



Stone Resources Australia Limited

ABN 44 100 727 491

Interim Financial Report

31 December 2019

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DIRECTORS' REPORT

Your directors submit the financial report of Stone Resources Australia Limited and its subsidiaries ("the Group" or "SRAL") for the half-year ended 31 December 2019. 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

Sheng Hui Lu	Deputy Executive Officer / Joint Company Secretary
Tony Lau	Joint Company Secretary

Review of Operations

Overview

On 24 December 2019 the Company and Mr. Van Blitterswyk entered into a Settlement Deed which will remove the application for forfeiture and objections that were lodged against several of the Company's tenements.

Meanwhile, the Company continues to investigate suitable opportunities for the development of the Ben Hur, Alpha, Corktree Well and Beta projects.

Corporate

The consolidated net loss after income tax for the half-year was \$2,989,469 (31 December 2018: \$2,092,389).

During the current half-year, the Company received net funding from the immediate parent entity of \$494,713. The total amount received as at 31 December 2019 is \$34,157,147 (30 June 2019: \$33,662,434).

At the end of the half-year the Group had \$52,182 (30 June 2019: \$100,708) in cash and cash equivalents. Capitalised exploration, evaluation and development expenditure is \$14,630,655 (30 June 2019: \$14,966,010).

The Company issued 3,543,276 shares to two key management personnel of the Company for nil consideration to settle outstanding obligations arising from their remuneration arrangements with the Company. The Company also issued a total of 20,864,306 shares to the Company Secretary and the Company's corporate advisor respectively, to settle outstanding invoice for consultancy services provided.

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 2019.

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.

A handwritten signature in black ink, appearing to be 'Yong Han', written in a cursive style.

Yong Han

Director

13 March 2020

The Board of Directors
Stone Resources Australia Limited
Level 3, 25 Belgravia Street,
BELMONT WA 6104

13 March 2020

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 consolidated financial statements of Stone Resources Australia Limited for the half-year ended 31 December 2019, 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



Nicole Menezes
Partner
Chartered Accountants

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME
FOR THE HALF-YEAR ENDED 31 DECEMBER 2019**

	Notes	Consolidated	
		31 December 2019 \$	31 December 2018 \$
Other income	2	183,830	92,158
Depreciation and amortisation expense		(181,503)	(240,281)
Mine site expenses	2	(113,420)	(81,937)
Impairment and exploration expenditure written off	2	(683,717)	(16,023)
Finance costs		(1,509,618)	(1,460,071)
Other expenses		(685,041)	(386,235)
Loss before income tax		(2,989,469)	(2,092,389)
Income tax		-	-
Loss for the period		(2,989,469)	(2,092,389)
Other comprehensive income for the period, net of tax		-	-
Total comprehensive loss for the period		(2,989,469)	(2,092,389)
Basic and diluted loss per share (cents per share)		(0.37)	(0.26)

The accompanying notes form part of these financial statements.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

	Notes	Consolidated	
		31 December 2019 \$	30 June 2019 \$
Assets			
Current Assets			
Cash and cash equivalents		52,182	100,708
Trade and other receivables		22,880	77,315
Other financial assets		25,000	25,000
Total Current Assets		100,062	203,023
Non-Current Assets			
Property, plant and equipment	4	901,797	1,083,300
Deferred evaluation and exploration expenditure	5	14,630,655	14,966,010
Total Non-Current Assets		15,532,452	16,049,310
Total Assets		15,632,514	16,252,333
Liabilities			
Current Liabilities			
Trade and other payables	6	19,539,631	17,786,108
Borrowings	7	35,287,147	34,792,434
Provisions		133,507	85,410
Total Current Liabilities		54,960,285	52,663,952
Non-Current Liabilities			
Provisions		6,974,990	6,974,990
Total Non-Current Liabilities		6,974,990	6,974,990
Total Liabilities		61,935,275	59,638,942
Net Liabilities		(46,302,761)	(43,386,609)
Equity			
Issued capital	8	51,541,309	51,467,992
Accumulated losses		(97,844,070)	(94,854,601)
Total Deficit		(46,302,761)	(43,386,609)

The accompanying notes form part of these financial statements.

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2019**

	Issued Capital	Accumulated Losses	Total Equity
	\$	\$	\$
Balance at 1 July 2018	51,382,186	(90,713,742)	(39,331,556)
Loss for the period	-	(2,092,389)	(2,092,389)
Total comprehensive loss for the period	-	(2,092,389)	(2,092,389)
Share issued during the year	87,689	-	87,689
Transaction costs on issue of shares	(1,884)	-	(1,884)
Balance at 31 December 2018	51,467,991	(92,806,131)	(41,338,140)
 Balance at 1 July 2019	 51,467,992	 (94,854,601)	 (43,386,609)
Loss for the period	-	(2,989,469)	(2,989,469)
Total comprehensive loss for the period	-	(2,989,469)	(2,989,469)
Shares issued during the year	77,161	-	77,161
Transaction costs on issue of shares	(3,844)	-	(3,844)
Balance at 31 December 2019	51,541,309	(97,844,070)	(46,302,761)

The accompanying notes form part of these financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

	Consolidated	
	31 December 2019 \$	31 December 2018 \$
	Inflows/(Outflows)	
Cash flows from operating activities		
Receipts from customers	192,740	100,467
Payments to suppliers and employees	(402,900)	(478,492)
Interest received	611	1,003
Net cash outflow from operating activities	(209,549)	(377,022)
Cash flows from investing activities		
Proceeds from sale of non-current assets	2,000	-
Payments for exploration and evaluation expenditure	(335,690)	(425,118)
Net cash outflow from investing activities	(333,690)	(425,118)
Cash flows from financing activities		
Loans from parent entity	494,713	675,633
Net cash inflow from financing activities	494,713	675,633
Net decrease in cash held	(48,526)	(465,779)
Cash and cash equivalents at the beginning of the period	100,708	552,595
Cash and cash equivalents at the end of the period	52,182	86,816

The accompanying notes form part of these financial statements.

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2019****NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES****(a) 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 2019 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.

(b) 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 and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosure in the Group's 2019 annual financial report for the year ended 30 June 2019, except for the impact of the Standards and Interpretations described below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

(c) 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 2019 including the following:

- Exploration and evaluation costs
- Impairment of exploration and evaluation assets
- Recoverability of mine property and plant
- Provision for restoration and rehabilitation obligations

(d) 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 Group has incurred a loss of \$2,989,469 (2018: \$2,092,389) and experienced net cash outflows from operating and investing activities of \$543,239 (2018: \$802,140) for the half-year ended 31 December 2019. As at 31 December 2019, the Group had a cash balance of \$52,182 and a working capital deficiency of \$54,860,223, which is inclusive of the interest accrual of \$18,560,448 and loans of \$34,657,147 with a subsidiary of its immediate parent entity, Stone Resources Limited, and a related party loan of \$630,000 and interest accrual of \$462,452. Subsequent to 31 December 2019, the Company has received further funding from its immediate parent entity of \$274,978.

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

The immediate parent entity has agreed to defer repayment of the interest accrual of \$18,560,448, loans of \$34,657,147 outstanding at 31 December 2019 for at least 12 months from date of approval of the financial report or until such time as 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 2019, for at least 12 months from the date of approval of 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 approval of the financial report.

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2019****NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)****(d) Going concern (continued)**

The directors have prepared a cash flow forecast for the period ending 31 March 2021, which indicates current cash resources will not meet expected cash outflows without additional funding. The ability of the Group to continue as a going concern is dependent on:

- Obtaining continued financial support from its immediate parent entity, Stone Resources Limited, with additional amounts totalling \$2,600,000 being required progressively throughout the period ending 31 March 2021. In addition, providing a further amount of \$6,311,000, if required to fund bank deposits such that unconditional performance bonds can be provided to the Department of Mines, Industry Regulation and Safety;
- The continued deferral of loans and accrued interest to the subsidiary of Stone Resources Limited and other related party loans, as noted above; and
- Successfully defending the application of forfeitures on tenements, as disclosed in note 5.

In addition, the Group will continue to manage all costs for the period ending 31 March 2021 in line with the cash flow forecasts and, if required will consider debt restructuring and capital raising initiatives including the disposal of non-core assets to provide additional working capital.

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

Should the Group be unable to achieve the matters listed above, there is a material uncertainty that may cast significant doubt as to whether the Group 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 Group not continue as a going concern.

(e) Adoption of new and revised Accounting Standards

The Group 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 2019. The following new and revised standards and amendments thereof and interpretations effective for the current reporting period that are relevant to the Group include:

- AASB 16 Leases ('AASB 16'), and relevant amending standards.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Impact on Application

The adoption of these new and revised standards has not resulted in any significant changes to the Group's accounting policies or to the amounts reported for the current or prior periods. A more detailed on the impact of the adoption of AASB 16 is included below:

AASB 16 - Lease

In the current year, the Group has applied AASB 16 effective 1 July 2019.

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2019****NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)****(e) Adoption of new and revised Accounting Standards (continued)**

AASB 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged.

(a) Impact on Lessee Accounting**(i) Former operating lease**

AASB 16 changes how the Group accounts for leases previously classified as operating leases under AASB 117, which were off balance sheet.

Applying AASB 16, for all leases (except as noted below), the Group:

- a) Recognises right-of-use assets and lease liabilities in the statement of financial position, initially measured at the present value of the future lease payments, with the right-of-use asset adjusted by the amount of any prepaid or accrued lease payments in accordance with the standard;
- b) Recognises depreciation of right-of-use assets and interest on lease liabilities in the statement of profit or loss;
- c) Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the statement of cash flows.

Lease incentives (e.g. rent-free period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under AASB 117 they resulted in the recognition of a lease incentive, amortised as a reduction of rental expenses generally on a straight-line basis.

Under AASB 16, right-of-use assets are tested for impairment in accordance with AASB 136.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (which includes tablets and personal computers, small items of office furniture and telephones), the consolidated entity has opted to recognise a lease expense on a straight-line basis as permitted by AASB 16. This expense is presented within 'other expenses' in profit or loss.

(ii) Adoption impact

For the half year ended 31 December 2019, the Group has applied AASB 16 by applying the "cumulative catch-up" approach which recognised the cumulative effect of application at the date of initial application, 1 July 2019. Therefore, the Group has not restated comparatives for the year ended 30 June 2019 and any reclassifications and adjustments arising from the adoption of the standard have been recognised in the opening balances on 1 July 2019, with no adjustments made to opening retained earnings.

The Group's assessment of lease relates to their existing office premise only (except for short-term leases and leases of low value assets).

The Group assessed the measurement of the initial right-of-use asset of \$49,614 and equal amount of lease liability as of 1 July 2019. This was not adjusted in the financial statements as the impact is immaterial to the Group.

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 2019. Management is in the process of assessing the impact of the adoption of these standards and interpretations on the Group.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

NOTE 2: LOSS BEFORE INCOME TAX EXPENSE

	Consolidated	
	31 December 2019 \$	31 December 2018 \$
The following revenue and expense items are relevant in explaining the financial performance for the half-year:		
(a) Other income		
Other income – sale of sundry product on mine plant	93,216	-
Bank interest	367	1,023
Shared service income (see Note 10)	87,850	91,135
Other	2,397	-
	<u>183,830</u>	<u>92,158</u>
(b) Mine site expenditure		
Mine site expenditure under care and maintenance	<u>113,420</u>	<u>81,937</u>
(c) Impairment and relinquished non-current assets		
Impairment of deferred exploration expenditure Alpha Mine	17,763	16,023
Exploration expenditure relinquished	665,954	-
	<u>683,717</u>	<u>16,023</u>

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 2019

NOTE 4: PROPERTY, PLANT AND EQUIPMENT

	Office furniture and equipment	Plant and equipment	Motor vehicles	Consolidated Mine property and plant	Total
	\$	\$	\$	\$	\$
Half-year ended 31 December 2019					
At 1 July 2019, net of accumulated depreciation and impairment	1,148	2,916	2,285	1,076,951	1,083,300
Depreciation charge for the year	(315)	(620)	(1,076)	(179,492)	(181,503)
At 31 December 2019, net of accumulated depreciation and impairment	833	2,296	1,209	897,459	901,797
At 1 July 2019					
Cost or fair value	67,101	1,161,949	293,985	39,139,173	40,662,208
Accumulated depreciation and impairment	(65,953)	(1,159,033)	(291,700)	(38,062,222)	(39,578,908)
Net carrying amount	1,148	2,916	2,285	1,076,951	1,083,300
At 31 December 2019					
Cost or fair value	67,101	1,161,949	207,197	39,139,173	40,575,420
Accumulated depreciation and impairment	(66,268)	(1,159,653)	(205,988)	(38,241,714)	(39,673,623)
Net carrying amount	833	2,296	1,209	897,459	901,797

The useful life of the assets was estimate 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	5 years

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

NOTE 5: DEFERRED EVALUATION AND EXPLORATION EXPENDITURE

	Consolidated	
	31 December 2019 \$	30 June 2019 \$
Costs carried forward in respect of:		
Evaluation and exploration expenditure		
Balance at beginning of period	14,966,010	14,377,233
Expenditure incurred	348,362	656,493
Exploration written off	(665,954)	(50,225)
Impairment of Beta and Alpha mines (2)	(17,763)	(17,491)
Balance at end of period	14,630,655	14,966,610

- (1) 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.
- (2) Mining in Beta and Alpha reached its designed pit depth in prior periods and evaluation is currently 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.
- (3) The Company has received various applications for forfeiture on several tenements alleging that minimum expenditure requirements have not been met to date on tenements. The Company is confident that it will successfully defend this matter. However, in the event of a settlement being negotiated, the outflow of economic resources to settle any liability is not expected to be material to the Company. The Company continues to hold tenure on all tenements, including those affected by forfeiture applications at the date of this report.

NOTE 6: TRADE AND OTHER PAYABLES

	Consolidated	
	31 December 2019 \$	30 June 2019 \$
Trade payables (i)	150,784	78,207
Accrued liabilities and other payables	828,399	633,090
Interest accrual – subsidiary of the immediate parent entity (see note 10)	18,560,448	17,074,811
	19,539,631	17,786,108

- (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.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

NOTE 7: BORROWINGS

	Consolidated	
	31 December 2019 \$	30 June 2019 \$
Current		
Loan from subsidiary of the immediate parent entity (i)	34,157,147	33,662,434
Convertible loan from subsidiary of the immediate parent entity (ii)	500,000	500,000
Loan from related entity (iii)	630,000	630,000
	<u>35,287,147</u>	<u>34,792,434</u>

(i) The loan from the subsidiary of 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 \$494,713 as cash advances.

(ii) The convertible note balance of \$500,000 from the subsidiary of 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.

(iii) 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 March 2021.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

NOTE 8: ISSUED CAPITAL

	Consolidated	
	31 December 2019 \$	30 June 2019 \$
<i>Ordinary shares</i>		
Issued and fully paid	51,541,309	51,467,992

	Consolidated		Consolidated	
	31 December 2019 No.	31 December 2019 \$	30 June 2019 No.	30 June 2019 \$
<i>Movements in ordinary shares on issue</i>				
Balance at beginning of financial year	811,646,126	51,467,992	802,877,197	51,382,186
Share issues	24,407,582	77,161	8,768,929	87,689
Costs associated with issue of shares	-	(3,844)	-	(1,883)
Balance at end of financial year	836,053,708	51,541,309	811,646,126	51,467,992

NOTE 9: COMMITMENTS AND CONTINGENT LIABILITIES

Exploration commitments

The Group has an expenditure commitment of \$1,065,100 for the next 12 months to sustain current tenements under lease from the Department of Mines, Industry Regulation and Safety. The expenditure commitment includes annual tenement rentals.

Capital commitments

At 31 December 2019 the Group has capital commitments of \$59,940 (June 2019: \$291,028).

Contingencies

The Company has been in discussions with Department of Mines, Industry Regulation and Safety (DMIRS) in relation to the Company's rehabilitation obligations on their tenements. The Company has already provided for their rehabilitation obligations at the period end.

On 31 July 2019, the Company received a letter from DMIRS demanding lodgement of security in the form of Unconditional Performance Bonds totalling \$6,311,000 by 28 October 2019 in relation to their rehabilitation obligations. On 12 December 2019, the Company received a letter from DMIRS noting that DMIRS will continue to monitor the Company's progress and will evaluate the full extent of the work undertaken to resolve the issues raised through to 30 June 2020. In the interim, the DMIRS will not take action to enforce the requirement to lodge the Unconditional Performance Bonds.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

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 2019: \$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 subsidiary of the immediate parent entity for the convertible note that lapsed at maturity on 7 November 2013 (30 June 2019: \$42,646).

During the half-year, the Company received net funding from the subsidiary of the immediate parent entity of \$494,713. The total amount received as at 31 December 2019 is \$34,157,147 (30 June 2019: \$33,662,434). Interest accrual balance of \$18,560,448 as at 31 December 2019 (30 June 2019: \$17,074,811) (see Note 6).

Interest expense of \$1,458,554 was incurred for the half-year to the immediate parent entity on funding (30 June 2019: \$2,821,400).

Service fee income of \$87,850 (net of GST) was derived from Australian Stonefood Pty Ltd during the reporting period (30 June 2019: \$180,353). Australian Stonefood Pty Ltd is set up by an overseas entity in which Mr Yongji Duan holds shares. On 9 October 2017 the Company entered into a contract with Australian Stonefood Pty Ltd for providing office space, motor vehicle and administration service to the latter.

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, 5,864,306 shares were 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 \$0.002 per share, totalling \$11,729.

The Company also issued shares to the following key management personnel to settle obligation outstanding by June 2019 arising from employment arrangement. The shares were issued at a deemed value of \$0.01 per share.

		Number of shares issued	\$
Directors			
Yongji Duan	Share purchase scheme (A)	2,583,276	25,833
William Hobba	Share purchase scheme (B)	960,000	9,600

(A) Amounts withheld from post-tax payroll

(B) Amount withheld from pre-tax fee

NOTE 13: SIGNIFICANT EVENTS AFTER BALANCE DATE

There were no other significant events occurring after balance sheet date requiring disclosure other than already disclosed.

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 financial position as at 31 December 2019 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

13 March 2020

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 2019, 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.

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 2019 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 2019 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 Related to Going Concern

We draw attention to Note 1 in the financial report which indicates that for the half-year ended 31 December 2019, the consolidated entity incurred a loss of \$2,989,469 (2018: \$2,092,389) and experienced net cash outflows from operating and investing activities of \$543,239 (2018: \$802,140). As at 31 December 2019, the consolidated entity had a cash balance of \$52,182 and a working capital deficiency of \$54,860,223. These conditions, along with other matters set out in Note 1, indicate that a material uncertainty exists 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.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU



Nicole Menezes

Partner

Chartered Accountants

Perth, 13 March 2020