HEEMSKIRK
Announcement

23 February 2015

Enhanced process recovery impacts Moberly Project Valuation

KEY POINTS

- Ongoing test work has refined the Moberly plant process flow sheet
- Plant recoveries of frac sand in the prescribed size range has increased from 64% to approximately 75%
- The increase in recoveries has impacted the project's Stage 1 valuation positively, moving from C$64m to C$82m

The Company has continued to develop the Moberly Frac Project achieving key milestones:

1 Establishment of process facility footings - Initial construction is underway. This stage of development is costed at fixed price C$2.4m, is 40% complete and running to budget.

2 Project funding - Subsequent to commencement of initial construction, funding has been secured for development completion with a two tranche secured debt funding package from existing shareholder, Taurus Funds Management Pty Ltd. Tranche 1 funding is for US$25m and will ensure completion of Stage 1 which has a nameplate capacity of 300,000tpa. The Tranche 2 component of US$15m would allow for expansion of the Project (see announcement of 10 February 2015)

Plant Recovery

During the detailed engineering phase of the Project, refinements were made to the wet portion of the plant and these have improved what were already very favourable economics.

The refinements have resulted in an elevation in product recoveries reporting to the saleable frac sand size fractions.

The project will deliver between a 30 mesh to 140 mesh product, sorted into size ranges as required by customers. As a result, recoveries have increased from 64% to approximately 75%.

For further information, please contact:

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This development has a positive impact on all commercial elements of the project, eg: mining cost per ore tonne, haulage, processing cost. This change has a minimal impact on the total process facility layout and footprint, with the exception of minor modifications located within the wet sector of the process facility sitting within the plant building envelop.

Valuation impact

The increased recoveries has a significant impact on the project's Stage 1 Valuation increasing it from C$64m to C$82m using a Real Discount Rate of 7.5% (10.6% Nominal)[1].

The Project model was independently audited with no material issues identified in model structure or inputs.

Key assumptions Stage 1 Development

- Nameplate production output capacity – 300,000 metric tonnes
- Recoveries in frac sand product size of approximately 75%
- Capital costs with contingencies – C$28m
- Funding in place Stage 1 – US$25m
- Funding in place Stage 2 – US$15m
- C$/US$ exchange rate – $0.80
- Project Free Cash Flow Undiscounted annual average – C$11.2m
- Project Internal Rate of Return Stage 1: 43%
- Payback Period Stage 1: 2.2 years
- Project NPV is C$82m for Stage 1
- Estimated time to completion of construction 12 months
- Production Letters of Intent from customers dated February 2015 in place
- API specification frac sand
- Defined in situ JORC Reserve is more than sufficient to satisfy current 20 year mine plan.

[1] This discount rate has been recently reviewed with the real WACC calculated at 6.37% and hence the chosen discount rate of 7.5% is regarded as being conservative

Comment on the Frac Sand market outlook in the WCSB

The negative change in the oil and natural gas prices has had a short term regressive impact on activity levels within the “oil patch” in the Western Canadian Sedimentary Basin; however this change has been more prominent within the Oil Sands sector (not a consumer of Frac Sand) and in the early stage exploration expenditure phase of company budgets. Oil and gas drilling activities continue in the WCSB at a reduced rate, however drilled wells still require stimulation (hydraulic fracturing) even if the well is intended to be shut-in after completion. Shut-in wells are wells that are brought into production quickly when prices recover or when additional production is required to meet contracted commitments. The current trend in new well completions has been to use more sand than previously. We expect the usage of sand over the next 12 months to be flat or slightly increased due to the change in completion sand volumes.

The Moberly Stage 1 Project is estimated to contribute to slightly less than 10% of regional consumption. As previously announced, the Mount Moberly White Frac Sand meets all API parameters and customer technical approvals within the region.

Other Activities in relation to the Development

In parallel with onsite construction engineering and funding activities, the Company is upgrading finance and production reporting systems to ensure appropriate controls are in place prior to plant commissioning.