

HEEMSKIRK

Quarterly Report



For the period ending
31 March 2017 (unaudited)

Moberly Project construction continues; Takeover Offer Opens

Heemskirk Consolidated Limited

ASX: HSK
ABN 18 106 720 138

Shares on issue:

562,635,912

Unquoted securities:

Options: 6,304,860
Employee shares: 1,461,808
Partly paid (to 1c, 24c unpaid): 100,000
Partly paid (to 1c, 49c unpaid): 1,500,000

Share price range during quarter:

7.2c to 8.5c

**For further information, please
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HEEMSKIRK
CONSOLIDATED

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KEY POINTS

- 🚧 Northern Silica Corporation Takeover Offer Opens
- 🚧 Construction of Moberly Project continues
- 🚧 First commercial sales expected Q3 CY 2017

Company Update

Heemskirk Consolidated Limited (ASX: HSK), ("Heemskirk" or the "Company") is pleased to announce the following update.

Takeover Offer Update

During the quarter, the off-market takeover bid by Northern Silica Corporation ("NSC" or the "Bidder") for the entire issued capital of Heemskirk ("Offer") opened. Heemskirk lodged its Target's Statement on 28 March 2017 with an annexed Independent Expert's Report.

Subsequent to the close of the quarter, on 6 April 2017 NSC extended the offer period under the Takeover to 7.00pm on 16 May 2017 and on 7 April 2017 NSC lodged its First Supplementary Bidder's Statement.

Revised Independent Expert's Report

Also subsequent to the close of the quarter, the Independent Expert made some material changes to its Independent Expert's Report. On 12 April 2017 the Company lodged the First Supplementary Target's Statement which provided clarification on certain disclosures made in the Target's Statement and included a revised Independent Expert's Report ("Updated IER").

In particular, the Independent Expert updated the valuation of a share in Heemskirk from a range of nil to \$0.008 with a preferred value of nil, to a range of \$0.039 to \$0.057 with a preferred value of \$0.048.



The Independent Expert also updated the value of the share consideration of the Offer from a range of nil to \$0.006 with a preferred value of nil, to a range of \$0.028 to \$0.044 with a preferred value of \$0.036.

The Independent Expert however confirmed that its opinion remained unchanged. That is in the absence of a superior offer, the Cash Consideration of \$0.075 per Heemskirk share is fair and reasonable to shareholders and the Share Consideration offer is neither fair nor reasonable to shareholders.

The Directors are of the view that the changes in the Updated IER do not change the Directors' recommendations and the reasons for those recommendations as stated under the Target's Statement and the First Supplementary Target's Statement.

Withdrawal rights

As a result of the revised valuation in the Updated IER, the Bidder lodged a Second Supplementary Bidder's Statement on 13 April 2017 giving all Heemskirk shareholders who had accepted the Offer prior to 7.00pm on 12 April 2017 the right to withdraw their acceptance or switch their elected consideration.

Eligible Heemskirk shareholders who choose to withdraw or switch their elected consideration must inform the Bidder in writing and this instruction must be received no later than 7.00pm on 5 May 2017. Eligible Heemskirk shareholders who choose to withdraw or switch their elected consideration must do so for their entire holding, not just part thereof.

Current status of the Offer

At the time of writing the Bidder had served on the Company and lodged with the Australian Securities Exchange ("ASX") a Notice of change of interests of substantial holder (Form 604) dated 26 April 2017, announcing that its holding in Heemskirk was 83.97%.

In addition, on 11 April 2017 the Bidder served on the Company and lodged with ASX a notice freeing the offer of a defeating condition. This related to the cancellation of any entitlement to shares under employee securities.



Moberly Project

Construction Update

Key activities during the quarter included:

- Completion of silo support structure;
- Completion of exterior bucket elevators and silos installation;
- Completion of process building structure;
- Completion of roof cladding of process and crusher buildings;
- Completion of process building cladding;
- Electrical installation in the crusher and process buildings continues;
- Installation of equipment in Process building continues; and
- Motor Control Centre equipment installation continues.

Construction items remaining to be completed include:

- Mechanical connections
- Electrical connections and control
- PLC programming and installation

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Site progress photos



Process building



External silos and bucket elevators installed

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Loadout picture from Bucket elevator platform



Motor Control Room



Funding

Heemskirk remains funded for the budgeted construction costs of the Project through to 30 June 2017 via the Debt Facility Agreement with Taurus Resources No.2 BV ("Taurus").

As part of this facility, the Company is required to:

- Make interest payments from August 2017;
- Commence principal repayments from November 2017; and
- Set aside US\$3 million (A\$4 million¹) in a debt service reserve account in November 2017.

As announced on 31 January 2017, following construction completion it is likely the Company will require additional short-term funding of A\$5 million to A\$10 million during Project commissioning and early production.

Bridge Facility

As announced on 13 February 2017, Taurus has offered an underwritten working capital bridging facility ("Bridge Facility") to be available to the Company via its Canadian subsidiary, HCA Mountain Minerals (Moberly) Limited.

The key terms of the Bridge Facility are:

- Up to C\$10 million, able to be drawn in C\$2.5 million minimum tranches.
- Maturity date of 31 March 2018.
- Bullet repayment at the Maturity Date, with no penalty for early repayment.
- Funds to be used by the Company for funding working capital requirements and existing Taurus debt servicing requirements.
- Unsecured facility.
- Interest rate of 12.5% p.a. on drawn funds, to be repaid in NSC shares (not cash).
- Fees payable to Taurus in NSC shares (not cash) comprising:
 - 2% arrangement fee on the total facility size; and
 - 2% p.a. commitment line fee on undrawn funds.
- The Bridge Facility is available for draw down once the Bidder has declared its offer free of all conditions.

¹ Based on USD/AUD exchange rate of 1.33



- Repayment of the Bridge Facility is currently intended to be via a new equity issue by the Bidder following completion of the offer on the following key terms:
 - Issue price of C\$0.075 per share; and
 - All Bidder shareholders may participate in the equity raising on a pro-rata basis to their shareholdings in the Bidder.

The Bridge Facility is subject to certain conditions precedent, representations and warranties; including legal documentation and customary provisions for a facility of this nature. The Directors are not aware of any reason why the conditions precedent are not presently able to be satisfied.

The Company and the Taurus are currently working on the formal documentation of the Bridge Facility.

Company Safety

There were no lost time injuries (LTI) and one medically treated injury (MTI) during the quarter. The Group LTI and MTI frequency rates are now at zero and 18 respectively, compared to the end of the previous quarter where the LTI and MTI frequency rates were 12 and 24 respectively.

Group Overheads

Group overheads for the March quarter were A\$0.952m, compared to a budget of A\$0.809m. This includes unbudgeted expenses relating to the takeover offer incurred during the quarter.

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 Project. During the quarter, no S-12 (golf bunker sand) was sold from inventory.

Exploration

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

Key Investments

During the quarter, the Company disposed of 0.749m shares in Almonty Industries, a TSX-listed tungsten producer, for net proceeds of A\$0.211m. The shares were received as part payment for the sale of Heemskirk's Los Santos Tungsten Mine to Almonty in April 2011. At 31 March 2017, the Company held 2.116m Almonty shares at a market value of C\$0.592m (A\$0.581m).

Corporate

Cash and cash equivalents:

- Cash and cash equivalents: A\$9.757m.

Other financial information and assets:

- At the end of the quarter, the Company held A\$0.626m in equity investments including 2.116m shares in Almonty Industries (TSXV:All) at C\$0.28 per share.
- During the quarter, the Company drew down US\$5m of the US\$25m debt facility. To date, the Company has drawn down US\$20m.
- On 3 January 2017, the Company announced the issuing of 1,576,215 options under the Debt Facility Agreement with Taurus. On 28 February 2017, Heemskirk announced a further issuing of 1,576,215 options under the Debt Facility Agreement with Taurus. These options are exercisable on or before 15 July 2020 at A\$0.087. The issuing of these options follows an identical arrangement of issuing options on 3 May 2016 and 10 August 2016 under the Debt Facility



Agreement. To date Heemskirk has issued a total of 6,304,860 options under the Debt Facility Agreement.

Interest bearing liabilities:

- Taurus Debt Facility: US\$21.3m
- Finance leases for equipment: A\$0.806m.

About 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 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 proppant (Mount Moberly White™). Stage One Moberly Project has a nameplate production output capacity of 300,000 tonnes per annum.

As announced on 23 November 2016, the estimated measured and indicated resources as of 30 September 2016 is 37.5 million tonnes of silica with an estimated recovery, based on test work, of 70% recovery to 30 mesh to 140 mesh frac sand products.² For further information, please refer to the Heemskirk Mineral Resources and Ore Reserves Statement which was released to ASX on 23 November 2016.

The Moberly Project has a mine life of at least 35 years with a strong product demand. It is a simple, scaleable project – with the attraction of import replacement supply for Western Canadian petroleum industry customers.

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

² This information relates to Mineral Resources or Ore Reserves was released to ASX on 23 November 2016 (*Heemskirk Mineral Resources and Ore Reserves Statement*) and available on ASX website at www.asx.com.au and Heemskirk's website at www.heemskirk.com (**the Reserve & Resource Statement dated 23 November 2016**).

The Company confirms that it is not aware of any new information or data that materially affects the information included in the Reserve and Resource Statement dated 23 November 2016 and that all material assumptions and technical parameters underpinning the estimates in the Reserve and Resource Statement dated 23 November 2016 continue to apply and have not materially changed. The Company confirms that the form and context in which the findings are presented have not been materially modified from the Reserve and Resource Statement dated 23 November 2016.



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.

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.