Stone Resources Australia Limited

ABN 44 100 727 491

Interim Financial Report
31 December 2015

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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 2015. 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

Review of Operations

The consolidated net loss after income tax for the half year was $2,030,610 (31 December 2014: $2,639,379).

The Group received approval on 24 December 2014 from the Department of Mines and Petroleum (DMP) for its application for the "Ben Hur Mining Proposal" (MP) and "Mine Closure Plan" (MCP). The DMP approval covers mining lease M38/339 and miscellaneous licence L38/206.

A scoping study was conducted by AMC Consultants Pty Ltd for mining and treating Ben Hur under three scenarios which showed positive cash flow. The Company invited CPC Engineering to prepare capital expenditure plans for each scenario to ascertain capital financing and feasibility of the best scenario (ASX: Quarterly Activities Report 31/10/2015 .

A comprehensive exploration appraisal program was carried out to identify and evaluate the mineralisation potential of each tenement and samples analysed. Desert Sands Mining was engaged to investigate the extent of gold in alluvial materials to further detect supergene gold concentration (ASX: Quarterly Activities Report 31/12/2015).

At the end of the half year the Group had $71,854 (30 June 2015: $152,709) in cash and deposits. Capitalised exploration, evaluation and development expenditure is $14,330,573 (30 June 2015: $13,861,948).

During the current half year, the Company received net funding from the immediate parent entity of $1,163,882. The total amount received as at 31 December 2015 is $29,434,806 (30 June 2015: $28,274,806).

There were no shares issued during the current half year.

Significant events after balance date

On 11 January 2016, the Company announced entering into a Binding Heads of Agreement with MHM Metals Limited (ASX: MHM) to develop the wholly owned Brightstar Gold Project located in Laverton, the outline being:

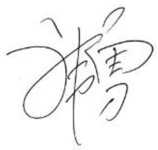
- MHM and the Company to form an earn-in Joint Venture;
- The Joint Venture to be managed and operated by MHM who will earn 50% interest through spending $7,500,000 development capital;
- MHM will have the option to increase their interest in the Joint Venture to 80% through additional spending up to an additional $10,500,000; and
- MHM is well funded and has adequate backing to support the Joint Venture strategy.

Other than the above, there were no other 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 2015.

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
15 March 2016

Deloitte.

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

15 March 2016

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 2015, 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

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE HALF-YEAR ENDED 31 DECEMBER 2015

		Consolidated	
	Notes	31 December 2015 $	31 December 2014 $
Other income	2	**2,666**	18,451
Depreciation and amortisation expense		**(105,104)**	(172,242)
Mine site expenses	2	**(196,992)**	(497,956)
Impairment and write off exploration expenditure	2	**(14,618)**	(232,697)
Finance costs		**(1,211,903)**	(1,202,444)
Other expenses		**(504,659)**	(552,491)
Loss before income tax		**(2,030,610)**	(2,639,379)
Income tax expense		**-**	-
Loss for the period		**(2,030,610)**	(2,639,379)
Other comprehensive income for the period, net of tax		**-**	-
Total comprehensive loss for the period		**(2,030,610)**	(2,639,379)
Basic and diluted loss per share (cents per share)		**(0.29)**	(0.37)

The accompanying notes form part of these financial statements.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2015

	Notes	Consolidated 31 December 2015 $	30 June 2015 $
Assets			
Current Assets			
Cash and cash equivalents		**71,854**	152,709
Trade and other receivables		**140,652**	79,344
Inventories		**47,020**	47,020
Total Current Assets		**259,526**	279,073
Non-Current Assets			
Property, plant and equipment	4	**7,993,875**	8,098,979
Deferred exploration and development expenditure	5	**14,330,573**	13,861,948
Total Non-Current Assets		**22,324,448**	21,960,927
Total Assets		**22,583,974**	22,240,000
Liabilities			
Current Liabilities			
Trade and other payables	6	**8,535,540**	7,311,257
Borrowings	7	**30,624,365**	29,478,340
Provisions		**81,479**	77,203
Total Current Liabilities		**39,241,384**	36,866,800
Non-Current Liabilities			
Provisions		**6,403,984**	6,403,984
Total Non-Current Liabilities		**6,403,984**	6,403,984
Total Liabilities		**45,645,368**	43,270,784
Net Liabilities		**(23,061,394)**	(21,030,784)
Equity			
Issued capital	8	**49,396,869**	49,396,869
Reserves		**-**	47,118
Accumulated losses		**(72,458,263)**	(70,474,771)
Total Deficiency		**(23,061,394)**	(21,030,784)

The accompanying notes form part of these financial statements

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE HALF YEAR ENDED 31 DECEMBER 2015

	Issued Capital	Accumulated Losses	Convertible Notes Equity Reserve	Total Equity
	$	$	$	$
Balance at 1 July 2014	49,396,869	(65,262,810)	47,118	(15,818,823)
Loss for the period	-	(2,639,379)	-	(2,639,379)
Total comprehensive loss for the period	-	(2,639,379)	-	(2,639,379)
Balance at 31 December 2014	**49,396,869**	**(67,902,189)**	**47,118**	**(18,458,202)**
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)**

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.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2015

	Consolidated	
	31 December 2015 $	31 December 2014 $
	Inflows/(Outflows)	
Cash flows from operating activities		
Payments to suppliers and employees	**(761,845)**	(974,297)
Interest received	**1,503**	27,921
Finance costs	**(1,637)**	(3,167)
Net cash outflow from operating activities	**(761,979)**	(949,543)
Cash flows from investing activities		
Payments for non-current assets	**-**	(129,298)
Withdrawal of deposits on cancelled bonds on mining tenements	**-**	1,100,712
Withdrawal of deposit on cancelled guarantee on contract for plant refurbishing	**-**	100,000
Payments for exploration and evaluation expenditure	**(516,076)**	(404,623)
Net cash outflow from investing activities	**(516,076)**	(666,791)
Cash flows from financing activities		
Proceeds from borrowings	**74,308**	-
Loans from immediate parent entity	**1,163,882**	466,139
Repayment of finance borrowings and leases	**(40,990)**	(30,497)
Net cash inflow from financing activities	**1,197,200**	435,642
Net (decrease) / increase in cash held	**(80,855)**	152,890
Cash and cash equivalents at the beginning of the period	**152,709**	139,621
Cash and cash equivalents at the end of the period	**71,854**	292,511

The accompanying notes form part of these financial statements.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2015

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 2015 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 2015 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 $2,030,610 (2014: $2,639,379) and experienced net cash outflows from operating and investing activities of $1,278,055 (2014: $1,616,334) for the half year ended 31 December 2015. As at 31 December 2015, the consolidated entity had a cash balance of $71,854 and a working capital deficiency of $38,981,858 which is inclusive of an amount payable of $7,419,945 and loans of $29,934,806 with its immediate parent entity, Stone Resources Limited, and a related party loan of $630,000. Subsequent to 31 December 2015, the Company has received further funding from its immediate parent entity of $426,573.

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 operations.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2015

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Going concern (continued)

The immediate parent entity has agreed to defer repayment of the amount payable of $7,419,945 and loans of $29,934,806 and interest accrued thereon outstanding at 31 December 2015 for at least 12 months from the date of signing the financial report or until such time as the Company is financially independent. The Company has also received a letter to defer repayment on a related party loan of $630,000, and interest accrued thereon outstanding at 31 December 2015 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 2017 which indicates that the current cash resources will not meet expected cash outflows without additional funding. The ability of the consolidated entity to continue as a going concern is dependent on:

- Obtaining continued financial support from its immediate parent entity Stone Resources Limited, with amounts totalling $2,750,000 being progressively required during the period ending 31 March 2017;
- 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 2017 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, 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) 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 2015.

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 2015. Management is 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 2015

NOTE 2: LOSS BEFORE INCOME TAX EXPENSE

	Consolidated	
	31 December 2015 $	31 December 2014 $
The following revenue and expense items are relevant in explaining the financial performance for the half-year:		
(a) Other income		
Profit / (loss) from sale of non-current assets	1,209	4,500
Bank interest	1,001	13,308
Other	456	643
	2,666	18,451
(b) Mine site expenditure		
Mine site expenditure under care and maintenance	196,993	497,956
(c) Impairment and relinquished non-current assets		
Impairment of deferred development expenditure Alpha Mine	14,618	17,358
Relinquished tenements' cost written off cost	-	215,339
	14,618	232,697

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.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2015

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 2015						
At 1 July 2015, net of accumulated depreciation and impairment	8,782	431,806	120,695	513,328	7,024,368	8,098,979
Additions	-	-	-	-	-	-
Inter-transfer asset category	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Depreciation charge for the year	(2,025)	(70,140)	(25,923)	(7,016)	-	(105,104)
At 31 December 2015, net of accumulated depreciation and impairment	6,757	361,666	94,772	506,312	7,024,368	7,933,875
At 1 July 2015						
Cost or fair value	186,762	1,291,390	414,867	561,272	39,178,300	41,632,591
Accumulated depreciation and impairment	(177,980)	(859,584)	(294,172)	(47,944)	(32,153,932)	(33,533,612)
Net carrying amount	8,782	431,806	120,695	513,328	7,024,368	8,098,979
At 31 December 2015						
Cost or fair value	186,762	1,291,390	414,867	561,272	39,178,300	41,632,591
Accumulated depreciation and impairment	(180,005)	(929,724)	(320,095)	(54,960)	(32,153,932)	(33,638,716)
Net carrying amount	6,757	361,666	94,772	506,312	7,024,368	7,933,875

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 security on plant and equipment held under finance leases and hire purchase contracts has been released upon settlement as at 31 December 2015 (30 June 2015: $28,295). There were no additions during the half year of plant and equipment held under finance leases and hire purchase contracts during the half year (30 June 2015: $Nil).

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2015

NOTE 5: DEFERRED EXPLORATION AND DEVELOPMENT EXPENDITURE

	Consolidated	
	31 December 2015 $	30 June 2015 $
Costs carried forward in respect of areas of interest in the following phases:		
Exploration and evaluation phase – at cost		
Balance at beginning of period	13,861,948	12,290,064
Expenditure incurred	483,243	812,647
Expenditure written off	-	(215,405)
Impairment of Beta and Alpha mines (1)	(14,617)	(25,358)
Balance at end of period	14,330,573	13,861,948

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 2015 $	30 June 2015 $
Trade payables (i)	212,944	136,158
Accrued liabilities and other payables	902,650	1,047,659
Inter-company current account – immediate parent entity (ii)	7,419,945	6,127,440
	8,535,540	7,311,257

(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 $6,723,206 payable on parent entity loan, Company expenses paid direct by parent entity of $765,645 and deducting for ultimate parent entity expenses paid by the Company of $68,906.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2015

NOTE 7: BORROWINGS

	Consolidated	
	31 December 2015 $	30 June 2015 $
Current		
Loans carried at amortised cost		
Obligations under finance leases and hire purchase contracts (i)	-	28,047
Insurance premium loan (ii)	59,559	-
Loan from immediate parent entity (iii)	29,434,806	28,274,806
Convertible loan from immediate parent entity (iv)	500,000	545,487
Loan from related entity (v)	630,000	630,000
	30,624,365	29,478,340
Non-Current		
Loans carried at amortised cost		
Obligations under finance leases and hire purchase contracts	-	-
	-	-

(i) The finance leases and hire purchase contracts bear a charge on the specific plant and machinery financed. The plant and equipment held under finance leases and hire purchase contracts has been fully amortised at 31 December 2015 (June 2015: $28,047). At 31 December 2015, the Company had no other loan facilities available.

(ii) The insurance premium loan is payable in ten equal instalments and will be fully repaid on 31 August 2016.

(iii) 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 $1,163,882 as cash advances from its parent entity.

(iv) 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.

(v) 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 2016.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2015

NOTE 8: ISSUED CAPITAL

	Consolidated	
	31 December 2015 $	30 June 2015 $
Ordinary shares		
Issued and fully paid	49,396,869	49,396,869

	Consolidated		Consolidated	
	31 December 2015 No.	31 December 2015 $	30 June 2015 No.	30 June 2015 $
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	-	-	-	-
Balance at end of financial year	701,643,586	49,396,869	701,643,586	49,396,869

NOTE 9: COMMITMENTS AND CONTINGENT LIABILITIES

Capital and exploration commitments

At 31 December 2015, the Group had capital commitments of $59,940 for installation of the new plant and equipment. The Group has an expenditure commitment of $194,362 for the second half year 2015-2016 and an estimated commitment of $824,093 for the next financial year 2016-2017 to sustain current tenements' under lease Interest from the Department of Mines and Petroleum. The expenditure commitment includes annual tenement rentals of $35,083 for the second half year 2015-2016 and estimated rentals of $104,154 for the next financial year 2016-17.

Other expenditure contingencies

Orders unexecuted for procurement of non-capital related goods and services during the second half year 2015-2016 is Nil (30 June 2015: $19,110).

Operating lease commitments

At 31 December 2015, the Group's commercial sub leasing for its current office premises is subject to expiry on 31 August 2017. The total future minimum lease payments under non-cancellable operating leases of the Group are payable as follows:

	Consolidated	
	31 December 2015 $	30 June 2015 $
Within one year	56,208	54,208
After one year but not more than five years	38,336	9,152
	94,545	63,360

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2015

NOTE 9: COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

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 2015 $	30 June 2015 $
Within one year	-	10,779
After one year but not more than five years	-	-
	-	10,779
Less amounts representing finance charges	-	(191)
	-	10,588

Contingent Liability

As previously announced on 8 January 2015 and 8 June 2015, Stone Resources Australia Ltd (SRAL) was served with legal proceedings brought in the Supreme Court by Nex Metals Exploration Pty Ltd (Nex) in relation to the Toll Milling Agreement entered into between Nex and SRAL. SRAL continues to be of the view that Nex's claim against it has no merit.

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.

NOTE 10: RELATED PARTY TRANSACTIONS

Interest expense of $29,827 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 2015 $ 58,389) 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: $42,646).

During the half year, the Company received net funding from the immediate parent entity of $1,163,882. The total amount received as at 31 December 2015 is $30,598,688 (30 June 2015: $28,274,806). Interest expense of $1,246,883 is incurred for the half year to the immediate parent entity on funding (30 June 2015: $5,387,081).

A non-interest bearing inter-company current account of $7,419,945 as at 31 December 2015 (30 June 2015: $6,127,440) (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.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2015

NOTE 14: SIGNIFICANT EVENTS AFTER BALANCE DATE

On 11 January 2016, the Company announced entering into a Binding Heads of Agreement with MHM Metals Limited (ASX: MHM) to develop the wholly owned Brightstar Gold Project located in Laverton, the outline being:

- MHM and the Company to form an earn-in Joint Venture;
- The Joint Venture to be managed and operated by MHM who will earn 50% interest through spending $7,500,000 development capital;
- MHM will have the option to increase their interest in the Joint Venture to 80% through additional spending up to an additional $10,500,000; and
- MHM is well funded and has adequate backing to support the Joint Venture strategy.

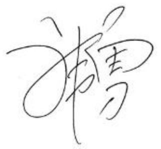
Other than the above, there were no other significant events occurring after the balance sheet date requiring disclosure.

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 2015 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
15 March 2016

Deloitte.

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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 2015, 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 17.

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 2015 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.

Deloitte.

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 2015 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 for the half-year ended 31 December 2015 the consolidated entity incurred a loss of $2,030,610 (2014: $2,639,379) and experienced net cash outflows from operating and investing activities of $1,278,055 (2014: $1,616,334). 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 discharge its liabilities in the ordinary course of business.

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DELOITTE TOUCHE TOHMATSU

John Sibenaler
Partner
Chartered Accountants
Perth, 15 March 2016