

30 January 2015

Australian Securities Exchange
Level 5, 20 Bridge Street
SYDNEY NSW 2000

QUARTERLY REPORT - 1 OCTOBER TO 31 DECEMBER 2014

Stonewall Resources Limited (ASX: SWJ) “Stonewall” or the “Company” reports on its activities for the three month period ended 31 December 2014.

EXECUTIVE SUMMARY

Shandong Transaction

- The termination of the share sale agreement with Shandong Qixing Iron Tower Co., Limited was announced 21 November 2014
- Stonewall considers that Shandong action may have breached the sale agreement. Media reports and Shandong’s announcements on the Shenzhen Stock Exchange refer to possible funding issues and irregularities
- Stonewall has notified Shandong that it has reserved all its rights and is now considering all available options including taking legal action against Shandong and its officers
- Stonewall intends to vigorously pursue and enforce all its rights against Shandong and if appropriate its officers including potentially a claim for damages by arbitration

Operations

- Operational activity during the quarter focused on preparations for the commencement of the Pre Mined Residue (PMR) Project
- The extensive process of sampling and testing has shown the prevalence of material
- The PMR Project is ready to be commissioned in January 2015
- Methods for extracting material has been successfully tested and a stockpile of material has been built up from the Beta Mine
- The details of the PMR project are expanded on in later sections of this report and in the Pre-Mined residue Investor Presentation recently released to the market
- The PMR project has been identified as Stonewall’s initial revenue generative project offering a project that can be fast tracked for low capex with production at low all-in cash costs

MARKET DATA

ASX code:	SWJ
Current share price:	\$0.040
Total free floating shares:	522 million
South African shares:	80 million
Total shares:	602 million

DIRECTORS & SENIOR MANAGEMENT

David Murray, Chairman
Trevor Fourie, Director
Nathan Taylor, Director
Liu Yang, Director
James Liu, Director
Lloyd Birrell, CEO

MAJOR SHAREHOLDERS

Khan International Limited
Salamanca Ventures Limited
Buttonwood Nominees Pty Ltd
Murray SA Investment (Pty) Ltd
Hanhong New Energy Holdings Ltd

Exploration

- Exploration activities continued to focus on the underground reef residue material which has a significant upside potential to increase the Mineral Resources, Life of Mine (LoM) and to introduce scalable low cost effective mining potential
- Surveying and sampling in accordance with the instructions of the Competent Person has continued
- The implementation of the Competent Person's recommended Underground Backfill Sampling Protocol for the reef results (refer announcement dated 31 July 2013) in order to assess the possible conversion of the reef residue to a Mineral Resource has commenced
- There are no surface drilling updates for the quarter as the Company continues to survey the considerable reef residue exploration targets and surface resources and thus minimising surface drilling in the area

Corporate

- **Summary**

Over recent weeks during the recapitalisation process Stonewall has received significant interest from potential investors, joint venturers and acquirers, and the Company is continuing with a number of these potentially fruitful discussions. Although these confidential discussions are ongoing there is no guarantee of any transaction or transactions occurring. Shareholders will be informed if there are any material developments to report

- **Cash**

The Company is focused heavily on securing additional funding for ongoing operations with an available cash balance of \$0.20 million as at the end of December. In January 2015 the company announced a new capital injection of up to A\$13.5m with an initial investment of A\$1.5m (refer Funding section)

OPERATIONS

Background

The fourth quarter of 2014 was spent in preparation for the commencement of the PMR Project. The extraordinary resource that is the Pre-Mined Residue ("PMR") comprises the waste from blasting and reef picking from the historical stoping operations.

The PMR is effectively pre-developed, pre-drilled, pre-blasted and provides the opportunity for Stonewall to mine this PMR at a low all-in cash cost. The PMR also targets conceptual ounces ranging from 0.7M to 2.4Moz* (refer Table 1). The potential quantity and grade is conceptual in nature and there has been insufficient exploration to estimate a Mineral Resource. It is uncertain if further exploration will result in the estimation of a Mineral Resource. Stonewall is working with the Competent Person to convert the potential mineralisation to compliant mineral resources in accordance the definitions as stated by the Australian JORC Code for the reporting of mineral resources and reserves. Surveying and sampling in accordance with the instructions of the Competent Person will continue and the implementation of the Competent Person's recommended Underground Backfill Sampling Protocol for the reef results (refer announcement dated 31 July 2013) in order to assess the possible conversion of the reef residue to a Mineral Resource is to be completed. Stonewall's aim would be to convert the exploration target into Resource Category.

A significant sampling and testing exercise for both grade and fractional analysis has shown the prevalence of the material across the mining right areas. The following conceptual ounces are targeted as an addition to the current mineral resource:

Table 1 – Conceptual Exploration Target, Tonnage, Ounce and Grade Ranges for the Underground Reef Residue

Area	Historical Mined Area @ 93% (m ²)	Minimum Tonnage (tons)	Maximum Tonnage (tons)	Minimum assumed Grade (g/t)	Maximum assumed Grade (g/t)	Minimum Estimated Gold	Maximum Estimated Gold	Minimum Estimated Gold	Maximum Estimated Gold
	('000 000)	('000 000)	('000 000)			Kgs	Kgs	Moz	Moz
Northern division	187	255	517	1.28	2.13	3,250	10,992	0.10	0.35
Central division	452	615	1249	1.28	2.13	7,846	26,537	0.25	0.85
Southern division	654	889	1805	1.28	2.13	11,341	38,359	0.36	1.23
Total	12.9	17.6	35.7	1.3	2.1	22,436	75,888	0.7	2.4

Accordingly, all efforts have been made to ensure that the PMR project can be commissioned in January 2015; with production commencing in February. Stonewall is pleased to report that the PMR project is ready for commissioning in January 2015.

Opening of the Beta Southern Section

In anticipation of and in preparation for the commencement of mining the PMR, the following development took place.

- Opening up and support of Adit 3 which is designed to serve as the main haulage
- Equipping Adit 3 with power, 55 kW scraper winch, services, grizzly screen at exit and loading bay
- Opening up and support of Adit 2 which is designed to serve as access for personnel, material and equipment
- Opening up and support of two sub haulages E6 and E7
- Cleaning out and preparation of sub haulages and ASG's in target zone
- Installation of scraper winches in stopes and sub haulages
- Training of staff
- Extensive sampling and planning

Opening of Ponieskrans

In anticipation of and in preparation for commencement of mining the PMR from January 2015, the following took place.

- Opening up and support of multiple adits
- Barring, supporting and making safe
- Underground exploration
- Extensive sampling

Refurbishment of the plant

In anticipation of and in preparation for commencement of mining the PMR from March 2015, the following took place.

- Mill no. 1 was upgraded
 - New pinion and girth gear was installed
 - Gearbox serviced
 - Alignment redone
 - Bearings replaced
 - New liners installed
- All pumps and motors were serviced
- All tanks were cleaned and repaired
- The elution circuit was upgraded
 - New acid column was installed
 - New electro winning circuit was installed
 - Kiln fully serviced
- Gearboxes were serviced
- The double decker bond screen was installed
- The primary crushing circuit was serviced
- The DMS was serviced and installed
- The thickeners were serviced and recommissioned

CORPORATE

Cash Position

The Company's available cash balance as at the end of December 2014 was \$0.20 million (September 2014: \$2.109 million).

Funding

Stonewall is expected to entered into a new funding arrangement in January 2015, supported by two US-based institutional investment groups, to provide collective funding of up to AUD \$13.5 million with an initial drawdown of AUD \$1.5 million.

The planned arrangement will be in the form of unsecured convertible notes and future potential share issuances.

The expected key terms will be as follows:

- **Unsecured Convertible Notes:**
 - AUD \$1.5 million unsecured convertible securities (with a face value of AUD \$1.8 million) to be provided initially with a 12 month maturity.
 - Convertible at 85% of an average price calculation at the time of conversion.
 - Company has a floor protection mechanism that allows the Company to not issue the shares under a conversion price lower than a floor price specified by the Company.

- **Future Potential Share Issuances:**

- Further potential share issuances by the Company at its election to raise AUD \$300,000 (and up to AUD \$1,000,000 with mutual consent) per month for 12 months.
- Issued at 91% of an average price calculation at the time of issuance.
- The potential future share issuances under the new facilities are subject to market and other standard conditions.

The amounts funded under the agreement will bear no interest and will be unsecured.

- **Loan:**

- As part of this funding recapitalisation, an existing lender to Stonewall, Australian Private Capital Investment Group (International) Limited, has agreed to extend the term of its current unsecured A\$4.0 million loan by 12 months to October 2016 under the same terms.

The loan extension indicates ongoing support and interest in Stonewall and its various attractive gold projects by a major stakeholder and debt provider to the company. The Company has also received affirmation of the commitment of major stakeholders in the Company to both their individual share holdings and its various attractive gold projects.

FUTURE PROSPECTS

Stonewall will have the plant commissioned in January. The objective will be to prove the process flow, as designed, operates to the following specifications:

- Tons mined are wet screened and produce a -25mm fraction that ranges from 35% of the mass at 3g/t to 25% of the mass at 4g/t
- The -25mm fraction is milled at a rate of 8tph
- The CIL plant operates at a recovery of 80%

Once commissioning is complete in January, mining will commence in February, with a targeted production of 10,000 tons mined. The ramp up of tonnage to 20,000tpm in March requires the opening of Ponieskrans, which is well progressed, and should be completed in February.

The Company is concentrating 92% of the gold into approximately 35% of the mass, which means the screening is exceptionally efficient and cost effective.

The tonnage from underground is steadily improving, and is expected to reach 180 tons per day before the investment of additional capital. Ponieskrans is nearing completion and commencement of production is expected on deployment of the capital equipment specified.

Stonewall has accelerated the production targets to 8-10kgs for February and up to 10-15kgs for March.

It is the intention of the Company to further update the market during February, when the first gold pour/elution and recovery is completed.

ABOUT STONEWALL RESOURCES LIMITED

Stonewall Resources Limited (ASX: SWJ) is a gold mining company that holds a range of prospective gold assets, most of which are located in the world-renowned South African gold mining regions. These South African assets, which include several surface and near-surface gold mineralisations, provide cost advantages relative to other gold producers in the region.

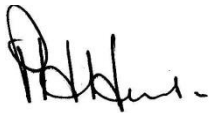
Stonewall's three key projects are the TGME Project, located around the towns of Pilgrims Rest and Sabie in the Mpumalanga Province of South Africa (one of South Africa's oldest gold mining districts), the Bosveld Project, located in South Africa's KwaZulu-Natal Province, and the Lucky Draw Project, located in Australia, near the township of Burruga in New South Wales. Stonewall owns 74% of TGME, Sabie Mines and Bosveld Mines.

Beyond its current strategies, Stonewall has access to nearly 40 historical mines and prospect areas that can be accessed and explored.

For more information please visit: www.stonewallresources.com

For further information please contact:

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Competent Persons Statement

The information in this Announcement that relates to Exploration Results, Exploration Targets, Mineral Resources or Ore Reserves is based on information compiled by Daniel van Heerden, who is currently employed as a Director and as Principal Mining Engineer by Minxcon Projects (Pty) Ltd. His qualifications include a B.Eng. (Mining) from the University of Pretoria in 1985 and a M.Com.(Business Administration) from Rand Afrikaans University (now UJ) in 1993. He is a member in good standing of the Engineering Council of South Africa and is registered as a Professional Engineer with registration no. 20050318 as well as a Fellow in good standing of the South African Institute of Mining and Metallurgy with Membership No. 37309 which is a Recognised Overseas Professional Organisation' (ROPO) included in a list promulgated by the ASX from time to time. He has worked as a Mining Engineer for more than 28 years with more than 15 years directly associated with gold mining specifically.. Daniel van Heerden is employed by Minxcon and has sufficient experience which is relevant to the style of mineralization and type 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'. Daniel van Heerden consents to the inclusion in this Announcement of the matters based on his information in the form and context in which it appears.

Appendix 5B

Mining exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10

Name of entity

Stonewall Resources Limited

ABN

30 131 758 177

Quarter ended ("current quarter")

31 December 2014

Consolidated statement of cash flows

Cash flows related to operating activities		Current quarter \$A'000	Year to date (6 months) \$A'000
1.1	Receipts from product sales and related debtors	8	8
1.2	Payments for (a) exploration & evaluation (b) development (c) production (d) administration (e) direct production related	(1,220) (919)	(2,630) (2,134)
1.3	Dividends received		
1.4	Interest and other items of a similar nature received	28	38
1.5	Interest and other costs of finance paid	(510)	(894)
1.6	Income taxes paid		
1.7	Other (provide details if material)		
Net Operating Cash Flows		(2,613)	(5,613)
Cash flows related to investing activities			
1.8	Payment for purchases of: (a) prospects (b) equity investments (c) other fixed assets (including capitalised exploration and development costs)	(45)	(78)
1.9	Proceeds from sale of: (a) prospects (b) equity investments (c) other fixed assets	114	114
1.10	Loans to other entities		
1.11	Loans repaid by other entities	7	13
1.12	Other (Rehabilitation Trust Fund)	(83)	(166)
Net investing cash flows		(7)	(116)
1.13	Total operating and investing cash flows (carried forward)	(2,620)	(5,729)

+ See chapter 19 for defined terms.

Appendix 5B

Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(2,620)	(5,729)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	-	1,702
1.15	Proceeds from sale of forfeited shares		
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	(67)	(86)
1.18	Dividends paid		
1.19	Other (provide details if material)		
	Net financing cash flows	(67)	1,615
	Net increase (decrease) in cash held	(2,687)	(4,114)
1.20	Cash at beginning of quarter/year to date	2,109	3,173
1.21	Exchange rate adjustments to item 1.20	782	1,145
1.22	Cash at end of quarter	204	204

Payments to directors of the entity and associates of the directors

Payments to related entities of the entity and associates of the related entities

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	107
1.24	Aggregate amount of loans to the parties included in item 1.10	

1.25 Explanation necessary for an understanding of the transactions

Salary payment to CEO (who is also a director) and service contract payments to a director related entity both from Stonewall Mining Pty Ltd.

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

+ See chapter 19 for defined terms.

Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	5,369	4,330
3.2 Credit standby arrangements		

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	50
4.2 Development	789
4.3 Production	718
4.4 Administration	399
Total	1,956

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	204	2,109
5.2 Deposits at call		
5.3 Bank overdraft		
5.4 Other (provide details)		
Total: cash at end of quarter (item 1.22)	204	2,109

Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1 Interests in mining tenements relinquished, reduced or lapsed				
6.2 Interests in mining tenements acquired or increased				

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 Preference + securities <i>(description)</i>				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 + Ordinary securities	519,201,001	519,201,001		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs				
7.5 + Convertible debt securities – 1 Convertible Note with a face value of AUD 3,000,000 maturing on 16 June 2014 convertible to 18,750,000 fully paid ordinary shares upon conversion by noteholder at \$0.16 per share	18,750,000	-		
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 Options Unlisted, unrestricted & unescrowed	14,782,011		<i>Exercise price</i> \$0.20	<i>Expiry date</i> 28/11/2015
7.8 Issued during quarter				
7.9 Exercised during quarter				
7.10 Expired during quarter				
7.11 Debentures <i>(totals only)</i>				

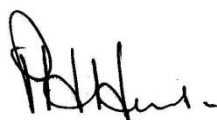
+ See chapter 19 for defined terms.

7.12	Unsecured notes (totals only)		
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Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 5).
- 2 This statement does give a true and fair view of the matters disclosed.

Sign here:



Date: 30 January 2015

Print name: Peter Hunt

Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 6: Exploration for and Evaluation of Mineral Resources* and *AASB 107: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Financial Reporting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.