



Asset sale announced post quarter

KEY POINTS

- ▶ Corporate cash, cash equivalents and other financial assets total \$13.3m
- ▶ Quarterly product sales and revenue strong
- ▶ Major asset sale transaction announced post quarter

SUMMARY

Group Safety

- There were no safety incidents during the quarter

Production

- Quarterly Canadian industrial minerals production of 27,314 tonnes, up 51% on the previous corresponding period (pcp) and up 11% on the September quarter in line with normal seasonal variations and growing demand

Revenue

- Revenue for Canada at C\$8.9m up 71% on the pcp and up 12% on the September quarter in line with the seasonal changes and increasing customer demand

Margins

- Heemskirk Canada margins were the same as the pcp and down 36% on the September quarter

Corporate

- Cash and cash equivalents \$7.3m
- Equity investments \$6.0m
- \$0.3m bank overdraft
- Unsecured Convertible Notes: \$2.74m is payable in cash no earlier than 30 June 2014 and no later than 30 March 2015

Major Transaction – Post Quarter

- On 21 January 2014 the Company announced the CAD12m sale of the Lethbridge operation
- The sale is subject to a number of conditions including shareholder approval

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Peter Bird
Managing Director



Company Safety

There were no safety incidents during the quarter. The Company LTI frequency rate is currently 19 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. This asset has now been targeted for sale with a transaction announced.

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

	Dec Qtr 2013	Sep Qtr 2013	YTD 2014	YTD 2013
Canadian Industrial Minerals Production (tonnes)	27,314	24,580	27,314	18,104
Canadian Industrial Minerals Revenue (C\$m)	8.88	7.90	8.88	5.20
Canadian Industrial Minerals Revenue per tonne sold (C\$/t)	320	311	320	298
Cost of Sales (C\$m)	8.10	6.76	8.10	4.71
Cost of Sales per tonne of Industrial Minerals sold (C\$/t)	292	266	292	270
Margin (%)	9%	14%	9%	9%

**Heemskirk has a September Year End*



Production

Production in the September quarter was 27,314 tonnes, which was 11% higher than the previous quarter and 52% up on pcp.

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

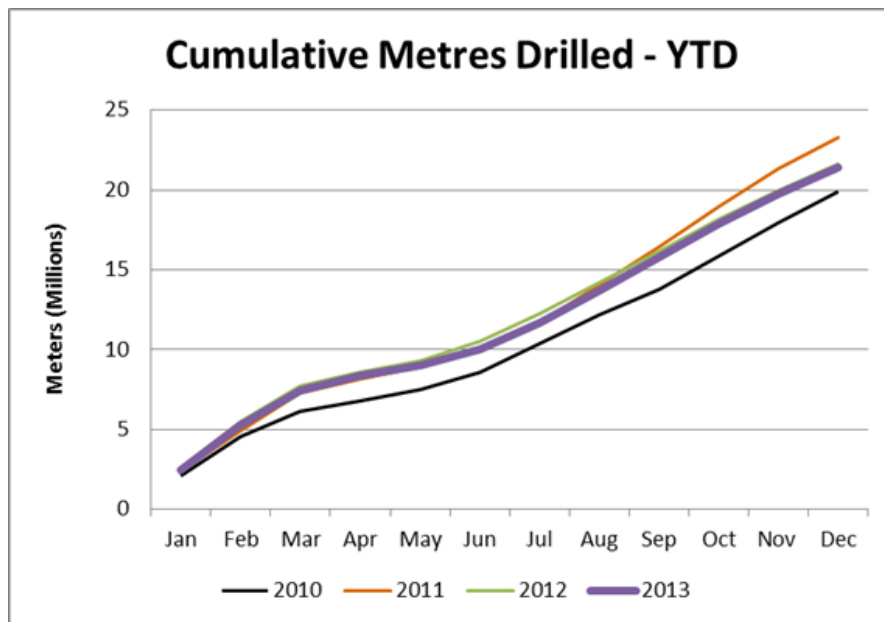


Figure 1: Cumulative Metres Drilled – YTD

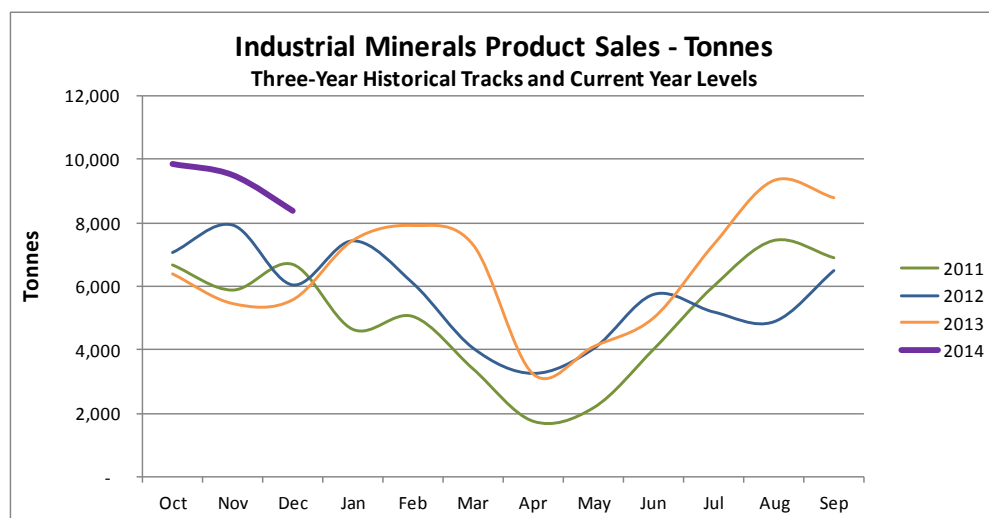


Figure 2: Industrial Mineral Product Sales – Tonnes



Revenue

Revenue for Canada at C\$8.9m was up 12% on the September quarter and up 71% on the pcq reflecting the growing end customer demand for our products.

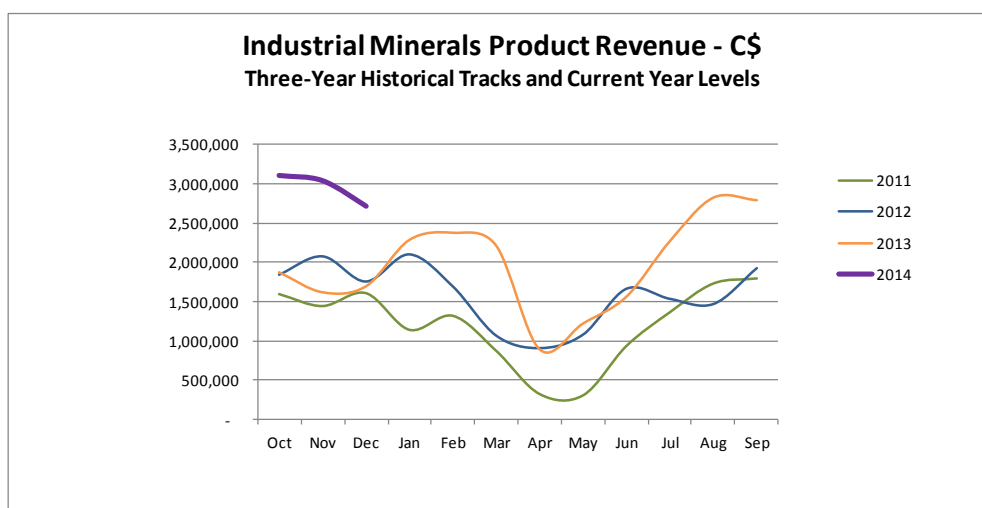


Figure 3: Industrial Minerals Revenue C\$

Margin

The margins of industrial minerals sold were the same as the pcq and down 36% on the September quarter.

Exploration

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

Development Projects

No activities relating to development were undertaken during the quarter.

Moberly Frac sand

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.



In order to progress this project, the Company announced on 21 January 2014 that it had signed an agreement to sell its operating Lethbridge minerals product plant. Moberly has a large volume resource of high quality frac sand (JORC 32.4 million tonnes as announced in Reserves & Resources update of 1 November 2013.)

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 31 December 2013 was C\$5.1m (A\$5.3m).

Corporate

Cash and cash equivalents

- Cash and cash equivalents \$7.3m

Other financial assets

- At the end of the quarter the Company held \$5.96m in equity investments including 5.56m shares in Almonty Industries (TSXV:All) at C\$0.91

Interest bearing loans and borrowings

- Bank overdraft \$0.3m
- 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 30 June 2014 and no later than 30 March 2015



Lethbridge Asset Sale – Post Quarter

The following is the announcement made to the Australian Securities Exchange on 21 January 2014 regarding the sale of its operating Lethbridge minerals products plant in Alberta, Canada.

Australia's Heemskirk Consolidated Limited (ASX:HSK) (the "Company" or "Heemskirk") has entered into a Binding Sale Agreement ("BSA") with Marquis Alliance Energy Group Inc. ("Marquis Alliance") to sell its operating Lethbridge mineral products plant in Alberta, Canada, and an optioned barite exploration interest in Nevada in the United States, for CAD12 million^{*}.

The sale is in line with Heemskirk's strategy to focus on the development and commissioning of its promising CAD26 million Moberly sand facility in the neighbouring province of British Columbia.

Lethbridge is an oilfields energy products minerals processing facility which takes delivery of barite, gypsum and zeolite ores and beneficiates these with a crushing, grinding, classification and packaging process for on-selling to customers. Barite is an essential ingredient in the drilling mud used in oil and gas exploration in the Western Canadian Sedimentary Basin.

Consideration for the Lethbridge sale consists of an initial payment of CAD8.44 million cash, plus CAD3.56 million for the plant's current inventory of primarily bulked and bagged barite, gypsum and zeolite. Should Heemskirk accept and close a superior competing offer from a third party, a break fee of CAD0.5 million is payable to Marquis Alliance provided that prior to accepting a superior offer Marquis Alliance has the right to match any such offer.

The Lethbridge business was acquired by Heemskirk in 2005 with the Company since growing it threefold through servicing Canada's buoyant oil and gas exploration and production sector.

Pursuant to the BSA, Marquis Alliance has provided a CAD250,000 refundable advance deposit to Heemskirk.

^{*} Value determined at the Effective Date



Completion of the transaction will be subject to the satisfaction of a number of conditions, including, but not limited to:

1. Marquis Alliance being satisfied with the results of their respective Lethbridge due diligence investigations;
2. Final Heemskirk Board approvals;
3. The receipt of approval from Heemskirk's shareholders; and
4. The receipt of all regulatory approvals including the approval of the Australian Securities Exchange (ASX).

During the intervening period, the operations at the Lethbridge facility will continue as normal under Heemskirk management.

Heemskirk Managing Director, Mr Peter Bird said:

"Heemskirk is at a key juncture with regard to developing its opportunities. We believe this transaction best generates solid shareholder value by further strengthening our cash reserves and allows us to focus on the development of the Moberly Frac Sand Project in British Columbia at a time when that nation's energy sector is at the early stages of development of a forecast and sustainable expansion of its onshore oil and gas exploration and production profile."

Completion of this transaction will:

- Confirm the inherent value of the Company's assets - this transaction is being completed at an historic EBITDA multiple of approximately 4 times.
- Place Heemskirk in a stronger position to develop the permitted and engineered Moberly Project. The Project has a net present value of CAD65 million with an estimated development cost of CAD26 million.

Excluding this proposed transaction, Heemskirk has cash and equity investments of AUD13 million.

Moberly Asset Summary

Moberly is located 300 kilometres west of Calgary and is 100% owned by Heemskirk. It comprises a current open-pit mine and silica product production operation. The facility currently produces product for the oil and gas, coatings, recreational and landscaping industries.



However, it also includes a significant permitted but undeveloped long-life frac sand resource for potential sale into Canada's high demand petroleum sector and it is this project which the Company is now focusing on to develop as its flagship operation.

Heemskirk has completed between 90-95% of detailed plant design and engineering for its proposed new CAD26 million frac sand development. (The capital estimate includes an allowance of CAD2 million for contingencies.) Feedstock for this will be from the existing permitted open pit.

The Company is currently evaluating financing options to commission the project as an initial 300,000 tonne per annum steady state production facility.

The project has a short payback period and a construction time of approximately 12 months from the development decision.

Mr Bird said, "Moberly is in an enviable position to emerge as a key quality supplier into the major phase of development now taking place in Western Canada's oil and gas industry including its first LNG project, Kitimat, on British Columbia's western seaboard.

By way of example, Kitimat, a Chevron:Apache 50:50 project with a 20 year production licence, has feeder pipeline networks extending east into areas to the north of Moberly."

Next Steps

Lethbridge is regarded as a significant asset of the Company and hence shareholders are required to vote on this transaction.

A shareholder meeting will be convened at the earliest possible opportunity and detailed information, including an independent report, will be sent to shareholders with the Notice of Meeting.