

HEEMSKIRK

Quarterly Report



For the period ending
30 September 2013 (unaudited)

**Production up
over previous
corresponding
period**

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KEY POINTS

- ▶ Corporate cash, cash equivalents and other financial assets total \$14.9m
- ▶ Quarterly product sales and margins improve
- ▶ 100% optioned Monitor barite deposit flagged for drilling
- ▶ Financing alternatives for the frac sand project continue to be evaluated

SUMMARY

Group Safety

- There was one Lost Time Incident (LTI) during the quarter

Production

- Quarterly Canadian industrial minerals production of 24,580 tonnes, up 53% on the previous corresponding period (pcp) and up 106% on the June quarter in line with normal seasonal variations and growing demand

Revenue

- Revenue for Canada at C\$7.9m up 60% on the pcp and up 115% on the June quarter in line with the seasonal changes and increasing customer demand

Margins

- Heemskirk Canada margins up 19% on the pcp and up 275% on the June quarter primarily reflecting the economies of higher volumes in the September quarter versus the seasonal downturn and completion of maintenance programs in the June quarter

Development Projects – Moberly Frac Sand Project

- Detailed plant design and engineering 90%-95% completed. No major changes to this work took place in the past quarter as the Company continues to evaluate a number of financing alternatives
- As anticipated, a permit was granted for increased mining volumes - up to 400,000 tonnes per annum (tpa) from 150,000 tpa

Corporate

- Cash and cash equivalents \$8.5m
- Equity investments \$6.4m
- \$2.3m bank overdraft
- Unsecured Convertible Notes: \$2.74m is payable in cash no earlier than 31 December 2013 and no later than 30 March 2015



Company Safety

There was one Lost Time Incident (LTI) during the quarter. An employee sustained a bruised leg whilst operating machinery and was unable to work for 7 days. The Company LTI frequency rate is currently 18 and the Company MTI frequency rate is 9.

Operations

Canadian Industrial Minerals (100% owned)

The business includes an administrative office in Calgary, Alberta and two operations, Lethbridge in Alberta and Moberly (including the Project) in British Columbia.

The Lethbridge operation is a mineral processing facility which takes delivery of barite, gypsum and zeolite ores and beneficiates these with a crushing, grinding and packaging process and then on-sells to customers.

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

	Sep Qtr 2013	Jun Qtr 2013	YTD 2013	YTD 2012
Canadian Industrial Minerals Production (tonnes)	24,580	11,940	77,098	66,004
Canadian Industrial Minerals Revenue (C\$m)	7.90	3.68	23.66	19.11
Canadian Industrial Minerals Revenue per tonne sold (C\$/t)	311	299	304	280
Cost of Sales (C\$m)	6.76	3.98	22.08	16.78
Cost of Sales per tonne of Industrial Minerals sold (C\$/t)	266	322	284	246
Margin (%)	14%	(8%)	7%	12%

**Heemskirk has a September Year End*



Production

Production in the September quarter was 24,580 tonnes, which was 106% higher than the previous quarter and 53% up on pcp. Barite sales increased significantly due to end customer focus on oil and gas reservoirs that were deeper than historical wells and seasonal variations typical of the Western Canadian Sedimentary Basin.

The average monthly active rig count in the quarter was 4% above 2012 and barite demand grew strongly as the metres drilled per well and depth steadily increased. This increase is due to continuing advances in horizontal well implementation and related technology (refer Figure 1).

To meet anticipated strong demand additional third party barite feedstock was sourced and arrived during the quarter.

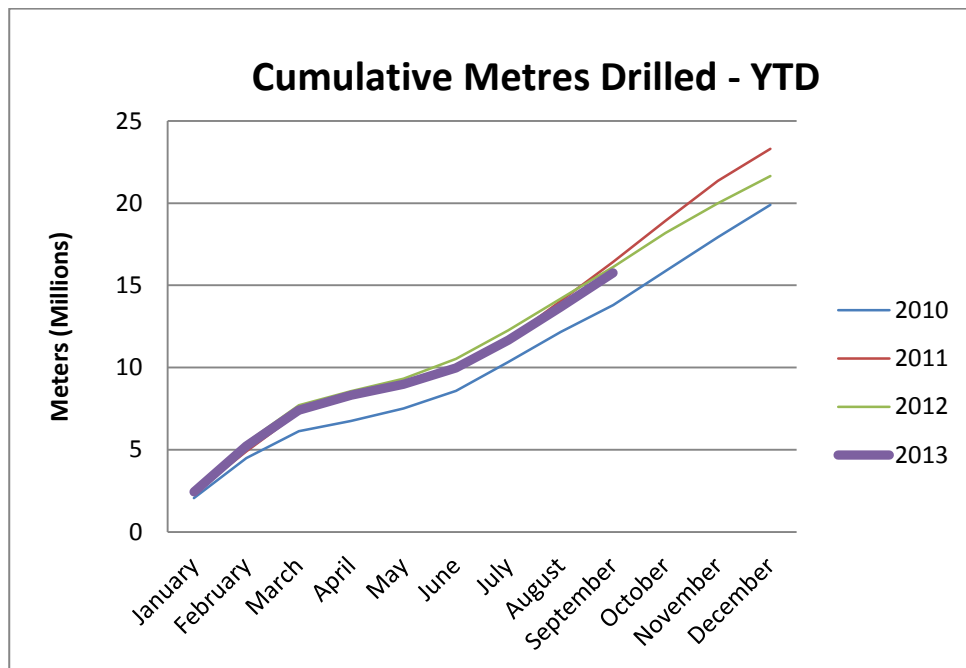


Figure 1: Cumulative Metres Drilled – YTD

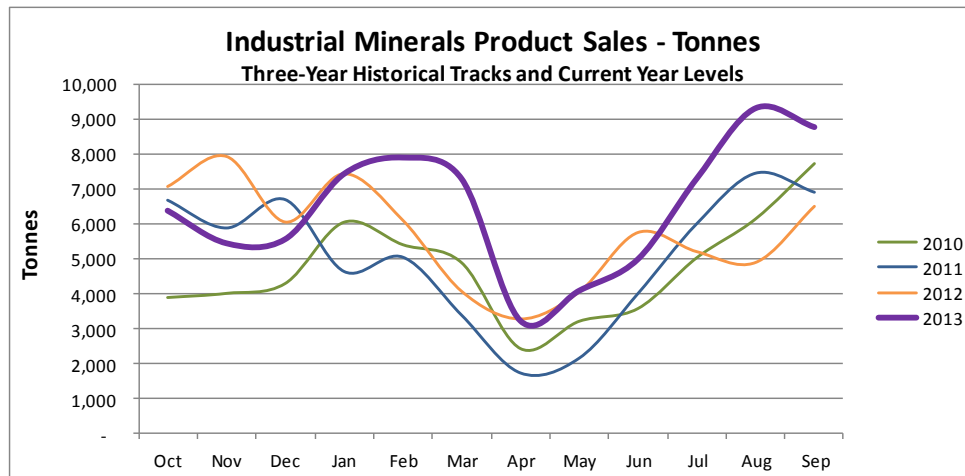


Figure 2: Industrial Mineral Product Sales – Tonnes

Revenue

Revenue for Canada at C\$7.9m was up 115% on the March quarter and up 60% on the pcp reflecting the growing end customer demand for our products.

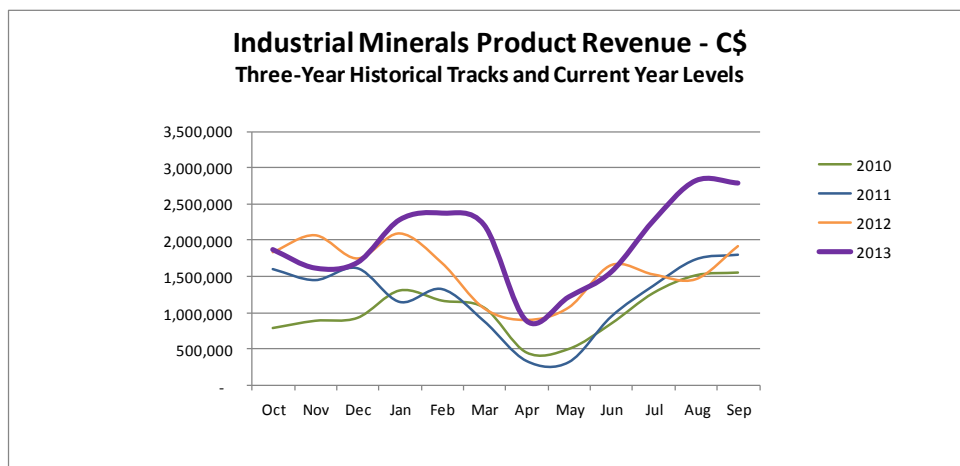


Figure 3: Industrial Minerals Revenue C\$

Margin

The margins of industrial minerals sold were up 19% on the pcp and up 275% on the June quarter primarily reflecting the economies of higher volumes in the September quarter versus the June quarter’s seasonal downturn and refined maintenance programs. The Company received additional third party barite feedstock during the



quarter to meet the expected growth in demand. This material is higher cost than our usual sources and it is expected to subdue margins but add to overall earnings over the next two quarters. A 4% stronger US dollar continues to pressure the purchase price of raw materials in Canadian dollars.

The Company completed productivity and safety improvements in the quarter. The Company conducted maintenance at a cost of C\$0.1m on Lethbridge's unloading equipment to improve reliability. In addition, C\$0.1m of capital works was incurred for dust control to improve further the quality of air in the workplace. Mill processing rates over the past 12 months have increased an average of 13% over the prior year.

Capital works in the next financial year at Lethbridge will focus on further safety and mill efficiencies at an expected cost of \$0.3m.

Exploration

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

Development Projects

Moberly Frac sand

Financing

In the past 18 months general market conditions for resource industry project finance have been difficult. However, 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 barite production and its well-advanced frac sand project. As a result, financing conditions are improving and we are carefully assessing a number of financial options for this project which remains at an estimated capital cost of C\$26m.

Engineering

The project engineers, Maple Reinders, have reconfirmed the project construction timeline (the indicative timeline is provided in Figure 4) and project capital cost of C\$26.2m (including C\$2m in contingencies) following additional detailed design and cost estimation work.

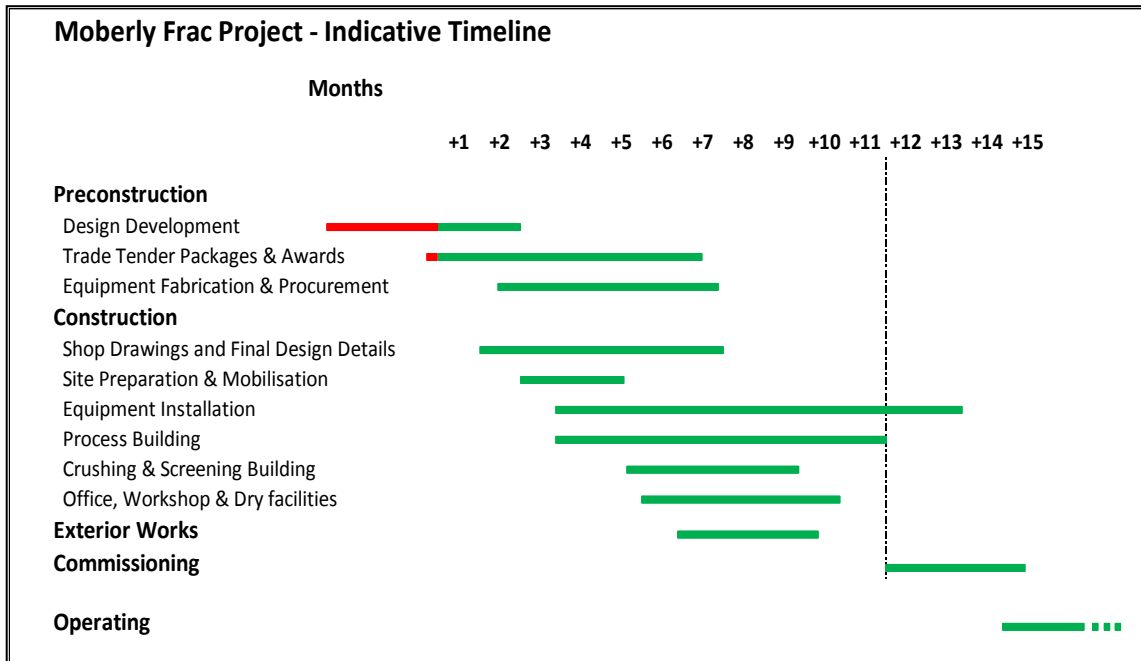


Figure 4: Summary of the indicative project timeline



Figure 5: Layout of proposed plant at existing Moberly Plant Site
(no land clearing required)



Environment and Permitting

All critical path predevelopment permits continue to remain valid. The confirmation of an increased “in-pit volume” permit to 400,000 tpa from 150,000 tpa occurred as planned.

Barite

The Company continues to pursue opportunities to secure direct ownership or diverse sources of barite production. Discussions continue with several parties who have barite interests in North America.

The Company has a 100% optioned barite property in Nevada USA which the Company has held since 2005. During the quarter a consulting geologist prepared a report recommending a follow up programme including drilling designed to test the barite areas interpreted from 2006 mapping. The report followed up previous work in 2006 which noted a number of barite occurrences extending beyond the site of a small barite quarry mined in 1978.

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 September 2013 was C\$5.2m (A\$5.4m).

Corporate

Cash and cash equivalents

- Cash and cash equivalents \$8.5m

Other financial assets

- At the end of the quarter the Company held \$6.35m in equity investments including 5.56m shares in Almonty Industries (TSXV:All) at C\$0.93

Interest bearing loans and borrowings

- Bank overdraft \$2.3m



- 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 2013 and no later than 30 March 2015
- Obligations under finance leases \$22,000. A capital loan facility of \$0.48m was repaid during the quarter.