

HEEMSKIRK

Quarterly Report

For the period ending
31 December 2009 (unaudited)

Increased
production
and stronger
commodity
markets

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Kevin Robinson
Managing Director



KEY POINTS

- ▶ Production at Los Santos increased quarter on quarter. Process modifications on schedule for start of Q2 2010 commissioning.
- ▶ Exploration at Los Santos successfully defined new mineralisation adjacent to the current Los Santos Sur pit.
- ▶ Demand for industrial minerals in Canada up sharply quarter on quarter reflecting strong seasonal demand. Sales more than doubled.
- ▶ Oil and gas drilling activity in western Canada up strongly over last six weeks
- ▶ Consistent gold production at Pajingo (40% equity) quarter on quarter.

Summary Comment

In relation to the quarter to December 2009, the Managing Director, Mr Kevin Robinson made the following observations.

“The first quarter for the 2010 financial year has gone very well with increases in production at both the Canadian and Spanish operations. The dramatic increase in oil and gas drilling activity in North America has taken everyone by surprise and is continuing into January. Our operation is at full capacity.”

The “65/65 modification program” at Los Santos is on schedule and budget. Changes are being implemented progressively and the benefits are already starting to show through from the work completed to date. Tungsten prices have strengthened in recent weeks due to shortages of material especially in China. With little significant new production scheduled over the next few years markets should continue to tighten.

The solid contribution from the gold operation has continued. Gold prices have improved over the quarter. The resource announced during the quarter for Twin Hills was very significant and provides a big addition to the Pajingo gold inventory.

There is a lot happening at all sites and we are seeing the benefits as demand for our products strengthens.”

Pajingo Gold Mine (40% Equity: ASX Listed North Queensland Metals holds the remaining 60% and are operator)

Operations

Gold production (100%) for the quarter was steady at 13,503 ounces at a cash cost of \$741 per ounce, compared with the previous quarter of 13,540 ounces at a cash cost of \$705 per ounce.

HSK's average gold price received for the quarter was \$1,216 per ounce (\$1,193 previous quarter) and produced a margin of \$475 per ounce (\$488 previous quarter).

Mine production grade increased significantly QOQ as the benefits of improved mine planning and stope development were realised. Cash costs were up slightly on the previous quarter and mine development was slightly higher.

Record development metres (1,217m vs 1,196m in previous quarter).

Planning was completed for drilling at the Anne, Janet A and Ralph Porter orebodies.

Whilst design work on the Jandam Deeps and Veracity orebodies is well advanced, much of the September and December quarters' production came from the Janet B area.

The main focus of capital development is on the two access drives to the Zed and Sonia orebodies.

Planning and evaluation studies continue on several open pit options in the Pajingo lease. The first pit at Janet is scheduled to commence in April 2010. If the continuing feasibility work proves successful, the future mine plan will likely include the mining of one open pit per year.

Table 1 : December Quarter Production Pajingo JV*

	Quarter ending 30 Sep 09	Quarter ending 31 Dec 09
Development (m)	1,196	1,217
Mine Production (t)	91,588	73,894
Mine Grade (g/t)	4.8	6.9
Mill Production (dry t)	89,813	72,396
Mill Grade (t)	4.9	6.1
Recovery (%)	95.7	95.9
Gold Produced (oz)	13,540	13,503
Cash Cost AUD/oz	705	741

*Heemskirk 40% equity

Exploration at Pajingo (40% equity: North Queensland Metals 60%)

Mineralisation at Pajingo is “epithermal” in style. The geological data obtained from drilling at Moonlight indicates that it may be an intact epithermal gold system similar, but parallel to the Vera-Nancy system currently being mined. Moonlight has similar characteristics to the Vera-Nancy mineralisation including a very large, low grade, gold halo and Pajingo-style veins.

The current drill program for Moonlight comprising at least 6 holes has taken longer

than expected and will continue well into the next quarter. These are deep holes focussed on gaining a greater understanding of the mineralisation outlined to date, including the lateral extent and the orientation of the mineralisation. One of the holes is targeted into the Voyager prospect roughly halfway between the Sonia and Moonlight systems.

Daughter holes wedged off existing drill holes may be undertaken to further assess the geology and surrounding mineralisation.

Noted Results from KMRD 3556 at Moonlight are				
Hole ID	From	To	Interval	Au g/t
JMRD3556	348	352	4m	1.03
JMRD3556	364.6	414.9	50.3m	0.89
includes	377.6	381.4	3.8m	1.3
includes	387.6	401	13.4m	1.98
includes	393	395	2m	5.31
JMRD3556	438	439	1m	1.33
JMRD3556	447	448	1m	1.52
JMRD3556	493.7	494.1	0.4m	1.05
JMRD3556	524.5	526.8	2.3m	1.49

Drilling at Pajingo since April 2009 has amounted to 9722 metres comprising 4659 metres RC and 5063 metres diamond core. These figures include the drilling at Moonlight.

Moonlight holes has been undertaken including a number of holes that had not been previously sampled. Results to date have been consistent with previous holes, with gold mineralisation occurring over broad zones.

A program of re-logging and re-assaying previous

Table 2 : Schedule of Mineral Tenements - Australia			
Lease	Grant Date	Expiry Date	Holder*
EPM11152	18.08.1996	14.08.2011	HSK Gold Australia Pty Ltd (40%)
EPM 14186	Relinquished		HSK Gold Australia Pty Ltd (40%)
^EPM14187	04.03.2004	03.03.2009	HSK Gold Australia Pty Ltd (40%)
ML10215	03.10.1996	31.10.2016	HSK Gold Australia Pty Ltd (40%)
ML10246	01.05.2001	30.04.2021	HSK Gold Australia Pty Ltd (40%)
ML1575	30.04.1987	30.04.2021	HSK Gold Australia Pty Ltd (40%)

*Interests in these tenements were acquired on 30 December 2007

^Currently under application for renewal

Twin Hills Project Queensland (40% equity: North Queensland Metals 60%)

Recently released results on the resource definition program undertaken at Twin Hills highlighted a significant resource in the 309 deposit as announced 10 December 2009. The resource was well above initial expectations.

A resource is currently being calculated for the separate Lone Sister deposit and should be

completed early in the New Year. This will be in addition to the resource inventory of the 309 deposit.

The Joint Venture has approved additional infill and confirmatory drilling at Twin Hills 309 Deposit. This activity should further improve confidence in the resource, particularly areas currently classified as inferred resources. Drilling will commence shortly.

Los Santos Project (100% Equity)

Overview

During the quarter significant activity was undertaken at Los Santos with the commencement of "Project 65 x 65" – the process plant modification program, termination of the mining contract, ore production in excess of 150,000t coupled with an improved safety focus.

These actions, amongst others have provided a step change in the cost profile of the operation and provides a platform for operational and financial improvements in 2010.

Mining

Ore production for the quarter was up on the previous quarter as the focus of production shifted to establishing a sufficient stockpile of material for processing during the plant improvement program.

The mining contract was terminated at the end of November and a process to determine the optimum arrangement going forward commenced. It is expected that contract details will be announced during the March quarter.

Diamond drilling was concluded and an extensive reverse circulation (RC) grade control program commenced. This will be conducted in both of the Los Santos Sur and Las Cortinas pits.

Processing

At quarter end, approximately 100,000t of ore had been stockpiled. This will provide primary mill feed during the completion of Project 65 x 65. On schedule, the Project is designed to reconfigure the milling process and deliver 65tph throughput with a 65% recovery of tungsten to concentrate.

Process plant throughput was marginally above the previous quarter, which is a credit to the operating team with both the commencement of the modification program and extreme Northern Hemisphere weather in late December.

Whilst concentrate production was in line with the previous quarter, concentrate sales were significantly improved as stockpiled material was treated through the new flotation circuit.

Importantly, concentrate quality improved and the grade of concentrate was substantially higher than previously shipped material – all shipments were in excess of 70% WO₃ as a result of commissioning the new flotation circuit which provides for additional ore treatment and greater flexibility of ore types. Concentrate shipment and sales were recommenced with 95 tonnes shipped.

Continued safety training and an enhanced focus has delivered improved results.

Project 65 x 65 (Plant upgrade work)

Foundation works and concreting is underway with electrical design and layouts being finalised.

Whilst final commissioning is scheduled for April 2010, progressive implementation of the redesigned flowsheet is occurring. Flotation and Low Intensity Magnetic Separation (LIMS) circuits have been installed and commissioned. A ball mill was sourced and purchased, and will arrive on site in February. Some of the additional gravity separation tables have been delivered and installed (figure 1).

Los Santos Exploration Results

The successful diamond drilling program previously reported is now being complimented by an RC grade control program. A new zone of mineralisation adjacent to the current main pit design at Los Santos Sur has been discovered. Mineralisation remains open with several intersections significantly exceeding current mine planning grades.

Los Santos has a current JORC proved and probable reserve of 2.63 Mt of 0.3% WO₃ for 7,838 tonnes of WO₃ (see 2009 Annual Report, page 15 and 16 released to the ASX 15th January 2010). This equates to approximately 8-9 years life at current design levels and excludes current exploration initiatives.

Figure 1: - New Gravity Separation Table

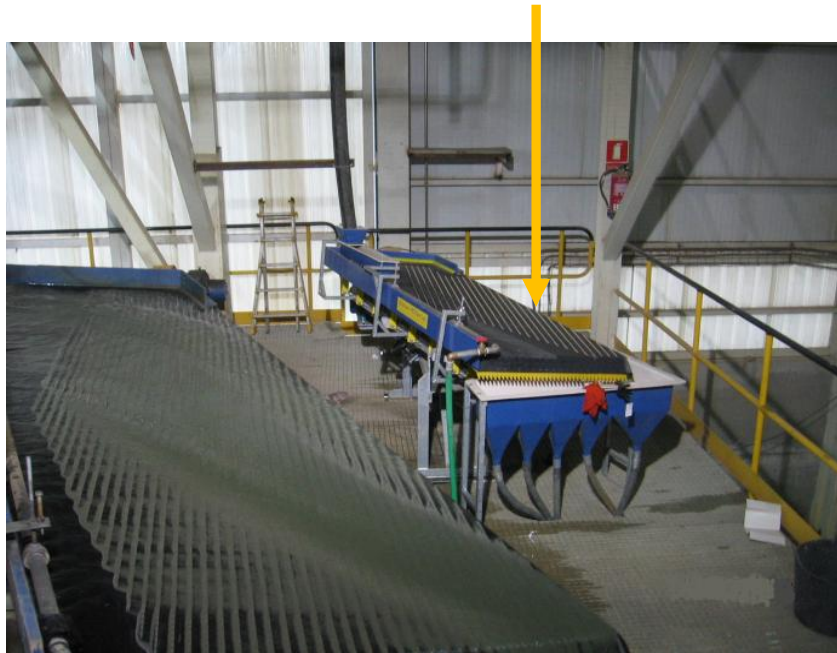


Figure 2: - Concrete base for additional Mill modifications completed.



Table 3 : Los Santos Production Statistics

	Dec Qtr 2008	Sep Qtr 2009	Dec Qtr 2009
Ore treated (tonnes)	69,228	58,665	62,497
Concentrate produced (tonnes)	114	77	98*

*Including reprocessed material from stocks.

Canadian Industrial Mineral Products (100% Equity)

Activity in the oil and gas patch in Western Canada has taken off in recent weeks. This has lead to a significant increase in demand for HCA products The active rig count has moved from 240 at the close of the previous report to 339 at the end of December 2009 and is 472

(up over 50%) at the time of writing.

Product sales have doubled quarter on quarter and revenue has shown a coincident positive increase. This trend appears to be continuing strongly into January 2010.

Table 4 : Operational Performance Summary Canada

	Dec Qtr 2008	Sep Qtr 2009	Dec Qtr 2009
Canada Industrial Mineral Production (Tonnes)	24,987	6,370	12,154
Canada Mineral Production Gross Revenue (C\$M)	5.7	1.2	2.6

Table 5 : Schedule of Mineral Tenements CANADA

Description	Tenement Number
Cache Creek	331422
Ralf#1	338588
Contact	213089
Sandy	213090
Pax	213099
Access 1	213195
Moberly Pit	344488
Solar	576995
Schedule of Mineral Tenements SPAIN	
Description	Tenement Number
Investigation Permit	6606
Investigation Permit	6607
Mining Concession	6133

Group Exploration Expenditure

Exploration was undertaken at each strategic asset. Increased activity at Pajingo and new activity at Los Santos were the major changes.

	December Qtr 2008	September Qtr 2009	December Qtr 2009
Group Capital Expenditure (A\$M)	1.8	1.9	3.7
Group Exploration Expenditure (A\$M)	0	0.3	0.8

Corporate

On 15 October 2009 the Company announced a share placement of 35.65 million new fully paid ordinary shares at \$0.47 per share to raise \$16.75 million. The placement was issued in two tranches, the first tranche was issued under the Company's 15% placement capacity on 20 October 2009. The second tranche comprising 19.15 million shares at \$0.47 per share was issued after successfully obtaining shareholder approval at a General Meeting on 1 December 2009.

In response to the corporate interest received in relation to the Los Santos mine, the Company has elected to appoint an independent party to manage the enquiries more formally so that Company management can remain focused on operating initiatives. The successful managing party will be appointed shortly.

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)

The information in this report that relates to the 'Pajingo's Moonlight Project' is based on information reviewed by Brentan Grant, who is a Member of the Australian Institute of Geoscientists. He is a full time employee of North Queensland Metals Limited. Brentan Grant has sufficient experience which is relevant to the style of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Brentan Grant consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.