QUARTERLY ACTIVITIES REPORT

PERIOD ENDING 30 SEPTEMBER 2014

Stonehenge Metals Limited

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HIGHLIGHTS

- Stonehenge to acquire breakthrough Protean wave energy technology
- Non-renounceable Rights Issue raises $1,333,643
- Protean acquisition capital raising condition met
- Stonehenge signs non-binding MOU with KOSDAQ listed Korea Resources Investment & Development Inc (**KORID**)
- KORID MOU term extended

Stonehenge Metals Limited (ASX:SHE) (**Stonehenge** or the **Company**) is pleased to provide shareholders with the following quarterly activities report for the September quarter.

BREAKTHROUGH WAVE ENERGY TECHNOLOGY

During the quarter, the Company announced that it had entered into a binding option agreement (**Term Sheet** or **Transaction**) with Protean Energy Limited (**PEL**) to acquire 100% of PEL's wholly owned subsidiary, Protean Energy Australia Pty Ltd (**PEA**). PEA holds the intellectual property titles, rights and licenses to the Protean Wave Energy Converter Technology (together the **Protean WEC** or **Protean**).

The Protean™ Wave Energy Converter (WEC) is positioned to disrupt the global renewable energy market through its potential to produce scalable cost effective energy[1]. The Protean WEC has been independently assessed by two reputable independent bodies and Stonehenge believes it offers compelling advantages over other renewable energy systems.

Stonehenge intends to assess the potential of the Protean WEC to create a step change in renewable energy production by:

- ✓ **Refining** the proven scale device to rapidly deliver a pre-commercial pilot model;
- ✓ **Deploying** an array of Protean WEC devices to provide scalable power to a prospective customer;
- ✓ **Testing** the Protean array & transmission setup in preparation for commercial trials;
- ✓ **Verifying** the testing results through independent technical experts; and
- ✓ **Commercialising** the power generation array initially for small to medium customers.

Key Transaction Terms and Capital Raising

- 24 month option to acquire 100% of PEA with $500k minimum spend over 18 months;
- Consideration of 120m SHE shares - 60m issued at settlement and 60m at Option exercise;
- 120m performance shares issued at Option exercise;
- Stonehenge to raise at least $1.2m via a 7 for 10 rights issue (**Rights Issue**) at 0.5¢; and
- Sean Moore, Protean WEC inventor, to join Stonehenge as Chief Technology Officer for wave energy conversion.

Protean WEC Technology Summary

The Protean system is based upon a point-absorber wave energy converter buoy device which floats at the water surface and extracts energy from the waves by the extension and retraction of a tether to its anchoring weight on the sea bed. The device is unique in that it optimises the conversion of energy from waves through **all six degrees of wave movement or motion.**

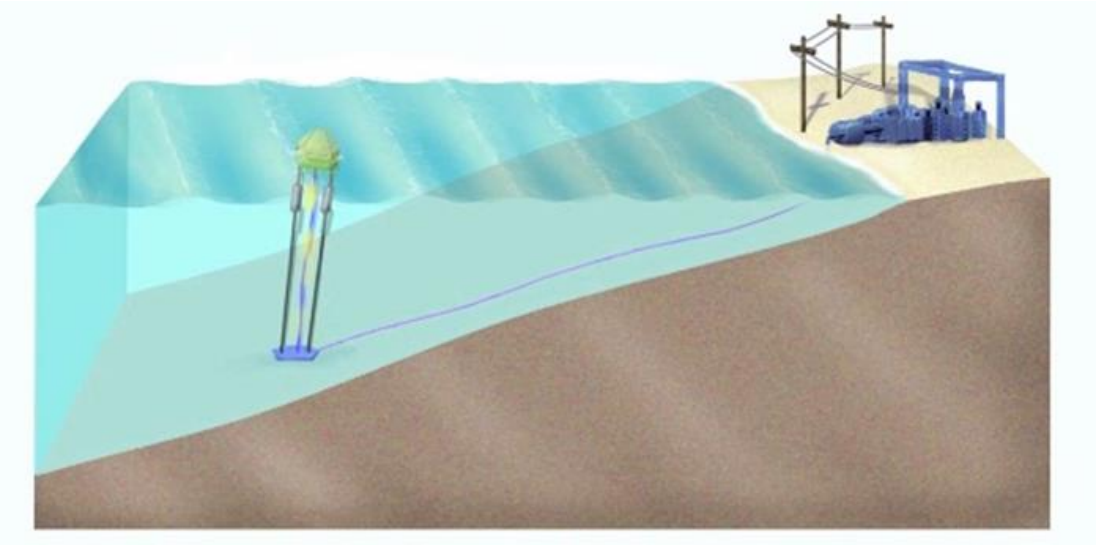
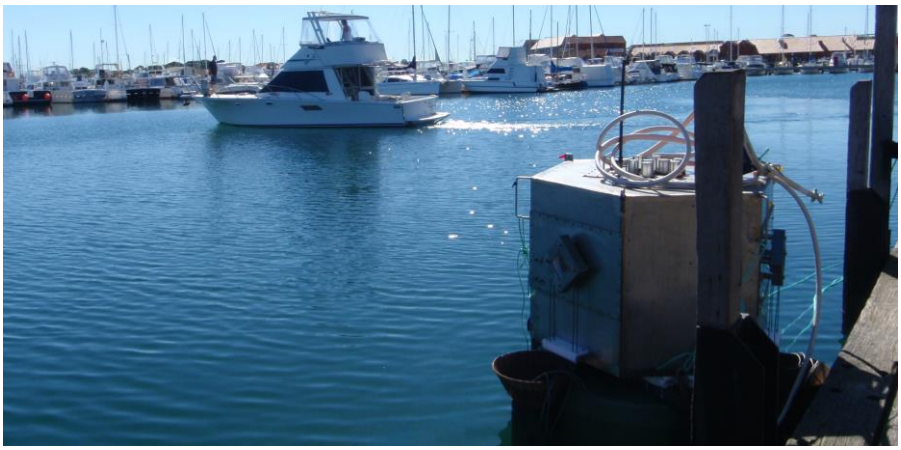


Figure 1: Protean WEC technology

The Protean WEC has been trialled at a 1.5 metre wide scale in the sea off Perth, proving the system can successfully convert the power from waves into usable energy.

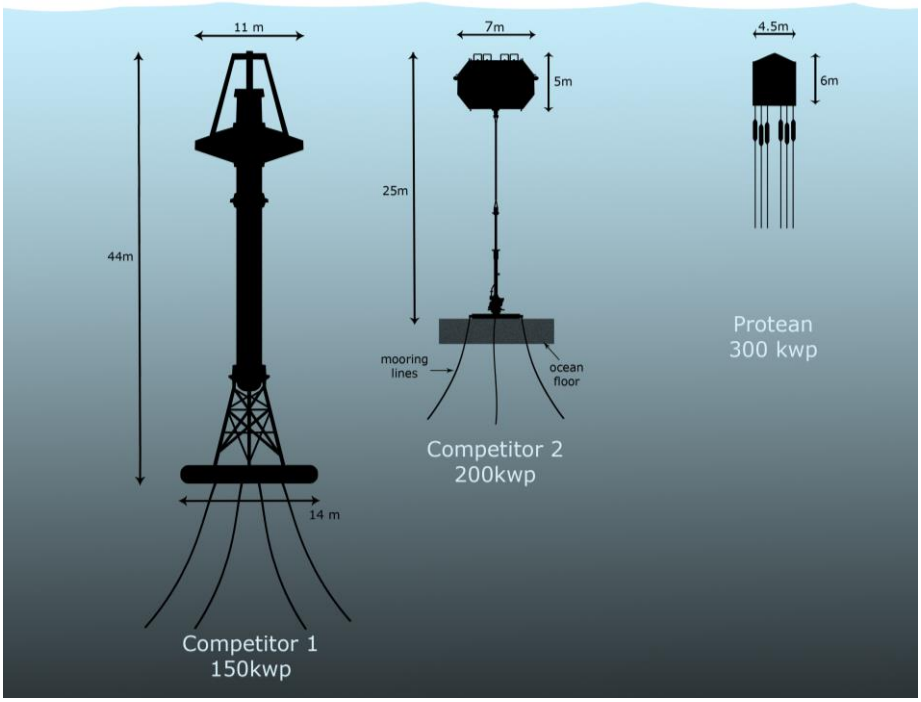
[1] Protean WEC Technology projected energy cost assessments were derived from a commercially confidential report titled: *Protean Energy – Wave Energy Converter Independent Review Report* (2011). As part of its assessment during the course of the Option period, Stonehenge intends to commission its own independent technical report to verify the Levelised Cost of Energy (LCOE) of the Protean device used in prototype trials.

Figure 2: Protean WEC ready for deployment



The Protean WEC uses compact architecture to produce power very efficiently from a small, low cost design targeted at keeping the projected levelised cost of energy (**LCOE**)[2] down.

Figure 3: Dimensions of selected wave energy technologies[3]



The future plans for the Protean WEC include the modularisation of the proven size for the purpose of creating a dynamic, configurable and scalable power array prior to moving the technology into early commercialisation.

During the Option period the Stonehenge assessment program aims to:

1. **Refine** the tried and proven scale device to produce a suitable pre-commercial model;

[2] Levelised cost of energy is one of the industry's main metrics for the cost of electricity produced. It accounts for all of a system's expected lifetime costs (incl. construction, finance, fuel, maintenance, tax, insurance & incentives), which are then divided by the system's lifetime expected power output (kWh) & discounted for inflation & time cost of money.

[3] The image in Figure 3 above is a representation based on publicly available information for competitors 1 & 2 compared with as yet untested projections for a larger scale Protean device used in an offshore environment. The competitor 1 & 2 devices depicted are for illustration purposes only & may not be the only or most recent devices offered by any competitor.

2. **Create** a scalable power array from the pre-commercial model so as to provide the power requirements of a prospective customer;
3. **Test** the scalable power array for its potential to delivery cost effective power;
4. **Verify** the results, including commissioning an independent expert to qualify the testing results; and
5. **Commence** commercialisation of the scalable array of the trials for small to medium customers.

Protean's "New Wave" in Wave Energy Conversion

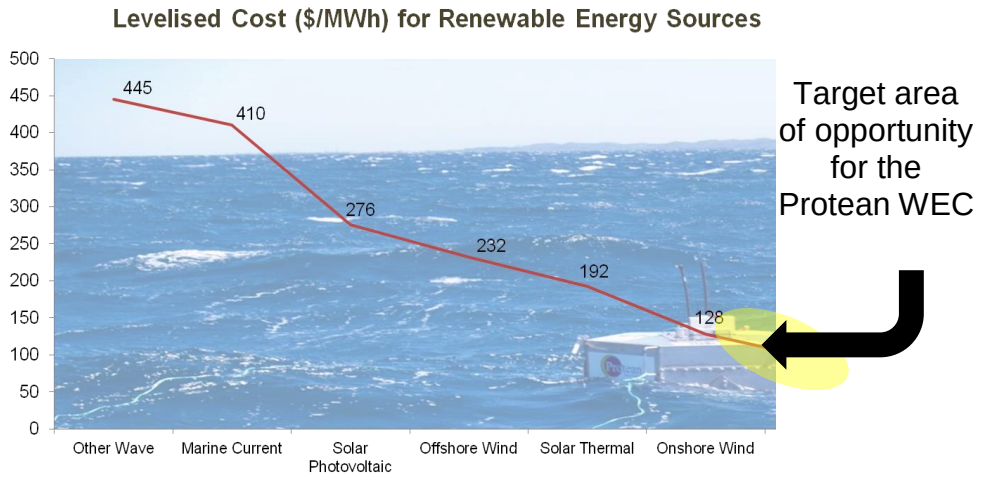
The Protean system is based upon an internationally patented and patent pending intellectual property invented by Sean Moore[4] that has attracted interest from around the globe. The Protean WEC Technology has been identified as having a number of significant advantages over other wave energy technologies currently being investigated internationally.

The most significant of these advantages is its capacity to harness energy from all 6 of the available directional wave forces. This capability has been successfully trialled, with results reviewed by Murdoch University in Western Australia.

Furthermore it is believed that the Protean WEC Technology is the only known wave energy system that uses **all 6 degrees of wave movement** (being: up-down, side-to-side, forward-backward, and rotation about each of these axes). Other wave energy systems typically use one or two degrees of movement, which can significantly reduce their productivity. Protean is based on globally accepted and proven ocean buoy technology and is designed to withstand the harsh ocean environment; a critical issue for wave energy conversion systems. Major benefits designed into the system include:

- ✓ **Scalability** – the Protean system is designed to provide low cost energy for a wide range of applications, from small to large scale production.
- ✓ **Versatility** – the Protean system has been designed for dedicated or simultaneous production of electricity or the desalination of seawater to drinking water quality.
- ✓ **Affordability** – the Protean was designed from the ground up to provide cost effect, consistent and reliable renewable energy in lower & higher energy wave resource locations. The Protean WEC is designed for cost effective manufacture, deployment and maintenance.

Figure 4: Comparison of levelised cost for common sources of renewable energy[5]



[4] Sean Moore holds degrees in science & engineering and has been researching and developing ocean energy technologies since 2004. Mr Moore has been the recipient of numerous awards and scholarships as well as being an international speaker on wave energy. During late 2009 Mr Moore was recognised for his expertise in ocean energy and was invited to be a panellist on the highly popular Ocean Energy Panel at the inaugural 2009 Asia Pacific Clean Energy Summit in Hawaii.

[5] The Company believes that these figures are indicative industry recognised values for cost per MWh for each respective renewable energy and this chart is derived from Bloomberg New Energy Finance as published by the International Energy Agency at the following web address; https://www.iea.org/media/workshops/2014/solarelectricity/BNEF2LCOEofPV.pdf

Key terms of the transaction

Pursuant to the Term Sheet, Stonehenge will acquire an exclusive 24 month unrestricted licence with an option to acquire 100% of the equity of Protean Energy Australia Pty Ltd (**PEA**) from PEL (**Option**). If the Option is exercised, Stonehenge would hold, through the PEA acquisition, all rights, title and interests including all licenses relating to the **Protean WEC Technology**. The key terms and conditions precedent to completing the Transaction (**Completion**) are as follows:

(a) **Stonehenge is required to raise at least $1.2m** and so is conducting a non-renounceable rights issue to raise up to $1,503,643 on the basis of 7 new Stonehenge shares for every 10 existing Stonehenge shares held, at an issue price of $0.005 per share (**Rights Issue**).

(b) **Sean Moore to join Stonehenge** in the executive role of Chief Technology Officer (CTO).

(c) **Stonehenge will invest a minimum of A$500,000 into the Protean WEC Technology**, under a fixed price turnkey contract, over an 18 month period post Completion.

(d) **Stonehenge will engage Moore Commerce Pty Ltd**, a company controlled by Sean Moore, to deliver the pilot project as a turnkey project for a fixed price of A$500,000[6] within 18 months.

(e) **Stonehenge will issue the following securities**, subject to shareholder approval as required, to PEL and its advisors and nominees:

(i) **Consideration Shares**: 120,000,000 ordinary shares to be issued to PEL in two tranches as follows:

(A) **Tranche 1**: 60,000,000 ordinary shares at a deemed issue price of $0.005, to be issued to PEL upon settlement of the Transaction and voluntarily escrowed for 12 months from their date of issue; and

(B) **Tranche 2**: 60,000,000 ordinary shares at a deemed issue price of $0.005, to be issued to PEL upon completion of exercise of the Option. These shares will be voluntarily escrowed for 12 months from their date of issue.

(f) **Broker Shares**: Stonehenge will issue 10,000,000 ordinary shares to CPS Capital Group for services relating to the Transaction and fund raising.

(g) **Performance Shares**: 120,000,000 performance shares, as outlined below (Performance Shares) will be issued to PEL's nominees upon exercise of the Option and will each convert into 1 ordinary share in the capital of Stonehenge upon achievement of any one of the performance milestones within 3 years following the issue of the Performance Shares (**Performance Milestones**).

Performance Milestones (performance share vesting conditions)
1) Other than through an ASX re-compliance prospectus raising: Completion of financing of not less than $5,000,000 to fund further development of the WEC Technology, in aggregate, via equity, debt, government grant, joint venture or partnership (or any combination thereof); or
2) Commissioning of a WEC Technology facility of 45 Kilowatts or greater in a jurisdiction outside Australia; or
3) Commissioning of a WEC Technology facility or facilities of cumulative 500

[6] For delivery of a pre-agreed pilot configuration and includes a 10% contingency.

Kilowatts or greater; or

4) Execution of a fully funded agreement to install a WEC Technology facility or facilities of cumulative 1 Megawatt or greater on commercial terms; or

5) Execution of a bona fide arm's length third party licensing, co-operation or collaboration agreement or agreements valued cumulatively at not less than A$5,000,000, at the time of signing, for the whole or part of the Protean WEC Technology for assessment, development or commercialisation. Value to be determined by an independent valuer using generally accepted valuation methodologies.

(h) **Mutual due diligence** by the parties (completed within 120 days of the Term Sheet).

(i) **The parties obtaining all necessary shareholder and regulatory approvals** and consents to implement the Transaction.

Pro-forma Capital Structure Post Transaction.

	Shares	**Options**
Current shares in issue	429,612,389[7]	1,235,883
Rights Issue (pro rata 7 for 10 at 0.5c per share)	300,728,672	
Balance **prior to** completion of the Transaction	730,341,061	
Proposed to be issued at completion of the Transaction:		
(a) Ordinary Shares (to be issued in two tranches)	120,000,000	
(b) Performance Shares[8]	120,000,000	
(c) Broker Shares	10,000,000	
Loan conversion (subject to shareholder approval)[9]	30,000,000	
Balance **after** Rights Issue & Transaction	1,010,341,061[10]	1,235,883

Planned Expenditure

Stonehenge proposes to raise up to $1,503,643 through the Rights Issue. The proposed use of the funds raised under the Rights Issue (subject to change depending on exploration results and/or new acquisitions) is outlined below:

Item	**Amount ($)[(1)]**	**Amount ($)[(2)]**
Existing Project Expenditure & Overheads	$550,000	$500,000
Expenditure on the development & pilot of the Protean WEC [(3)]	$550,000	$500,000
Administration Costs[(4)]	$110,000	$90,000
New Project Review & Working Capital	$293,643	$110,000
Total	**$1,503,643**	**$1,200,000**

[(1)] Based on raising the maximum under the Rights Issue of $1,503,643 before costs

[(2)] Based on raising the minimum amount under the Rights Issue of $1,200,000 before costs

[(3)] This expenditure is expected to take place over a period of up to 18 months

[(4)] Approximate amount to conduct Rights Issue and Due Diligence related to the PEA Transaction

[7] The Company currently has 5m Class F & 7.5m Class G performance shares on issue (a total of 12.5m).

[8] Terms of Performance Shares are shown above.

[9] $120,000 loan converts at 80% of Rights Issue price subject to Completion & shareholder approval (excl. interest).

[10] Excluding 12.5m existing Performance Shares detailed in footnote 8 above.

Appointment of Managing Director
Subject to settlement of the Transaction, Bruce Lane will be appointed as Managing Director of Stonehenge. Mr Lane offers the Company a significant depth of expertise in the listed company arena and has worked with several early stage minerals exploration and technology companies as an advisor, investor, director and or manager.

Key Condition Precedent Satisfied
During the quarter, the shareholders of Protean Energy Limited (PEL) voted to allow Stonehenge to acquire its 100% subsidiary, Protean Energy Australia Pty Ltd (PEA). PEA holds the intellectual property titles and rights to the Protean Wave Energy Converter Technology.

KORID
During the quarter, the Company advised that it has signed a non-binding memorandum of understanding (**MOU**) with a KOSDAQ listed resource development company, Korea Resources Investment & Development Inc. (**KORID**).

The MOU provides a framework to negotiate a binding term sheet agreement which would set out the key terms of a joint venture (**JV**) between KORID and Stonehenge.

The purpose of the JV is to accelerate the development of the mineral exploration rights and properties held by the wholly owned Korean subsidiary of Stonehenge, Stonehenge Korea Ltd (**SHEK**), with a particular focus on the vanadium and uranium potential of the Daejon Project. The MOU confirms the intended JV development objectives for Stonehenge's Daejon project, including:

- Gaining access, through a collaboration agreement, to test 36,000 metres of mineralised historical core (from Stonehenge's Daejon Project area) stored at KIGAM[11];
- Significantly upgrading current vanadium & uranium resource estimates in size and or confidence;
- Preparing a pre-feasibility study;
- Preparing work programs and budgets to support completion of a definitive or bankable feasibility study; and
- Sharing costs on all activities, including the analysis of historical core held by KIGAM.

The binding Term Sheet is anticipated to require the exchange of equity between Stonehenge (via SHEK) and KORID, such that SHEK would be owned and controlled on an equal and equitable basis by Stonehenge and KORID.

Stonehenge continues to direct efforts in Korea towards a collaboration agreement, with the KIGAM[1], to gain access to test 36,000 metres of historical drill core from the Daejon Project resource area.

The objectives of the historical core testing are to significantly extend the vanadium resource from the recent maiden announcement and to upgrade the confidence of the uranium resource to the measured category. These objectives can be achieved through non-destructive testing of the existing core without the expense of further drilling.

In addition, the Company will continue its pursuit of strategic alliances with other Korean companies in the energy, steel and minerals sectors.

[11] Korea Institute of Geoscience and Mineral Resources (KIGAM) is a research institute under the Korean Ministry of Trade, Industry and Energy.

On 23 September 2014 the Company advised that it had extended the term of its MOU with KORID. The MOU term was extended until 1 December 2014 to allow more time to prepare a binding term sheet agreement which would define the key terms of a JV.

The Company is encouraged by the outlook for the uranium market given a recent strengthening of the uranium spot price, the reported imminent recommissioning of Japan's nuclear power plants and China's aggressive expansion of its nuclear power generation capability. This is occurring against a backdrop of South Korea's continuing strong commitment to drive growth in its already significant nuclear power industry both at home and overseas.

Corporate

RIGHTS ISSUE

During the quarter, the Company announced an equity raising of up to $1,503,643 before costs, via a pro-rata non-renounceable rights issue (**Rights Issue**). Eligible shareholders were provided the opportunity to subscribe for seven (7) new fully paid ordinary shares in the Company for every ten (10) shares held as at 5:00pm WST on 8 September 2014 (**Record Date**). New Shares under the Rights Issue were offered at $0.005 per share.

Applications under the Rights Issue totalled $649,426 representing approximately 43% of all shares offered.

Rights Issue	Shares	Gross Proceeds
Shares validly applied for under the Entitlements Issue	96,986,780	$484,934
Additional shortfall shares taken up by eligible shareholders	32,898,524	$164,492
Shortfall Placed	136,843,400	$684,217
Total Raised	**266,728,704**	**$1,333,643**
Remaining shortfall to be placed	33,999,819	$169,999

Subsequent to the quarter on 28 October 2014, CPS Capital, acting as Lead Manager, successfully placed 136,843,400 Shortfall Shares at 0.5¢ to raise a further $684,217. The placement of Shortfall Shares brings the total raised to date under the Rights Issue to $1,333,643.

The placement of the Shortfall Shares satisfies a key condition precedent to settlement of the agreement with PEL under which Stonehenge is granted an exclusive 24 month unrestricted licence and an option to acquire 100% of the equity of Protean Energy Australia Pty Ltd (PEA) (the **Option**).

Stonehenge and PEL are currently finalising due diligence and the formal documentation prior to settlement of the Option. The Lead Manager is in discussions with potential strategic investors to place the balance of the shortfall and expects to issue the remaining 33,999,819 Shortfall Shares for $169,999 in due course.

LOAN

During the quarter, the Company advised that it arranged $120,000 of working capital funding via a convertible loan. The loan, provided by parties including the Directors of Stonehenge, will convert into Stonehenge shares, subject to shareholder approval, at a price which is 80% of the rights issue price.

For further information please visit: www.stonehengemetals.com.au

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ABOUT STONEHENGE METALS

Stonehenge Metals Limited (ASX Code: SHE) is developing a multi-mineral project in South Korea. Stonehenge owns 100% of the rights to three projects in South Korea, including the Company's flagship Daejon Project, which contains the largest uranium resource within South Korea at **66.7Mlbs** grading **329ppm U_3O_8** at a cut-off of **200ppm U_3O_8** (JORC 2004 compliant). Recently, the Company established a maiden vanadium resource of **17.3Mlbs** (largely indicated) grading **3,186ppm V_2O_5** at a cut-off of **2,000ppm V_2O_5**.

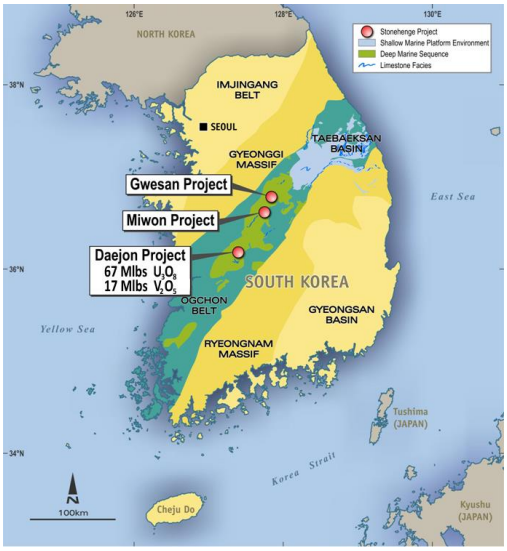
U_3O_8 Mineral Resource Estimate at a 200 ppm U_3O_8 cut-off			
Classification	Tonnes	Grade	Metal
	Mt	ppm	Mlbs
Indicated - Chubu	3.3	247	1.8
Inferred - Chubu	45.9	335	33.9
Sub-Total Chubu	**49.2**	**329**	**35.7**
Inferred - Yokwang	39	310	26
Inferred - Kolnami	7	340	5
Total	**95.2**	**329**	**66.7**

V_2O_5 Mineral Resource Estimate at a 2,000 ppm V_2O_5 cut-off			
Classification	Tonnage	Grade	Metal
	Mt	ppm	Mlbs
Indicated	2.3	3,208	16.5
Inferred	0.1	2,788	0.8
Total	**2.5**	**3,186**	**17.3**

Vanadium Exploration Target[1]		
Tonnes (Mt)	Grade V_2O_5 (ppm)	Contained V_2O_5 (Mlbs)
70 - 90	**2,500 - 3,500**	**385 - 695**

Uranium Exploration Target[1]		
Tonnes (Mt)	Grade U_3O_8 (ppm)	Contained U_3O_8 (Mlbs)
15 - 59	**300 - 500**	**17-39**

South Korean Project Locations



[1] The potential quantity & grade of the exploration target is conceptual in nature, there has been insufficient exploration to define a Mineral Resource & it is uncertain if further exploration will result in the definition of a Mineral Resource.

The vanadium and uranium exploration targets are based on exploration results from the 2013 drilling at Chubu & Gwesan (refer announcements 15 July & 13 November 2013) that demonstrated vanadium and uranium mineralisation through the black shales.

The geology in the Okcheon belt consists of a meta-sedimentary sequence that comprises three formations, Wunkyori, Hwajeonri & Guryongsan. The stratigraphic sequence within the belt at the Gwesan project comprises dark grey phyllite, overlain by the black shale (ore zone) & a fine grained sandstone.

The historical drilling at the Gwesan project has demonstrated black shale deposits along 10km of strike. KORES completed three drill holes targeting the mineralised black shale at Gwesan in order to verify the mineralisation zone throughout the area. All three holes were drilled to a total depth of 100m and several ore zones between 3m and 11m have been intercepted in each drill hole.

The best intercept of 3500 ppm V_2O_5 & <10 ppm U_3O_8 in the first hole provides encouraging results (refer ASX announcement 13 Nov 2013). More drilling will be required to define the high grade mineralisation zone in the area. The mineralisation remains open at depth & along the 10km strike. The project is in its exploration stage and the additional drilling is expected to increase the potential to discover high class uranium and vanadium Mineral Resources at Gwesan. Stonehenge expects to test the validity of the

exploration target once access to historical drill core is obtained and the Company is able to assay the core for vanadium mineralisation.

The Company is continuing its efforts to access the core and further updates on this progress will be advised as soon as it becomes available. This information was prepared and first disclosed under the JORC Code 2004 (refer ASX announcement 29 August 2013). It has not been updated since to comply with the JORC Code 2012 on the basis that the information has not materially changed since it was last reported.

Competent Person's statement

The information contained in this ASX release relating to exploration results and Mineral Resources has been compiled by Mr. Ian Glacken of Optiro Ltd. Mr. Glacken is a Fellow of The Australian Institute of Mining and Metallurgy and has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2012 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Mr Glacken consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

Appendix 1 - Stonehenge Tenement Details

Registration Number	Land Register	Number	Area (ha)	Interest %	Registration Date	Registrant	Property
76967	Gwesan	114	275	100%	28/05/2008	Stonehenge Korea	**Goesan [Gwesan]**
76942	Gwesan	115	275	100%	14/05/2008	Stonehenge Korea	
76965	Gwesan	117	275	100%	28/05/2008	Stonehenge Korea	
76966	Gwesan	118	275	100%	28/05/2008	Stonehenge Korea	
76964	Gwesan	124	275	100%	28/05/2008	Stonehenge Korea	
76941	Gwesan	125	275	100%	14/05/2008	Stonehenge Korea	
76968	Gwesan	126	275	100%	28/05/2008	Stonehenge Korea	
76969	Gwesan	128	275	100%	28/05/2008	Stonehenge Korea	
79161	Gwesan	137	275	100%	12/01/2011	Stonehenge Korea	
77018	Miwon	36	276	100%	11/06/2008	Stonehenge Korea	**Miwon**
77019	Miwon	46	276	100%	11/06/2008	Stonehenge Korea	
77020	Miwon	58	276	100%	11/06/2008	Stonehenge Korea	
77225	Miwon	37	276	100%	21/08/2008	Stonehenge Korea	
77291	Miwon	47	276	100%	23/09/2009	Stonehenge Korea	
77292	Miwon	57	276	100%	23/09/2009	Stonehenge Korea	
77010	Okcheon	136	138	100%	10/06/2008	Stonehenge Korea	**Daejon [Daejeon]**
77011	Daejon	18	277	100%	10/06/2008	Stonehenge Korea	
77012	Daejon	28	259	100%	10/06/2008	Stonehenge Korea	
77013	Daejon	38	277	100%	10/06/2008	Stonehenge Korea	
77014	Daejon	48	277	100%	3/07/2008	Stonehenge Korea	
77038	Ogchon	147	277	100%	19/06/2008	Stonehenge Korea	
77039	Daejon	17	103	100%	19/06/2008	Stonehenge Korea	
77114	Daejon	7	190	100%	3/07/2008	Stonehenge Korea	
77115	Daejon	27	56	100%	3/07/2008	Stonehenge Korea	
77363	Daejon	47	242	100%	16/10/2008	Stonehenge Korea	
77364	Daejon	57	186	100%	16/10/2008	Stonehenge Korea	
200204	Daejon	59	228	100%	18/12/2012	Stonehenge Korea	