



Frac Sand Project progresses to Detailed Engineering Phase

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KEY POINTS

- ▶ Feasibility study into the Frac Sand Project completed supporting a commercially viable and long life operation at Moberly. Project now moves to next phase
- ▶ Industrial mineral production and sales up on the previous quarter as drilling activity in Western Canada remains strong
- ▶ Cash and investments just over A\$25m

SUMMARY

Group Safety

- No lost time injuries (LTIs) or medically treated injuries (MTIs) recorded during the quarter

Production

- Canadian industrial minerals production for the quarter 20,135t up 5.4% on the previous quarter

Sales Revenue

- Revenue for Canada for the December quarter C\$5.7m, up C\$0.8m on the September quarter

Operating Costs

- Heemskirk Canada operating costs for the December quarter C\$3.6m up C\$0.6m on the September quarter

Development Projects

- Feasibility Study into the Frac Sand Project completed with Board approval to move to Detailed Engineering Phase
- Contractor to be appointed shortly for detailed design and engineering
- Discussions initiated with various finance providers
- Lethbridge plant improvements underway

Corporate

- New Managing Director appointed
- Significant reduction in corporate overheads
- Cash \$17.3m
- Investments \$7.9m
- Interest payment made on unlisted, unsecured Converting Notes
- \$3.5m bank debt relating to inventory purchase at Lethbridge and Unsecured Converting Note debt of \$3.75m of which \$2.75m is payable in cash no earlier than 31 December 2012 and no later than 30 March 2015.



Group Safety

There were no LTIs or MTIs recorded during the period. Both the LTI and MTI frequency rates have reduced to zero.

Operations

Canadian Industrial Minerals (100% owned)

Project Performance Summary

Table 1: Project Key Operating Statistics

	Dec Qtr 2011	Sep Qtr 2011	YTD 2012	YTD 2011
Canadian Industrial Minerals Production (tonnes)	20,135	19,109	20,135	17,885
Canadian Industrial Minerals Gross Revenue (C\$m)	5.7	4.9	5.7	4.7
Canadian Industrial Minerals Gross Revenue per tonne sold (C\$/tonne)	268	241	268	242
Cash Costs of Production (C\$m)	3.6	3.0	3.6	3.5
Cash Costs per tonne of Industrial Minerals sold (C\$m)	174	151	174	184

Production

Industrial mineral production for the December quarter was 20,135t which was up 5.4% on the previous quarter. Production for the year to date was up 12.6% on 2011 at 20,135t.

Increased drilling activity and deeper wells at higher pressures contributed to an increase in demand for barite over the quarter.

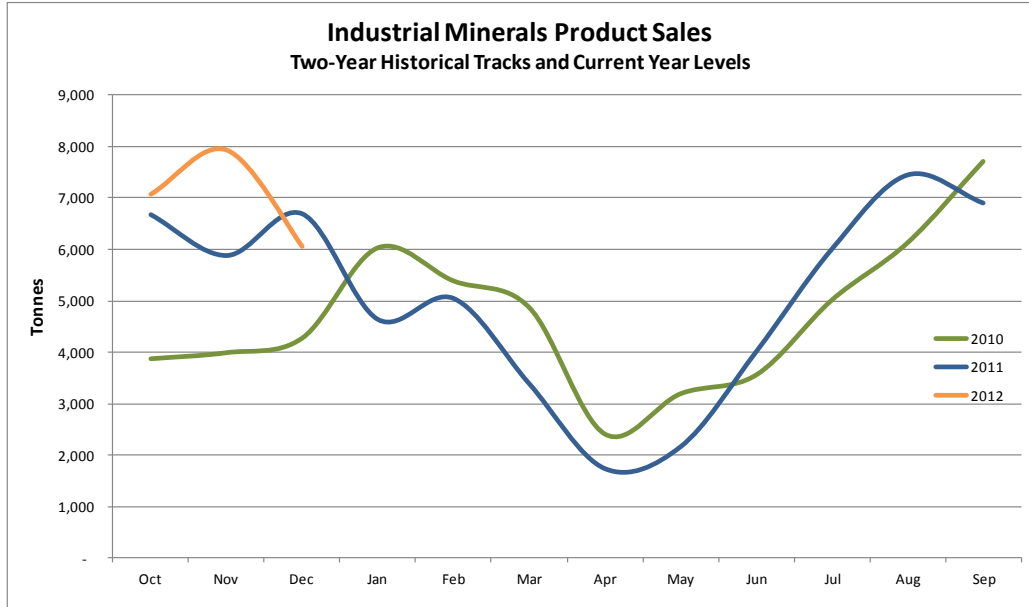
Also the productivity improvements initiated at Lethbridge during the quarter (Lethbridge Acceleration Project) are now being reflected in increased output. Work in this regard will be ongoing.

The high active rig count in Western Canada has been maintained through to the end of the quarter indicating strong demand for barite should continue through early 2012. A seasonal weakening of demand is anticipated late next quarter as we enter the "Spring Break Up" period.



Sales Revenue

Table 2: Industrial Mineral Product Sales

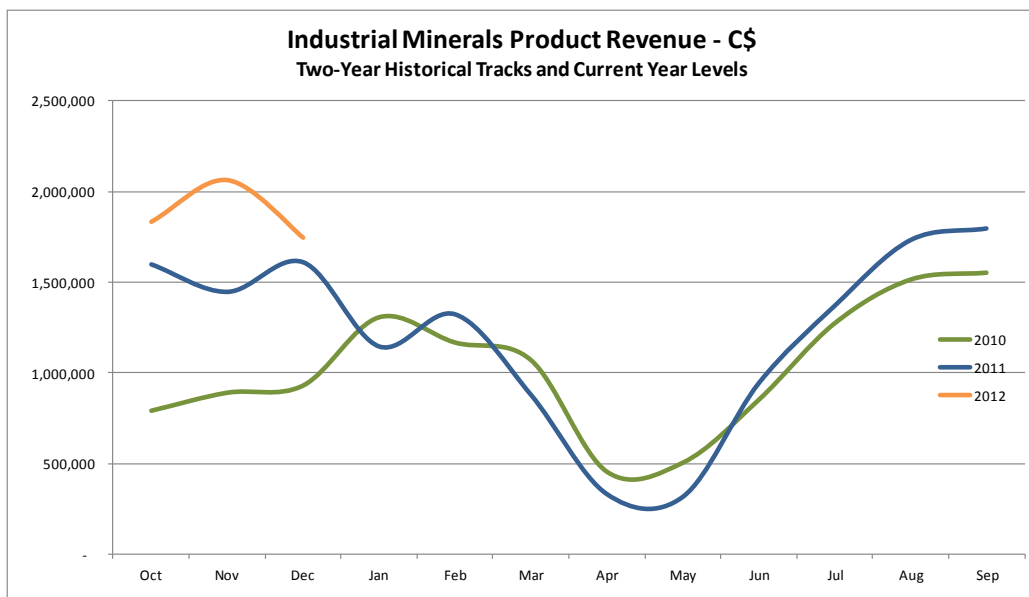


Sales revenue for Canada for the December quarter C\$5.7m, up C\$0.8m on the previous quarter.

The improvement in sales revenue reflected both higher production and slightly higher product prices.

Global demand for barite remains strong in response to an increase in drilling activity worldwide as prices in China and India, the two largest producers, continue to track higher.

Table 3: Industrial Minerals Product Revenue C\$





Operating Costs

December quarter operating costs were up C\$0.6m on the September quarter. Operating costs year to date were down C\$0.1 on the previous year.

Recent cost increases in barite and gypsum reflect both higher production as well as increasing raw material and rail freight costs which have increased in response to stronger demand in the region. Robotic equipment installed last quarter at Lethbridge has performed well ameliorating some of the cost increases.

Exploration

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

Development Projects

Moberly Frac sand

During the quarter the Feasibility Study into the Frac Sand project was finalised. Key results from the study as previously announced on 14 November 2011 are:

- The Capital Cost Estimate of the Project is C\$20m.
- The Project is designed to produce around 300,000 tonnes of saleable frac sand per annum at full production (year 3 onwards).
- The Project as designed generates cash flow (undiscounted) after tax and capital of C\$183m over the Project life at current frac sand prices.
- The Project achieves an Internal Rate of Return of 42%.
- The Payback Period from start of production is approximately 2.7 years.
- Time to completion is estimated to be 12 months from a development decision.

The Board gave approval to move to the Detailed Engineering Stage and to review potential marketing arrangements and funding options for the Project. This is targeted for completion late in the first quarter of 2012.

The Detailed Design and Engineering Contract is currently being negotiated and will be awarded shortly to a preferred contractor. Work will include detailed costing and engineering for construction prior to a development decision being made.

Discussions with various parties with respect to financing arrangements for the project were initiated and will continue into the next quarter.

Marketing efforts towards potential frac sand agreements are proceeding well. Following the provision of samples and performance data of our frac sand, Expressions of Interest have been received from energy service companies specifying volume offtake. We expect to further advance our arrangements with potential customers over the next quarter in support of project financing discussions. Product offering of 20/40, 40/70 and 100 mesh grades are able to be provided.



Lethbridge Acceleration Project (LAP)

The LAP project was initiated in October to review and address the key findings of an independent assessment of the productivity and efficiency of the Lethbridge facility.

Dryer parts have been ordered to allow for the dryer improvements to be made in the spring breakup period. Components for electrical monitoring and controls equipment have been ordered for installation next quarter and quotes for a pneumatic bulk loading system are under review.

Corporate

Cash:

- Cash on deposit is \$17.3m

Debt:

- \$3.75m unlisted unsecured converting notes of which \$2.75m is payable in cash no earlier than 31 December 2012 and no later than 30 March 2015
- Bank debt of \$3.5m

Converting Notes

- A scheduled interest payment was made on 31 December 2011 on the 1,889,000 unlisted unsecured converting notes.

Investments

At the end of the quarter the Company held \$6.4m in equity investments including 5.56m shares in Almonty Industries at \$1 per share.

Management

On 1 December 2011, Mr Kevin Robinson concluded his role as Managing Director of the Heemskirk Group. He will continue his employment with the Company until the end of May 2012.

The Board appointed Mr Peter Bird as Managing Director. Mr Bird, a Founding Director, previously held the position of Executive General Manager – Corporate.

Annual General Meeting

The Company's Annual General Meeting will be held on Thursday 23 February 2012 at 11.00am (AEDT) at the RACV Club, Level 2, 501 Bourke Street, Melbourne Victoria.