Stonewater Resources Limited

CONCEPTUAL SCOPING STUDY

GO NO GO ECONOMIC REVIEW

TIMNOR IRON ORE PROJECT

WHITNEY AND SHAW TOWNSHIPS

PORCUPINE MINING DIVISION

TIMMINS ONTARIO CANADA

SEPTEMBER 25, 2013

PRIVATE & CONFIDENTIAL

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1.0 Executive *Summary*

It was planned in this review to complete a first level estimate of the low CAPEX option by limiting the production rate to available grinding rates at existing plant known as the Met site. This concentrator is located 12 kms from the project.

In addition, based on limited test work to-date including diamond drilling, historical resources and Davis Tube, it was concluded that 25 % of the potential iron ore would be DSO (>50% Fe) and the balance would be taconite to meta-taconite (30 to 50% Fe).

A production rate of 4.0 Mtpa concentrate ore and 1.25 Mtpa DSO was modelled for a total of 5.25 Mtpa ROM. Over the 25 year plan 131,250,000 tonnes ROM would be mined.

A significant data base exists including environmental baseline studies, open pit designs, Certified Closure Plan, LIDAR topography and contract pricing for mining and crushing as well as ONR rail haulage cost estimates.

The first 25 year operating plan was calculated. The CAPEX for the project with a 30% contingency was $463.5 million. The mine life could be much greater and not require significant additional capital.

The operating costs for the 25 year plan were estimated to be $1.512 billion with a net revenue of $12.8 billion.

The operating cost including rail haulage ranged from **$22.98 to $48.34** per tonne. The variance in cost depends on the type of ore (DSO or concentrate) and where the iron ore was hauled (ie domestic client, international or domestic port). The average weighted cost was **$39.26** per tonne.

It can be concluded that the resources should be further diamond drilled to determine the full potential as well as to obtain more samples for metallurgical test work to be able to complete a full compliant NI 43 -101 reserve/resource report. The very low discovery costs and current status of the project would help to minimize the risks.

2.0 Property

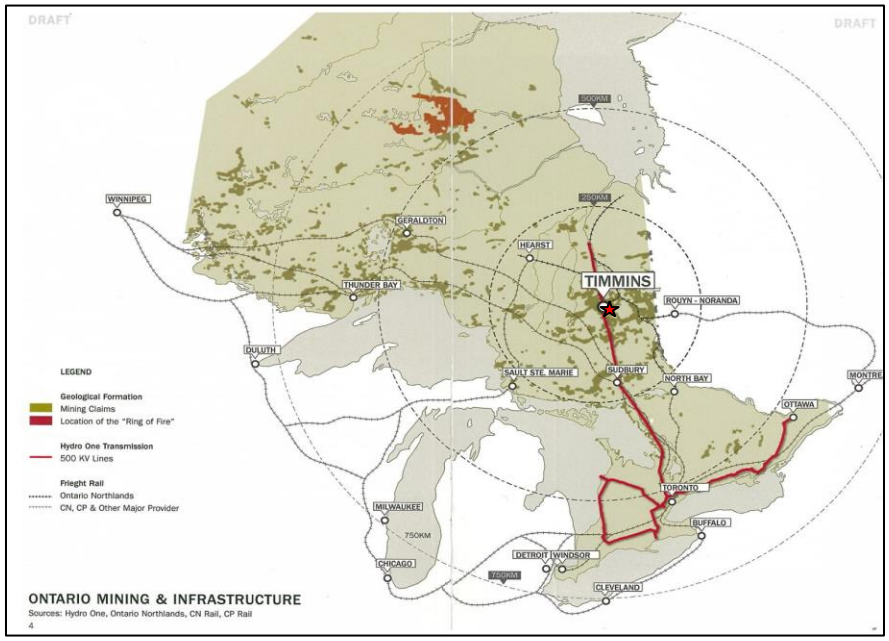
The project is well situated in a mining friendly jurisdiction of the Province of Ontario, Canada. Stonewater Resources Limited (``SRL``) owns and manages both General Magnesium Corp ("GMG") and TIMNOR Iron Ore ("TIMNOR").

The project described herein is the TIMNOR Iron Ore (the "property") project. A recently discovered and subsequently additive acquisition of adjacent ground known as Goose Lake Iron Mines has been partially tested with diamond drilling, surface sampling, mini bulk samples and geophysics. The recent discovery in 2010 indicates historical data could have underestimated both the thickness and density of the magnetite iron ore deposit.

The property is located within the City of Timmins limits in the Whitney and Shaw townships as shown in Figure No.1&2. The property consists of 463 ha as well as sharing of joint infrastructure land right of ways with General Magnesium Corp. The property is well situated and is only 2.5 kms south of Highway 101 and is easily accessed by road.

Glencore Xstrata's 4.2 million tonne per day concentrator (the "Met Site") is located only 12 kms to the east. The Met Site is reported to close in 2018/20. An off highway haulage road (CAT 777) is situated at the north boundary of the property and is owned by Goldcorp. The haul road runs from their Dome mine to the Pamour mine located adjacent to the Met Site. The main ONR rail line is only 1.0 km away.

Figure No.1: General Location



2.1 History

Extensive listing of the history of the property has been published in government reports and publications. In addition, the recent talc & magnesite 43-101 report for GMG has a good review of the historical work on the Whitney township portion of the property.

Open File Reports for the Goose Lake Iron Mines portion of the property were relied on as well as recent work by TIMNOR. During this process, a lost file on the historical resources for Goose Lake was discovered and proved to be invaluable.

Most of the historical work agreed that the southwestern portion of Whitney and the northeastern Portion of Shaw Township had the best exposures of magnetite banded iron formation (BIF), This ground is now held by TIMNOR.

Government reports stated the BIF was mainly 6 to 12 m thick with maximum thickness ranging up to 50 m thick. The reports believed the average thickness to be approximately 30 m thick. Recent diamond drilling has suggested that the average thickness could be greater and more in the range of 75 to 100 m.

In summary, SRL purchased the Whitney project ("Allerston") from Teck Cominco in 2002. In 2008 SRL sold the Allerston property to GMG and retained majority ownership and a 2% NSR. In 2010 work began on the exploration of iron ore and with promising results in February of 2013, SRL acquired the contiguous Goose Lake Iron mines. In, 2013, the iron ore was grouped into TIMNOR (owned 100% by SRL) which incorporated the Whitney and Shaw exposures.

2.2 Land Tenure

TIMNOR has a 100% interest in the property.

The Whitney portion consists of 13 mining leases which include mining and surface rights (some owned outright). There are no annual work requirements and the renewable leases are for 21 years. A lease is one of the key requirements before production can begin.

The Shaw property (Goose Lake Iron Ore Mines) consists of 18 units of claim status. The surface rights are held by the crown. Each unit requires $400 of annual work credits. TIMNOR currently holds the claims in good standing.

The total property is made up of 31 units for a total area of 463 ha (1,140 acres).

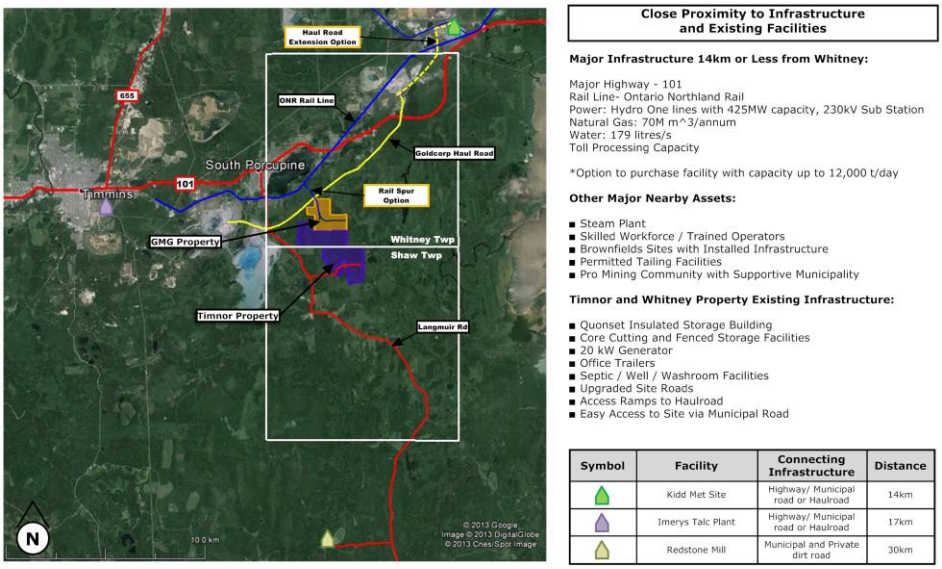
2.3 Joint Venture Mine Infrastructure: GMG and TIMNOR

GMG and TIMNOR have agreed and entered into agreements to share and allow the joint development of the GMG talc magnesite deposit and the TIMNOR iron ore deposit. This includes but is not limited to:

- Joint boundary mining
- Joint rail access
- Joint stockpiling areas where possible
- Joint contractor mining and site operations
- Joint drainage controls etc
- Joint property access and haul road/infrastructure ROWs

It is envisioned that one contractor will be employed for mining and mine site operations or an operating company or team will oversee mine production. This will result in OPEX and CAPEX savings for both companies as well as full extraction of mineral resources.

Figure No.2: Townships and Infrastructure



2.4 Royalties

There are three Net Smelter Royalties that cover all or a portion of the property. There is only one royalty that is for all the property as indicate below.

In addition, discussions with First Nations to-date have progressed very well with the granting of an exploration permit in Shaw township. Discussions are ongoing to finalize the MOU (Memorandum of Understanding) and the IBA (Impact Benefit Agreement). These agreements for TIMNOR focus in on building capacity with the First Nations in part by providing a percentage of the costs in the exploration, development and production phases as well as other allowances as described below.

2.4.1 Net Smelter Returns

The NSR will vary from 2 to 6% depending on where mining occurs in Whitney and Shaw. The maximum NSR will only occur on 13% of the property.

Table No.1: Net Smelter Returns

Royalty Holder	NSR	No of Units	% of Area
M. Walton	2%	4	13%
SRL	2%	31	100%
Teck Cominco	2%	25	81%

2.4.2 First Nations

Current negotiations have placed a 2% payable limit based on the costs of exploration, development and production. In addition, a $100,000 per annum allowance has been added to account for meetings and other costs.

3.0 Geology and Mineral Reserves/Resources

The data base for determining the potential of the deposit consists of new geological mapping, geophysics, surface sampling (including mini bulk sample), 5,862 m of diamond drilling, partial re-sampling of core by others, specific gravity tests, magnetic susceptibility of core, mineralogical and Davis Tube test work.

All geological models have been based in part on block modelling and mainly sectional interpretation and extrapolation as well as first principles. There are historical resources for the Goose lake area.

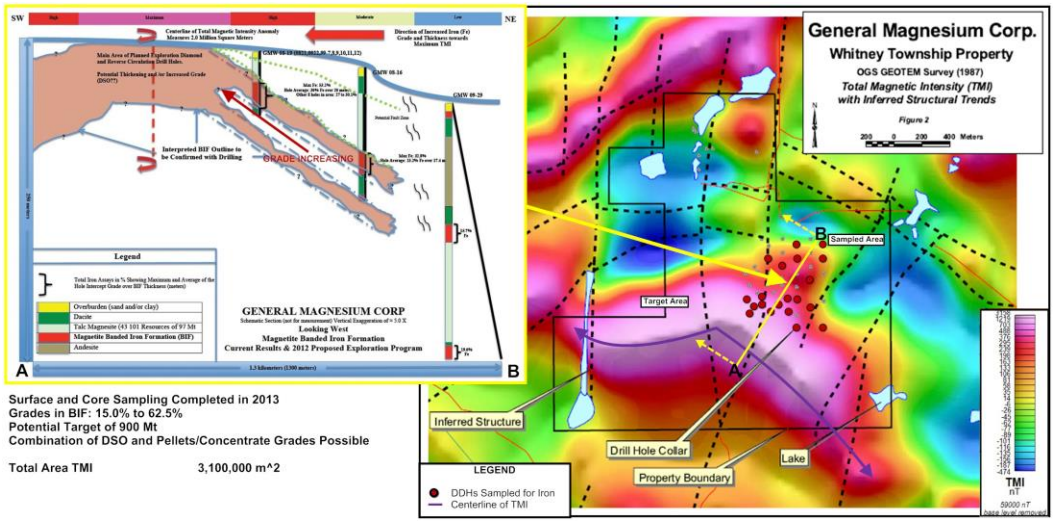
The BIF unit of interest is a magnetite chert (oxide) facies. There is a second facies known as the sulphide unit which overlies the oxide facies when present. In some areas there is a 1-2 m chert cap overlying the Iron Ore BIF and massive magnetite.

The BIF has been traced for over 4.0 kms in an east west direction. Most of the drilling did not break through the BIF and ended in the BIF as it was used as a marker for the bottom of other mineralization. In en echelon zones in two cases the drilling did break through the upper zone (38 m) as well as 144 m of BIF/sediment was encountered at the edge of the zone (6 units of BIF). The true average thickness of the BIF is not known. Additional drilling is required.

3.1 Geological Model

The BIF deposit is interpreted as an antiform with its axial plane striking east west and the limbs dipping to the north and south. The magnetite ranges from massive to semi massive to a true BIF. Iron (Fe) grades and thickness appear to increase towards the axial plane and centerline of the TMI magnetic geophysics anomaly. The BIF trace has a strong correlation with the TMI anomaly.

Figure No. 3: Idealized Geological Section



3.2 Historical Reserves/Resources

A non compliant 43-101 resource was calculated and is on file at the government OFR. The historical resource was estimated to be **100 million tonnes.** In reviewing the calculations, it was discovered that a SG of only 2.3 was used. If using more representative SGs measured for TIMNOR, the historical resources would by math increase to **160 million tonnes.**

The more recent drilling in the Whitney South zone covered an area of about 480,000 m² on a approximate drilling grid of 75 m x 100 m. Using only 50 m thickness and average SG, then an estimated BIF tonnage of **90 million tonnes** can be calculated for this zone alone.

All of the above zones are open and represent a small percentage of the total BIF area potential.

3.3 Target Resources

Based on the current assaying and Davis Tube testing premium grades can be produced for all head grades tested. In addition, in situ test work returned DSO grades in some areas. The deposit appears to have distinct zoning of Fe grades.

The table below was constructed using an average SG and the 3,100,000 m² TMI geophysics area.

The table illustrates the ore potential as a function of thickness. For 75 m thickness, the total tonnage could be in the order of **900 million tonnes.**

Table No.2 Iron Ore Potential

Thickness (depth) meters	Potential Tonnage millions of tonnes
10	120
20	240
30	360
40	480
50	600
75	900
100	1,200

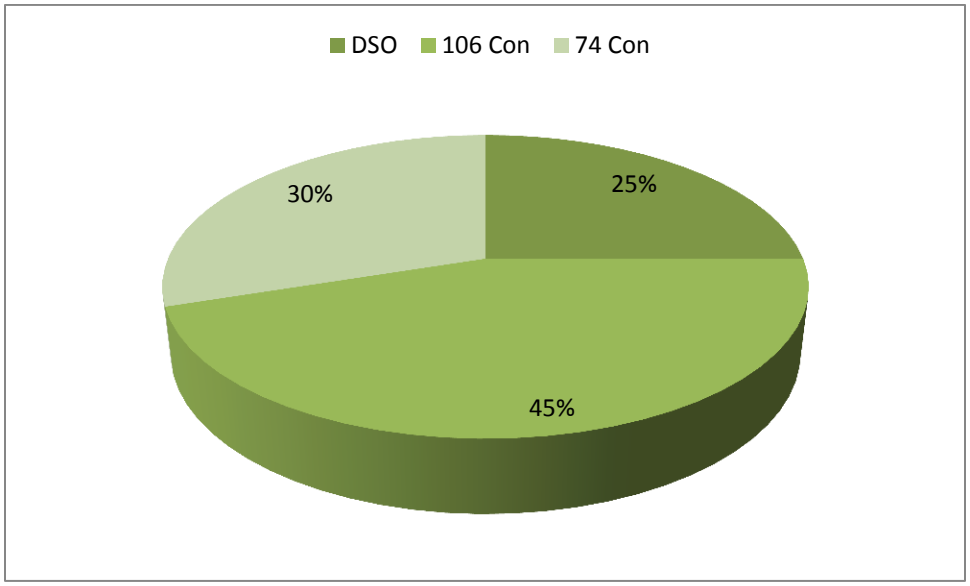
4.0 Metallurgical and Expected Mineral Performance

The historical and recent test work completed by TIMNOR indicates that premium Davis Tube concentrate grades can be produced for all head grades tested. In some cases finer grinding had to be employed to reduce silica content to achieve premium Fe grades.

The following definitions are employed.

- DSO (Direct Shipping Ore): Canadian Definition of greater than 50% Fe in situ. Highest in situ grade to-date of 62.5 % Fe.
- Concentrate/Pellets: Cut off grade of 20% in-situ. Requires only magnetic separation with 60% requiring grind of 106 um and 40% requiring grind of 74 um. Grades would be typical taconite (30% Fe) to meta-taconite (45% Fe). Best concentrate grade of 70.7 % as obtained in test work.
- Premium Concentrate Grades: Greater than 62% Fe.

Table No. 3: Estimated Resource Ore Types Division



Based on the limited test work to-date, the expected metallurgical indices would be

- DSO: Allowance of 2% for losses during mining and handling. Material would be two staged crushed and rail shipped direct from site to client.
- Concentrate: Average weight recovery of 62%. An average iron (Fe) recovery of 87.5 %.
- Impurities: SiO_2+Al_2O_3 < 10%. Test work returned ≈ 4%.

Basic concentrate flow sheet would be crushing > grinding > WLIMS &WHIMS > filtering > tailings/concentrate > concentrate and/or pellets > train haulage.

It is anticipated based on current agreements that the Met site would be refurbished for iron ore processing. The existing mills were used to handle massive sulphide ore (with chert) so their work indices are probably sufficient to handle iron ore. The site would have to be fitted with drum magnetic seperators. Note: one flotation circuit could be kept if silica reverse flotation was required as a finishing/cleaner step.

5.0 Environmental and Geotechnical

Senes Consultants completed a Certified Closure Plan for the Whitney South Talc Magnesite Open Pit. This study can be used at this stage for the conceptual/scoping study for the TIMNOR iron ore project as the open pits will be adjacent to each other and the rock units to be mined are similar. Major areas already studied:

- Golder Associates completed soils studies, geotechnical drilling for rock mass assessments, open pit design including stability analysis and surface and ground water assessment. Design of water retention areas and drainage as well preliminary design of industrial water retention dams.
- Environmental baseline
- Archaeological study
- Timber assessment
- Acid Rock Drainage (ARD) and Metal Leaching
- Required remediation work and costs upon closure

The significant points are described briefly below

5.1 ARD Classification

Senes stated in the Closure Plan and ML.ARD Assessment " *Clearly the ultramafic rock units have a very high Carbonate NP, typically over 150 kg $CaCO_3$/t, and have a negligible sulphide content, suggesting nil potential to generate ARD. The felsic metavolcanics also have a low to nil sulphide content and have a high carbonate NP (median of 124 kg $CaCO_3$/t), also suggesting low potential for ARD. The iron formation has a higher sulphide content (although still low on average) and lower carbonate NP than the other rock types (median NP of approximately 60 kg $CaCO_3$/t).* ***Despite this, almost all of the iron formation sampled from within the 5.0 Mt pit outline has a low to nil potential to generate ARD."***

The same wall rocks will form the pit walls in the proposed TIMNOR pit as well as any iron ore treated at a toll processing facility should not be an issue with respect of any iron tailings reporting to existing tailings facilities.

No major concerns or special provisions were noted.

5.2 Culture and Heritage Assessment

The report "Final Stage Archaeological and Cultural Heritage Resource Assessment" stated there was a low potential for archaeological sites and gave "*Recommendations are made herein to allow the development of the talc/magnesite property on Whitney Townships to proceed without further archaeological / cultural heritage work".* Woodland Heritage Services Limited.

5.3 Golders Preliminary Pit Slope Recommendations Whitney Property

Completed factor of safety calculations and preliminary design of bench heights and slopes. It is believed the TIMNOR pit will be of the same depth and conditions as the Golders study of the Whitney South Talc Magnesite Pit and therefore the conclusions of this study can be used for this assessment. The industry standards for rock strengths (Unconfined Compressive Strengths), core orientation, geotechnical logging and permeability (packer tests) were followed.

Measured Iron formation UCS was 259.13 MPa with SG of 3.22. Felsics average was 84 MPa and Ultramafics were 30 to 71 MPa. Iron Formation had a RMR (Rock Mass Rating) of 62 to 68 or RMR of good. Other rocks had a fair RMR rating. Measured hydraulic conductivity decreased by depth i.e. rock got tighter with depth. No special provisions were recommended.

To maintain a factor of Safety of greater than 1.2 with a maximum wall height of 70 meters, the following recommendations were made

- Bench height of 10 m
- Overall slope angles of 70 degrees
- Bench face of 85 degre

Figure No. 4: Golders Kinematic Failure Assessment Whitney Open Pit

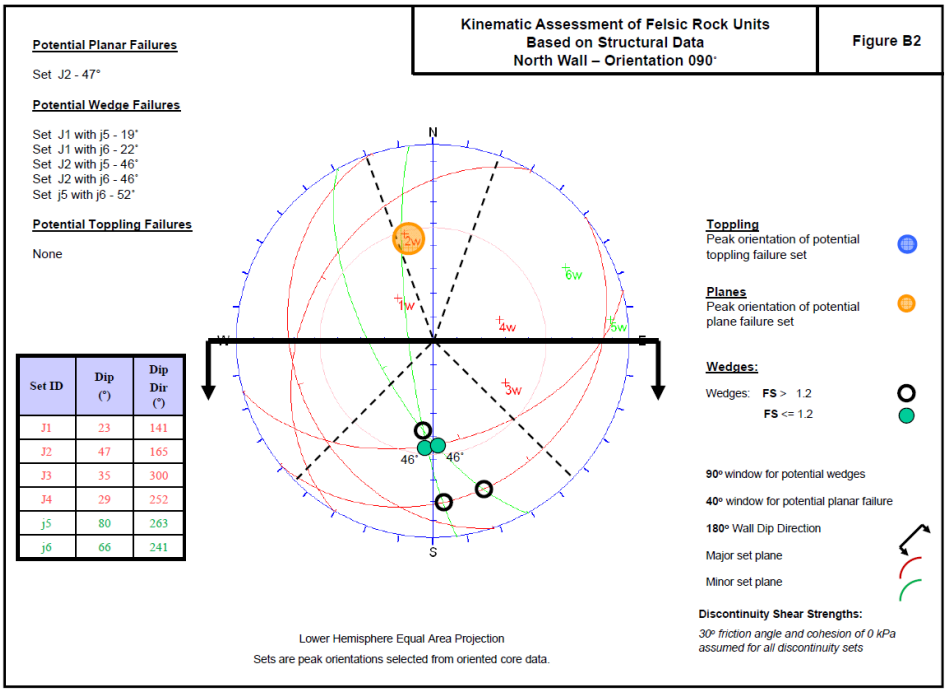
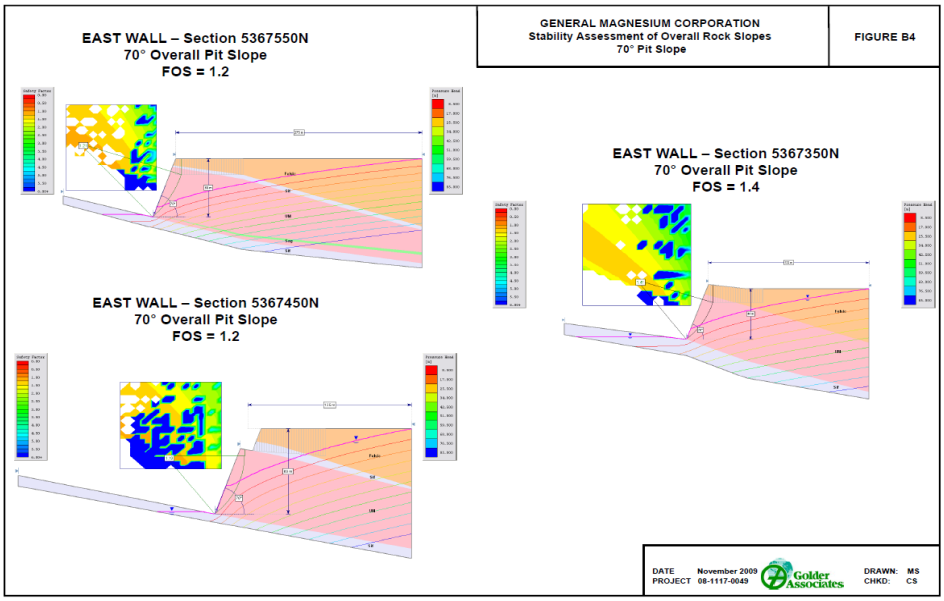


Figure No. 5: Golders Factor of Safety Whitney Open Pit



6.0 Iron Ore Pricing

Various industry standard projections were relied on including the report by Metal Consulting.

A base rate of $125 per tonne for 62% Fe was employed.

A premium rate of $5.00 per tonne was used for every 1% Fe over base level of 62% Fe. For example, product with a grade of 68% Fe would have a value of $155.00 per tonne.

Several NDAs have been entered into with discussions on potential for domestic markets (Canada and USA). International markets have also been studied and cost forecast to deliver to international Quebec ports were completed.

7.0 A 25 Year Operating Plan

The entire property has LIDAR topography that was interpreted on 1.0 m intervals and have been used wherever possible to determine first order material take offs. This was used for estimating operating costs as well as capital site preparation costs. For example, the first 25 years of open pit is confined to top slicing of 30 meter hill resulting in very low operating costs and efficient bench mining. True pit mining would only occur after 25 years or if grade blending was required or production rates were planned to increase.

The large resource potential suggests large annual production rates and long mine life are possible. Increased production rates are possible as the project is not mine limited. However, further diamond drilling is required to fully define the property resources and potential.

This study limits the annual production rate based on public information on the 95% maximum grinding rate at the Met Site and the inferred DSO percentage of the potential resources as follows

- Annual ROM ore shipped for magnetic concentrate processing of 4.0 Mtpa
- Annual DSO of 1.25 Mtpa

The above translates to

- An annual ROM ore production of 5.25 Mtpa (15,000 tpd at 350 days per year)
- Ore production over 25 years of 131,250,000 tonnes
    - 31,250,000 tonnes DSO
    - 100,000,000 tonnes processed ROM

The site preparation that would include all overburden and waste rock stripping would be capitalized. No allowance for waste mining during pit operations was considered irrelevant at this level of study.

ONR (Ontario Northland Railway) provided operating costs per tonne to various domestic markets as well as costs to both domestic and international Canadian ports. Costs ranged from $15.33 to $27.70 per tonne.

Mining would be with conventional drilling and blasting to mucking to haulage to stockpile. Primary and secondary crushing would be employed. Tonnage for crusher through put was reduced by 20% to allow for fines. DSO would be loaded to train cars and shipped to market (clients). ROM processed ore would be loaded to train cars to Met site (12 kms) to train dump and / or stockpile. ROM would be processed then shipped by train to market.

Mining costs and crushing costs were based on actual quotations provided by contractors for the GMG talc magnesite open pit. Mining will be conventional with drilling, blasting,

mucking, truck haulage to waste and ROM stockpiles. ROM will be direct dumped into crusher coarse ore bin (with grizzly) or stockpiled. Average haul distance for ore would be 650 m and 850 m for waste.

Figure No 6: 25 Year Site Plan

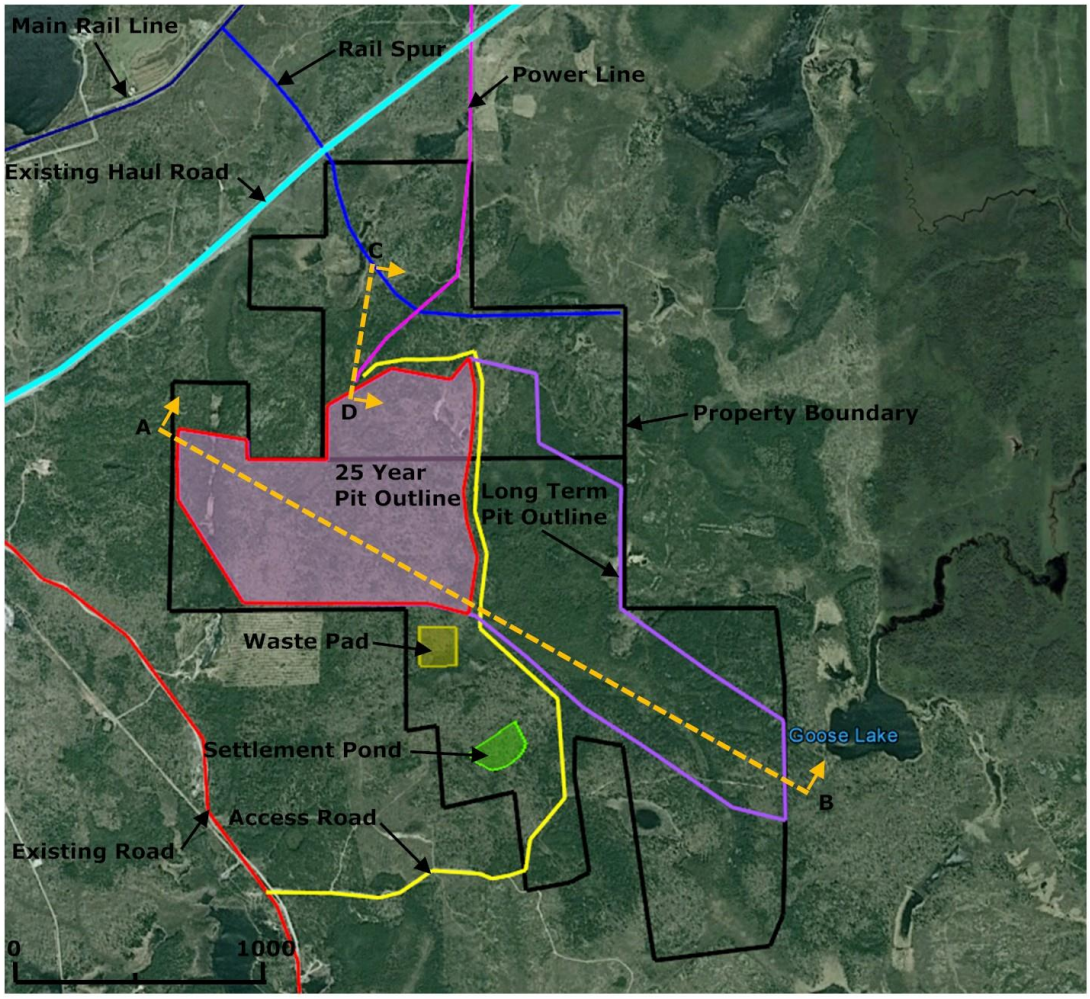


Figure No. 7: 25 Year Pit Longitudinal Section

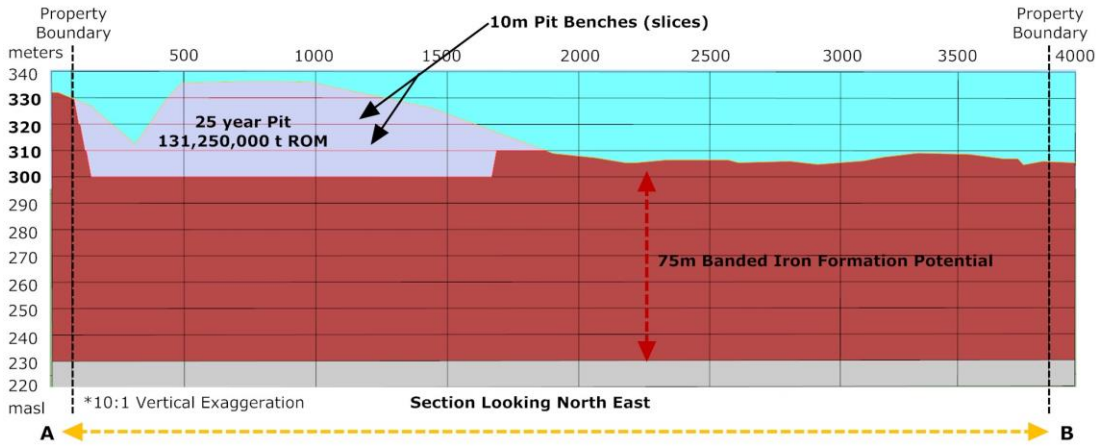
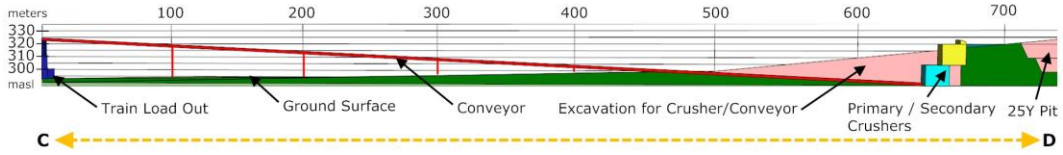


Figure No. 8: Crusher and Conveyor Section



Processing costs are based on a fine grind product (74 um) and a coarse grind product (106 um). After grinding, would be classification then magnetic separation. Capital costs are based on actual consultant/contractor costs as well as industry benchmarking for similar style processing plants. Provisions for HPGR circuit have also been included.

Operating and capital costs for a pellet plant are not estimated as it is not known where the pellet plant would be constructed at this time (i.e plant or port) and what potential clients would request for final specifications. It is felt at this stage the costs associated with a pellet plant would not affect the overall feasibility of the project. In actual fact, premium pricing of pellets could more than off set additional capital for the plant.

8.0 Operating Costs First 25 Years

Item	Units	$ / Unit	Total Canadian Dollars Millions
Revenue			
DSO @ 62 % Fe	20,000,000 t	$125	$2,500
DSO @ 58 % Fe	11,250,000 t	$105	$1,182
Subtotal	31,250,000 t	$118	$3,682
Concentrate 68 % Fe	62,000,000 t	$155	$9,610
Gross	**93,250,000 t**	**$143**	**$13,292**
NSR		4%	($532)
Net		**$137**	**$12,762**
Operating Costs			
General (G & A)	131,250,000	$0.75	$99
Mining	131,250,000	$3.25	$427
Crushing	105,000,000	$3.50	$368
Train Load Out Mine	131,250,000	$0.15	$20
Subtotal	**131,250,000**	**$6.95**	**$914**
Rail Mine to Met Site	100,000,000	$0.74	$74
106 um Processing	59,062,500	$5.50	$325
74 um Processing	40,937,500	$4.81	$197
Train Load Out Met Site	62,000,000	$0.15	$9
Subtotal	**62,000,000**	**$9.76**	**$605**
Total			**$1,519**
Operating Cash Flow			**$11,243**
Unit Cost Total $/t	131,250,000	$11.57	
Unit Cost DSO	31,250,000	$7.65	
Unit Cost Concentrate	62,000,000	$20.64	
Rail Haulage Market			
Domestic Port/Client		$15.33	
International Port	Quebec City	$27.70	
	Montreal	$23.28	
USA Client		$25.76	
Unit Costs to Port or Client ($/t)	**Concentrate**	**DSO**	**Weighted Average**
Domestic (Canada) P & C	$35.97	$22.98	$31.61
Domestic (USA) Client	$46.40	$33.41	$42.05
International Quebec Port	$48.34	$35.35	$43.99
International Montreal Port	$43.92	$30.93	$39.39
Average	**$43.66**	**$30.67**	**$39.26**

9.0 Capital Costs

Item	Units	$ / Unit	Millions $	Comments
Permitting			5	CCP,PTTW,Financial Assurance etc
Site Preparation				
Tree Clearing	230 ha	Allow	1.0	Forestry company net zero
Overburden	2,000,000 t	3.49	7.0	
Waste rock cap	4,800,000 t	3.35	16.0	
Dumps	280,000	3.5	1.0	Use waste rock & sand
Roads/Creek Diversion/Culverts	6 km roads 1 km divert		7.0	on site. Already tested by GMG and Golders Design
Water retention ponds				
Crusher/conveyor rock cut/pad	52,300 t	$20.00	1.1	
Subtotal			**33.1**	
New Mine Infrastructure				
Fencing	13 km	$144/m	1.9	
Office/Shop Additions			5.0	Incl. mine dry
Contractor Setup			3.2	shop, fuel, explosives..
Power line	3.9 km	243,000/km	1.0	
Sub Station			2.5	
Rail Culverts			2.0	Haul road underpass (Goldcorp actual), swamp crossing
Rail Spur	3 km	$720,000/km	2.2	ONR actual quote
Screens/ Crushers/grizzly			25.4	Extrapolated from SNC study
Rail Loadout & Conveyors			9.9	650 m conveyors 254 mm concrete
Rail Rolling Stocks	300	100,000	30	
Small Equipment			10	
Definition diamond drilling			5	25,000 meters
Subtotal			**98.1**	
Processing Plant				Modify met site & existing grinding
Rail turnaround mods	1 km		1	
Stockpile laydown	Allow		1	
Process Magnetic Seperation			$129	All inclusive
Larger Rail Loadout			3	
Other			20	New tailings or mods after 10 years. Connect Infrastructure …
Subtotal			**154**	
Subtotal			**285.2**	
Operating Capital, Spares			**71.3**	
Subtotal			**356.5**	
Contingency (30%)			**107**	Includes First Nations allowances
Total			**463.5**	

10 Economic Review and GO NO GO

All analysis were calculated before taxes. Average taxes would be in the order of 30%.

The net operating cash flow per year was estimated to be $450 million. This would allow for a simple payback of the CAPEX without contingency ($356.5 million) of less than one year.

If taxes and contingency are included, then the payback would increase to less than two (2) years.

The project is very robust. The iron ore price would have to reduce to $40.00 per tonne for a simple break- even metric.

The CAPEX per tonne of annual capacity would be $68.00/t before contingency and $88.7 after contingency.

The project could offer several options for start up and with iron grade zonation could provde inherent insulation to iron ore price fluctuations.

The OPEX and CAPEX would be in the bottom quartile of world iron ore producers.

It was felt conventional NPV or IRR analysis were not appropriate at this stage. The NPV would be greater than zero with a high IRR for the actual life of mine option.

The next step is to complete detailed diamond drilling and additional met work at cost from $3.0 to $5.0 million. The analysis clearly indicated the project should be taken to this next stage as iron ore resources have already been defined and shown to be potentially economic. Drilling will help to better define the quality and quantity of the resource and possibly open new development options.

GO