



Final Engineering Stage for Frac Sand Project underway

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KEY POINTS

- ▶ Corporate cash, cash equivalents and other financial assets total \$17.3m at quarter end
- ▶ Company continues to focus on advancing the Frac Project

SUMMARY

Group Safety

- There were no safety incidents during the quarter

Corporate

- Cash and cash equivalents \$12.9m
- Equity investments \$4.4m
- Unsecured Convertible Notes: \$2.74m is payable in cash no earlier than 30 December 2014 and no later than 30 March 2015

Frac Project

- The final elements of detailed engineering are currently being completed to allow for "shovel ready" activity in the current favourable weather climate. This element of work is anticipated to cost approximately A\$0.3m
- The Company spent A\$0.09m on development. The expenditure incurred included water well testing and evaluation of a refined process design
- The forecast demand for export gas and the strong oil price is driving the oil and gas exploration industry in the WCSB and Heemskirk Canada occupies an important niche in that business with its well-advanced frac sand project



Company Safety

There were no safety incidents during the quarter. Currently the Company LTI and MTI frequency rates are both 0.

Cash Movements

Following the sale of Lethbridge the base line cash expenses for Canada and Corporate overheads, per the March half year report, were estimated at \$0.300m per month. Equivalent expenses for the June quarter were approximately \$0.321m per month and will be similar moving forward.

Operations

Canadian Industrial Minerals (100% owned)

As at the close of the quarter, the business includes an administrative office in Calgary, Alberta and the Moberly operation (including the Project) in British Columbia.

The Moberly operation produces a variety of silica products and has a significant permitted undeveloped project, subject to financing, to produce frac sand.

Project Performance Summary

Table 1: Project Key Operating Statistics

	Jun Qtr 2014	Mar Qtr 2014	YTD 2014	YTD 2013
Canadian Industrial Minerals Production (tonnes)	322	23,190	50,826	52,518
Cost of Sales (C\$m)	0.11	7.37	15.58	15.32

Production

Following the sale of Lethbridge, production of industrial minerals in the June quarter was 322 tonnes which was 99% lower than the previous quarter and 97% down on the previous corresponding period. Cumulative oil and gas exploration metres drilled by companies in the Western Canadian Sedimentary Basin (WCSB) continue at historical levels in 2014 as illustrated in Figure 1.

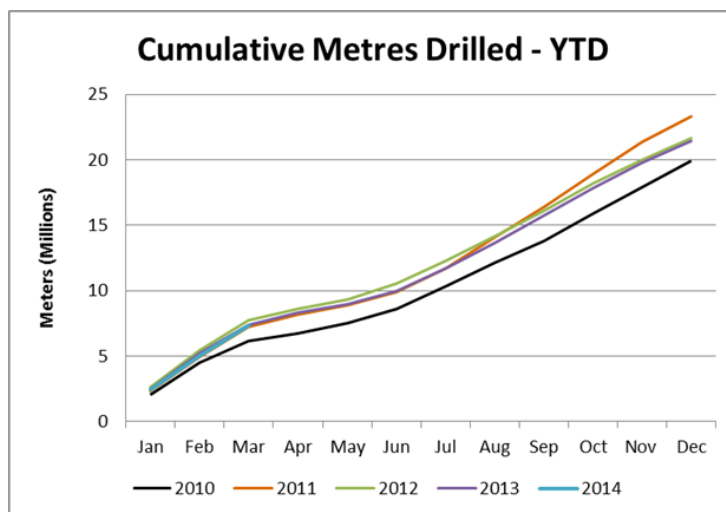


Figure 1: Cumulative Metres Drilled – YTD

Exploration

No exploration was undertaken at the Canadian operations over the quarter.

Key Investments

The Company holds 5.56m shares in Almonty Industries, a TSX Listed tungsten producer. The shares (in addition to 3.7m warrants exercisable at C\$1.25) were received as part payment for the sale of Heemskirk's Los Santos Tungsten Mine to Almonty in April 2011. The market value of the holding as at 30 June 2014 was C\$4.2m (A\$4.2m).

Corporate

Cash and cash equivalents

- Cash and cash equivalents \$12.9m

Other financial assets

- At the end of the quarter the Company held \$4.4m in equity investments including 5.56m shares in Almonty Industries (TSXV:All) at C\$0.76

Interest bearing loans and borrowings

- On 31 March 2011 the Company issued 1,889,000 unsecured convertible notes with an issue price of \$2.00. Each unsecured convertible note will be converted



into 3 fully paid ordinary shares in the Company and \$1.45 cash. Unsecured convertible notes will be converted at maturity on 30 March 2015 and may be converted every six months which commenced from 31 December 2012. The unsecured convertible notes attract interest at 10.25% per annum paid semi-annually. \$2.74m is payable in cash no earlier than 31 December 2014 and no later than 30 March 2015

Lethbridge Asset Sale

The closure of the sale was announced on 2 April 2014 (see ASX announcement).

Frac Project

1. Stage 1 of Frac Sand to Proceed.

The Company has highlighted that it is evaluating funding proposals for the Moberly Frac Sand Project. In light of the status of this and the imperative of moving the Project forward, the final elements of detailed engineering are currently being completed to allow for "shovel ready" activity in the current advantageous summer climate. This element of work is anticipated to cost approximately A\$0.3m and to be completed by late August 2014 and is shown in the "Shop Drawings and Final Design Details" entry on the below timeline.

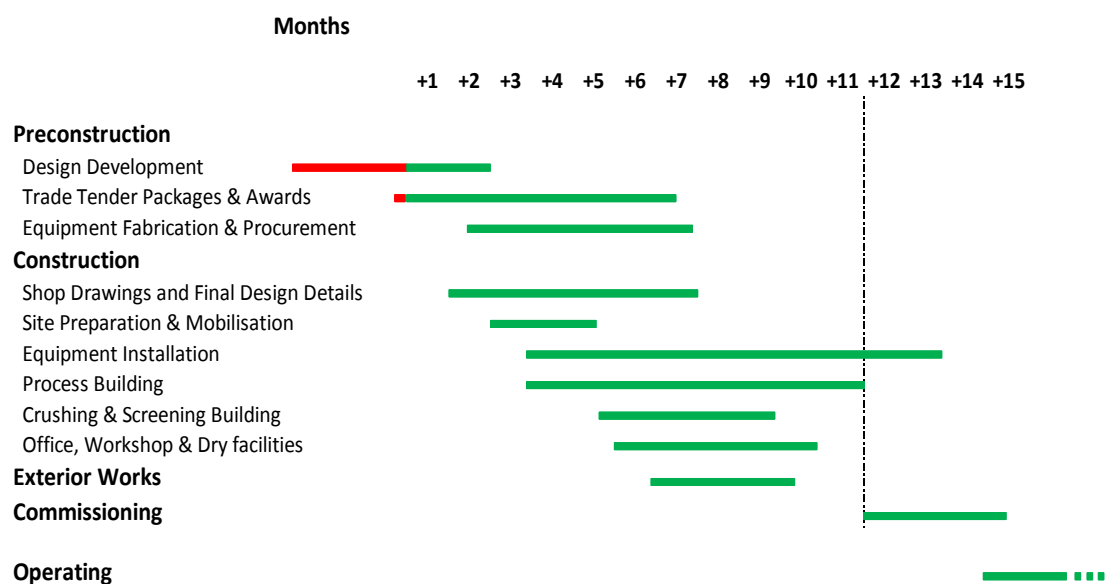


Figure 2: Moberly Frac Project – Indicative Timeline



2. Macro Environment in the Western Canadian Sedimentary Basin – Background

Moberly is located 300 kilometres west of Calgary and is 100% owned by Heemskirk. It comprises a current open-pit mine and silica product production operation. The facility currently produces product for the oil and gas, coatings, recreational and landscaping industries.

It also includes a significant permitted and engineered long-life frac sand resource for potential sale into Canada’s high demand petroleum sector.

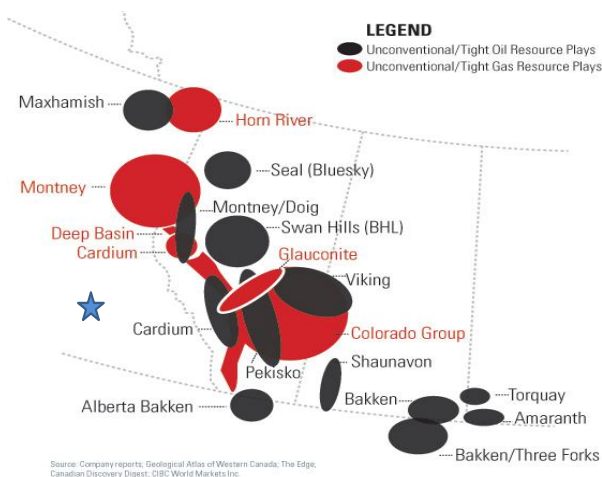


Figure 3: Moberly - Favourable Logistics

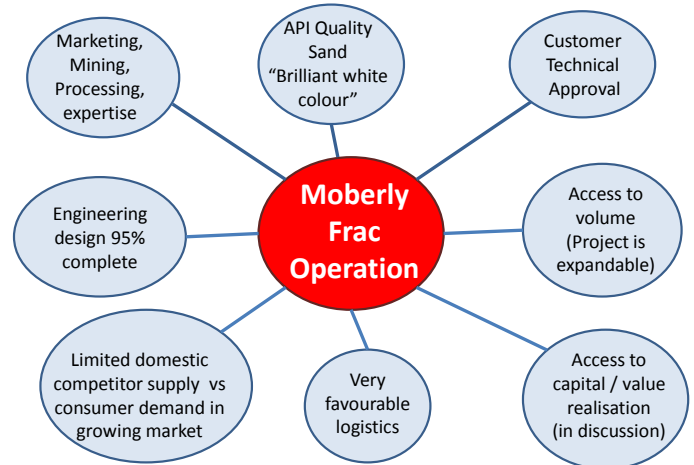


Figure 4: How Moberly stacks up in relation to Macro Drivers

The demand projections for the product are driven primarily by three factors:

- i. Macro development in the region with a desire to export;
- ii. Change in well region design; and
- iii. More frac stages per well.



These factors are illustrated in the following figures.

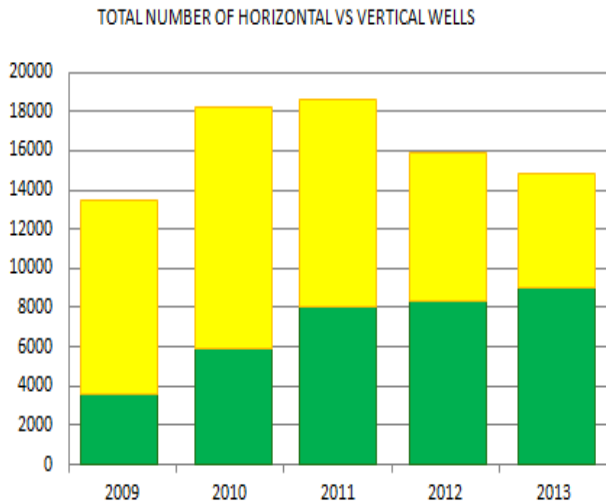


Figure 5: Focus on Western Canada Number of Wells Source: FracKnowledge

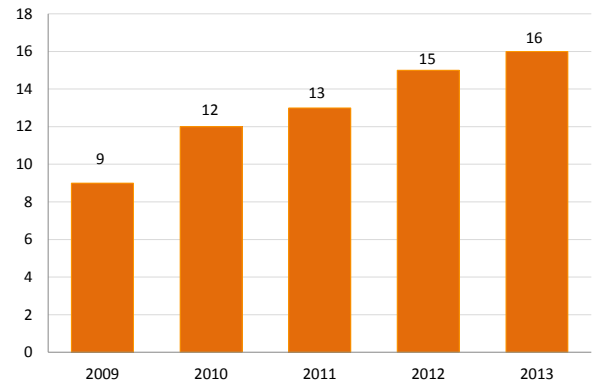


Figure 6: Average Frac Stages Per Well Source: FracKnowledge

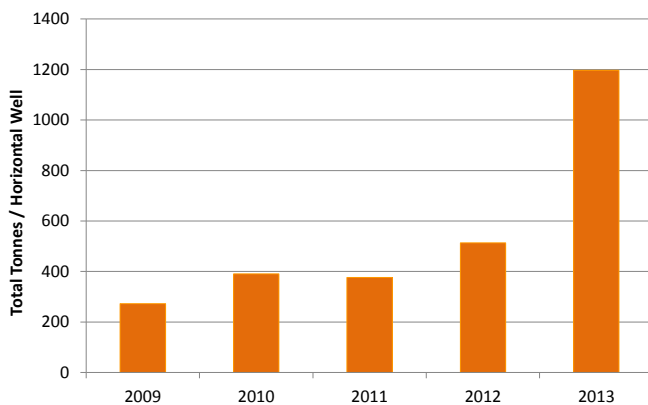


Figure 7: Total Tonnes Per Well Average Source: FracKnowledge

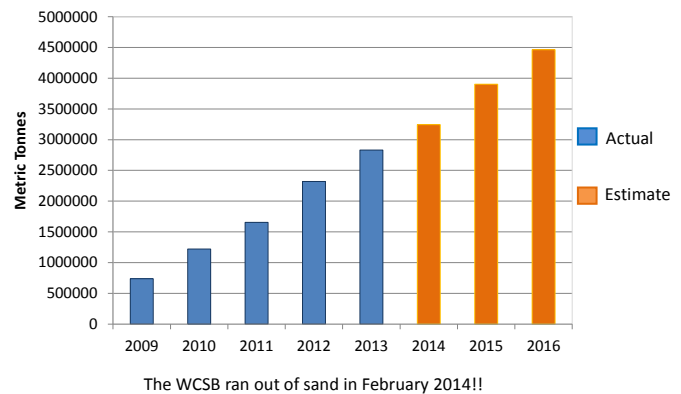


Figure 8: Medium Term Sand Use Projection Source: FracKnowledge

Moberly will account for less than 10% of 2014 frac sand demand and less than 7% of projected 2016 frac sand demand.