

# HEEMSKIRK

## Half Year Report



For the Half Year ending 31 March 2010

### EBITDA up – new developments underway

#### KEY POINTS

- ▶ EBITDA increased 13% compared with the previous corresponding period (pcp) to A\$4.1 million.
- ▶ The Company had a net loss of \$0.204 million for the half year versus \$0.022 million net profit for the pcp.
- ▶ Net Assets were \$62.47 million, compared with \$49.26 million at 30 September 2009. Total Assets increased to \$111 million up approximately A\$10 million.
- ▶ Earnings per share were (0.18) cents versus 0.03 cents in the pcp.
- ▶ New developments occurring at all Group operations

#### OVERVIEW

##### Principal Activities and Review of Operation

The Company's principal focus was the continued implementation of the business plan, which is described as follows.

The Company is an Australian listed global mining house with the primary objectives of generating cash flow, profits, dividends and capital growth. Through our main integrated business units, Heemskirk will seed and fund new ventures to gain exposure to key mining regions and provinces around the world (Seed Capital). The Company will hold equity stakes in developing and expanding companies (Resource Equities). The Company will also seek to finance the development and expansion of new and evolving mining operations for some form of equity share (Mining Corporate Finance). Direct participation in the mining industry will be via partial or full ownership of mining assets worldwide (Strategic Assets).

##### Corporate Activities

From a corporate perspective, the Company continues to evaluate and seek key equity stakes in companies that offer potential growth opportunities or strategic alliances. More focus, at this time however, is on direct strategic assets to allow the Company to build off a strong production platform that can, in time, result in increased cash flow and growth.

The Company had a net loss of \$0.204 million for the half year ended 31 March 2010. This compares with a net profit of \$0.022 million for the pcp to 31 March 2009. Net Assets increased to \$62.47 million compared with \$49.26 million at 30 September 2009.

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Kevin Robinson  
Managing Director



Heemskirk produces gold and silver in Australia, industrial minerals mainly for the oil and gas industry in Canada and tungsten in Spain. Gross profit from the operations was down slightly reflecting increased costs at Pajingo and a slower ramp up in sales for Canada early in the first quarter.

The Los Santos tungsten operation remains a strong focus for the Group. The first half of the financial year has seen expected lower production while the plant modifications have been undertaken. It is anticipated that production will increase significantly in the second half of the financial year when commissioning of the plant is completed and full production is achieved. The ammonium paratungstate (APT) price has risen significantly (30%) during the period of the plant modification and demand remains strong. The decline in the US\$/€ rate by around 20% over the same period also impacts positively on the project. This operation is strategically well placed to benefit from the recovery in the global economy, particularly given that very few new tungsten operations are likely to come into production over the next two or three years. The strategic value has been recognised by a number of industry participants. EY Transaction and Advisory Services have been retained to undertake a corporate process to assess expressions of interest and proposals being received. This will be ongoing in the second half of the year.

Pajingo (40% equity) recorded consistent gold production (year on year) and enjoyed continuing strong gold prices. Operating cash costs were slightly affected by the wet season and the poor availability of mining equipment. Stronger results are expected in the second half of the financial year driven by higher grades and improved equipment availability.

Joint Venture approval has been given for the development of a new pit which is located within 1km from the processing plant. This pit is the first in a series of pits that will be sequentially mined to provide approximately 10,000 ounces of additional annual production.

Exploration is ongoing with a focus on both near term production and longer term resource definition. Several new areas are being actively assessed within close distance of the current mine infrastructure. The strategy is to increase both mine life and expand production through exploration and acquisition. The Twin Hills acquisition has added significantly to the Pajingo resource base.

The result from the Heemskirk Canada industrial minerals business reflects a return to a more stable

oil and gas operating environment after the global financial crisis with more normalised prices and lower volatility. Inventory destocking has finished and is no longer an impact on the markets. Product sales have increased over 30% in the March quarter versus the December quarter.

The Heemskirk Canada business is seasonal with the strongest sales in the winter oil drilling period. A key focus moving forward is to reduce the effects of this seasonality upon the business through a range of new business initiatives designed to broaden the product base. An example is the development of a silica flour product for use in the oil sands industry. This has now progressed to the commercial phase with offtake agreements being signed and sales well underway. Several other developments are advancing positively. These initiatives have the potential to expand the product range from our existing businesses and they are less affected by seasonal factors.

The Investment Division is a key component of the Mining House business plan. Gains in equity investments held had a positive impact on the financial results.

### **Dividends**

The Directors do not recommend the payment of an interim dividend. A final dividend was not paid during the financial year ended 30 September 2009.

### **Earnings per Share**

Basic earnings per share were -0.18 cents for the half-year, compared with 0.03 cents in the previous corresponding half-year period.

### **Convertible Notes**

Conversion Notices from the second conversion period ending 8 March 2010 were received from Heemskirk Consolidated Limited Convertible Noteholders.

Holders of a total of 1,076,100 Notes (being 10% of the Notes outstanding) elected to convert. They received 1.007 ordinary shares in the Company and \$1.75 cash for every Note converted.

### **Likely Developments**

Management intends to continue implementing and building upon the Company's business plan and ongoing initiatives.



### Managing Director's Comments

In relation to this result the Managing Director, Mr Kevin Robinson, made the following comments:

*"The financial results reflected the changes that have been implemented over the past 12 months at the Group's operations. EBITDA was up as are the net assets. Both Heemskirk Canada and Pajingo achieved solid performances whilst capital improvement programs at the Los Santos operation will not show through until full production of tungsten is achieved in the second half of this financial year.*

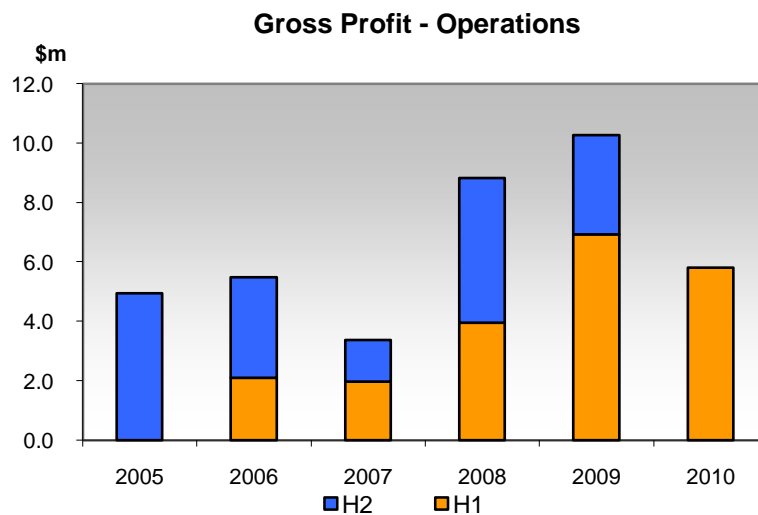
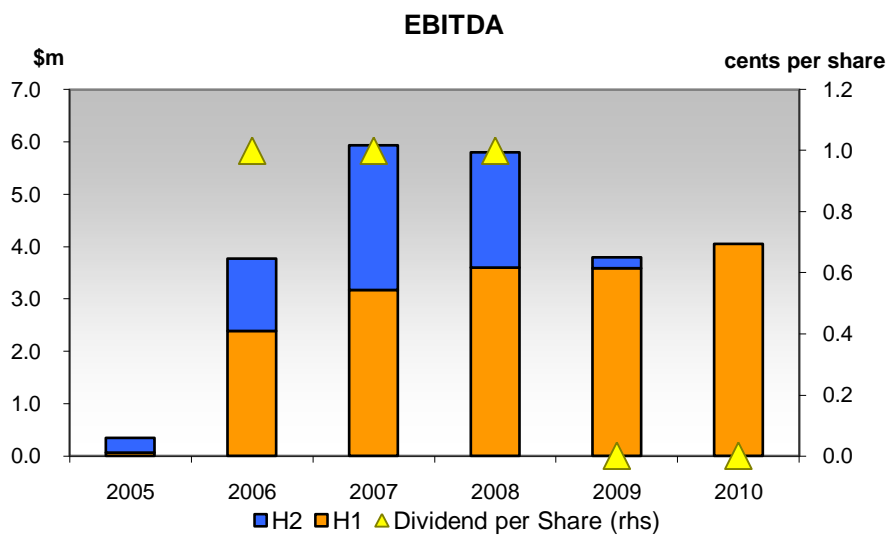
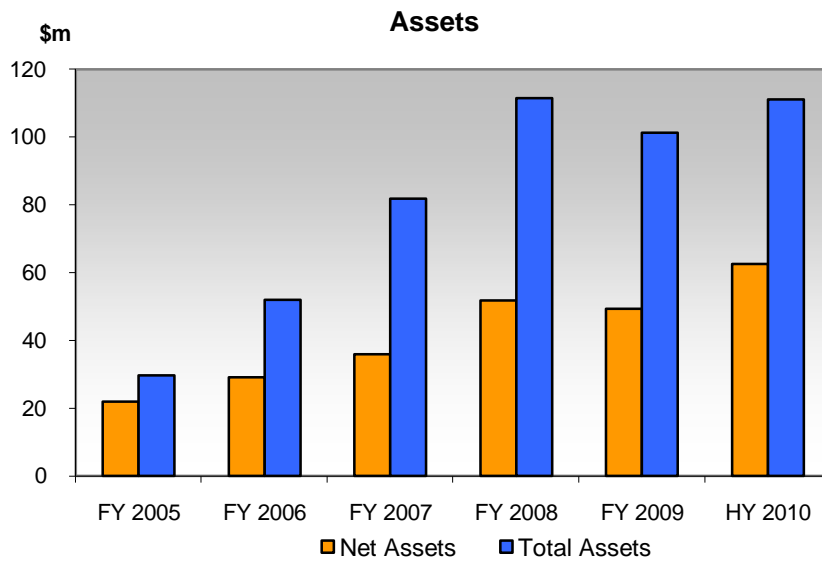
*Sales in the Canadian industrial minerals business were strong with much more activity in the North American oil and gas sector. Growing demand across a spectrum of products has enabled the Company to advance a number of new projects. These have the potential to broaden the product base and increase returns.*

*The Pajingo operation benefitted from strong gold prices and improvements in mining operations. Increased exploration will be undertaken over the next 12 months to continue to grow the resource base.*

*Major changes to the Los Santos tungsten operation to improve operational performance and productivity of the plant are largely complete and commissioning is underway. These changes should significantly increase production in the second half of the year. Timing has been fortunate as the tungsten price has increased around 30% over the half and the US/€ rate has moved 20% lower making for a positive impact on the project.*

*The second half should be positively impacted from achieving full production at Los Santos, stronger commodity prices particularly in local currencies for example, gold and increased product development in Canada.*

*The first half of 2010 was focused solely on operational performance improvements. We have seen good progress at all operations."*



Unreviewed data

### CONSOLIDATED INCOME STATEMENT FOR HALF YEAR ENDED 31 MARCH 2010

	<b>31 March 2010</b>	<b>31 March 2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Revenue	22,120	28,702
Cost of sales	(16,300)	(21,762)
<b>Gross profit</b>	<b>5,820</b>	<b>6,940</b>
Proceeds on equity investments	2,685	4,828
Cost of equity investments	(2,178)	(4,542)
Unrealised gains on equity investments	177	-
Impairment of equity investments	-	(959)
Net gains/(losses) on equity investments	684	(673)
Other income/(expense)	72	(1,057)
<b>Total other income/(expense)</b>	<b>755</b>	<b>(1,730)</b>
Depreciation and amortisation expense	(3,182)	(1,508)
Employee benefits expense	(1,237)	(1,384)
Corporate costs	(722)	(749)
Consultants and advisory expense	(565)	(455)
Finance costs	(1,125)	(1,168)
<b>Profit / (loss) before income tax</b>	<b>(255)</b>	<b>(54)</b>
Income tax benefit	51	76
<b>Profit / (loss) after income tax</b>	<b>(204)</b>	<b>22</b>
<b>Normalised profit:</b>		
<b>Profit / (loss) after income tax</b>	<b>(204)</b>	<b>22</b>
Impairment losses (after tax)	-	(671)
<b>Profit / (loss) after tax before impairment losses ("Normalised profit/(loss)")</b>	<b>(204)</b>	<b>693</b>
<b>Earnings per share (EPS)</b>		
Basic earnings per share	-0.18	0.03
Diluted earning per share	-0.18	0.03
<b>Earnings per share on Normalised profit</b>		
Basic earnings per share	-0.18	0.91
Diluted earning per share	-0.18	0.91

### CONSOLIDATED BALANCE SHEET FOR HALF YEAR ENDED 31 MARCH 2010

	31 March 2010 \$'000	30 September 2009 \$'000
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	5,464	5,475
Trade and other receivables	6,958	5,032
Inventories	5,083	7,316
Equity investments	3,226	1,097
Financial derivative assets	-	32
Other financial assets	53	-
Other current assets	559	965
<b>Total Current Assets</b>	<b>21,343</b>	<b>19,917</b>
<b>Non-current Assets</b>		
Other financial assets	-	49
Property, plant and equipment	26,945	27,299
Mine development	52,513	46,619
Deferred tax assets	10,301	7,350
<b>Total Non-Current Assets</b>	<b>89,759</b>	<b>81,317</b>
<b>TOTAL ASSETS</b>	<b>111,102</b>	<b>101,234</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Trade and other payables	6,344	7,357
Interest bearing loans and borrowings	21,045	24,997
Provisions	660	572
Income tax payable	14	15
Financial derivative liability	-	1
Other financial liabilities	879	1,842
<b>Total Current Liabilities</b>	<b>28,942</b>	<b>34,784</b>
<b>Non-current Liabilities</b>		
Deferred tax liabilities	5,003	1,897
Interest bearing loans and borrowings	11,639	12,617
Provisions	3,050	2,673
<b>Total Non-current Liabilities</b>	<b>19,692</b>	<b>17,187</b>
<b>TOTAL LIABILITIES</b>	<b>48,634</b>	<b>51,971</b>
<b>NET ASSETS</b>	<b>62,468</b>	<b>49,263</b>
<b>EQUITY</b>		
Contributed equity	77,006	59,702
Reserves	(3,526)	446
Retained earnings/(losses)	(11,012)	(10,885)
<b>TOTAL EQUITY</b>	<b>62,468</b>	<b>49,263</b>



### CONSOLIDATED CASH FLOW STATEMENT FOR HALF YEAR ENDED 31 MARCH 2010

	31 March 2010 \$'000	31 Mar 2009 \$'000
<b>Cashflows from operating activities</b>		
Receipts from customers	19,710	31,136
Payments to suppliers and employees	(18,226)	(24,609)
Interest received	102	88
Income taxes received / (paid)	-	(176)
Finance costs paid	(1,398)	(1,678)
<b>Net cash flows from/(used in) operating activities</b>	<b>188</b>	<b>4,761</b>
<b>Cash flows from investing activities</b>		
Payment of deferred consideration for Spain Mining asset	(845)	(3,154)
Deposits for bank guarantees	-	(120)
Proceeds from equity investments	3,273	4,828
Purchase of equity investments	(4,035)	(1,384)
Proceeds from property, plant and equipment	36	-
Purchase of property, plant and equipment	(2,400)	(764)
Mine development	(8,236)	(3,789)
Dividends received	-	13
Proceeds from sale of Put Options	-	51
Purchase of Put Options	-	(535)
<b>Net cash flows from/(used in) investing activities</b>	<b>(12,207)</b>	<b>(4,854)</b>
<b>Cash flows from financing activities</b>		
Proceeds from issue of share capital	15,935	-
Proceeds from borrowings	323	1,469
Convertible notes conversion	(3,027)	-
Repayment of borrowings	(1,254)	(1,175)
Buy back of shares	-	(644)
Dividends paid	-	(782)
<b>Net cash flows from/(used in) financing activities</b>	<b>11,977</b>	<b>(1,132)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(42)</b>	<b>(1,225)</b>
<b>Cash and cash equivalents at beginning of the period</b>	<b>5,475</b>	<b>3,030</b>
Net foreign exchange differences	32	294
<b>Cash and cash equivalents at end of the period</b>	<b>5,464</b>	<b>2,099</b>

**Directors**  
Bruce Kay  
(Non-Executive Chairman)

Ross Herron  
(Non-Executive Director)

Lex Hansen  
(Non-Executive Director)

Kevin Robinson  
(Managing Director)

Peter Bird  
(Executive Director  
Corporate & Markets)