

HEEMSKIRK

Quarterly Report



For the period ending
30 June 2016 (unaudited)

**Moberly Project's
Stage One
construction
continues as
markets forecast
improved pricing
for frac sand**

KEY POINTS

- 🚧 **Construction at the Moberly Frac Sand Project in British Columbia continues, with first steel erected at site**
- 🚧 **First drawdown of development funds enacted**
- 🚧 **Mine haul road development and upgrade underway**
- 🚧 **Industry reports forecast an improvement in industrial minerals pricing**

SUMMARY

During the June quarter, progress continued building the Company's Stage One 300,000 tonnes per annum Moberly plant and ancillary infrastructure in British Columbia, Canada.

This progress included construction of the mine haul road, erection of the load-out building and construction of rail siding infrastructure, the pouring of concrete for the floor of the main processing building, various plant construction on and off site, and progressive procurement of equipment.

Given current market sentiment, the timing of targeted first-production is favourable for Heemskirk. On page two of this report, Heemskirk provides market insight from analysts as to how industry players and observers see supply-demand. In short, the consensus is for improved demand and pricing of frac sand products.

Also during the quarter, and directly related to construction at Moberly, the Company drew down US\$5m of its US\$25m Stage One debt facility from Taurus Funds Management.

In April, the Company announced that Peter Bird was stepping down as Managing Director of Heemskirk Consolidated and that Mark Connors, President of Heemskirk Canada, had been appointed as Acting CEO.

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Market Insight

Market analysis indicates the timing of Heemskirk's push to commissioning and commercial production of sand at the Moberly Project is advantageous, with an anticipated turnaround in North American frac sand demand projected in 2017 and 2018.

Tudor Pickering Holt & Co., a US-based investment and merchant bank specialising in the energy sector, cites several reasons for the turnaround and projected price improvements, including:

- Increased demand into 2017 and 2018 for product;
- Improved pricing at the mine gate for white sand pricing, with the potential to lift pricing (into 2017 and 2018);
- The observation that well operators are using more proppants than forecast, as they increase lateral length in their drilling programs; and
- The surge in demand is somewhat unexpected, and as such it will cause a 'scramble' for product to service high-intensity frac-driven field development plans.

This view is further supported by research from the analytical-based international funds management group, William Blair, where they conclude that overall frac sand usage should rise as drillers are using 2-3 times more sand per well than they were three years ago.

Investment banking and commodities broking/analysis group Morgan Stanley states that frac sand intensity per well is trending higher, and this has led to 'overweight' ratings for major North American producers. Morgan Stanley forecasts that the overall sand market demand will grow by 70-80% in 2017-18.

Moberly Project – Construction Update

Key activities during the quarter included:

- Excavation and backfill of process and crusher buildings completed;
- Erection of load-out building structural steel completed;
- Excavation and backfill of rail line commenced;
- Load-out footings, and piers and car (rail wagon) puller foundations formed and poured;



- The grounding grid for load-out installed;
- Construction of the mine haul road commenced;
- Main process building floor poured;
- Equipment procurement continues; and
- First steel erected.

The Company is finalising the scope with its engineers for an expansion study for Stage Two options, which will scope the most effective way for expanding production beyond the Stage One capacity and optimising overall project value.

Site progress photos



Process building floor slab preparation for concrete



Construction of new mine access road for highway trucks



First steel erection at the Moberly plant



Company Safety

There were no lost time injuries (LTI) or medically treated injuries (MTI) during the quarter. The Group LTI and MTI frequency rates are now both at 27, compared to a rate of 33 for the previous quarter.

Cash Movements

Group overheads for the June quarter were A\$1.48m compared to a budget of A\$0.94m, including restructuring costs of A\$0.52m.

Operations

Canada (100% owned)

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

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, 6,400mt of S-12 (golf bunker sand) was sold from inventory. Inventory levels of S-12 are now at 4,700mt.

Exploration

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

Key Investments

During the quarter, the Company disposed of 1.69m shares in Almonty Industries, a TSX-listed tungsten producer, for net proceeds of A\$0.528m. The shares were received as part payment for the sale of Heemskirk's Los Santos Tungsten Mine to Almonty in April 2011. At 30 June 2016, the Company held 3.76m Almonty shares at a market value of C\$1.17m (A\$1.21m).



Corporate

Cash and cash equivalents:

- Cash and cash equivalents: A\$14.67m.

Other financial information and assets:

- At the end of the quarter, the Company held A\$1.28m in equity investments including 3.76m shares in Almonty Industries (TSXV:All) at C\$0.31 per share.
- Also during the quarter, the Company drew down US\$5m of the US\$25m debt facility. Pursuant to this debt facility, 1.576m options exercisable on or before 15 July 2020 at A\$0.0878 were issued to Taurus Funds Management.
- Other interest bearing liabilities are finance leases for equipment of A\$0.57m.

The Moberly Project

The Moberly Industrial Minerals 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 (or frac sand) project, with a granted mine lease and a freehold plant site.

The Moberly Project is scheduled to produce high-quality American Petroleum Institute (API) standard specification frac sand (Mount Moberly White Sand™). Its silica purity allows it to be used as feedstock in the flint glass industry as well as other industrial applications.

With a 37.5 million tonnes JORC-compliant measured and indicated mineral resource at 70% high-purity silica or frac sand content, the Stage One Moberly Project has a nameplate production output capacity of 300,000 tonnes per annum.

Key metrics of the Moberly Project include:

- A Stage One payback period of less than three years;
- A mine life well beyond the current 20-year mine plan;
- Strong product demand – a simple, scaleable project – with the attraction of import replacement supply for Western Canadian petroleum industry customers;
- An ungeared Net Present Value of C\$78 million for Stage One, equating to AUD 14 cents per share;



- An ungeared Internal Rate of Return for Stage One of 33%; and
- A free cash flow estimate of C\$11.2 million.

Foreign currency forward contracts (USD:CAD) are in place.

What is frac sand?

Frac sand is a highly-valued and in-demand crush-resistant sand of specific particle size that is used by the oil and gas industry in the hydraulic fracturing process. It also has applications for other silica-based industrial minerals projects.

The term "frac sand" refers to industrial mineral sands that are used during the process of hydraulic fracturing, a method for extracting underground natural gas from shale gas formations. Frac sand is a "proppant" - a material used to help open the underground cracks from which natural gas is harvested during hydraulic fracturing. Proppants are introduced under pressure into a shale gas well, along with water and industrial fluids, to stimulate gas production.

North American frac sand production is dominated by supply from the mid-west of the United States of America and Texas. Moberly's new Canadian supply base will provide a long-term mine life contribution to the Canadian national and regional economies.