Stone Resources Australia Limited

ABN 44 100 727 491

Interim Financial Report
31 December 2013

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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 2013. 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 - Age 67	Non-Executive Chairman	
Kaiye Shuai - Age 68	Non-Executive Officer	Redesignated 1 January 2014
	Chief Executive Officer	Resigned 1 January 2014
William Hobba - Age 63	Non-Executive Director	
	Chief Executive Officer	Appointed 7 January 2014
Yong Han - Age 63	Executive Director	Appointed 24 January 2014
Fang Lu – Age 55	Executive Director	Appointed 24 January 2014

Review of Operations

The consolidated net loss after income tax for the half year was $3,404,456 (31 December 2012: $3,707,675).

Included only in the comparative period 31 December 2012 is a provision against doubtful debts of $318,763.

The Company's treatment facility remains in a care and maintenance mode since 15 September 2012. During the current half year, the Company has focussed on preparatory programs and the lodgement of the Mining Proposal for the BenHur Mine (M38/339), environmental compliance issues and conducted MMI geochemical survey analysis across nine tenements besides reconnaissance of other tenements.

At the end of the half year the Group had $21,662 (30 June 2013: $149,761) in cash and deposits. Capitalised exploration, evaluation and development expenditure is $13,671,598 (30 June 2013: $12,888,156).

Fixed Term Deposits held as collateral for Environmental Bonds issued to the Department of Mines and Petroleum is $1,100,712 (30 June 2013: $$1,097,500).

During the current half year, the Company received funding from the ultimate parent entity of $4,050,000 and payment on its behalf for redemption of the convertible note $1,521,315 and acquisition of plant and equipment $1,054,683. The total amount received as at 31 December 2013 is $23,629,574 (30 June 2013: $17,003,575).

There were no shares issued during the current half year.

Significant events after balance date

At the General Meeting held on 23 January 2014, under section 329 of the Corporations Act a resolution was adopted for the removal of HLB Mann Judd as auditor of the Company and under section 327D of the Corporations Act a resolution was adopted for the appointment of Deloitte Touche Tohmatsu as auditor of the Company.

On 28 February 2014, the Company entered into an agreement with CPC Goldfields Pty Ltd for replacing the new cone crusher, vibrating screens, ball mill and gravity circuit separator to its existing Brightstar Plant.

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 2 and forms part of this directors' report for the half-year ended 31 December 2013.

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

Chief Executive Officer

14 March 2014

Deloitte.

Deloitte Touche Tohmatsu
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14 March 2014

The Board of Directors
Stone Resources Australia Limited
L 1/250 Fulham Street
CLOVERDALE WA 6105

Dear Board Members

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 financial statements of Stone Resources Australia Limited for the half year ended 31 December 2013, 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

Chris Nicoloff

Chris Nicoloff
Partner
Chartered Accountants

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

	Notes	Consolidated 31 December 2013 $	31 December 2012 $
Revenue	2	**-**	700,187
Other income	2	**19,424**	14,938
Cost of sales			(2,067,479)
Depreciation and amortisation expense		**(96,632)**	(254,742)
Mine site expenses	2	**(1,114,475)**	-
Impairment of exploration expenditure	2	**(235,711)**	(1,762)
Finance costs		**(1,077,377)**	(722,290)
Other expenses		**(899,685)**	(1,376,527)
Loss before income tax		**(3,404,456)**	(3,707,675)
Income tax expense		**-**	-
Loss for the period		**(3,404,456)**	(3,707,675)
Other comprehensive income for the period, net of tax		**-**	-
Total comprehensive loss for the period		**(3,404,456)**	(3,707,675)
Basic loss per share (cents per share)		**(0.49)**	(0.59)

The accompanying notes form part of these financial statements.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2013

	Notes	Consolidated 31 December 2013 $	30 June 2013 $
Assets			
Current Assets			
Cash and cash equivalents		**21,662**	149,761
Trade and other receivables		**155,961**	170,690
Inventories		**65,436**	60,067
Total Current Assets		**243,059**	380,518
Non-Current Assets			
Other financial assets		**1,100,712**	1,097,500
Property, plant and equipment	3	**8,522,803**	6,594,878
Deferred exploration and development expenditure	4	**13,671,598**	12,888,156
Other financial assets		**-**	274,385
Total Non-Current Assets		**23,295,113**	20,854,919
Total Assets		**23,538,172**	21,235,437
Liabilities			
Current Liabilities			
Trade and other payables	5	**3,627,243**	2,986,627
Borrowings	6	**24,955,239**	19,886,820
Provisions		**92,784**	107,092
Total Current Liabilities		**28,675,266**	22,980,539
Non-Current Liabilities			
Borrowings	6	**12,464**	-
Provisions		**1,097,500**	1,097,500
Total Non-Current Liabilities		**1,109,964**	1,097,500
Total Liabilities		**29,785,230**	24,078,039
Net Liabilities		**(6,247,058)**	(2,842,602)
Equity			
Issued capital	7	**49,396,869**	49,396,869
Reserves		**47,118**	195,359
Accumulated losses		**(55,691,045)**	(52,434,830)
Total (Deficiency) / Equity		**(6,247,058)**	(2,842,602)

The accompanying notes form part of these financial statements

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2013

	Issued Capital	Accumulated Losses	Option Reserve	Convertible Notes Equity Reserve	Total Equity
	$	$	$	$	$
Balance at 1 July 2012	48,648,237	(39,330,268)	2,623,376	-	11,941,345
Loss for the period	-	(3,707,675)	-	-	(3,707,675)
Total comprehensive loss for the period	-	(3,707,675)	-	-	(3,707,675)
Shares issued during the half-year	53,696	-	-	-	53,696
Transfer of lapsed options	-	2,422,718	(2,422,718)	-	-
Equity component on convertible notes	-	-	-	180,164	180,164
Balance at 31 December 2012	**48,701,933**	**(40,615,225)**	**200,658**	**180,164**	**8,467,530**
Balance at 1 July 2013	49,396,869	(52,434,830)	-	195,359	(2,842,602)
Loss for the period	-	(3,404,456)	-	-	(3,404,456)
Total comprehensive loss for the period	-	(3,404,456)	-	-	(3,404,456)
Shares issued during the half-year net of costs	-	-	-	-	-
Equity component on convertible notes	-	148,241	-	(148,241)	-
Balance at 31 December 2013	**49,396,869**	**(55,691,045)**	**-**	**47,118**	**(6,247,058)**

The accompanying notes form part of these financial statements

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

	Consolidated	
	31 December 2013 $	31 December 2012 $
	Inflows/(Outflows)	
Cash flows from operating activities		
Receipts from customers	**-**	802,093
Payments to suppliers and employees	**(2,248,527)**	(4,112,012)
Interest received	**46,691**	83,187
Finance costs	**(13,359)**	(82,177)
Royalty paid	**-**	-
Net cash (outflow) from operating activities	**(2,215,195)**	(3,308,909)
Cash flows from investing activities		
Proceeds from sale of non-current assets	**207**	9,092
Payments for non-current assets	**13,501**	-
Payments for exploration, evaluation and development expenditure	**(1,846,662)**	(1,836,734)
Net cash (outflow) from investing activities	**(1,832,954)**	(1,827,642)
Cash flows from financing activities		
Proceeds from issue of shares	**-**	-
Payments for share issue costs	**(3,015)**	-
Proceeds from borrowings	**179,242**	-
Loans from ultimate parent entity	**4,050,000**	4,200,001
Proceeds of convertible note	**-**	1,500,000
Repayment of borrowings	**-**	-
Repayment of finance borrowings and leases	**(306,177)**	(220,291)
Net cash inflow from financing activities	**3,920,050**	5,479,710
Net (decrease) / increase in cash held	**(128,099)**	343,159
Cash and cash equivalents at the beginning of the period	**149,761**	87,201
Cash and cash equivalents at the end of the period	**21,662**	430,360

The accompanying notes form part of these financial statements.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

This 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 2013 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 2013 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
- Unit-of-production method of depreciation

Going concern

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

The consolidated entity has incurred losses of $3,404,456 (2012: $3,707,675) and experienced net cash outflows from operations of $2,215,195 (2012: $3,308,909) and net cash outflows from investing activities of $1,832,954 (2012: $1,927,642) for the half year ended 31 December 2013. As at 31 December 2013, the consolidated entity had cash balances of $21,662 and a working capital deficiency of $28,432,206 which is inclusive of an amount payable of $2,477,600 and loans of $24,175,061 with its Ultimate Parent Entity, Stone Resources Limited, and a related party loan of $630,000. Since the year end, the Company has received further funding from the Ultimate Parent Entity of $860,000 in January and February 2014.

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

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Going concern (continued)

Subsequent to 31 December 2013 the Ultimate Parent Entity has agreed to defer repayment of the amount payable of $2,477,600 and loans for the amount of $24,175,061 and interest accrued thereon, for at least 12 months from the date of signing the half year financial report or until such time the company is financially independent. In addition, the consolidated entity has received a letter of support from its Ultimate Parent Entity to fund operations for a period of 12 months from the date of signing the half year financial report. The company has also received a letter of support from a director-related entity, Stone Group Holdings Limited.

The directors have prepared a cash flow forecast for the period ending 31 March 2015 which indicates that the current cash resources will not meet expected cash outgoings without additional capital and / or debt funding. The ability of the consolidated entity to continue as a going concern is dependent on:

- Obtaining continued financial support from Stone Resources Limited noted above, with drawdowns commencing in March 2014 of at least $400,000, with further amounts totalling approximately $13.15 million for the period ending 31 March 2015;
- The continued deferral of loans and accrued interest owing to Stone Resources Limited as noted above;
- Managing all costs for the period ending 31 March 2015 in line with the cash flow forecasts ; and
- Applying funds received from the Ultimate Parent Entity to pay down trade creditors and other payables as at 31 December 2013 of $1,149,643.

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 half year financial report does not include adjustments relating to the recoverability and classification of recorded asset amounts, or 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) Changes in Accounting Policies and Disclosures

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.

Significant new and revised standards and interpretations effective for the current financial reporting period that are relevant to the consolidated entity are:

- AASB 10 'Consolidated Financial Statements' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'
- AASB 13 'Fair Value Measurement' and AASB 2011-8 'Amendments to Australian Accounting Standards arising from AASB 13'
- AASB 2012-2 'Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities'

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impact of the application of AASB 10

AASB 10 replaces the parts of AASB 127 'Consolidated and Separate Financial Statements' that deal with consolidated financial statements and Interpretation 112 'Consolidation – Special Purpose Entities'. AASB 10 changes the definition of control such that an investor controls an investee when a) it has power over an investee, b) it is exposed, or has rights, to variable returns from its involvement with the investee, and c) has the ability to use its power to affect its returns.

All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in AASB 10 to explain when an investor has control over an investee. Some guidance included in AASB 10 that deals with whether or not an investor that owns less than 50 per cent of the voting rights in an investee has control over the investee is relevant to the Group.

Although the first-time application of AASB 10 (together with the associated Standards) caused certain changes to the Group's accounting policy for consolidation and determining control, it did not result in any changes to the amounts reported in the Group's financial statements as the "controlled" status of the existing subsidiaries did not change, nor did it result in any new subsidiaries being included in the Group as a consequence of the revised definition.

Impact of the application of AASB 13

The Group has applied AASB 13 for the first time in the current year. AASB 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The scope of AASB 13 is broad; the fair value measurement requirements of AASB 13 apply to both financial instrument items and non-financial instrument items for which other AASBs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of AASB 2 'Share-based Payment', leasing transactions that are within the scope of AASB 117 'Leases', and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

AASB 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under AASB 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, AASB 13 includes extensive disclosure requirements.

AASB 13 requires prospective application from 1 January 2013. In addition, specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the Standard in comparative information provided for periods before the initial application of the Standard. In accordance with these transitional provisions, the Group has not made any new disclosures required by AASB 13 for the 2012 comparative period, the application of AASB 13 has not had any material impact on the amounts recognised in the consolidated financial statements.

Impact of the application of AASB 2012-2 'Amendments to Australian Accounting Standards - Disclosures – Offsetting Financial Assets and Financial Liabilities'

The Group has applied the amendments to AASB 7 "Disclosures – Offsetting Financial Assets and Financial Liabilities' for the first time in the current year. The amendments to AASB 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amendments have been applied retrospectively. As the Group does not have any offsetting arrangements in place, the application of the amendments has had no material impact on the disclosures or on the amounts recognised in the consolidated financial statements.

(b) Accounting Standards and Interpretations issued but not yet effective.

Australian Accounting Standards and Interpretations that 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 2013. Management are in the process of assessing the impact of the adoption of these standards and interpretations on the consolidated entity.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

NOTE 2: LOSS BEFORE INCOME TAX EXPENSE

	Consolidated	
	31 December 2013 $	31 December 2012 $
The following revenue and expense items are relevant in explaining the financial performance for the half-year:		
(a) Revenue		
Sale of gold and by-products	-	700,187
	-	700,187
(b) Other income		
Loss from sale of non-current assets	(2,735)	(13,318)
Bank interest	21,952	28,256
Other	207	-
	19,424	14,938
(c) Cost of sales		
Mining, processing and refining	-	2,067,399
Royalty	-	80
Cost of Sales	-	2,067,479
(d) Mine site expenditure		
Mine site expenditure under care and maintenance	1,114,475	-
(e) Impairment and relinquished non-current assets		
Impairment of deferred development expenditure Alpha Mine	174,236	-
Relinquished tenements' cost written off cost	61,475	1,762
	235,711	1,762

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

NOTE 3: 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 2013						
At 1 July 2013, net of accumulated depreciation and impairment	10,925	131,988	210,577	541,391	5,699,997	6,594,878
Additions	12,541	585,048	20,418	-	1,443,154	2,061,161
Disposals	-	(3,257)	(33,347)	-	-	(36,604)
Depreciation charge for the year	(5,999)	(47,383)	(36,234)	(7,016)	-	(96,632)
At 31 December 2013, net of accumulated depreciation and impairment	17,467	666,396	161,414	534,375	7,143,151	8,522,803
At 1 July 2013						
Cost or fair value	169,442	726,263	539,461	561,272	38,010,200	40,006,638
Accumulated depreciation and impairment	(158,517)	(594,275)	(328,884)	(19,881)	(32,310,203)	(33,411,760)
Net carrying amount	10,925	131,988	210,577	541,391	5,699,997	6,594,878
At 31 December 2013						
Cost or fair value	181,983	1,230,900	429,675	561,272	39,453,354	41,857,184
Accumulated depreciation and impairment	(164,516)	(564,504)	(268,261)	(26,897)	(32,310,203)	(33,334,381)
Net carrying amount	17,467	666,396	161,414	534,375	7,143,151	8,522,803

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

The carrying value of plant and equipment held under finance leases and hire purchase contracts at 31 December 2013 is $395,129 (30 June 2013: $868,441). Addition during the half year of plant and equipment held under finance leases and hire purchase contracts is $21,050 (30 June 2013: $ Nil).

Leased assets and assets under hire purchase contracts are pledged as security for the related finance lease and hire purchase liabilities.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

NOTE 4: DEFERRED EXPLORATION AND DEVELOPMENT EXPENDITURE

	Consolidated	
	31 December 2013 $	30 June 2013 $
Costs carried forward in respect of areas of interest in the following phases:		
Exploration and evaluation phase – at cost		
Balance at beginning of period	12,888,156	12,009,900
Expenditure incurred	1,019,153	3,583,331
Expenditure written off	(61,475)	(143,115)
Impairment of Beta and Alpha mines (1)	(174,236)	(2,561,960)
Balance at end of period	13,671,598	12,888,156

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 5: TRADE AND OTHER PAYABLES

	Consolidated	
	31 December 2013 $	30 June 2013 $
Trade payables (i)	458,070	515,879
Accrued liabilities and other payables	691,573	685,449
Inter-company current account – ultimate parent entity (ii)	2,477,600	1,785,299
	3,627,243	2,986,627

(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) Stone Resources Limited domiciled in Bermuda is referred to as the “ultimate parent entity”. Inter-company current account is non-interest bearing and includes interest payable on borrowings during the half year $917,503 (30 June 2013: $1,107,070) and company expenses paid by the ultimate parent entity during the half year $49,183 (30 June 2013: $403,844).

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

NOTE 6: BORROWINGS

	Consolidated	
	31 December 2013 $	30 June 2013 $
Current		
Loans carried at amortised cost		
Obligations under finance leases and hire purchase contracts	150,178	276,262
Loan from ultimate parent entity (i)	23,629,574	17,003,575
Convertible loan from ultimate parent entity (ii)	545,487	545,487
Convertible loan from non-related entity (iii)	-	1,431,496
Loan from related entity (iv)	630,000	630,000
	24,955,239	19,886,820
Non-Current		
Loans carried at amortised cost		
Obligations under finance leases and hire purchase contracts	12,464	-
	12,464	-

(i) The loan from the ultimate parent entity comprises funding, acquisition of new plant and equipment for the company and redemption of the convertible note to Easy Prestige (iii). The loan is subject to an interest of 8.53% per annum and maturity on 30 June 2015, on which date it is payable unless extended by mutual agreement.

(ii) The balance on convertible note issued to Stone Resources Limited of $500,000 plus capitalised interest is secured by an equal first ranking security, is interest bearing at 5% per annum and convertible into shares at 6 cents before maturity on 7 November 2013. However, the latter conversion to shares has not been exercised.

(iii) The convertible note plus capitalised interest of $1,521,315 issued to Easy Prestige Limited on 4 September 2012 at an interest of 11% per annum, has been redeemed on 19 August 2013 on the company's behalf by the ultimate parent entity.

(iv) The loan from Great Cortex International Ltd at an interest of 9.31% per annum is repayable at $105,000 in half yearly cycles commencing June 2014.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

NOTE 7: ISSUED CAPITAL

	Consolidated 31 December 2013 $	Consolidated 30 June 2013 $
Ordinary shares		
Issued and fully paid	49,396,869	49,396,869

	Consolidated		Consolidated	
	31 December 2013	31 December 2013	30 June 2013	30 June 2013
	No.	$	No.	$
Movements in ordinary shares on issue				
Balance at beginning of financial year	701,643,586	49,396,869	629,342,225	48,648,237
Issued on share purchase plan at $0.012	-	-	6,655,295	78,696
Issued as deed of settlement at $0.011	-	-	20,000,000	220,000
Issued on share purchase plan at $0.010	-	-	34,644,966	346,460
Issued to directors on share purchase plan at $0.010	-	-	11,001,100	110,001
Share issue costs	-	-	-	(6,525)
Balance at end of financial year	701,643,586	49,396,869	701,643,586	49,396,869

NOTE 8: COMMITMENTS AND CONTINGENT LIABILITIES

Capital commitments

At 31 December 2013, the Group had capital commitments of $802,342 for installation of the new plant and equipment. The Group has an expenditure commitment of $362,860 for the second half year 2013-2014 and an estimated commitment of $1,068,420 for the next financial year 2014-2015 to sustain current tenements' under lease Interest from the Department of Mines and Petroleum. The expenditure commitment includes annual tenement rentals of $50,693 for the second half year 2013-2014 and estimated rentals of $113,659 for the next financial year 2014-15.

Other expenditure contingencies

Orders unexecuted for procurement of non-capital related goods and services during the second half year 2013-2014 is $29,618 (30 June 2013: $85,897).

A claim lodged by Albert Longo (former employee) in the District Court for an amount in excess of $533,000 on 5 September 2013. Following mediation between the parties concerned and the Insurer's legal representative, finality has been reached with the Insurers and a Deed of Settlement is under preparation.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

NOTE 8: COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

Operating lease commitments

At 31 December 2013, the total future minimum lease payments under non-cancellable operating leases of the Group are payable as follows:

	Consolidated	
	31 December 2013 $	30 June 2013 $
Within one year	58,080	43,482
After one year but not more than five years	38,720	-
	96,800	43,482

Finance lease and hire purchase commitments

The Group has finance leases and hire purchase contracts for various items of plant and machinery. These leases have terms of renewal but no purchase options and escalation clauses. Renewals are at the option of the specific entity that holds the lease.

Future minimum lease payments under finance leases and hire purchase contracts are as follows:

	Consolidated	
	31 December 2013 $	30 June 2013 $
Within one year	153,443	286,526
After one year but not more than five years	12,464	-
	165,907	286,526
Less amounts representing finance charges	(3,265)	(10,264)
	162,642	(276,262)

NOTE 9: RELATED PARTY TRANSACTIONS

Interest of $29,566 at 9.31% per annum is payable for the half year on a related party loan of $630,000 from Great Cortex International Limited (30 June 2013 $ 80,825) in which Mr Yongji Duan is a director.

Interest of $12,602 at 5% per annum is payable for the half year to the ultimate parent entity for the convertible note that was not converted to shares at 6 cents before maturity on 7 November 2013 (30 June 2013: $46,097).

During the half year, the Company received funding from the ultimate parent entity of $4,050,000 and payment on its behalf for redemption of the convertible note $1,521,315 and acquisition of plant and equipment $1,054,683. The total amount received as at 31 December 2013 is $23,629,574 (30 June 2013: $17,003,575).

A non-interest bearing inter-company current account of $2,477,600 is as at 31 December 2013 (see Note 5 (ii))

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

NOTE 10: EVENTS SUBSEQUENT TO REPORTING DATE

At the General Meeting held on 23 January 2014, under section 329 of the Corporations Act a resolution was adopted for the removal of HLB Mann Judd as auditor of the Company and under section 327D of the Corporations Act a resolution was adopted for the appointment of Deloitte Touche Tohmatsu as auditor of the Company.

On 28 February 2014, the Company entered into an agreement with CPC Goldfields Pty Ltd for replacing the new cone crusher, vibrating screens, ball mill and gravity circuit separator to its existing Brightstar Plant.

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.

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 2013 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.

Chief Executive Officer

14 March 2014

Deloitte Touche Tohmatsu
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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 2013, 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, selected explanatory notes 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 3 to 15.

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 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 company's financial position as at 31 December 2013 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.

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 2012 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

Without modifying our conclusion, we draw attention to Note 1 in the financial report which indicates that the consolidated entity incurred losses of $3,404,456 (2012: $3,707,675) and experienced net cash outflows from operations of $2,215,195 (2012: $3,308,909) and net cash outflows from investing activities of $1,832,954 (2012: $1,927,642) for the half year ended 31 December 2013. 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 and therefore, whether it will realise its assets and extinguish its liabilities in the ordinary course of business.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Chris Nicoloff

Chris Nicoloff
Partner
Chartered Accountants
Perth, 14 March 2014