HEEMSKIRK
Quarterly Report

For the period ending
31 December 2015 (unaudited)

KEY POINTS

- **Fully underwritten Rights Issue completed successfully raising A$10m before transaction costs**
- **Documentation to progress project now being finalized**

SUMMARY

Group Safety

- No safety incidents during the quarter

Group

- Cash and cash equivalents $4.57m at close of quarter, rising to $14.2m post quarter as a result of the successfully completed rights issue
- Equity investments $1.54m

Moberly Frac Sand Project

- Following completion of the recent rights issue, the Company has satisfied the funding requirements under the Taurus Debt Facility Agreement and it is expected that the remaining Stage 1 conditions precedent will be satisfied shortly. The total offering made by Taurus is US$40m, divided into two tranches:
  - US$25m to complete the 300,000 tpa construction and production development project (Stage 1)
  - US$15m to complete an expansion of the project (Stage 2) to a 600,000 tpa production level, once phase one has been successfully completed
- Fully underwritten rights issue was initiated during the quarter and closed subsequent to the end of the quarter. This rights issue:
  - Raised A$10m (before transaction costs)
  - Ensures the appropriate cash/debt mix is in place to meet funding conditions to complete the Moberly Stage 1 development
  - Enables Stage one build to be completed within a relatively short timeline (14 months) so as to deliver an API quality frac sand product into the market place
- The contractor has now been mobilised

Moberly Project fully funded – next stage execution

For further information, please contact:

Peter Bird
Manager Director

Heemskirk Consolidated Limited
ABN 18 106 720 138
Level 17
303 Collins Street
Melbourne Victoria 3000
Australia

Telephone: +61 3 9614 0666
Facsimile: +61 3 9614 4466
Email: hsk@heemskirk.com

This information is available on our website at www.heemskirk.com

Peter Bird
Managing Director

HEEMSKIRK
CONSOLIDATED

Company Safety

There were no safety incidents during the quarter. During the past 12 months the group has recorded one medically treated injury (MTI) and no lost time injuries (LTI). Currently the Group MTI frequency rate is 27 and the LTI frequency rate is zero.

Cash Movements

Canada and corporate overheads for the December quarter were $1.123m (including legal and due diligence fees for debt financing of $80k) against a budget of $1.021m.

Operations

Canadian Industrial Minerals (100% owned)

During the quarter the business operated an administrative office in Calgary, Alberta and at the Moberly plant site (including the Project site) in British Columbia.

Project Performance Summary

Table 1: Project Key Operating Statistics

	December Qtr 2015	December Qtr 2014	YTD 2016	YTD 2015
Canadian Industrial Minerals Production (tonnes)	0	0	0	0
Cost of Sales (C$m)	0	0.53	0	0.53

Production

No industrial minerals were produced during the quarter. Production has been placed on hold to enable construction of the Moberly frac sand project. During the quarter 470mt of S-12 (golf bunker sand) was sold from inventory. Inventory levels of S-12 are currently at 11,320mt.

Exploration

No exploration activity was undertaken at the Canadian operations during the quarter.

Key Investments

The Company holds 5.45m shares in Almonty Industries, a TSX Listed tungsten producer. The shares 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 31 December 2015 was C$1.52m (A$1.51m).

Corporate

Cash and cash equivalents

- Cash and cash equivalents $4.57m, rising to $14.2m post quarter as a result of the successfully completed rights issue (unaudited)

Other financial assets

- At the end of the quarter the Company held $1.54m in equity investments including 5.45m shares in Almonty Industries (TSXV:AII) at C$0.28
- Prior to drawdown of the debt facility the only other interest bearing liabilities are finance leases for equipment of $0.074m

Annual General Meeting

- The Company's Annual General Meeting will be held on Thursday 25 February 2016 commencing at 11.00am (AEDT) at the Business Centre, Ground Floor, 365 Little Collins Street, Melbourne Victoria

The Moberly Project

As previously announced, the Moberly Project is a redevelopment of an existing permitted open pit mine and facility to produce high quality API Specification Frac Sand Product for supply into the Western Canadian Oil and Gas industry.

Project Metrics – Key Assumptions Stage 1 Development

- Nameplate production output capacity – 300,000 metric tonnes

- Recoveries in appropriate frac sand product size range of approximately 75%
- Capital costs with contingencies – US$26.6m*
  - Plant construction US$23.9m
  - Other US$2.7m
- Funding Stage 1 – US$25m
- Project Free Cash Flow Undiscounted annual average – C$11.2m
- Ungeared Project Internal Rate of Return Stage 1: 33%
- Current C$/US$ exchange rate is 0.75
- Payback Period Stage 1: 2.9 years
- Project ungeared NPV is C$78 million for Stage 1† and AUD 14 cps‡
- Estimated time to completion of construction - 14 months
- Customer demand remains
- API specification frac sand product
- Defined in situ JORC Reserve is more than sufficient to satisfy current 20 year mine plan
- Appropriate permits in place
- The Project has an estimated terminal value of up to $360 million§ assuming Stage 1 construction only

Frac sand market outlook in the WCSB

- Wells drilled still require stimulation (hydraulic fracturing) even if the well is intended to be shut in after completion

* *Based on currency exchange rates at October 2015*
† *Using a Real Discount Rate of 7.5% (10.6% Nominal). The 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. The Project model was independently audited by EY with no material issue identified in model structure or inputs.*
‡ *Post capital raise which was completed subsequent to the close of the quarter*
§ *Depending on valuation method used*

- Shut in wells are wells that can be 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 in the past
- We expect the usage of sand to increase per stage in completions over the next 12 months.
- Annual volumes year on year 2015 to 2016 are expected to be flat in Canada

The project currently has a domestic currency advantage when compared to US frac based suppliers.

Other markets

The Company is also investigating other end market consumers for high quality silica feedstock. This would include both refined and high volume industrial consumer applications.

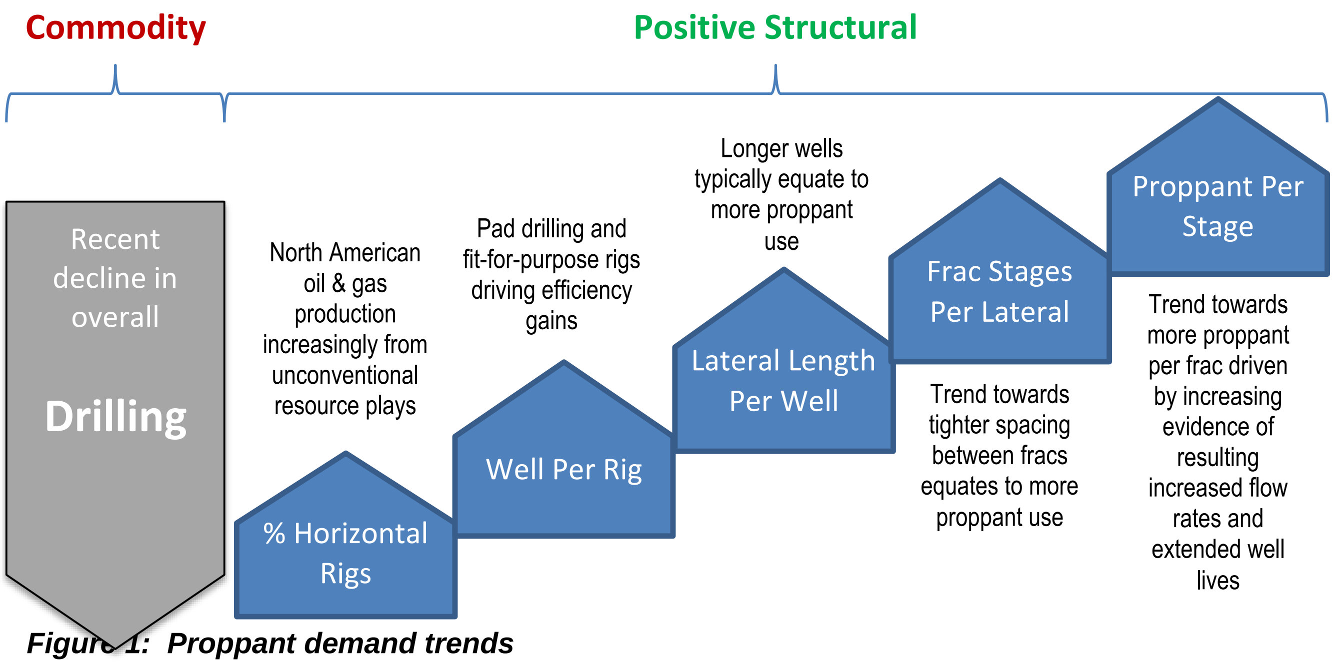

Figure 1: Proppant demand trends

Not to scale

Source: Industry charts