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Stone Resources Australia Limited

ABN 44 100 727 491

Interim Financial Report
31 December 2016

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DIRECTORS' REPORT

Your directors submit the financial report of Stone Resources Australia Limited and its subsidiaries ("the Group") for the half-year ended 31 December 2016. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

Directors

The names of directors who held office during or since the end of the interim period and until the date of this report are noted below. Directors were in office for the entire period unless otherwise stated.

Yongji Duan	Non-Executive Chairman
Kaiye Shuai	Non-Executive Director
William Hobba	Non-Executive Director
Yong Han	Executive Director
Fang Lu	Non-Executive Director

Other Key Officer

Guofu Zu	Chief Executive Officer
Tony Lau	Joint Company Secretary
Sheng Hui Lu	Joint Company Secretary

Review of Operations

The consolidated net loss after income tax for the half-year was $2,546,890 (31 December 2015: $2,030,610).

On 24 September 2016, the Company announced entering into a Non-Binding Heads of Agreement with VCS Civil and Mining Pty Ltd (VCS) to expedite the development of gold deposits in the Laverton area of Western Australia. Under the proposed arrangement:

- SRAL is to provide the tenements for development that are located to the north of Laverton, namely the Brightstar North Project tenements. SRAL will provide access to facilities that can grind and process the ore at SRAL Bright Star gold plant located 40km south east of Laverton, WA, as well as any other infrastructure they currently hold that could be of use to partnership.
- VCS will provide the expertise in gaining the required approvals, develop the mine plan, Engineering, Geological support, Pit design and manage road haulage. Once completed, VCS will provide manning and mobile plant for the mining and haulage services to deliver the ore to the processing facility.
- VCS will provide the working capital until positive cash flow is generated as well as the mining fleet and fixed plant upgrade.
- The parties will further evaluate the viability for development of other tenements held by SRAL.

Drilling commenced at the SRAL Brightstar North Ben Hur deposit in December 2016 to allow SRAL and VCS to determine the viability of the project and to work towards the finalisation of the formal more in-depth agreement (ASX: Announcement 19/12/2016). Results of the drilling will be announced on completion of the drilling campaign and receipt of the results.

Gap GeoPhysics were commissioned to conduct a Sub-Audio Magnetic (SAM) survey across core tenements in North Laverton. The SAM survey covered an area of strike length of 25 kilometres on 100m line space. The total survey distance was approximately 78 line-kilometres. The interpretation work has generated several potential targets. Scout drilling is planned to further test these targets.

At the end of the half-year the Group had $922,384 (30 June 2016: $109,349) in cash and cash equivalents. Capitalised exploration, evaluation and development expenditure is $14,622,064 (30 June 2016: $14,479,340).

During the current half-year, the Company received net funding from the immediate parent entity of $905,000. The total amount received as at 31 December 2016 is $31,487,156 (30 June 2016: $30,582,156).

On 20 December 2016, the Company announced that it had raised $1,000,000 by way of a private placement of 30,303,030 new fully paid ordinary shares at an issue price of $0.033 per share. The placement was made to a sophisticated investor known to the Company. The investor is not a related party of the Company or Stone Resources Limited (the controlling shareholder of the Company). The issue price was determined by reference to the average price per share that Stone Resources Limited paid to acquire control of the Company in 2011.

The Company also issued 12,894,030 shares to three executives of the Company for nil consideration to settle outstanding obligation arising from their remuneration arrangement with the Company.

There were no significant events occurring after balance sheet date requiring disclosure.

Auditor's Independence Declaration

Section 307C of the Corporations Act 2001 requires our auditors, Deloitte Touche Tohmatsu, to provide the directors of the Company with an Independence Declaration in relation to the review of the interim financial report. This Independence Declaration is set out on page 3 and forms part of this directors' report for the half-year ended 31 December 2016.

This report is signed in accordance with a resolution of the Board of Directors made pursuant to s.306(3) of the Corporations Act 2001.

Yong Han
Director
14 March 2017

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The Board of Directors
Stone Resources Australia Limited
Level 1, 250 Fulham Street,
Cloverdale WA 6105

14 March 2017

Dear Board of Directors

Stone Resources Australia Limited

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Stone Resources Australia Limited.

As lead audit partner for the review of the consolidated financial statements of Stone Resources Australia Limited for the half-year ended 31 December 2016, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

(ii) any applicable code of professional conduct in relation to the review.

Yours sincerely

DELOITTE TOUCHE TOHMATSU

DELOITTE TOUCHE TOHMATSU

John Sibenaler
Partner
Chartered Accountants

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Touche Tohmatsu Limited

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

	Notes	Consolidated 31 December 2016 $	31 December 2015 $
Other income	2	**687**	2,666
Depreciation and amortisation expense		**(99,408)**	(105,104)
Mine site expenses	2	**(167,386)**	(196,992)
Impairment and exploration expenditure written off	2	**(378,673)**	(14,618)
Finance costs		**(1,390,045)**	(1,211,903)
Other expenses		**(512,065)**	(504,659)
Loss before income tax		**(2,546,890)**	(2,030,610)
Income tax		**-**	-
Loss for the period		**(2,546,890)**	(2,030,610)
Other comprehensive income for the period, net of tax		**-**	-
Total comprehensive loss for the period		**(2,546,890)**	(2,030,610)
Basic and diluted loss per share (cents per share)		**(0.36)**	(0.29)

The accompanying notes form part of these financial statements.

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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

		Consolidated	
	Notes	31 December 2016 $	30 June 2016 $
Assets			
Current Assets			
Cash and cash equivalents		**922,384**	109,349
Trade and other receivables		**83,023**	101,344
Inventories		**47,020**	47,020
Total Current Assets		**1,052,427**	257,713
Non-Current Assets			
Property, plant and equipment	4	**7,791,306**	7,894,330
Deferred exploration and development expenditure	5	**14,622,064**	14,479,340
Total Non-Current Assets		**22,413,369**	22,373,670
Total Assets		**23,465,797**	22,631,383
Liabilities			
Current Liabilities			
Trade and other payables	6	**11,153,058**	9,780,757
Borrowings	7	**32,617,156**	31,727,046
Provisions		**59,138**	62,679
Total Current Liabilities		**43,829,352**	41,570,482
Non-Current Liabilities			
Provisions		**6,532,641**	6,496,813
Total Non-Current Liabilities		**6,532,641**	6,496,813
Total Liabilities		**50,361,993**	48,067,295
Net Liabilities		**(26,896,196)**	(25,435,912)
Equity			
Issued capital	8	**50,483,475**	49,396,869
Reserves		**-**	-
Accumulated losses		**(77,379,672)**	(72,832,781)
Total Deficiency		**(26,896,196)**	(25,435,912)

The accompanying notes form part of these financial statements

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2016**

	Issued Capital	Accumulated Losses	Convertible Notes Equity Reserve	Total Equity
	$	$	$	$
Balance at 1 July 2015	49,396,869	(70,474,771)	47,118	(21,030,784)
Loss for the period	-	(2,030,610)	-	(2,030,610)
Total comprehensive loss for the period	-	(2,030,610)	-	(2,030,610)
Write back equity reserve on lapsed convertible note (a)	-	47,118	(47,118)	-
Balance at 31 December 2015	**49,396,869**	**(72,458,263)**	**-**	**(23,061,394)**
Balance at 1 July 2016	49,396,869	(74,832,781)	-	(25,435,912)
Loss for the period	-	(2,546,890)	-	(2,546,890)
Total comprehensive loss for the period	-	(2,546,890)	-	(2,546,890)
Shares issued during the year	1,091,979	-	-	1,091,979
Transaction costs on issue of shares	(5,373)	-	-	(5,373)
Balance at 31 December 2016	**50,483,476**	**(77,379,671)**	**-**	**(26,896,196)**

The accompanying notes form part of these financial statements

(a) The equity reserve of $47,118 on the convertible note of $500,000 issued to the Parent Entity is transferred against the Equity Reserve since the conversion feature lapsed on 7 November 2013.

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CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

	Consolidated	
	31 December 2016 $	31 December 2015 $
	Inflows/(Outflows)	
Cash flows from operating activities		
Payments to suppliers and employees	**(565,944)**	(761,845)
Interest received	**749**	1,503
Finance costs	**-**	(1,637)
Net cash outflow from operating activities	**(565,195)**	(761,979)
Cash flows from investing activities		
Payments for exploration and evaluation expenditure	**(521,397)**	(516,076)
Net cash outflow from investing activities	**(521,397)**	(516,076)
Cash flows from financing activities		
Proceeds from borrowings	**-**	74,308
Proceeds from issue of shares	**994,627**	-
Loans from immediate parent entity	**905,000**	1,163,882
Repayment of finance borrowings and leases	**-**	(40,990)
Net cash inflow from financing activities	**1,899,627**	1,197,200
Net increase / (decrease) in cash held	**813,035**	(80,555)
Cash and cash equivalents at the beginning of the period	**109,349**	152,709
Cash and cash equivalents at the end of the period	**922,384**	71,854

The accompanying notes form part of these financial statements.

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NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These half-year consolidated financial statements are general purpose financial statements prepared in accordance with the requirements of the Corporations Act 2001, applicable accounting standards including AASB 134 'Interim Financial Reporting', Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board ('AASB'). Compliance with AASB 134 ensures compliance with IAS 34 'Interim Financial Reporting'.

This condensed half-year report does not include full disclosures of the type normally included in an annual financial report. Therefore, it cannot be expected to provide as full an understanding of the financial performance, financial position and cash flows of the Group as in the full financial report.

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2016 and any public announcements made by Stone Resources Australia Limited and its subsidiaries during the half-year in accordance with continuous disclosure requirements arising under the Corporations Act 2001 and the ASX Listing Rules.

The accounting policies adopted are consistent with those of the previous financial year and corresponding half-year reporting period.

Basis of preparation

The half-year report has been prepared on a historical cost basis. Cost is based on the fair value of the consideration given in exchange for assets. The Company is domiciled in Australia and all amounts are presented in Australian dollars, unless otherwise noted.

The accounting policies adopted are consistent with those of the previous financial year and corresponding half-year reporting period. For the purpose of preparing the half-year report, the half-year has been treated as a discrete reporting period.

Significant accounting judgements and key estimates

The preparation of half-year financial reports requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates.

In preparing this half-year financial report, the significant judgements made by management in applying the Group's accounting policies and the key estimates of uncertainty were the same as those applied for the year ended 30 June 2016 including the following:

- Share-based payment transactions
- Exploration and evaluation costs carried forward
- Recovery of deferred tax assets
- Recoverability of long-lived assets
- Determination of ore reserves and minerals resources and remaining mine life
- Provision for restoration and rehabilitation obligations

Going concern

The financial report has been prepared on the going concern basis, which assumes continuity of normal business activities and the realisation of assets and the discharge of liabilities in the ordinary course of business.

The consolidated entity has incurred a loss of $2,546,890 (2015: $2,030,610) and experienced net cash outflows from operating and investing activities of $1,086,592 (2015: $1,308,055) for the half-year ended 31 December 2016. As at 31 December 2016, the consolidated entity had a cash balance of $922,384 and a working capital deficiency of $42,776,925 which is inclusive of an amount payable of $10,080,794 and loans of $31,487,156 with its immediate parent entity, Stone Resources Limited, and a related party loan of $630,000.

The directors recognise that additional funding is required to ensure that the company and the consolidated entity can pay their debts and to meet their ongoing exploration and drilling activities, until recommencement of their mining operations.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Going concern (continued)

The immediate parent entity has agreed to defer repayment of the amounts payable of $10,080,592, loans of $31,487,156 and interest accrued thereon outstanding at 31 December 2016 for at least 12 months from the date of signing the financial report or until such time the company is financially independent. The company has also received a letter to defer repayment of a related party loan totalling $630,000, and interest accrued thereon outstanding at 31 December 2016, for at least 12 months from the date of signing the financial report. In addition, the company received a letter of support from its immediate parent entity and its ultimate parent entity to fund operations for a period of at least 12 months from the date of signing the financial report.

The directors have prepared a cash flow forecast for the period ending 31 March 2018 which indicates current cash resources will not meet expected cash outflows without additional funding. The ability of the company and the consolidated entity to continue as going concerns is dependent on:

- Obtaining continued financial support from its immediate parent entity, Stone Resources Limited, with amounts totalling $1,700,000 being required progressively throughout the period ending 31 March 2018;
- The continued deferral of loans and accrued interest owing to Stone Resources Limited and other related party loans, as noted above; and
- Managing all costs for the period ending 31 March 2018 in line with the cash flow forecasts.

The directors are satisfied that they will achieve the matters set out above and therefore the going concern basis of preparation is appropriate.

Should the consolidated entity be unable to achieve the matters listed above, there is a material uncertainty whether the consolidated entity will be able to continue as a going concern and, therefore, whether it will realise its assets and discharge its liabilities in the normal course of business.

The financial report does not include adjustments relating to the recoverability and classification of recorded asset amounts nor to the amounts and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern.

New Standards and Interpretations

(a) Adoption of new and revised Accounting Standards

The consolidated entity has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board that are relevant to their operations and are effective for the current financial reporting period, being the half-year ended 31 December 2016.

There are no new and revised standards and amendments thereof and interpretations effective for the current reporting period that are considered to have a material effect to the Company.

The adoption of all the new standards and interpretations has not resulted in any changes to the consolidated entity's accounting policies and has no effect on the amounts reported for the current or prior half-years.

(b) Standards and Interpretations issued but not yet effective

Australian Accounting Standards and Interpretations have recently been issued or amended but are not yet effective and have not been adopted by the consolidated entity for the half-year ending 31 December 2016. Management is in the process of assessing the impact of the adoption of these standards and interpretations on the consolidated entity.

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NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

NOTE 2: LOSS BEFORE INCOME TAX EXPENSE

	Consolidated	
	31 December 2016 $	31 December 2015 $
The following revenue and expense items are relevant in explaining the financial performance for the half-year:		
(a) Other income		
Profit from sale of non-current assets	134	1,209
Bank interest	379	1,001
Other	174	456
	687	2,666
(b) Mine site expenditure		
Mine site expenditure under care and maintenance	167,386	196,993
(c) Impairment and relinquished non-current assets		
Impairment of deferred development expenditure Alpha Mine	9,642	14,618
Relinquished tenements' cost written off cost	369,031	-
	378,673	14,618

NOTE 3: SEGMENT REPORTING

The group has identified its operating segments based on the internal reports that are reviewed and used by the board of directors in assessing performance and determining the allocation of resources. Reportable segments disclosed are based on aggregating operating segments, where the segments have similar characteristics. The group's sole activity is mineral exploration and resource development wholly within Australia, therefore it has aggregated all operating segments into the one reportable segment being mineral exploration.

The reportable segment is represented by the primary statements forming these financial statements.

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NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

NOTE 4: PROPERTY, PLANT AND EQUIPMENT

Consolidated

	Office furniture and equipment	Plant and equipment	Motor vehicles	Building	Mine property and plant	Total
	$	$	$	$	$	$
Half-year ended 31 December 2016						
At 1 July 2016, net of accumulated depreciation and impairment	6,380	295,626	69,604	499,297	7,023,423	7,894,330
Additions	-	-	-	-	-	-
Inter-transfer asset category	-	-	-	-	-	-
Disposals	-	-	(35,658)	-	-	(35,658)
Write back depreciation on disposal	-	-	32,043	-	-	32,043
Depreciation charge for the year	(1,436)	(67,069)	(23,888)	(7,016)	-	(99,409)
At 31 December 2016, net of accumulated depreciation and impairment	4,944	228,557	42,101	492,281	7,023,423	7,791,306
At 1 July 2016						
Cost or fair value	76,997	1,293,299	338,291	561,272	39,177,355	41,447,214
Accumulated depreciation and impairment	(70,617)	(997,673)	(268,687)	(61,975)	(32,153,932)	(33,552,884)
Net carrying amount	6,380	295,626	69,604	499,297	7,023,423	7,894,330
At 31 December 2015						
Cost or fair value	76,997	1,293,299	302,636	561,272	39,177,355	41,411,559
Accumulated depreciation and impairment	(72,053)	(1,064,742)	(260,535)	(68,991)	(32,153,932)	(33,620,253)
Net carrying amount	4,944	228,557	42,101	492,281	7,023,423	7,791,306

The useful life of the assets was estimated as follows:

Office furniture and equipment	5 to 8 years
Plant and equipment	3 to 5 years
Motor vehicles	4 to 5 years
Mine property and plant	Life of mine, calculated on resource units

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NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

NOTE 5: DEFERRED EXPLORATION AND DEVELOPMENT EXPENDITURE

	Consolidated	
	31 December 2016 $	30 June 2016 $
Costs carried forward in respect of areas of interest in the following phases:		
Exploration and evaluation phase – at cost		
Balance at beginning of period	14,479,340	13,861,948
Expenditure incurred	521,397	732,130
Expenditure written off	(369,031)	(98,884)
Impairment of Beta and Alpha mines (1)	(9,642)	(15,853)
Balance at end of period	14,622,064	14,479,340

The recoupment of costs carried forward in relation to areas of interest in the exploration and evaluation phases is dependent upon the successful development and commercial exploitation or sale of the respective areas.

(1) Mining in Beta and Alpha reached its designed pit depth during the year ended 30 June 2013. Evaluation is underway to determine the future viability of these areas of interest. Notwithstanding, the balance of expenditure for Beta and Alpha mines has been treated as impaired until recommencement of mining in these tenements.

NOTE 6: TRADE AND OTHER PAYABLES

	Consolidated	
	31 December 2016 $	30 June 2016 $
Trade payables (i)	203,924	127,458
Accrued liabilities and other payables	868,340	937,595
Inter-company current account – immediate parent entity (ii)	10,080,794	8,715,704
	11,153,058	9,780,757

(i) Trade payables are non-interest bearing and are normally settled on 30-day terms and with special arrangements entered into with major suppliers for settlement within 60 to 90 days.

(ii) Inter-company current account balance is made up of accrued interest of $9,378,775 payable on parent entity loan, Company expenses paid direct by parent entity of $770,925 after deducting for ultimate parent entity expenses paid by the Company of $68,906.

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NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

NOTE 7: BORROWINGS

	Consolidated	
	31 December 2016 $	30 June 2016 $
Current		
Insurance premium loan (i)	-	14,890
Loan from immediate parent entity (iii)	31,487,156	30,582,156
Convertible loan from immediate parent entity (iv)	500,000	500,000
Loan from related entity (v)	630,000	630,000
	32,617,156	31,727,046
Non-Current		
Loans carried at amortised cost		
Obligations under finance leases and hire purchase contracts	-	-
	-	-

(i) The insurance premium loan has been fully repaid on 31 August 2016.

(ii) The loan from the immediate parent entity comprises funding for working capital, exploration, acquisition of new plant and equipment for the Company and redemption of a previous convertible note to a non related party. The loan is at call and subject to an interest of 8.53% per annum on which date it is payable unless extended by mutual agreement. During the half-year, the Company received $905,000 as cash advances from its parent entity.

(iii) The convertible note balance of $500,000 from the immediate parent entity is interest bearing at 8.53% per annum and was repayable before or upon maturity of two years which ended on 7 November 2013. The conversion feature lapsed on 7 November 2013 and was amended to be at call and bears an interest of 8.53% per annum.

(iv) The Company received an interest bearing loan of $630,000 at 9.31% per annum from Great Cortex International Ltd which is a related party of the parent entity by virtue of Mr. Yongji Duan Non-Executive Chairman of the Company and being a director of Great Cortex International Ltd. In accordance with the Acknowledgement of Deed signed between Great Cortex and Stone Resources Australia Limited dated 11 September 2012, the loan had a grace period of repayment to 31 December 2013 and thereafter repayments of $105,000 in half-yearly cycles commencing June 2014. Great Cortex International Limited has applied an extension of the grace period to 31 December 2018.

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NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

NOTE 8: ISSUED CAPITAL

	Consolidated	
	31 December 2016 $	30 June 2016 $
Ordinary shares		
Issued and fully paid	50,483,475	49,396,869

	Consolidated		Consolidated	
	31 December 2016 No.	31 December 2016 $	30 June 2016 No.	30 June 2016 $
Movements in ordinary shares on issue				
Balance at beginning of financial year	701,643,586	49,396,869	701,643,586	49,396,869
Share issues	43,197,060	1,091,979	-	-
Costs associated with issue of shares	-	(5,373)	-	-
Balance at end of financial year	744,840,646	50,483,475	701,643,586	49,396,869

NOTE 9: COMMITMENTS AND CONTINGENT LIABILITIES

Capital and exploration commitments

The Group has an expenditure commitment of $411,687 for the second half-year 2016-2017 and an expenditure commitment of $651,880 for the first half-year 2017-2018 to sustain current tenements' under lease from the Department of Mines and Petroleum. The expenditure commitment includes annual tenement rentals.

Other expenditure contingencies

None

Operating lease commitments – Group as lessee

The Group's commercial sub leasing for its current office premises expires on 31 August 2017.

Contingent Liability

In June 2015, SRAL filed its Defence to Nex's Statement of Claim and a Counterclaim against Nex for an amount of $8,554,672, or further or alternatively damages, plus interest and costs arising from breaches of the Toll Milling Agreement by Nex.

A mediation conference was held in the Supreme Court of Western Australia on 3 September 2015. The proceedings were not resolved at that mediation conference and have been listed for a further status conference.

The Supreme Court action with Nex Metals Explorations (ASX: NEX) is still pending experts reports to be submitted to the Court.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

NOTE 10: RELATED PARTY TRANSACTIONS

Interest expense of $29,566 at 9.31% per annum was incurred for the half-year on a related party loan of $630,000 from Great Cortex International Limited (30 June 2016 $ 58,650) in which Mr Yongji Duan is a director.

Interest expense of $21,498 at 8.53% per annum was incurred for the half-year to the immediate parent entity for the convertible note that lapsed at maturity on 7 November 2013 (30 June 2015: $42,763).

During the half-year, the Company received net funding from the immediate parent entity of $905,000. The total amount received as at 31 December 2016 is $31,487,156 (30 June 2016: $30,582,156). Interest expense of $1,339,222 was incurred for the half-year to the immediate parent entity on funding (30 June 2016: $7,855,074).

A non-interest bearing inter-company current account of $10,080,794 as at 31 December 2016 (30 June 2016: $8,715,704) (see Note 6 (ii)).

NOTE 11: FAIR VALUE OF FINANCIAL INSTRUMENTS

The directors consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values.

NOTE 12: KEY MANAGEMENT PERSONNEL REMUNERATION DISCLOSURES

Remuneration arrangements of key management personnel are disclosed in the annual financial report. In addition, during the half-year, 2,333,800 and 5,280,115 shares valued at 23,338 and 52,801 respectively, were issued to Joint Company Secretary, Sheng Hui Lu, and CEO, Goufu Zu respectively to settle obligation outstanding from June 2016 arising from employment arrangement. The shares were issued at a deemed value of $0.01 per share. The company also issued 5,280,115 shares to the Joint Company Secretary, Tony Lau, to settle outstanding invoice for consultancy services provided. The shares were issued at the share price on grant date of $0.003 per share.

NOTE 13: SIGNIFICANT EVENTS AFTER BALANCE DATE

No other matters or circumstances have arisen since the end of the financial period which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

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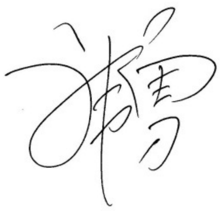
DIRECTORS' DECLARATION

In the opinion of the directors of Stone Resources Australia Limited ('the Company'):

1. The attached financial statements and notes thereto are in accordance with the Corporations Act 2001 including:
   a. complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
   b. giving a true and fair view of the Group's consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year then ended.
2. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is signed in accordance with a resolution of the Board of Directors made pursuant to s.303(5) of the Corporations Act 2001.



Yong Han
Director
14 March 2017

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Independent Auditor's Review Report to the Members of Stone Resources Australia Limited

We have reviewed the accompanying half-year financial report of Stone Resources Australia Limited, which comprises the condensed consolidated statement of financial position as at 31 December 2016, and the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 4 to 16.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Stone Resources Australia Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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Auditor's Independence Declaration

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Stone Resources Australia Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Stone Resources Australia Limited is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Material Uncertainty Regarding Continuation as a Going Concern

We draw attention to Note 1 in the financial report which indicates that for the half-year ended 31 December 2016, the consolidated entity incurred a loss of $2,546,890 (2015: $2,030,610) and experienced net cash outflows from operating and investing activities of $1,086,592 (2015: $1,308,055). These conditions, along with other matters set out in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

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John Sibenaler
Partner
Chartered Accountants
Perth, 14 March 2017