 30 September 2016, the carrying amounts of the Company's CAD and USD financial assets and liabilities are as follows:

	Canadian dollars		US dollars	
	2016	2015	2016	2015
	\$'000	\$'000	\$'000	\$'000
<i>Financial assets</i>				
Cash and cash equivalents	10	680	5,474	-
Derivative financial asset	-	-	976	-
Listed equity investments	787	3,163	-	-
	797	3,843	6,450	-
<i>Financial liabilities</i>				
Trade and other payables	-	-	(1,185)	-
Interest bearing liabilities	-	-	(13,666)	-
	-	-	(14,851)	-
Net exposure	797	3,843	(8,401)	-

At 30 September 2016, if the Canadian and United States Dollars had increased/(decreased) by 100 basis points, with all other variables held constant, post tax profit and equity would have been affected by (\$0.053 million)/\$0.053 million, (2015: \$0.026million/(\$0.026 million)).

The group seeks to mitigate the effect of its foreign currency exposure by entering into CAD/USD currency forward contracts. The currency forward contracts effectively fix the CAD cash flows receivable on certain USD equipment purchases relating to the construction of the Project.

Management believe the balance date risk exposures are representative of the risk exposure inherent in the financial statements.

Notes to the Consolidated Financial Statements

for the year ended 30 September 2016

21. Financial Risk Management Objectives and Policies (continued)

(c) Credit risk

Credit risk arises from the financial assets of the Company, which comprise cash and cash equivalents, trade and other receivables. The Company's exposure to credit risk arises from the potential default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

The Company trades only with recognised, creditworthy third parties, and such collateral is not requested nor is it the Company's policy to securitise its trade and other receivables.

It is the Company's policy that all customers who wish to trade on credit terms are subject to verification procedures including an assessment of their independent credit rating, financial position, past experience and industry reputation. Receivables are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant. There was no impairment in both 2015 and 2016.

(d) Liquidity risk

Liquidity risk arises from the financial liabilities of the Company and the Company's subsequent ability to meet its obligations to repay its financial liabilities as and when they fall due.

The liquidity position of the Company is managed to ensure sufficient liquid funds are available to meet the Company's financial commitments in a timely and cost-effective manner. The Company's objective is to maintain a balance between continuity and flexibility through the use of bank overdrafts, bank loans, finance leases and equity investments.

The Company manages its liquidity risk by monitoring the total cash inflows and outflows by producing monthly cash flow forecasts forward for a minimum of twelve months.

The following maturity analysis reflects all contractually fixed pay-offs, repayments and interest resulting from recognised financial liabilities and recognised financial guarantees as at balance date. The timing of cash flows for liabilities is based on the contractual terms of the underlying contract. Where the counterparty has a choice of when the amount is paid, the liability is allocated to the earliest period in which the Company is required to pay. When the Company is committed to make amounts available in instalments, each instalment is allocated in the earliest period in which the Company is required to pay. For financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee can be called.

The risk implied from the values shown in the table below, reflects a balanced view of cash inflows and outflows of non-derivative financial instruments. Trade payables and other financial liabilities mainly originate from the financing of assets used in the Company's ongoing operations such as mine development, property plant and equipment and investments in working capital (e.g. inventories and receivables).

Notes to the Consolidated Financial Statements

for the year ended 30 September 2016

21. Financial Risk Management Objectives and Policies (continued)

The following table reflects all contractually fixed repayments and interest resulting from recognised financial liabilities at reporting date:

	Within 1		
	year	1-5 years	Total
	\$'000	\$'000	\$'000
2015			
Trade and other payables	957	-	957
Interest loans and borrowings	19	65	84
	976	65	1,041
2016			
Trade and other payables	4,224	-	4,224
Interest loans and borrowings	915	16,736	17,651
	5,139	16,736	21,875

(f) Price risk

Price risk arises from the investments in equity securities. The policy of the Company is to maintain exposure to equity price movements. All of the investments are publicly traded either on the ASX or other global exchanges.

At 30 September 2016, if prices of equity investments had increased/(decreased) by 10%, with all other variables held constant, post tax profit and equity would have been affected by \$0.063 million/(\$0.063 million), (2015: \$0.238 million/(\$0.238 million)).

Notes to the Consolidated Financial Statements

for the year ended 30 September 2016

	2016	2015
	\$'000	\$'000
22. Commitments and Contingencies		
(a) Operating Leases		
<i>Operating leases payable:</i>		
Within one year	205	213
After one year but not more than five years	353	558
After more than five years	-	-
Total minimum lease payments	558	771

Leases of plant and equipment under which the Company or its controlled entities assume substantially all the risks and benefits incidental to ownership are classified as finance leases. Other leases are classified as operating leases.

The operating leases comprise property leases and various equipment leases. These leases are non-cancellable with three to five year terms, with rent payable in advance. Payments made under operating leases are expensed on a straight-line basis over the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset.

Property leases

Rental provisions within the Australian property lease agreement require the minimum lease payments shall be increased by 3.75% per annum.

The Canadian property lease agreement a five year fixed annual rental agreement. An option exists to renew the lease at the end of the five-year term for an additional term of five years.

(b) Finance leases

The Group has finance leases and hire purchase contracts for various items of plant and machinery. The Group's obligations under finance leases are secured by the lessor's title to the leased assets. Future minimum lease payments under finance leases and hire purchase contracts, together with the present value of the net minimum lease payments are, as follows:

	2016		2015	
	<i>Minimum payments</i>	<i>Present value of payments</i>	<i>Minimum payments</i>	<i>Present value of payments</i>
	\$'000	\$'000	\$'000	\$'000
<i>Minimum finance leases payable:</i>				
Within one year	322	322	25	25
After one year but not more than five years	631	559	26	24
Total minimum lease payments	953	881	51	49
Less amounts representing finance charges	(72)	-	(2)	-
Present value of minimum lease payments	881	881	49	49

Notes to the Consolidated Financial Statements

for the year ended 30 September 2016

22. Commitments and Contingencies (continued)

Finance leases are capitalised, with a lease asset and a lease liability equal to the fair value of the leased asset or, if lower, at the present value of the minimum lease payments determined at the inception of the lease. Lease payments are apportioned between the finance charges and reduction of the lease liability. The finance charge component within the lease payments is expensed. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Company or its controlled entities will obtain ownership by the end of the lease term.

(c) Construction and other commitments

The Group entered into construction commitments for the construction of Stage 1 of the Moberly Project:

	2016 \$'000	2015 \$'000
<i>Moberly Project construction commitments payable:</i>		
Within one year	22,066	-
After one year but not more than five years	-	-
	22,066	-

23. Auditors remuneration

	2016 \$	2015 \$
<i>The auditor of Heemskirk Consolidated Limited is Ernst & Young.</i>		
<i>Amounts received or due and receivable by Ernst & Young (Australia) for:</i>		
Audit of the financial statements	113,506	124,200
Other - including taxation services	22,400	18,000
<i>Amounts received or due and receivable by Ernst & Young (Canada) for:</i>		
Audit of the financial statements	30,432	30,000
	166,338	172,200

Notes to the Consolidated Financial Statements

for the year ended 30 September 2016

24. Related Party Disclosure

(a) Subsidiaries

The consolidated financial statements include the financial statements of Heemskirk Consolidated Limited ("ultimate parent") and the subsidiaries listed in the following table.

	Country of incorporation	% Equity Interest		Investment (\$'000)	
		2016	2015	2016	2015
Heemskirk Technical Services Pty Ltd	Australia	100	100	-	-
HSK Staff Share Plan Pty Ltd	Australia	100	100	-	-
Heemskirk Canada Holdings Ltd	Canada	100	100	428	428
Heemskirk Canada Ltd	Canada	100	100	5,791	5,525
HCA Mountain Minerals (Lethbridge) Ltd	Canada	100	100	-	-
HCA Mountain Minerals (Moberly) Ltd	Canada	100	100	-	-
HCA Mountain Minerals (Nevada) Ltd	USA	100	100	-	-

(b) Remuneration of key management personnel

	2016 \$'000	2015 \$'000
Short-term employee benefits	1,041	1,005
Post-employment benefits	60	52
Share-based payment	-	7
Termination benefits	450	-
	1,551	1,064

(c) Transactions with related parties

On 28 July 2010 Heemskirk announced that it had been decided to terminate the Founders' Plan and settlement terms were agreed (Refer to Remuneration Report page 23). The outcome of the settlement has no net effect on shareholders' equity and no net after tax cash outflows by the Company. The reasonableness of this settlement was confirmed by an independent expert. The action had the full support of the Founders and the then Heemskirk Board.

In conjunction with the Founder's Plan settlement, loan facilities were made available to the Founders to assist with discharging any Australian taxation liability as a result of the settlement. This facility is interest-bearing at market rates and repayable by cash or a predetermined number of pledged Company shares at a value of 50 cents per share plus termination payments. Any shortfall in repayments after the value of the loan facility has been reduced by cash, the pledged Company shares and termination payments will be waived or forgiven and treated as an expense.

The draw down by the former Managing Director of the loan facility at 30 September 2016 is \$0.382 million (2015: \$0.345 million). Under the terms of the Founders' Plan settlement, 0.764 million shares have been pledged as security. The Company can sell these pledged shares to recover amounts due under the loan facility. At 30 September 2016, a provision for potential short fall in relation to the founders loan of \$0.347 million (2015: \$0.196 million) has been recognised.

Notes to the Consolidated Financial Statements

for the year ended 30 September 2016

2016
\$'000

2015
\$'000

25. Parent Entity information

(a) Income statement

Profit/(loss) after income tax	(7,488)	(4,673)
Total comprehensive income/(loss) for the year	(7,488)	(4,673)

(b) Balance sheet

Current assets	8,351	8,899
Non-current assets	18,814	16,136
Total assets	27,165	25,035
Current liabilities	232	485
Non-current liabilities	4	2
Total liabilities	236	487
Net assets	26,929	24,548
Contributed equity	98,668	88,972
Share based payment reserve	1,003	828
Retained earnings/(losses)	(72,742)	(65,252)
Total Equity	26,929	24,548

(c) Guarantees

The Parent has guaranteed the obligations of HCA Mountain Minerals (Moberly) Ltd under the secured debt facility agreement with Taurus Funds Management. Refer to Note 17 for further details.

26. Events after Balance Sheet Date

There are no matters or circumstances which have arisen since 30 September 2016 that have significantly affected or may significantly affect the operations of the Company, the results of those operations or the state of affairs of the Company in subsequent financial years.

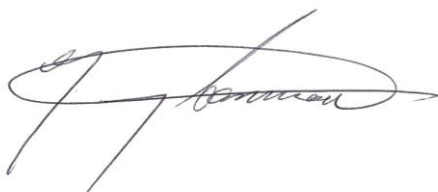
Directors' declaration

for the year ended 30 September 2016

In accordance with a resolution of the directors of Heemskirk Consolidated Limited, we state that:

1. In the Directors' opinion:
 - (a) The financial statements and notes of the Group for the year ended 30 September 2016 are in accordance with the Corporations Act 2001, including:
 - (i) Giving a true and fair view of the Group's financial position as at 30 September 2016 and of its performance for the year ended on that date; and
 - (ii) complying with Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;
 - (b) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
 - (c) The financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 2.1.
2. This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial year ended 30 September 2016.

On behalf of the Board



Garry Cameron
Non-Executive Chairman
Melbourne, 24 November 2016



John Taylor
Non-Executive Director
Melbourne, 24 November 2016

Independent auditor's report to the members of Heemskirk Consolidated Limited

Report on the financial report

We have audited the accompanying financial report of Heemskirk Consolidated Limited, which comprises the consolidated balance sheet as at 30 September 2016, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2.1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

Opinion

In our opinion:

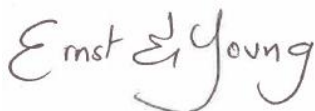
- a. the financial report of Heemskirk Consolidated Limited is in accordance with the *Corporations Act 2001*, including:
 - i giving a true and fair view of the consolidated entity's financial position as at 30 September 2016 and of its performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.1.

Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 30 September 2016. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Heemskirk Consolidated Limited for the year ended 30 September 2016, complies with section 300A of the *Corporations Act 2001*.



Ernst & Young



Michael Collins
Partner
Melbourne
24 November 2016