2012 Annual Report

Stone Resources Australia Limited
ABN 44 100 727 491

Contents

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Directors
Mr Yongji Duan – Chairman (Non Executive)
(Appointed 4 November 2011)

Dr Kaiye Shuai – Chief Executive Officer
(Appointed 4 November 2011)

Mr Edward Tai – Executive Director
(Appointed 4 November 2011)

Mr Ross Louthean – Director (Non-Executive)
(Resigned 15 August 2012)

Mr Michael Hunt – Chairman (Non-Executive)
(Resigned 4 November 2011)

Mr William Hobba – Technical Director
(Resigned 4 November 2011), Non-Executive Director
(Appointed 31 August 2012)

Mr Albert Longo – Finance Director
(Resigned 4 November 2011)

Company secretary
Mr Albert Longo (resigned 12 October 2012)
Mr Francis Hui (appointed 26 October 2012)
Mr Sheng Lu (appointed 26 October 2012)

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Bankers
Westpac Banking Corporation
465, Scarborough Beach Road,
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Auditors
HLB Mann Judd
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Perth WA 6000

Securities Exchange Listings
ASX Code: SHK

CHAIRMAN'S LETTER TO SHAREHOLDERS

The financial year 2011-12 has been a challenging for A1 Minerals Limited (now Stone Resources Australia Limited) with:

- A cornerstone investor injecting capital into the Company;
- A name change in November 2011 from A1 Minerals Limited to Stone Resources Australia Limited;
- An agreement reached to pay out the major mining contractor, Watpac Civil & Mining Pty Ltd;
- Completion of mining operations in both the Beta and Alpha pits;
- Under performance of both mining and milling operations primarily through inaccurate geological and mine planning data and poor mine pit design prepared in the financial year of 2010-11, together with inadequate maintenance on the mill;
- Financial issues arising out of this under performance, including inadequate revenue to pay creditors;
- Toll treatment of third party ore commencing in February 2012;
- Plant shutdown by the Department of Mines & Petroleum in June 2012 and was approved back to production a month later;
- Drilling targets were identified in Tenements "Ben Hur" and "Cork Tree Well" and exploration drilling commenced in the last quarter of 2012 achieving over 30,000 metres drilled;
- Significant amount of funds have been received from the major shareholder continuously totalling $5.8 million; and,
- Newly appointed engineers who have decades of experience in gold production have stayed on Site to investigate the operation of the plant.

Subsequent to the cornerstone investment, both William Hobba and Albert Longo departed the Board but remained in management. William Hobba has since left employment with Stone Resources and rejoined as Non Executive Director.

For the financial year, we produced 4,972 fine ounces of gold and 983 fine ounces of silver. Total produced from Beta and Alpha from commencement of production was 21,726 fine ounces of gold and 14,586 fine ounces of silver – a poor result overall compared with the forecast at the beginning of the Project.

In the third quarter, the remnant ore was treated from Alpha pit and toll treatment of NEX Metals ore commenced. Further exploration and production of potential underground ore at Alpha is currently under consideration by the Board.

Since the financial year end, the Company had received a Statutory Demand from William Hobba. This was settled outside the Court. Our independent Non Executive Director, Ross Louthean resigned. I would like to thank Ross for his contribution to the Company and remaining with the Board through the transition.

The Company maintains significant tenement holdings within a major gold discovery region. This is evident north of our holdings with Regis Resources' "Garden Well" deposit which is heading into production; and, to the south with new discoveries by Saracen Gold and Gold Road, as well as, the ongoing operations of Barrick Gold's Granny Smith Project and AngloGold Ashanti at Sunrise Dam – one of Australia's top gold mines over the past decade!

In conclusion, I want to thank our employees in Laverton Site, staff in our Belmont Office and our suppliers for sticking with us in circumstances which have proved being tough.

I look forward with renewed confidence to the results of our exploration programme and the developing future of the Company.

Yours truly,

YONGJI DUAN
Chairman
Perth, 9 November 2012

Your directors submit the annual financial report of the consolidated entity consisting of Stone Resources Australia Limited ("SRAL") (formerly A1 Minerals Limited) and the entities it controlled during the financial year ended 30 June 2012 ("Group"). In order to comply with the provisions of the Corporations Act, the directors report as follows:

Directors

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

Names, qualifications, experience and special responsibilities

Yongji Duan – Age 66
Chairman (Non Executive) (Appointed 4 November 2011)

Experience
Yongji Duan is the Non Executive Chairman of the board of directors of Stone Resources Limited. He joined Stone Group Corporation in 1985 and has served as Vice President and President prior to his promotion to the Chairman of its board of directors in 1999. He was appointed President and Chief Executive Officer of Stone Group Holdings Limited and its subsidiaries in 2002.

As a well-known entrepreneur and business leader in China, Mr Duan has achieved outstanding performances. From 1999 to 2007, he has held the position as Director of Beijing Centergate Technologies (Holding) Co. Ltd., a company listed on Shenzhen Stock Exchange. From 2003 to 2008, he also served as Director of SINA Corporation (NASDAQ: SINA). Mr Duan graduated from Tsinghua University and was a researcher at Beijing University of Aeronautics & Astronautics. He acted as Vice Director of 621 Laboratory at China National Space Administration from 1982 to 1984.

Mr Duan holds no other directorships in other listed companies in Australia.

Kaiye Shuai – Age 66
Chief Executive Officer (Appointed 4 November 2011)

Experience
Dr Kaiye Shuai is a director of Stone Resources Limited. He was appointed Chief Geologist of Stone Resources Limited and was also appointed to its board of directors in 2007. Dr Shuai is an experienced geologist with a wealth of expertise in the mining sector.

Prior to his appointment, he has been Professor in China University of Geosciences for over 10 years. Early in his professional career, Dr Shuai served as Geological Engineer in No. 16 Geological Team at Yunnan Provincial Geology Bureau from 1970 to 1979. He has participated in the exploration of Potash, Copper and Iron Deposit in Yunnan province in the 1970s and the exploration of Zhaoyuan Gold mine in Shandong province in the 1980s. Dr Shuai graduated from Chengdu Geology College in 1970. He received his Doctorate and Master degree from China University of Geosciences in the 1980s. From 1991 to 1992, he was a visiting professor at California Santa Barbara (UCSB) in the United States of America.

Dr Shuai holds no other directorships in other listed companies in Australia.

Edward Tai – Age 44
Executive Director (Appointed 4 November 2011)

Edward is currently the legal counsel to and director of mergers and acquisitions of Stone Resources Limited and Stone Group Holdings Limited. Edward holds a degree in law and post-graduate certificate in law awarded by the University of Hong Kong and is a solicitor admitted in Australia (New South Wales and South Australia), England & Wales and Hong Kong. He has more than 15 years of experience both in private practice and as counsel to various listed companies, specializing in corporate and commercial law, mergers and acquisitions and corporate finance law, and in recent years, with an emphasis on the resources and mineral sector

Mr Tai holds no other directorships in other listed companies in Australia.

William Hobba – Age 62
Technical Director (Resigned 4 November 2011)
Non-Executive Director (Appointed 31 August 2012)

Mr Hobba supervised CPC Engineering's renovation and assembly of the Brightstar gold plant for the company. He has recently assumed an advisory responsibility for operational matters at the mine site. He has over 40 years experience in gold and nickel mines including 10 years as a consultant in a mine management consultancy and 5 years supplying resources to mill operations. Mr Hobba holds no directorships in other listed companies.

Michael Hunt BA, LLB (Hons) – Age 65
Non-Executive Chairman (Resigned 4 November 2011)

Experience
Mr Hunt is a partner in Hunt & Humphry Project Lawyers in Perth. He is an experienced commercial lawyer and has Australian and international experience in mining law, the development of mining projects and the resolution of native title issues. Mr Hunt has provided advice on mining and petroleum law to local and overseas companies and governments.

Mr Hunt was the founding Chairman of Red Back Mining NL (formerly ASX listed) which became Red Back Mining Inc (listed on the Toronto Stock Exchange) of which he remained a Non-Executive Director until November 2010. Over a period of 10 years he helped take Red Back from junior Australian explorer, through gold production in Ghana and Mauritania to merger with Kinross Gold Corporation to form one of the world's top 5 gold companies. Mr Hunt is currently chairman of Azimuth Resources Ltd (ASX listed) which is exploring for gold in Guyana.

Ross Louthean AAusIMM, FCA – Age 67
Non-Executive Director (Resigned 15 August 2012)

Experience
Mr Louthean is a well known resource sector commentator and observer. He is a journalist and author, editor of Gold & Minerals Gazette with a particular focus on gold, the mining industry and politics. He has written for and helped develop several national and international publications. His work has been recognised by several medals and awards, the latest being the 2009 Diggers & Dealers Media Award. Mr Louthean has more than 30 years directorial experience with public companies and is currently a Director of an unlisted company developing websites and other media.

Mr Louthean holds no directorships in other listed public companies, and his last position ended two years ago as non executive director of Atom Energy Ltd.

Mr Albert Longo B.Bus, CA – Age 57
Finance Director (Resigned 4 November 2011)
Company Secretary (Resigned 12 October 2012)

Experience
Mr Longo is a Chartered Accountant with over 30 years experience in accounting and commercial administration predominantly in gold mining companies. He has been involved in a number of start up gold operations including Kanowna Belle and more recently Allied Gold's Simberi mine. Mr Longo holds no directorships in other listed companies.

Interests in the shares and options of the company and related bodies corporate

The following relevant interests in shares and options of the company or a related body corporate were held by the directors as at the date of this report.

Directors	Number of options over ordinary shares	Number of fully paid ordinary shares
Yongji Duan (Non Executive Chairman) (1)	6,305,531	1,386,393
Kaiye Shuai (Chief Executive Officer)	-	1,733,036
Edward Tai (Executive Director)	-	2,252,942
William Hobba (Non Executive Director)	500,000	12,147,775

(1) Yongji Duan is the Chairman of the parent entity that owns 418,301,429 shares in Stone Resources Australia Limited.

There were no options granted to key management personnel (directors and executives) during the year.

There are no ordinary shares issued by the company during or since the end of the financial year as a result of the exercise of an option.

There are no unpaid amounts on the shares issued.

At the date of this report unissued ordinary shares of the Company under option are:

Expiry Date	Exercise price	Number of shares
30 November 2012	35 cents	9,500,000
8 June 2013	30 cents	425,000
29 November 2013	20 cents	2,500,000
		12,425,000

Dividends

No dividends have been paid or declared since the start of the financial year and the directors do not recommend the payment of a dividend in respect of the financial year.

Principal Activities

The principal activities of the entities within the consolidated entity during the year were mineral exploration and gold production.

Review of operations

The Group has completed a difficult year where a number of challenges were faced and resolved. The new pit Alpha was completed during the year.

During the year the Company's major creditor, mining contractor Watpac, demand for payment of arrears was settled by issue of a convertible note to Stone Resources Limited (SRL). SRL subsequently converted most of the convertible note into ordinary shares and is now the major shareholder of the Company.

A toll treating agreement was negotiated with Nex Metals Exploration Limited (NEX) for six months. The toll treatment commenced on 18 February 2012 and was completed on 29 August 2012.

Brightstar Gold Treatment Facility

The Brightstar Gold Treatment Facility did not perform to expectations in the year. Total tonnes treated in the year were 115,640 comprising 66,141 tonnes of SRAL ore and 49,499 of NEX toll treated ore. The mill underperformed throughout the year.

After completion of mining and treatment of Alpha ore in September 2011, remnant ore was treated through the processing plant.

In December 2011 a refurbishment programme was commenced to ensure the plant was ready for the toll treatment operations.

A prohibition notice was issued to the Company in June 2012 requiring a shutdown of milling operations. The prohibition was lifted on 4 July 2012.

The Treatment Facility was put into care and maintenance phase since 15 September 2012.

Exploration

Our focus in the year has been to start drilling on our Northern leases with exploration drilling commenced in April 2012 on the Ben Hur (19,553 metres) and Cork Tree Well (12,565 metres) areas. A total of 32,118 metres was drilled and completion of this drilling programme was in August 2012. Assay results and assembling the data is continuing.

All tenements currently held are currently in good standing.

JORC Resources & Reserves

As a result of a Board review and decision, the JORC resources were reviewed and reassessed for the Northern tenements in October 2012 by an independent consultant.

Table of Mineral Resources Estimates (Updated to 30th June 2012)

		Measured			Indicated			Inferred			Total		
Location	Cut-off	KTonnes	g/t Au	Ounces (in thousands)	KTonnes	g/t Au	Ounces (in thousands)	KTonnes	g/t Au	Ounces (in thousands)	KTonnes	g/t Au	Ounces (in thousands)
Alpha	0.5	593	1.42	27	582	1.67	31	643	3.69	76	1,818	2.30	134
Beta	0.7	310	2.19	22	310	1.85	18	1,888	2.62	163	2,508	2.52	203
Gamma	1							28	3.40	3	28	3.40	3
Delta	0.4 - 0.7	975	1.34	42	513	1.23	20	3,435	1.41	156	4,923	1.38	218
Epsilon	0.4 - 0.7				3,435	1.32	146	3,212	1.38	142	6,647	1.35	288
Total		1,878	1.51	91	4,840	1.39	215	9,206	1.81	540	15,924	1.66	846

All data is rounded and discrepancies in summation may occur.

The information in this Report that relates to exploration results is based on the information compiled by Dr Shuang Kui Ren who is a Member of the Australian Institute of Geosciences, a Corporate Member of the Australasian Institute of Mining & Metallurgy and independent consultant to the Company. Dr Shuang Kui Ren has over 30 years of exploration and mining experience in a variety of mineral deposit styles. Dr Shuang Kui Ren has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for reporting of Exploration Results, Mineral Resource and Ore Reserves." Dr Shuang Kui Ren consents to inclusion in the report of the matters based on his information in the form and context in which it appears.

Operating results for the year

The net loss after income tax attributable to members of the Group for the financial year to 30 June 2012 amounted to $12,400,745 (2011: $16,923,683). The net loss is after writing back debt forgiven of $2,272,727 received from Watpac Civil & Mining Pty Ltd for contracted mining services, a charge for impairment of mine assets $3,744,991 and, provision against doubtful receivable of $1,391,557 as shown in Note 2 of the accounts.

Exploration expenditure across all projects for the Group during the year was $4,585,728 (2011: $1,761,384)

Review of financial conditions

At the end of the financial year, the Group had $87,201 (2011: $232,743) in cash and on deposit. Carried forward exploration expenditure was $12,009,900 (2011: $9,230,013).

During the year the Group issued 428,673,800 ordinary shares to raise $13,958,667 before issue costs. As a result, issued capital increased from 200,668,425 in 2011 to 629,342,225 ordinary shares at the end of 2012.

Significant events after balance date

On 10 July 2012, the Company entered into a $1,500,000 secured convertible note agreement with Easy Prestige Limited an unrelated private Hong Kong investor at 11% per annum interest payable quarterly in arrears at maturity 18 months from date of issue and at a conversion price of 1.7 cents per Share.

On 11 July 2012, the Company received a statutory demand from Mining Services Pty Ltd an entity associated with William Hobba. This demand was settled on 31 August 2012 by payment of $100,000 and issuing of 20,000,000 (subject to shareholder approval at the Annual General Meeting).

On 15 August 2012, non executive director Ross Louthean resigned and on 31 August 2012 William Hobba was appointed non executive director.

On 14 September 2012, 6,655,296 ordinary fully paid shares were issued to employees at 1.182 cents per share pursuant to an Employee Share Plan as payment of salaries to employees.

On 15 September 2012, the Company placed its Brightstar Treatment Facility into care and maintenance mode with the release of most site employees.

On 17 September 2012, the Company received a statutory demand from Hawker Geological Services Pty Ltd for an amount of $537,692.26 for outstanding invoices in respect of geological consulting services provided. On 5 November 2012, the Company applied to set aside the statutory demand citing supervision that led to discrepancies in drilling holes in comparison with the agreed drilling program.

On 17 September 2012, the Company received a statutory demand from VM Drilling Pty Ltd for an amount of $1,962,130.66 for outstanding invoices in respect of drilling services provided. On 5 November 2012, the Company applied to set aside the statutory demand citing discrepancies in drilling holes in comparison with the agreed drilling program.

On 12 October 2012, Mr Albert Longo Company Secretary and Chief Financial Officer resigned.

On 26 October 2012, Messrs Francis Hui and Sheng Lu were appointed joint Company Secretaries.

Likely developments and expected results

Disclosure of information regarding likely developments in the operations of the Group in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the Group. Therefore, this information has not been presented in this report.

Environmental legislation

The Group's operations are subject to significant environmental regulation under the law of the Commonwealth and State. The Directors of the Group monitor compliance with environmental regulations. The Directors are not aware of any significant breaches during the period covered by this Report.

Indemnification and insurance of Directors and Officers

The Group has agreed to indemnify all the directors of the company for any liabilities to another person (other than the Company or related body corporate) that may arise from their position as directors of the Group and its controlled entities, except where the liability arises out of conduct involving a lack of good faith.

During the financial year the Group paid a premium in respect of a contract insuring the directors and officers of the Group and its controlled entities against any liability incurred in the course of their duties to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the premium.

Remuneration report (audited)

This report outlines the remuneration arrangements in place for the key management personnel of Stone Resources Australia Limited (the "company") for the financial year ended 30 June 2012. The information provided in this remuneration report has been audited as required by Section 308(3C) of the Corporations Act 2001.

The remuneration report details the remuneration arrangements for key management personnel who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any director (whether executive or otherwise) of the parent company, and includes the executives.

Key Management Personnel

(i) Directors

Yongji Duan (Non-Executive Chairman) (Appointed 4 November 2011)
Kaiye Shuai (Chief Executive Officer) (Appointed 4 November 2011)
Edward Tai (Executive Director) (Appointed 4 November 2011)
William Hobba (Non-Executive Director appointed 31 August 2012) (Technical Director Resigned 4 November 2011)
Ross Louthean (Non-Executive Director) (Resigned 15 August 2012)
Michael Hunt (Chairman) (Resigned 4 November 2011)
Albert Longo (Finance Director) (Resigned 4 November 2011)

(ii) Executives

Albert Longo (Chief Financial Officer/Company Secretary) (Appointed 4 November 2011) (Resigned 12 October 2012)
William Hobba (Technical Support Services Manager) (Appointed 4 November 2011) (Resigned 30 May 2012)
Mark Jury (Registered Manager) (Appointed 15 May 2012)
Stuart Millar (Registered Manager) (Resigned 14 May 2012)
Wenhua Shan (Chief Geologist) (Appointed 4 November 2011)
Han Yong (Mining Engineer) (Appointed 4 November 2011)
Godfrey Weldt (Financial Controller)
Francis Hui (Chief Financial Officer / Joint Company Secretary) (Appointed 26 October 2012)
Sheng Lu (Joint Company Secretary) (Appointed 26 October 2012)

Remuneration philosophy

The philosophy of the Group in determining remuneration levels is to set competitive remuneration packages to attract and retain high calibre employees.

Remuneration committee

There is no separate Remuneration Committee. The Board of Directors of the company is responsible for determining and reviewing compensation arrangements for the directors, the CEO and the executive team

The Board assesses the appropriateness of the nature and amount of remuneration of directors and executives on a periodic basis by reference to relevant employment market conditions.

Remuneration structure

In accordance with best practice Corporate Governance, the structure of non-executive director and executive remuneration is separate and distinct.

Non-executive director remuneration

The Board seeks to set aggregate remuneration at a level that provides the Group with the ability to attract and retain directors of the highest calibre, whilst incurring a cost that is acceptable to shareholders.

The ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting.

The Board considers the fees paid to non-executive directors of comparable companies when undertaking the annual review process.

A fee is payable to each director for being a director of the company.

The aggregate remuneration for non-executive directors will be tabled at the Annual General Meeting to be held on 14 December 2012.

Senior manager and executive director remuneration

Remuneration is reviewed annually by the Board. The process consists of a review of relevant comparative remuneration in the market and internally and, where appropriate, external advice on policies and practices. The Committee has access to external, independent advice where necessary.

Senior managers are given the opportunity to receive their remuneration in a variety of forms including cash and fringe benefits such as motor vehicles and expense payment plans. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Group.

The remuneration of key management personnel for the year ended 30 June 2012 is detailed in Tables 1 and 2.

Remuneration report (continued)

Table 1: Key Management Personnel (directors) for the year ended 30 June 2012

		Short-term employee benefits			Post-employment benefits	Equity		
		Salary & Fees $	Share purchase plan (1) $	Other (2) $	Super-annuation $	Share options $	Total $	Option Related %
Yongji Duan (appointed 4 November 2011)	**2012**	**54,137**	**22,870**	**-**	**-**	**-**	**77,007**	**0.0%**
	2011	-	-	-	-	-	-	0.0%
Kaiye Shuai (appointed 4 November 2011)	**2012**	**76,320**	**36,091**	**-**	**9,336**	**-**	**121,747**	**0.0%**
	2011	-	-	-	-	-	-	0.0%
Edward Tai (appointed 4 November 2011)	**2012**	**19,108**	**42,833**	**-**	**-**	**-**	**61,941**	**0.0%**
	2011	-	-	-	-	-	-	0.0%
Ross Louthean	**2012**	**47,000**	**-**	**-**	**-**	**-**	**47,000**	**0.0%**
	2011	47,000	-	-	-	35,005	82,005	42.7%
Michael Hunt (resigned 4 November 2011)	**2012**	**25,833**	**-**	**-**	**2,325**	**-**	**28,158**	**0.0%**
	2011	75,000	-	-	6,750	81,750	163,500	50.0%
William Hobba (resigned 4 November 2011 as Technical Director)	**2012**	**87,446**	**-**	**37,778**	**-**	**-**	**125,224**	**0.0%**
	2011	224,432	-	100,994	-	268,730	594,156	45.2%
Albert Longo (resigned 4 November 2011 as Finance Director 5 November 2011)	**2012**	**87,122**	**-**	**12,872**	**7,842**	**-**	**107,836**	**0.0%**
	2011	224,437	-	17,713	20,207	35,005	297,362	11.8%
Rick Stroud (resigned 19 April 2011)	**2012**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	2011	31,283	-	-	2,815	35,005	69,103	50.7%
John Williams (resigned 8 August 2010)	**2012**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	2011	50,000	-	7,474	4,500	-	61,974	0.0%

(1) The share purchase plan forms part of the gross remuneration and it represents the total withheld against post tax remuneration.

(2) Represents fixed travel allowance.

Remuneration report (continued)

Table 2: Key Management Personnel (executives) for the year ended 30 June 2012

		Short-term employee benefits		Post-employment benefits	Equity		
		Salary & Fees $	**Other $**	**Super-annuation $**	**Share Options $**	**Total $**	**Option Related %**
Albert Longo (CFO & Company Secretary (from 5 November 2011) (from 1 July 2010 to 9 August 2010)	**2012**	(1) **212,878**	**13,213**	**14,659**	**-**	**240,750**	**0.0%**
	2011	19,319	-	1,739	-	21,058	-
William Hobba (Technical Services Manager) (Resigned 30 May 2012)	**2012**	**141,716**	**54,495**	**-**	**-**	**196,211**	**0.0%**
	2011	-	-	-	-	-	-
Mark Jury (Registered Manager) (Appointed 15 May 2012)	**2012**	**13,333**	**-**	**1,200**	**-**	**14,533**	**0.0%**
	2011	-	-	-	-	-	-
Stuart Millar (Registered Manager) (Resigned 14 May 2012)	**2012**	**154,702**	**-**		**-**		**0.0%**
	2011	126,250	-	**13,923**	-	**168,625**	-
				11,363		137,613	
Wenhua Shan (Chief Geologist) (Appointed 4 November 2011)	**2012**	**87,213**	**-**	**7,847**	**-**	**95,060**	**0.0%**
	2011	-	-	-	-	-	-
Han Yong (Mining Engineer) (Appointed 4 November 2011)	**2012**	**70,959**	**-**	**6,385**	**-**	**77,344**	**0.0%**
	2011	-	-	-	-	-	-
Godfrey Weldt (Financial Controller)	**2012**	**122,019**	**-**	**10,984**	**-**	**133,003**	**0.0%**
	2011	104,360	-	9,398	-	113,758	-

(1) Includes bonus of $50,000 paid on 21 March 2012

Remuneration report (continued)

Table 3: Option plans in existence during the financial year

Option series	Grant date	Expiry Date	Fair value at grant date	Vesting date
SERIES 3 – 2,500,000	31 December 2010	29 November 2013	$175,024	29 November 2013
SERIES 5 – 9,500,000	22 December 2009	30 November 2012	$2,422,718	30 November 2012
SERIES 2 – 425,000	29 June 2010	8 June 2013	$25,634	8 June 2013

For details on the valuation of the options, including models and assumptions used, please refer to Note 16. There were no alterations to the terms and conditions of options granted as remuneration since their grant date.

There were no options granted to directors and employees during the year.

Options issued as compensation exercised during the year by directors and executives

No amounts were unpaid on the exercise of options during the year by directors and executives.

Table 4: Options granted, exercised or lapsed during the year to directors and executives

Name	Value of options granted at the grant date $	Value of options exercised at the exercise date $	Value of options lapsed at the date of lapse $
Michael Hunt (Chairman resigned 4 November 2011)	-	-	179,740
Ross Louthean (Director resigned 15 August 2012)	-	-	45,564
William Hobba (Technical Director resigned 4 November 2011)	-	-	233,725
Albert Longo (Finance Director resigned 4 November 2011)	-	-	25,550

Voting on Remuneration of Key Management Personnel

The board's plan in response to 25% of shareholders voting against the remuneration report at the Annual General Meeting of 2011 is to review, revise and adjust the directors' and senior executives' remuneration from time to time and regularly to ensure that they are competitive, consistent with market rates yet sufficiently reflective of personal performance, achievements and contributions and the company's financial situation. In line with this, the board will endeavour to maintain an optimum size of board and executive team and release, replace or terminate employment of executives whose remuneration packages are disproportionate to their personal performance, achievements and contributions, while rewarding appropriately executives with outstanding performance, achievements and contributions

Directors' Meetings

The number of meetings of directors (including meetings of committees of directors) held during the year and the number of meetings attended by each director was as follows:

	Directors' Meetings	Eligible to attend
Number of meetings held:	6	
Number of meetings attended:		
Mr J Duan	3	3
Mr K Shuai	3	3
Mr E Tai	3	3
Mr M Hunt	3	3
Mr R Louthean	6	6
Mr W Hobba	3	3
Mr A Longo	3	3

Proceedings on behalf of the company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the *Corporations Act 2001*.

Auditor Independence and Non-Audit Services

Section 307C of the *Corporations Act 2001* requires our auditors, HLB Mann Judd, to provide the directors of the Company with an Independence Declaration in relation to the audit of the annual report. This Independence Declaration is set out on page 14 and forms part of this directors' report for the year ended 30 June 2012.

Non-Audit Services

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in Note 22 to the financial statements. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

The directors are of the opinion that the services do not compromise the auditor's independence as all non-audit services have been reviewed to ensure that they do not impact the integrity and objectivity of the auditor and none of the services undermine the general principles relating to auditor independence as set out in Code of Conduct APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional & Ethical Standards Board.

Signed in accordance with a resolution of the directors.

Kaiye Shuai
Director
9 November 2012

HLB Mann Judd

Accountants | Business and Financial Advisers

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of Stone Resources Australia Limited for the year ended 30 June 2012, I declare that to the best of my knowledge and belief, there have been no contraventions of:

a) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

b) any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Stone Resources Australia Limited.

Perth, Western Australia
9 November 2012

N G NEILL
Partner, HLB Mann Judd

HLB Mann Judd (WA Partnership) ABN 22 193 232 714
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	Notes	Consolidated 2012 $	2011 $
Revenue	2(a)	11,019,437	19,466,754
Other income	2(b)	2,274,363	130,832
Cost of sales	2(c)	(15,647,547)	(25,075,221)
Share-based payments expensed	2(d)	-	(797,319)
Depreciation and amortisation expense	2(e)	(1,669,654)	(2,300,560)
Impairment expense	2(f)	(3,744,991)	(6,085,570)
Finance costs	2(g)	(934,265)	(204,006)
Other expenses	2(h)	(3,698,088)	(2,058,593)
Loss before income tax benefit		**(12,400,745)**	**(16,923,683)**
Income tax expense	3	-	-
Loss after tax from continuing operations		**(12,400,745)**	**(16,923,683)**
Loss for the year		**(12,400,745)**	**(16,923,683)**
Other comprehensive income for the year, net of tax		-	-
Total comprehensive loss for the year		**(12,400,745)**	**(16,923,683)**
Basic loss per share (cents per share)	5	**(2.62)**	**(8.45)**

The accompanying notes form part of these financial statements

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2012

	Notes	Consolidated 2012 $	Consolidated 2011 $
Current Assets			
Cash and cash equivalents	6	87,201	232,743
Trade and other receivables	7	698,615	476,563
Inventories	8	216,129	1,479,748
Total Current Assets		1,001,945	2,189,054
Non-Current Assets			
Other receivables	7	1,139,237	588,570
Property, plant and equipment	9	12,606,032	19,327,611
Deferred exploration, evaluation and development expenditure	10	12,009,900	9,230,013
Total Non-Current Assets		25,755,169	29,146,194
Total Assets		26,757,114	31,335,248
Current Liabilities			
Trade and other payables	11	6,187,693	18,273,162
Borrowings	12	6,847,744	448,298
Provisions	13	150,468	182,737
Total Current Liabilities		13,185,905	18,904,197
Non-Current Liabilities			
Borrowings	12	772,614	743,176
Provisions	13	857,250	890,809
Total Non-Current Liabilities		1,629,864	1,633,985
Total Liabilities		14,815,769	20,538,182
Net Assets		11,941,345	10,797,066
Equity			
Issued capital	14	48,648,237	35,103,213
Reserves	15	2,623,376	3,776,137
Accumulated losses	15	(39,330,268)	(28,082,284)
Total Equity		11,941,345	10,797,066

The accompanying notes form part of these financial statements

	Notes	Consolidated 2012 $	Consolidated 2011 $
		Inflows/(Outflows)	
Cash flows from operating activities			
Receipts from customers		9,434,418	19,608,368
Payments to suppliers and employees		(24,832,398)	(12,668,978)
Interest received		22,354	29,402
Finance costs		(781,998)	(204,006)
Royalties paid		(214,368)	(314,805)
Net cash (used in) / provided by operating activities	6(iii)	(16,371,992)	6,449,981
Cash flows from investing activities			
Payments for environmental bonds		(519,000)	(341,000)
Proceeds from sale of non-current assets		20,545	400,000
Payments for non-current assets		(851,557)	(5,022,678)
Payments for exploration, evaluation and development expenditure		(2,383,953)	(1,904,197)
Net cash used in investing activities		(3,733,965)	(6,867,875)
Cash flows from financing activities			
Proceeds from issue of shares		13,958,667	685,502
Payments for share issue costs		(416,041)	(69,331)
Proceeds from borrowings		274,222	212,709
Loans from ultimate parent entity		5,763,575	-
Proceeds from related party		630,000	-
Proceeds of convertible note		500,000	-
Repayment of borrowings		(285,316)	(212,709)
Repayment of finance lease liabilities		(464,692)	(404,837)
Net cash provided by financing activities		19,960,415	211,334
Net decrease in cash held		(145,542)	(206,560)
Cash and cash equivalents at beginning of period		232,743	439,303
Cash and cash equivalents at end of period	6(i)	87,201	232,743

The accompanying notes form part of these financial statements

Consolidated	Note	Issued Capital $	Accumulated Losses $	Reserves $	Total $
Balance as at 1 July 2010		34,487,042	(11,566,580)	3,386,797	26,307,259
Loss for the year	15	-	(16,923,683)	-	(16,923,683)
Total comprehensive loss for the year		-	(16,923,683)	-	(16,923,683)
Shares issued during the year	14	616,171	-	-	616,171
Recognition of share-based payments	15	-	-	797,319	797,319
Transfer of lapsed options	15	-	407,979	(407,979)	-
Balance at 30 June 2011		**35,103,213**	**(28,082,284)**	**3,776,137**	**10,797,066**
Balance as at 1 July 2011		35,103,213	(28,082,284)	3,776,137	10,797,066
Loss for the year	15	-	(12,400,745)	-	(12,400,745)
Total comprehensive loss for the year		-	(12,400,745)	-	(12,400,745)
Shares issued during the year	14	13,545,024	-	-	13,545,024
Transfer of lapsed options	15	-	1,152,761	(1,152,761)	-
Balance at 30 June 2012		**48,648,237**	**(39,330,268)**	**2,623,376**	**11,941,345**

The accompanying notes form part of these financial statements

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Stone Resources Australia Limited ("the Company") is a listed public company domiciled in Australia. The consolidated financial report of the Company for the financial year ended 30 June 2012 comprises the Company and its subsidiaries (together referred to as the "Group"). The accounting policies have been consistently applied, unless otherwise stated.

The following is a summary of the material accounting policies adopted by the Group in the preparation of the financial report.

(a) Basis of Preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Accounting Standards and Interpretations and complies with other requirements of the law.

The financial report has also been prepared on a historical cost basis, unless otherwise stated. Cost is based on the fair values of the consideration given in exchange for assets. The entity's principal activities were exploration for gold and mining and processing of gold.

The financial report is presented in Australian dollars.

(b) Statement of Compliance

The financial report was authorised for issue on 9 November 2012.

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

(c) Adoption of new and revised standards

In the year ended 30 June 2012, the Group has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for the current annual reporting period. It has been determined by the Directors that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change is necessary to Group accounting policies.

The Group has also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the year ended 30 June 2012. As a result of this review the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change necessary to Group accounting policies.

(d) Principles of Consolidation

The consolidated financial statements comprise the separate financial statements of Stone Resources Australia Limited ("Company") and its subsidiaries as at 30 June each year (the "Group").

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Unrealised gains or transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

The acquisition of subsidiaries has been accounted for using the purchase method of accounting. The purchase method of accounting involves allocating the cost of the business combination to the fair value of the assets acquired and the liabilities and contingent liabilities assumed at the date of acquisition. Accordingly, the consolidated financial statements include the results of subsidiaries for the period from their acquisition.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Critical accounting judgements and key sources of estimation uncertainty

The preparation of the financial statements in accordance with AASB requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making the judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised; if it affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Share-based payment transactions:
The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using a Black and Scholes model, using the assumptions detailed in Note 16.

Exploration and evaluation costs carried forward
The recoverability of the carrying amount of exploration and evaluation costs carried forward has been reviewed by the directors. In conducting the review, the recoverable amount has been assessed by reference to the higher of "fair value less costs to sell" and "value in use". In determining value in use, future cash flows are based on:

- Estimates of ore reserves and mineral resources for which there is a high degree of confidence of economic extraction;
- Estimated production and sales levels;
- Estimate future commodity prices;
- Future costs of production;
- Future capital expenditure; and/or
- Future exchange rates.

Variations to expected future cash flows, and timing thereof, could result in significant changes to the impairment test results, which in turn could impact future financial results.

Recovery of deferred tax assets
Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that sufficient future tax profits will be available to utilise those temporary differences. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits over the next two years together with future tax planning strategies.

Recoverability of long-lived assets
Certain assumptions are required to be made in order to assess the recoverability of long-lived assets. Key assumptions include the future price of gold, future cash flows, an estimated discount rate and estimates of recoverable gold ounces. In addition, cash flows are projected over the life of mine, which is based on estimates of recoverable gold ounces. Estimates of recoverable gold ounces in themselves are dependent on various assumptions, in addition to those described above, including gold cut-off grades. Changes in these estimates could materially impact on recoverable gold ounces, and could therefore affect estimates of future cash flows used in the assessment of recoverable amount, estimates of the life of mine and depreciation and amortisation. Property, plant and equipment values are tested on "Fair value less estimated costs for dismantling and selling" as a basis to determine any impairment.

Determination of ore reserves and mineral resources and remaining mine life
The Group estimates its ore reserves and mineral resources based on information complied by Competent Persons (as defined in accordance with the Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves as revised December 2004 (the JORC code). Reserves and resources, if applicable, determined in this way are taken into account in the calculation of depreciation, amortisation, impairment, deferred mining costs, rehabilitation and environmental expenditure.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Critical accounting judgements and key sources of estimation uncertainty (continued)

In estimating the remaining life of the mine for the purpose of amortisation and depreciation calculations, due regard is given, not only to the amount of remaining recoverable gold ounces, but also to limitations which could arise from the potential for changes in technology, demand, product substitution and other issues which are inherently difficult to estimate over a lengthy time frame.

Where a change in estimated recoverable gold ounces is made, depreciation and amortisation is accounted for prospectively.

The determination of ore reserves, mineral resources and remaining mine life affects the carrying value of a number of the Group's assets and liabilities including deferred mining costs and the provision for rehabilitation.

Provision for restoration and rehabilitation obligations
Certain assumptions are required to be made in determining the amount expected to be incurred to settle its obligations in relation to restoration and rehabilitation of the mine site. Key assumptions include the amount and timing of future cash flow estimates. A 10% increase to cost assumptions will result in a $85,725 increase in the liability.

Unit-of-production method of depreciation
The Group applies the unit-of-production method for depreciation of its mine specific assets which results in a depreciation or amortisation of its mine specific assets which results in a depreciation or amortisation charge proportional to the depletion remaining life of production. Each item's economic life, which is assessed annually, has due regard to both its physical life limitations and to present assessments of economically recoverable reserves of the mine property at which it is located. These calculations require the use of estimates and assumptions.

(f) Going Concern

The financial report has been prepared on the basis of accounting principles applicable to a going concern, which assumes the commercial realisation of the future potential of the Company's and Group's assets and the discharge of their liabilities in the normal course of business.

The Company has cash balances of $87,201 and a deficiency of working capital of $12,183,960 as at 30 June 2012.

Since the year end, the Company received funding of $1,500,000 at 11% on a secured convertible note agreement from Easy Prestige Limited in Hong Kong and received an additional $1,450,000 at 5% interest from the ultimate parent entity.

The Directors recognize that additional funding is required to ensure that the Company can pay its debts as and when they fall due and to meet its ongoing operational activities. The Directors consider that the Company is a going concern and has received a letter of support from Stone Resources Limited ("SRL"), its parent company. In addition, the Company has received commitments/loan from the China Development Bank of $13,297,700 (equivalent of USD 13,000,000) providing them with the financial ability to honour their commitment.

Additionally, the Company may seek funding through the issue of shares or via the sale of assets.

Accordingly the Directors believe that the Company will obtain sufficient financial support to enable it to continue as a going concern and that it is appropriate to adopt that basis of accounting in the preparation of the financial statements.

Should the Parent Entity be unable to provide sufficient funding as outlined above, there is a material uncertainty which may cause significant doubt whether or not the entity will be able to continue as a going concern and therefore, whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

The financial statements do not include any adjustments relative to the recoverability and classification of recorded assets amount or, to the amounts and classification of liabilities that might be necessary should the entity not continue as a going concern.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Sale of goods
Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Risks and rewards of ownership are considered passed to the buyer at the time of delivery of the goods to the customer.

(ii) Interest income
Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

(h) Income Tax

The income tax expense or benefit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary difference and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance date.

Deferred income tax is provided on all temporary differences at the balance date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance date.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Income Tax (continued)

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

(i) Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

(j) Financing Costs

Financing costs are capitalised that are directly attributable to the acquisition, construction or production of qualifying assets where the financing cost is added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the financing costs eligible for capitalisation.

All other financing costs are recognised in profit or loss in the period in which they are incurred.

(k) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised at their fair value or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the general policy on borrowing costs - refer Note 1(j).

Finance lease assets are depreciated on a straight line basis over the estimated useful life of the asset.

Operating lease payments are recognised as an expense on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(l) Cash and cash equivalents

Cash comprises cash at bank and on hand. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(m) Trade and other receivables

Trade receivables are measured on initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method, less any allowance for impairment. Trade receivables are generally due for settlement within periods ranging from 10 days to 30 days.

An allowance for doubtful debts is made when there is objective evidence that the Group will not be able to collect the debts. Bad debts are written off when identified.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Inventories

Inventories are valued at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Raw materials – purchase cost on a first-in, first-out basis;

Run of Mine stockpiles – the cost of getting ore to the ROM pad including an allocation of waste cost to get to the ore in pit; and

Finished goods and gold in circuit – cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

(o) Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation.

Depreciation is calculated on a straight-line basis over the estimated useful life of the assets as follows:

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

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

(i) Impairment

The carrying values of plant and equipment are reviewed for impairment at each balance date, with recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

The recoverable amount of plant and equipment is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to be close to its fair value.

An impairment exists when the carrying value of an asset or cash-generating units exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount.

For plant and equipment, impairment losses are recognised in the statement of comprehensive income in the cost of sales line item.

(ii) Derecognition and disposal

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

(p) Investments and other Financial Assets

Financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Investments and other Financial Assets (continued)

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the marketplace.

(i) Financial Assets at Fair Value through Profit and Loss
Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in profit or loss.

(ii) Held-to-maturity Investments
Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in profit or loss when the investments are derecognised or impaired, as well as through the amortisation process.

(iii) Loans and Receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

(iv) Available-for-sale Investments
Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as any of the three preceding categories. After initial recognition available-for-sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance date. For investments with no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models.

(q) Exploration and evaluation

Exploration and evaluation expenditures in relation to each separate area of interest are recognised as an exploration and evaluation asset in the year in which they are incurred where the following conditions are satisfied:

(i) the rights to tenure of the area of interest are current; and

(ii) at least one of the following conditions is also met:

- (a) the exploration and evaluation expenditures are expected to be recouped through successful development and exploration of the area of interest, or alternatively, by its sale; or
- (b) exploration and evaluation activities in the area of interest have not at the balance date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation assets are initially measured at cost and include acquisition of rights to explore, studies, exploratory drilling, trenching and sampling and associated activities and an allocation of depreciation and amortised of assets used in exploration and evaluation activities. General and administrative costs are only included in the measurement of exploration and evaluation costs where they are related directly to operational activities in a particular area of interest.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Exploration and evaluation (continued)

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. The recoverable amount of the exploration and evaluation asset (for the cash generating unit(s) to which it has been allocated being no larger than the relevant area of interest) is estimated to determine the extent of the impairment loss (if any). Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in previous years.

Where a decision has been made to proceed with development in respect of a particular area of interest, the relevant exploration and evaluation asset is tested for impairment and the balance is then reclassified to development.

(r) Mine Development expenditure

Mine development costs represent the accumulation of all exploration, evaluation and development expenditure incurred in respect of areas of interest in which a decision to mine has been made. Plant construction and commissioning costs are included as mine development costs once the commissioning phase has been completed.

When further development expenditure is incurred in respect of mine property after the commencement of production, such expenditure is carried forward as part of Mine Development Costs only when substantial future economic benefits are thereby established, otherwise such expenditure is classified as part of the cost of production.

Amortisation is provided on a unit of production basis which results in a write off of the cost proportional to the depletion of the proven and probable mineral reserves.

The net carrying value of each area of interest is reviewed regularly and to the extent to which this value exceeds its recoverable amount, the excess is fully provided against or written off in the financial year in which this is determined

(s) Impairment of assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is treated as a revaluation decrease).

An assessment is also made at each balance date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Trade and other payables

Trade payables and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services.

(u) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method and the redemption amount is recognised in profit or loss over the period of the borrowings. Gains and losses are recognised in profit or loss when the liabilities are derecognised.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(v) Provisions – Employee benefits

(i) Wages, Salaries, Annual Leave and Sick Leave
Liabilities for wages and salaries, including non-monetary benefits, annual leave and non-accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

(ii) Long Service Leave
The liability for long service leave is recognised in the provision for employee benefits and measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee of departures, and period of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

(w) Share-based payment transactions

(i) Equity settled transactions:
The Group provides benefits to employees (including senior executives) of the Group in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using a Black and Scholes model, further details of which are given in Note 16.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Stone Resources Australia Limited (market conditions), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting period).

The cumulative expense recognised for equity-settled transactions at each balance date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the Group's best estimate of the number of equity instruments that will ultimately vest. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. The statement of comprehensive income charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Share-based payment transactions (continued)

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is only conditional upon a market condition.

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

(x) Share Capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(y) Earnings per share

Basic earnings per share ('EPS') is calculated as net profit or loss attributable to members of the Company for the reporting period, after excluding any costs for servicing equity (other than ordinary shares and converting preference shares classified as ordinary shares for EPS calculation purposes), by the weighted average number of ordinary shares of the Company, adjusted for any bonus element.

Diluted earnings is calculated by dividing the basic EPS earnings, adjusted by the after tax effect of financing costs associated with dilutive potential ordinary share and the effect on revenues and expenses of conversion, by the weighted average number of ordinary shares and potential dilutive ordinary shares, adjusted for any bonus element.

(z) Provision for restoration and rehabilitation

A provision for restoration and rehabilitation is recognised when there is a present obligation as a result of development activities undertaken, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the provision can be measured reliably. The estimated future obligations include the costs of abandoning sites, removing facilities and restoring the affected areas.

The provision for future restoration costs is the best estimate of the present value of the expenditure required to settle the restoration obligation at the balance date. Future restoration costs are reviewed annually and any changes in the estimate are reflected in the present value of the restoration provision at each balance date.

The initial estimate of the restoration and rehabilitation provision is capitalised into the cost of the related asset and amortised on the same basis as the related asset, unless the present obligation arises from the production of inventory in the period, in which case the amount is included in the cost of production for the period. Changes in the estimate of the provision for restoration and rehabilitation are treated in the same manner, except that the unwinding of the effect of discounting on the provision is recognised as a finance cost rather than being capitalised into the cost of the related asset.

(aa) Parent entity financial information

The financial information for the parent entity, Stone Resources Australia Limited, disclosed in note 20 has been prepared on the same basis as the consolidated financial statements, except as set out below.

(i) Investments in subsidiaries, associates and joint venture entities
Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the parent entity's financial statements.

(ii) Share-based payments
The grant by the company of options over its equity instruments to the employees of subsidiary undertakings in the group is treated as a capital contribution to that subsidiary undertaking. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

NOTE 2: REVENUE AND EXPENSES

		Consolidated 2012 $	2011 $
(a)	**Revenue**		
	Sale of gold and by-product	10,956,763	19,431,416
	Bank interest	62,674	35,338
		11,019,437	19,466,754
(b)	**Other income / (loss)**		
	Sale of tenements	-	400,000
	Less: Cost of tenements	-	(271,892)
	Debt forgiven (i)	2,272,727	-
	Other income	1,636	2,724
		2,274,363	130,832

A gain of $2,272,727 has been realised on debt forgiveness on the Company's debt owed to its mining contractor which was settled during the period (see Note 11)

		2012 $	2011 $
(c)	**Cost of sales**		
	Employee expenses	3,483,819	3,705,419
	Stores and other consumables	575,173	887,968
	Fuel, power and water	1,554,520	1,615,670
	Amortisation of waste material (i)	2,766,872	11,379,084
	Amortisation of Beta and Alpha deferred tenement expenditure	1,662,922	1,616,949
	Other mining, processing and refining	5,481,687	5,463,511
	Royalty	122,554	406,620
		15,647,547	25,075,221

The company's deferred waste balance has been written off in full as at 31 October 2011.

		2012 $	2011 $
(d)	**Employee benefits expense**		
	Share based payments	-	797,319
(e)	**Depreciation of non current assets**		
	Gold plant and mine development	1,400,776	2,027,434
	Buildings	5,847	-
	Plant and equipment	90,939	87,970
	Motor vehicles	68,569	78,358
	Site equipment	84,863	88,327
	Office equipment	18,660	18,471
		1,669,654	2,300,560

NOTE 2: REVENUE AND EXPENSES (continued)

		Consolidated 2012 $	Consolidated 2011 $
(f)	**Impairment of non current assets**		
	Gold plant and mine development (refer Note 9)	3,744,991	3,799,933
	Deferred development expenditure	-	2,285,637
		3,744,991	6,085,570
(g)	**Finance charges**		
	Finance charges payable under finance leases and hire purchase contracts	934,265	204,006
(h)	**Other expenses**		
	Employee expense	1,199,665	1,433,917
	Less: allocated to exploration	(364,814)	(987,006)
		834,851	446,911
	Exploration costs expensed and written off	142,918	108,314
	Consulting	152,053	161,022
	Corporate	528,401	510,440
	Administration	605,955	831,906
	Provision for doubtful trade receivable (refer Note 7)	1,391,557	-
	Provision for doubtful sundry receivable	110,819	-
	Write back employee leave provisions	(68,466)	-
		3,698,088	2,058,593

NOTE 3: INCOME TAX

		Consolidated 2012 $	2011 $
(a)	**Income tax recognised in statement of income**		
	Accounting loss before tax from continuing operations	(12,400,745)	(16,923,683)
	Income tax benefit calculated at 30%	(3,720,224)	(5,077,105)
	Non-deductible expenses:	35,043	239,196
	Movement in carried forward losses	(4,612,497)	3,095,416
	Exploration expenditure capitalised	(833,962)	709,487
	Mining assets	(737,859)	(397,341)
	Other Deferred Tax Assets and Deferred Tax Liabilities not recognised	(55,835)	1,430,347
	Losses forgone as a result of change in ownership of the Company (1)	9,925,334	-
	Income tax expense reported in the statement of comprehensive income	-	-
(b)	**Unrecognised deferred tax balances (at 30%)**		
	Deferred tax assets comprise:		
	Losses available for offset against future taxable income - revenue	5,357,253	9,969,750
	Provision for rehabilitation	257,175	257,175
	Business related costs	197,257	73,368
	Accrued expenses	178,210	351,891
		5,989,895	**10,652,184**
	Deferred tax liabilities comprise:		
	Mining assets	(2,934,269)	(2,196,410)
	Accrued income	(6,043)	-
	Exploration expenditure capitalised	(3,602,970)	(2,769,008)
	Prepayments	-	-
		(6,543,282)	**(4,965,418)**

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in this tax rate since the previous reporting period.

(1) On 4 November 2011, Stone Resources Limited became the parent of the Company. As a result the Company no longer satisfies the continuity of ownership test in relation to these losses.

The Company has yet to determine if these losses are available under the same business test.

NOTE 4: 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.

NOTE 5: LOSS PER SHARE

	Consolidated 2012 Cents per share	Consolidated 2011 Cents per share
Basic loss per share:		
Total basic loss per share	(2.62)	(8.45)

Basic loss per share

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share is as follows:

	$	$
Loss	(12,400,745)	(16,923,683)
Weighted average number of ordinary shares for the purposes of basic earnings per share	473,920,199	200,209,335

NOTE 6: CASH AND CASH EQUIVALENTS

	Consolidated 2012 $	Consolidated 2011 $
Cash at bank and on hand	2,177	74,462
Short-term deposits	85,024	158,281
	87,201	232,743

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

At 30 June 2012, the Group did not have any undrawn committed borrowing facilities.

(i) Reconciliation to Cash Flow Statement:

For the purposes of the Statement of Cash Flows, cash and cash equivalents comprise cash on hand and at bank and investments in money market instruments, net of outstanding bank overdrafts.

Cash and cash equivalents as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

	$	$
Cash and cash equivalents	87,201	232,743

(ii) Cash balances not available for use	$	$
Non current bank deposits held for issuance of unconditional performance bonds issued to the Minister responsible for the Mining Act 1978 for granting licences:		
Bond issued for exploration licence No. L38/100	28,384	26,773
Bond issued for exploration licence No. M38/302	18,101	17,079
Bond issued for exploration licence No. M38/9	139,647	131,722
Bond issued for licence on open pit mining & treatment plant	72,692	70,593
Bond issued for exploration licence No. L38/123	231,050	218,000
Bond issued for exploration licence No. M38/968	130,363	123,000
Bond issued for exploration licence No. M38/9	519,000	-
Total non current deposits not available for use shown in Security and environmental bonds refer to Note 7	1,139,237	587,167

NOTE 6: CASH AND CASH EQUIVALENTS (continued)

	Consolidated 2012 $	Consolidated 2011 $
(iii) Reconciliation of profit for the year to net cash flows from operating activities		
Loss for the year	(12,400,745)	(16,923,683)
Amortisation of waste material	2,766,872	11,379,084
Amortisation of Beta and Alpha deferred tenement expenditure	1,662,922	1,616,949
Depreciation	1,669,654	2,300,560
Provision for doubtful trade receivable	1,391,557	-
Provision for doubtful sundry receivables	110,819	-
Write back of employee provisions	(68,466)	-
Impairment of non current assets	3,744,991	3,799,933
Impairment of Beta deferred tenement expenditure	-	2,285,637
Profit on sale of tenements	-	(128,108)
Profit on sale of non current assets	(221)	-
Debt forgiven	(2,272,727)	-
Equity settled share based payment	-	797,319
Exploration expenses written off	142,918	108,314
(Increase)/decrease in assets		
Current receivables	(1,631,860)	170,274
Current inventories	1,263,619	(1,428,251)
Increase/(decrease) in liabilities		
Current payables	(12,753,963)	2,467,001
Current provisions	2,638	4,952
Net cash from operating activities	(16,371,992)	6,449,981

NOTE 7: TRADE AND OTHER RECEIVABLES

CURRENT	Consolidated 2012 $	Consolidated 2011 $
Trade receivables (refer aging in iii)	420,669	175,845
GST recoverable	163,711	139,659
Other receivables	114,235	161,059
	698,615	476,563

(i) The normal credit period for toll treatment and related services is 8 days; whereas, the aging of the receivable range between 30 to 90 days. GST input credit is recoverable from the Australian Taxation Office within 30 days of month end.

Other receivables represent prepaid insurance and advances against purchases.

(ii) There are no related party receivables for the Group.

(iii) Aging of trade receivables past due but not impaired at balance date	$	$
0 - 30 days	343,023	175,845
30 - 60 days	552,562	-
60 - 90 days	691,690	-
90 + days	224,951	-
Total	1,812,226	175,845
Less: provision for doubtful debt	(1,391,557)	-
	420,669	175,845

NON CURRENT	Consolidated 2012 $	Consolidated 2011 $
Security and environmental bonds refer 6 (ii)	1,139,237	587,167
Other loans	-	1,403
	1,139,237	588,570

NOTE 8: INVENTORIES

	Consolidated 2012 $	Consolidated 2011 $
Raw materials – at cost	216,129	87,546
Run of Mine stockpile	-	799,730
Gold in circuit	-	592,472
	216,129	1,479,748

NOTE 9: PROPERTY, PLANT AND EQUIPMENT

	Consolidated					
	Office furniture and equipment $	Plant and equipment $	Motor vehicles $	Building $	Mine property and plant $	Total $
Year ended 30 June 2012						
At 1 July 2011, net of accumulated depreciation and impairment	22,630	431,319	184,401	-	18,689,261	19,327,611
Additions	19,408	5,517	-	561,272	894,066	1,480,263
Disposals	-	-	(114,775)	-	-	(114,775)
Depreciation charge for the year	(18,660)	(175,802)	(68,569)	(5,847)	(4,167,648)	(4,436,526)
Write back of depreciation on disposal	-	-	94,450	-	-	94,450
Impairment of Mine Assets (1)	-	-	-	-	(3,744,991)	(3,744,991)
At 30 June 2012, net of accumulated depreciation and impairment	23,378	261,034	95,507	555,425	11,670,688	12,606,032
At 1 July 2011						
Cost or fair value	150,034	756,371	475,597	-	36,921,656	38,303,658
Accumulated depreciation and impairment	(127,404)	(325,052)	(291,196)	-	(18,232,395)	(18,976,047)
Net carrying amount	22,630	431,319	184,401	-	18,689,261	19,327,611
At 30 June 2012						
Cost or fair value	169,442	761,888	360,822	561,272	37,815,722	39,669,146
Accumulated depreciation and impairment	(146,064)	(500,854)	(265,315)	(5,847)	(26,145,034)	(27,063,114)
Net carrying amount	23,378	261,034	95,507	555,425	11,670,688	12,606,032

The useful life of the assets was estimated as follows for both 2011 and 2012:

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 30 June 2012 is $951,624 (2011: $1,441,561). There were no additions during the year of plant and equipment held under finance leases and hire purchase contracts (2011: $Nil). Leased assets and assets under hire purchase contracts are pledged as security for the related finance lease and hire purchase liabilities.

(1) Impairment of Mine Assets: Since processing of mined ore ceased in January 2012 and toll treatment ceased in August 2012 and pending its reinstatement, an assessment of the recoverable value of non-current assets in compliance with AASB 136 was carried out. The Board considered and approved the value of capitalised development costs and tailings dam earthworks totalling $3,744,991 as at 30 June 2012 is impaired. The Board recognises that the impaired value can be written back upon recommencement of an income stream and future assessment of the recoverable value of non-current assets.

NOTE 10: DEFERRED EXPLORATION, EVALUATION AND DEVELOPMENT EXPENDITURE

	Consolidated 2012 $	Consolidated 2011 $
Costs carried forward in respect of:		
Exploration, evaluation and development phase – at cost		
Balance at beginning of year	5,354,816	4,319,297
Disposal of tenements	-	(271,892)
Expenditure incurred	4,290,113	1,415,725
Expenditure written off	(142,919)	(108,314)
Transferred from development expenditure (1)	2,507,890	-
Balance at the end of the period	12,009,900	5,354,816
Development expenditure – Beta Mine and related tenements at cost		
Balance at beginning of year	108,542	3,242,524
Expenditure incurred	139,132	302,122
Amortisation	-	(1,150,467)
Impairment – Beta mining tenement	-	(2,285,637)
	247,674	108,542
Transferred to exploration expenditure (1)	(247,674)	-
Balance at the end of the period	-	108,542
Development expenditure – Alpha Mine at cost		
Balance at beginning of year	3,766,655	4,033,165
Expenditure incurred	156,483	199,972
Amortisation	(1,662,922)	(466,482)
	2,260,216	3,766,655
Transferred to exploration expenditure (1)	(2,260,216)	-
Balance at the end of the period	-	3,766,655
Total deferred exploration, evaluation and development expenditure	12,009,900	9,230,013

Leases owned and managed by the company were previously pledged as security to the Mining Contractor. The security has been discharged on 6 December 2011, upon full settlement of the liability.

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 half year and evaluation is currently underway to determine the future viability of these areas of interest. Accordingly, the balance of expenditure for Beta and Alpha relating to evaluation of these areas of interest has been transferred to related exploration to allow future determination of further mining.

NOTE 11: TRADE AND OTHER PAYABLES (CURRENT)

	Consolidated 2012 $	Consolidated 2011 $
Trade payables (i)	5,053,046	17,292,976
Accrued liabilities	995,652	980,186
Inter-company current account – Ultimate parent entity (refer Note 19)	138,995	-
	6,187,693	18,273,162

(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 days. However, owing to inability to comply with these arrangements, the major suppliers issued statutory demands on the company which is subject to renegotiating re-structuring the repayment.

The balance payable to the mining contractor (30 June 2011 : $14,586,412) has been fully settled pursuant to a Deed of Forbearance for debt forgiveness, settled through means of a Convertible Note issued by Stone Resources Limited in November 2011 . The mining contractor has discharged the fixed and floating charge over assets and operating and exploration leases located within the BrightStar South Gold Project on 6 December 2011.

NOTE 12: BORROWINGS

	Consolidated 2012 $	Consolidated 2011 $
Current		
Loans carried at amortised cost		
Obligations under finance leases and hire purchase contracts (refer Note 18)	454,169	448,298
Loan from ultimate parent entity (refer Note 19)	5,763,575	-
Loan from related party (refer Note 19)	630,000	-
	6,847,744	448,298
Non-Current		
Loans carried at amortised cost		
Obligations under finance leases and hire purchase contracts (refer Note 18)	272,614	743,176
Convertible loan from ultimate parent entity	500,000	-
	772,614	743,176

At the balance date, the company had no other loan facilities available. The finance leases and hire purchase contracts bear a charge on the specific plant and machinery financed. The carrying value of plant and equipment held under finance leases and hire purchase contracts at 30 June 2012 is $951,624 (2011: $1,441,561).

A convertible note for $12,000,000 was issued to Stone Resources Limited on 7 November 2011 and is convertible into shares at 3.5 cents if converted within 12 months or convertible into shares at 6 cents if converted after 12 months and before maturity of two years. The convertible note balance is interest bearing at 5% per annum and repayable before or upon maturity of two years. Stone Resources Limited exercised partial conversion of $11,500,000 into shares on 7 November 2011.

NOTE 13: PROVISIONS

	Rehabilitation	Consolidated Employee benefits	Total
Consolidated	$	$	$
At 1 July 2011	857,250	216,296	1,073,546
Arising during the year	-	269,614	269,614
Utilised	-	(266,976)	(266,976)
Written back during the year (1)	-	(68,466)	(68,466)
	857,250	150,468	1,007,718
At 30 June 2012			
Current 2012	-	150,468	150,468
Non-current 2012	857,250	-	857,250

Employee provisions for annual leave are based on 20 days per annum, and calculated on individual employee base rate per day plus superannuation. Employee provision for long service leave has been pro-rated for the current period of service and based on the assumption that employees would complete 7 years of unbroken service to qualify the statutory pro-rating entitlement of 8.667 weeks for 10 years.

(1) Prior year overprovided provisions have been written back

The provision for rehabilitation represents the present value of estimated costs of site and pit rehabilitation based upon costs of rehabilitation expected to be incurred at the date the rehabilitation is required and the area of currently disturbed ground subject to rehabilitation as at balance date. For further details refer to Note 1(e) and Note 1(z).

NOTE 14: ISSUED CAPITAL

	Consolidated 2012	Consolidated 2011
	$	$
629,342,225 (2011: 200,668,425) Ordinary shares issued and fully paid	48,648,237	35,103,213

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

	Consolidated 2012		Consolidated 2011	
	No.	**$**	**No.**	**$**
Movement in ordinary shares on issue				
Balance at beginning of financial year	200,668,425	35,103,213	196,860,062	34,487,042
Issued for cash on share placement at $0.025	89,730,000	2,243,250	-	-
Partial conversion of convertible note at $0.035	328,571,429	11,500,000	-	-
Issued for cash on share purchase plan at $0.025	5,000,000	125,000	3,808,363	685,505
Issued for cash to directors on share purchase plan at $0.017	5,372,371	90,417	-	-
Share issue costs		(413,643)		(69,334)
Balance at end of financial year	629,342,225	48,648,237	200,668,425	35,103,213

Share options
The Company has three share based payment option schemes under which options to subscribe for the company's shares have been granted to certain executives and other employees Note 16.

NOTE 15: ACCUMULATED LOSSES AND RESERVES

Accumulated losses
Movements in accumulated losses were as follows:

	Consolidated 2012 $	Consolidated 2011 $
Balance at beginning of financial year	(28,082,284)	(11,566,580)
Transfer of lapsed options	1,152,761	407,979
Net profit / (loss) for the year	(12,400,745)	(16,923,683)
Balance at end of financial year	(39,330,268)	(28,082,284)

Option reserve
Movement in the option reserve was as follows:

	Consolidated 2012 $	Consolidated 2011 $
Balance at beginning of financial year	3,776,137	3,386,797
Share based payments (Note 16)	-	797,319
Transfer of lapsed options	(1,152,761)	(407,979)
Balance at end of financial year	2,623,376	3,776,137

Nature and purpose of reserves

Option reserve
This option reserve represents the fair value of options, estimated by option valuation models, issued as consideration for services to employees or consultants as remuneration, or to third parties for the acquisition of assets, goods or services.

NOTE 16: SHARE BASED PAYMENT PLANS

General Employee Share Loan Plan

The company does not have a General Employee Share Loan Plan.
The expense recognised in the statement of income in relation to share-based payments is $Nil disclosed in Note 2(d).
The following share-based payment arrangements were in place during the current and prior periods:

Issues during the current year - NIL

	Series	Number	Grant date	Expiry date	Exercise price $	Fair value at grant date $
Options currently on issue						
Options issued to directors	5	9,500,000	22/12/2009	30/11/2012	$0.35	2,422,718
Options issued to employees	2	425,000	01/07/2010	08/06/2013	$0.30	25,634
Options issued to directors	3	2,500,000	31/12/2010	29/11/2013	$0.20	175,022
Prior periods – Lapsed or Expired						
Options issued to directors	8	1,500,000	28/11/2008	30/11/2011	$0.20	132,995
Options issued to employees	7	1,800,000	23/02/2009	23/02/2012	$0.20	543,616
Options issued to a director	6	500,000	27/07/2009	30/11/2011	$0.20	45,564
Options issued to employees	1	1,100,000	01/07/2010	08/06/2012	$0.30	248,494
Options issued to employees	2	625,000	01/07/2010	08/06/2013	$0.30	37,697
Options issued to directors	4	6,000,000	31/12/2010	29/11/2011	$0.20	280,471

The following table illustrates the number (No.) and weighted average exercise prices of and movements in share options issued during the year:

	2012 No.	2012 Weighted average exercise price	2011 No.	2011 Weighted average exercise price
Outstanding at the beginning of the year	23,950,000	$0.30	16,800,000	$0.30
Granted during the prior year	-	-	3,775,000	$0.30
Granted during the year	-	-	8,500,000	$0.20
Forfeited during the year (1)	(625,000)	$0.30	(2,125,000)	$0.28
Lapsed during the year	(10,900,000)	$0.20	(3,000,000)	$0.30
Outstanding at the end of the year	12,425,000	$0.33	23,950,000	$0.27
Exercisable at the end of the year	12,425,000	$0.33	23,950,000	$0.27

(1) These options were forfeited on cessation of individuals' empl oyment.

The outstanding balance as at 30 June 2012 is represented by:

- 9,500,000 options over ordinary shares with an exercise price of $0.35 each, exercisable upon meeting the above conditions and until 30 November 2012;
- 425,000 options over ordinary shares with an exercise price of $0.30 each, exercisable upon meeting the above conditions and until 8 June 2013; and,
- 2,500,000 options over ordinary shares with an exercise price of $0.20 each, exercisable upon meeting the above conditions and until 29 November 2013.

The weighted average remaining contractual life for the share options outstanding as at 30 June 2012 is 0.64 years (2011: 1.13 years).

The range of exercise prices for options outstanding at the end of the year was $0.20 - $0.35 (2011: $0.20 - $0.35).

There were no options granted during the year 30 June 2012 (2011: weighted average fair value $455,494).

NOTE 16 : SHARE BASED PAYMENT PLANS (continued)

The following table lists the inputs to the model used for the years ended 30 June 2011 and 30 June 2012:

	Series 1	Series 2	Series 3	Series 4	Series 5	Series 6	Series 7	Series 8
Issue date	1 Jul 10	1 Jul 10	31 Dec 10	31 Dec 10	22 Dec 09	27 Jul 09	23 Feb 09	28 Nov 08
Dividend yield (%)	0%	0%	0%	0%	0%	0%	0%	0%
Expected volatility (%)	153%	153%	208%	108%	97%	120%	135%	100%
Risk-free interest rate (%)	4.5%	4.5%	4.5%	4.5%	4.8%	4.3%	3.3%	4.5%
Expected life of option (years)	1.9	2.9	0.9	2.9	2.9	2.3	3.0	3.0
Exercise price (cents)	30c	30c	20c	20c	35c	20c	20c	20c
Grant date share price (cents)	22c	22c	11c	11c	30c	15c	18c	7c

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of options granted were incorporated into the measurement of fair value.

NOTE 17: FINANCIAL INSTRUMENTS

(a) Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The Group's overall strategy remains unchanged from 2011.

The capital structure of the Group consists of debt, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

None of the Group's entities are subject to externally imposed capital requirements.

The ultimate parent entity has supported the Group's working capital requirements and exploration expenditure during the year with an initial capital injection of $13,743,250 (share placement $2,243,250 and conversion of convertible note $11,500,000) (refer Note 14), loan convertible note and current account balances totalling $6,402,570 as at 30 June 2012 (refer Note 19); and, since the year end ($1,450,000).

The ultimate parent entity has successfully facilitated the funding $1,500,000 through a convertible note with private Hong Kong investor (refer Note 21).

Operating cash flows are used to maintain and expand operations, as well as to make routine expenditures such as tax, dividends and general administrative outgoings.

Gearing levels are reviewed by the Board on a regular basis in line with its target gearing ratio, the cost of capital and the risks associated with each class of capital.

	Consolidated 2012 $	Consolidated 2011 $
(b) Categories of financial instruments		
Financial assets		
Loans and receivables (Note 7)	1,837,852	1,065,133
Cash and cash equivalents (Note 6)	87,201	232,743
Financial liabilities		
Trade and other payables (Note 11)	6,187,693	18,273,162
Borrowings (Note 12)	7,620,358	1,191,474
Other financial liabilities (Note 13)	150,468	216,296

NOTE 17: FINANCIAL INSTRUMENTS (continued)

(c) Market risk

The Group's activities expose it primarily to the financial risks of changes in commodity prices.

(d) Foreign currency risk management

The Group does not have any exposure to foreign currency risk, other than its impact on the economy and commodity price generally.

(e) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group only transacts with entities that are rated the equivalent of investment grade and above. This information is supplied by independent rating agencies where available and, if not available, the Group uses publicly available financial information and its own trading record to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

The Group faces a significant credit risk exposure for recovery of the trade receivable from a single counterparty (refer Note 7) consequent to the termination of the Toll Treatment on 29 August 2012. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

The carrying amount of financial assets recorded in the financial statements, net of any allowance for losses, represents the Group's maximum exposure to credit risk without taking account of the value of any collateral obtained.

(f) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, who have built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The following table details the company's and the Group's expected maturity for its non-derivative financial liabilities. These have been drawn up based on undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the Group anticipates that the cash flow will occur in a different period.

Consolidated	Less than 1 month $	1 – 3 Months $	3 months – 1 year $	1 – 5 years $	5+ years $
2012					
Non-interest bearing	4,335,024	1,852,669	-	-	-
Interest bearing loans	650,000	3,530,000	2,213,575	500,000	-
Finance lease liabilities	36,303	110,608	307,258	272,614	-
	5,021,327	5,493,277	2,520,833	772,614	-
2011					
Non-interest bearing	4,717,667	381,114	13,076,475	97,906	-
Finance lease liabilities	36,692	108,885	302,721	743,176	-
	4,754,359	489,999	13,379,196	841,082	-

NOTE 17: FINANCIAL INSTRUMENTS (continued)

(g) Commodity price risk

The Group has exposure to gold price fluctuations due to gold sales being un-hedged. A 10% change (+/-) to the price of gold would have changed the current year result by $1,905,676. There would also have be a corresponding change in equity.

NOTE 18: COMMITMENTS AND CONTINGENCIES

Operating lease commitments – Group as lessee

The Group entered into a commercial sub leasing for its current office premises for a period of two years and subject to expiry on 30 November 2013.

Finance lease and hire purchase commitments – Group as lessee

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 together with the present value of the net minimum lease payments are as follows:

	2012		2011	
Consolidated	Minimum lease payments $	Present value of lease payments $	Minimum lease payments $	Present value of lease payments $
Within one year	514,296	514,296	533,313	533,313
After one year but not more than five years	272,689	243,566	808,798	682,460
Total minimum lease payments	786,985	757,862	1,342,111	1,215,773
Less amounts representing finance charges	(60,202)	(51,514)	(150,637)	(138,461)
Present value of minimum lease payments	726,783	706,348	1,191,474	1,077,312

Capital commitments

At 30 June 2012 the Group had no capital commitments. The Group has an expenditure commitment of $1,507,160 for the year 2012-13 to sustain current tenements under lease from the Department of Mines and Petroleum. The expenditure commitment includes annual tenement rentals of $166,995.

Other expenditure commitments

Orders unexecuted for procurement of non capital related goods and services.

Commitments contracted for at balance date but not recognised as liabilities are as follows:

	Consolidated	
	2012 $	2011 $
Within one year	189,354	86,641
After one year but not more than five years	-	-

NOTE 19: RELATED PARTY DISCLOSURE

The consolidated financial statements include the financial statements of Stone Resources Australia Limited and the subsidiaries listed in the following table.

Name	Country of Incorporation	% Equity Interest 2012	% Equity Interest 2011	Investment ($) 2012	Investment ($) 2011
Desertex Resources Limited	Australia	100%	100%	770,000	770,000
Less: Impairment				(770,000)	(770,000)
				-	-
Desert Exploration Pty Limited	Australia	100%	100%	1,546,004	1,546,004

Stone Resources Australia Limited is the ultimate Australian parent entity and ultimate parent of the Group. Stone Resources Australia Limited is a subsidiary of the Stone Resources Limited, a Hong Kong based and listed company.

Stone Resources Australia Limited received an interest bearing loan of $630,000 from Great Cortex International Ltd (refer Note 12) 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 the Great Cortex International Limited. The loan is subject to an interest of 9.31% per annum and payable in half yearly cycles in June and December each year. A grace period on repayment of principal extends to 31 December 2013 and thereafter repayment is $105,000 in half yearly cycles commencing June 2013.

The following table provides the total amount of transactions that were entered into with related parties for the relevant financial year.

Related party		Income from Related Parties $'000	Expenditure Related Parties $'000	Amounts Owed by Related parties $'000	Amounts Owed to Related parties $'000
Consolidated					
Loan, Convertible Note and current account with Stone Resources Limited	2012	-	80,246	-	6,402,570
Loan, Convertible Note and current account with Stone Resources Limited	2011	-	-	-	-
Loan from Desertex Resources Limited	2012	-	-	-	12,850
Loan from Desertex Resources Limited	2011	-	-	-	12,850
Loan to Desert Exploration Pty Limited	2012	-	-	2,471,238	-
Loan to Desert Exploration Pty Limited	2011	-	-	2,471,238	-
Loan from Great Cortex International Limited	2012	-	-	-	630,000
Loan from Great Cortex International Limited	2011	-	-	-	-

Terms and conditions of transactions with related parties
There are no Sales to and purchases from related parties are made in arm's length transactions both at normal market prices and on normal commercial terms.

Outstanding balances at year-end are unsecured. Loans from Stone Resources Limited (Parent entity) and Great Cortex International Limited are interest bearing; other loans are interest free.

NOTE 20: PARENT ENTITY DISCLOSURES

Financial position

	30 June 2012 $	30 June 2011 $
Assets		
Current assets	1,001,944	2,189,053
Non-current assets	25,875,277	29,266,303
Total assets	26,877,221	31,455,356
Liabilities		
Current liabilities	12,555,905	18,904,197
Non-current liabilities	2,259,864	1,633,986
Total liabilities	14,815,769	20,538,183
Equity		
Issued capital	48,648,237	35,103,213
Accumulated losses	(39,210,161)	(27,962,177)
Reserves	2,623,376	3,776,137
Total equity	12,061,452	10,917,173

Financial performance

	30 June 2012 $	30 June 2011 $
Total comprehensive loss for the year	(12,400,745)	(16,923,683)

Commitments and Contingencies of the parent entity

	30 June 2012 $	30 June 2011 $
Purchase orders raised and unexecuted	189,354	86,641

For details on commitments, see Note 18.

Reconciliation of Accumulated Losses

	30 June 2012 $	30 June 2011 $
Balance at beginning of financial year	(27,962,177)	(11,446,473)
Loss for the year	(12,400,745)	(16,923,683)
Transfer of lapsed options	1,152,761	407,979
Total equity	(39,210,161)	(27,962,177)

NOTE 21: EVENTS AFTER THE BALANCE DATE

On 10 July 2012, the Company entered into a $1,500,000 secured convertible note agreement with Easy Prestige Limited an unrelated private Hong Kong investor at 11% per annum interest payable quarterly in arrears at maturity 18 months from date of issue and at a conversion price of 1.7 cents per Share.

On 11 July 2012, the Company received a statutory demand from William Hobba. This demand was settled on 31 August 2012 by payment of $100,000 and issuing of 20,000,000 subject to shareholder approval at the Annual General Meeting.

On 15 August 2012, non executive director Ross Louthean resigned and on 31 August 2012 William Hobba was appointed non executive director.

On 14 September 2012, 6,655,296 ordinary fully paid shares were issued to employees at 1.182 cents per share pursuant to an Employee Share Plan as payment of salaries to employees.

On 15 September 2012, the Company placed its Brightstar Treatment Facility into care and maintenance mode with the release of most site employees.

On 17 September 2012, the Company received a statutory demand from Hawker Geological Services Pty Ltd for an amount of $537,692.26 for outstanding invoices in respect of geological consulting services provided. On 5 November 2012, the Company applied to set aside the statutory demand citing supervision that led to discrepancies in drilling holes in comparison with the agreed drilling program.

On 17 September 2012, the Company received a statutory demand from VM Drilling Pty Ltd for an amount of $1,962,130.66 for outstanding invoices in respect of drilling services provided. On 5 November 2012, the Company applied to set aside the statutory demand citing discrepancies in drilling holes in comparison with the agreed drilling program.

On 12 October 2012, Mr Albert Longo Company Secretary and Chief Financial Officer resigned.

On 26 October 2012, Messrs Francis Hui and Sheng Lu were appointed joint Company Secretaries.

NOTE 22: AUDITOR'S REMUNERATION

The auditor of Stone Resources Australia Limited is HLB Mann Judd.

	Consolidated	
	2012 $	2011 $
Amounts received or due and receivable by HLB Mann Judd for:		
An audit or review of the financial report of the entity and any other entity in the Group	68,800	49,950
- tax compliance	16,649	4,220
- review of financial report for the holding company's compliance requirements	23,900	-
	109,349	54,170

NOTE 23: DIRECTORS AND EXECUTIVES DISCLOSURES

(a) Details of Key Management Personnel

(i) Directors

Yongji Duan	Chairman (Non Executive) (appointed 4 November 2011)
Kaiye Shuai	Chief Executive Director (appointed 4 November 2011)
Edward Tai	Executive Director (appointed 4 November 2011)
Ross Louthean	Independent Director (resigned 15 August 2012)
Michael Hunt	Chairman (non-executive) (resigned 4 November 2011)
William Hobba	Technical Director (resigned 4 November 2011) and Non Executive Director (appointed 31 August 2012)
Albert Longo	Finance Director (resigned 4 November 2011)

(ii) Executives

Albert Longo	Company Secretary

Key management personnel remuneration has been included in the Remuneration Report section of the Directors' Report.

(b) Option holdings of Key Management Personnel (Consolidated)

	Balance at beginning of period	Granted as remuneration	Options exercised	Options lapsed	Balance at end of period (1)	Vested as at end of period Exercisable	Not Exercisable
30 June 2012							
Directors							
Michael W Hunt (resigned 4 November 2011)	5,000,000	-	-	(2,500,000)	2,500,000	2,500,000	-
Ross Louthean (resigned 15 August 2012)	1,500,000	-	-	(500,000)	1,000,000	1,000,000	-
William Hobba	5,500,000	-	-	(5,000,000)	500,000	500,000	-
Albert Longo (resigned 4 November 2011)	1,000,000	-	-	(250,000)	750,000	750,000	-
Yongji Duan	-	-	-	-	-	-	-
Kaiye Shuai	-	-	-	-	-	-	-
Edward Tai	-	-	-	-	-	-	-
Total	13,000,000	-	-	(8,250,000)	4,750,000	4,750,000	-

 # Includes forfeitures

(1) Includes options held at date of resignation.

NOTE 23: DIRECTORS AND EXECUTIVES DISCLOSURES (continued)

(b) Option holdings of Key Management Personnel (Consolidated) (continued)

	Balance at beginning of period	Granted as remune-ration	Options exercised	Options lapsed	Balance at end of period (1)	Vested as at end of period Exercisable	Vested as at end of period Not Exercisable
30 June 2011							
Directors							
Michael W Hunt	4,500,000	1,500,000	-	(1,000,000)	5,000,000	5,000,000	-
Ross Louthean	1,000,000	500,000	-	-	1,500,000	1,500,000	-
William Hobba	-	5,500,000	-	-	5,500,000	5,500,000	-
Albert Longo	1,000,000	500,000	-	(500,000)	1,000,000	1,000,000	-
Rick Stroud (resigned 19 April 2011)	-	500,000	-	-	500,000	500,000	-
John Williams (resigned 9 August 2010)	8,000,000	-	-	(1,000,000)	7,000,000	7,000,000	-
Total	14,500,000	8,500,000	-	(2,500,000)	20,500,000	20,500,000	-

(1) Includes amount held at date of resignation

(c) Shareholdings of Key Management Personnel (Consolidated)

Ordinary shares held in Stone Resources Australia Limited (number)

30 June 2012	Balance at beginning of period	Granted as remuner-ation	On Exercise of Options	Net Change Other	Balance at end of period (1)
Directors					
Yongji Duan	-	-	-	1,386,393	1,386,393
Kaiye Shuai	-	-	-	1,733,036	1,733,036
Edward Tai	-	-	-	2,252,942	2,252,942
William Hobba (spouse Ms. Sandra Wheeler) (resigned 4 November 2011)	11,247,775	-	-	900,000	12,147,775
Michael Hunt (resigned 4 November 2011)	2,250,000	-	-	-	2,250,000
Ross Louthean (resigned 15 August 2012)	-	-	-	-	-
Albert Longo (resigned 4 November 2011)	-	-	-	-	-
	13,497,775	-	-	6,272,371	19,770,146

(1) Includes amount held at date of resignation

NOTE 23: DIRECTORS AND EXECUTIVES DISCLOSURES (continued)

(c) Shareholdings of Key Management Personnel (Consolidated) (continued)

Ordinary shares held in Stone Resources Australia Limited (number)

30 June 2011	Balance at beginning of period	Granted as remuneration	On Exercise of Options	Net Change Other	Balance at end of period (1)
Directors					
Michael Hunt	2,250,000	-	-	-	2,250,000
Ross Louthean	-	-	-	-	-
William Hobba (spouse Ms. Sandra Wheeler)	11,247,775	-	-	-	11,247,775
Albert Longo	-	-	-	-	-
John Williams (resigned 9 August 2010)	13,801,966	-	-	(6,260,000)	7,541,966
Ross Louthean	-	-	-	-	-
	27,299,741	-	-	(6,260,000)	21,039,741

(1) Includes amount held at date of resignation.

All equity transactions with key management personnel other than those arising from the exercise of remuneration options have been entered into under terms and conditions no more favourable than those the Group would have adopted if dealing at arm's length.

(d) Other transactions and balances with Key Management Personnel

Some Directors and executives hold positions within other entities which cause them to have control or exert significant influence over the financial or operating policies of those entities.

A number of these entities transacted with the Company during the reporting period. In each instance normal commercial terms and conditions applied. Terms and conditions were no more favourable than those available, or which might reasonably be expected to be available, for a similar transaction to unrelated parties on an arm's length basis.

The aggregate amounts recognised during the year relating to Directors and executives and their personally related entities, totalled an expense of $135,098 (2011: $342,200). Details of these transactions are set out in the following table:

30 June 2012	**Transaction**	2012	2011
Directors			
Michael Hunt	Legal fees	135,098	162,212
Ross Louthean	Media work	-	550
William Hobba	Engineering consultancy	-	165,330
Rick Stroud	Mining Construction	-	14,108

The following balances were payable at balance date:

30 June 2012	**Transaction**	2012	2011
Directors			
Michael Hunt	Legal fees	37,451	89,768
Ross Louthean	Media work	-	550
William Hobba	Engineering consultancy	-	42,000

DIRECTORS' DECLARATION

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

   a. the accompanying financial statements, notes and the additional disclosures of the consolidated entity are in accordance with the Corporations Act 2001 including:
      i. giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year then ended; and
      ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

   b. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

   c. the financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

2. This declaration has been made after receiving the declarations required to be made to the directors in accordance with Section 295A of the Corporations Act 2001 for the financial year ended 30 June 2012.

This declaration is signed in accordance with a resolution of the Board of Directors.

Kaiye Shuai
Director
Dated this 9 day of November, 2012

HLB Mann Judd

Accountants | Business and Financial Advisers

INDEPENDENT AUDITOR'S REPORT

To the members of Stone Resources Australia Limited

Report on the Financial Report

We have audited the accompanying financial report of Stone Resources Australia Limited ("the company"), which comprises the consolidated statement of financial position as at 30 June 2012, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration for the consolidated entity. The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the 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 financial report that is free from material misstatement, whether due to fraud or error.

In Note 1(b), the directors also state, in accordance with Accounting Standard AASB 101: *Presentation of Financial Statements*, that the consolidated financial report complies with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

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HLB Mann Judd

Accountants | Business and Financial Advisers

Matters relating to the electronic presentation of the audited financial report and remuneration report

This auditor's report relates to the financial report and remuneration report of Stone Resources Australia Limited for the financial year ended 30 June 2012 published in the annual report and included on the company's website. The company's directors are responsible for the integrity of the company's website. We have not been engaged to report on the integrity of this website. The auditor's report refers only to the financial report and remuneration report. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report and remuneration report. If users of the financial report and remuneration report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial report and remuneration report to confirm the information contained in this website version of the financial report and remuneration report.

Auditor's opinion

In our opinion:

(a) the financial report of Stone Resources Australia Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1(b).

Emphasis of Matter

Without qualification to the opinion expressed above, we draw attention to Note 1(f) to the financial statements which indicate that the ability of the company to continue as a going concern and, therefore, meet its debts and commitments as and when they fall due is dependent the continued support from Stone Resources Limited, its parent company. Should the parent entity be unable to provide sufficient funding, there is a material uncertainty that may cast significant doubt over whether the company will continue as a going concern and, therefore, whether it will realise its assets, and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

Report on the Remuneration Report

We have audited the remuneration report included in the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion the remuneration report of Stone Resources Australia Limited for the year ended 30 June 2012 complies with section 300A of the *Corporations Act 2001*.

HLB MANN JUDD
Chartered Accountants

Perth, Western Australia
9 November 2012

N G NEILL
Partner

Additional information required by the Australian Stock Exchange Limited and not disclosed elsewhere in this report is set out below:

SHAREHOLDINGS AT 9TH NOVEMBER 2012

Range	Number of Holders	Securities Held
1 – 1,000	152	16,944
1,001 – 5,000	285	898,059
5,001 – 10,000	341	2,881,222
10,001 – 100,000	1,011	39,540,396
100,001 – 9,999,999,999	315	592,660,899
	2,104	635,997,520

There are 1,574 shareholders holding unmarketable parcels represented by 25,262,115 shares.

TOP 20 LARGEST SHAREHOLDERS

Shareholder	Shares Held	% of Issued Capital
Stone Resources Limited	418,301,429	65.77
Ms Sandra Wheeler	12,147,775	1.91
Wapimala Pty Limited	5,440,385	0.86
JP Morgan Nominees Australia Limited	4,672,435	0.73
Effex Pty Ltd	4,650,000	0.73
Mr. Ianaki Semerdziev	3,500,000	0.55
Mr. Michael John Colton	3,083,264	0.48
Mr. Friend Nothers	2,912,000	0.46
Amwell Pty Ltd	2,881,000	0.45
Mr. Murray James Hull + Mrs. Kathleen Veronica Hull	2,873,993	0.45
Mr. John Dennis Williams	2,791,966	0.44
Mr. John Swain	2,714,913	0.43
Wenhua Shan	2,607,114	0.41
Mr. John Kopp + Mrs. Halina Kopp	2,501,000	0.39
Mr. Kwok Hung Tai	2,252,941	0.35
Yong Han	2,170,819	0.34
Archen Trading NZ Limited	2,146,154	0.34
National Nominees Limited	2,039,166	0.32
Tre Pty Ltd	2,000,000	0.31
Ms. Esma Eileen Barker	1,975,000	0.31
	483,661,354	76.05

VOTING RIGHTS

One vote for each ordinary share held in accordance with the Company's Memorandum and Articles of Association.

SUBSTANTIAL SHAREHOLDERS

Shareholder	Shares Held	% of Issued Capital
Stone Resources Limited	418,301,429	65.77

UNQUOTED ORDINARY SECURITIES

At the end of the financial year there were no ordinary fully paid shares subject to restriction agreements.

TENEMENT SCHEDULE

	LEASE	PROJECT	STATUS	LEASE MANAGER	TOTAL SHARES
APPLICATIONS SOUTH LAVERTON	E38/2668	Gamma	Application	Stone Resources Australia Limited	100
GRANTED TENEMENTS SOUTH LAVERTON	L38/123	Alpha	Granted	Stone Resources Australia Limited	100
	M38/1056	Alpha	Granted	Stone Resources Australia Limited	100
	M38/1057	Alpha	Granted	Stone Resources Australia Limited	100
	M38/1058	Alpha	Granted	Stone Resources Australia Limited	100
	M38/968	Alpha	Granted	Stone Resources Australia Limited	100
	P38/3834	Alpha	Granted	Stone Resources Australia Limited	100
	E38/2360	Beta	Granted	Stone Resources Australia Limited	100
	E38/2364	Beta	Granted	Stone Resources Australia Limited	100
	E38/2365	Beta	Granted	Stone Resources Australia Limited	100
	E38/2480	Beta	Granted	Stone Resources Australia Limited	100
	L38/100	Beta	Granted	Stone Resources Australia Limited	100
	L38/168	Beta	Granted	Stone Resources Australia Limited	100
	L38/169	Beta	Granted	Stone Resources Australia Limited	100
	L38/185	Beta	Granted	Stone Resources Australia Limited	100
	L38/188	Beta	Granted	Stone Resources Australia Limited	100
	M38/9	Beta	Granted	Stone Resources Australia Limited	100
	P38/3829	Beta	Granted	Stone Resources Australia Limited	100
	P38/3830	Beta	Granted	Stone Resources Australia Limited	100
	P38/3831	Beta	Granted	Stone Resources Australia Limited	100
	P38/3855	Beta	Granted	Stone Resources Australia Limited	100
	P38/3856	Beta	Granted	Stone Resources Australia Limited	100
	P38/3888	Beta	Granted	Stone Resources Australia Limited	100
	P38/3889	Beta	Granted	Stone Resources Australia Limited	100
	E38/2316	Burtville	Granted	Stone Resources Australia Limited	100
	L38/171	Burtville	Granted	Stone Resources Australia Limited	100
	M38/984	Burtville	Granted	Stone Resources Australia Limited	100
	P38/3768	Burtville	Granted	Stone Resources Australia Limited	100
	P38/3826	Burtville	Granted	Stone Resources Australia Limited	100
	P38/3854	Burtville	Granted	Stone Resources Australia Limited	100
	P38/3905	Burtville	Granted	Stone Resources Australia Limited	100
	P38/3911	Burtville	Granted	Stone Resources Australia Limited	100
	E38/1958	Gamma	Granted	Stone Resources Australia Limited	100
	E38/2246	Gamma	Granted	Stone Resources Australia Limited	100
	E38/2411	Gamma	Granted	Stone Resources Australia Limited	100
	M38/241	Gamma	Granted	Stone Resources Australia Limited	100
	M38/549	Gamma	Granted	Stone Resources Australia Limited	100
	P38/3817	Gamma	Granted	Stone Resources Australia Limited	100
	P38/3825	Gamma	Granted	Stone Resources Australia Limited	100
	P38/3827	Gamma	Granted	Stone Resources Australia Limited	100
	P38/3857	Gamma	Granted	Stone Resources Australia Limited	100
	P38/3858	Gamma	Granted	Stone Resources Australia Limited	100
	P38/3859	Gamma	Granted	Stone Resources Australia Limited	100
	P38/3860	Gamma	Granted	Stone Resources Australia Limited	100
	P38/3861	Gamma	Granted	Stone Resources Australia Limited	100

	LEASE	PROJECT	STATUS	LEASE MANAGER	TOTAL SHARES
GRANTED TENEMENTS NORTH LAVERTON	E38/1618	Delta	Granted	Stone Resources Australia Limited	100
	E38/2134	Delta	Granted	Stone Resources Australia Limited	100
	E38/2135	Delta	Granted	Stone Resources Australia Limited	100
	E38/2233	Delta	Granted	Stone Resources Australia Limited	100
	E38/2452	Delta	Granted	Stone Resources Australia Limited	100
	E38/2506	Delta	Granted	Stone Resources Australia Limited	100
	L38/154	Delta	Granted	Stone Resources Australia Limited	100
	L38/205	Delta	Granted	Stone Resources Australia Limited	100
	M38/346	Delta	Granted	Stone Resources Australia Limited	100
	M38/917	Delta	Granted	Stone Resources Australia Limited	100
	M38/918	Delta	Granted	Stone Resources Australia Limited	100
	P38/3781	Delta	Granted	Stone Resources Australia Limited	100
	E38/1936	Epsilon	Granted	Stone Resources Australia Limited	100
	E38/2564	Epsilon	Granted	Stone Resources Australia Limited	100
	E38/2597	Epsilon	Granted	Stone Resources Australia Limited	100
	L38/206	Epsilon	Granted	Stone Resources Australia Limited	100
	M38/160	Epsilon	Granted	Stone Resources Australia Limited	100
	M38/339	Epsilon	Granted	Stone Resources Australia Limited	100
	P38/3800	Epsilon	Granted	Stone Resources Australia Limited	100
	P38/3871	Epsilon	Granted	Stone Resources Australia Limited	100
	P38/3872	Epsilon	Granted	Stone Resources Australia Limited	100
	P38/3937	Epsilon	Granted	Stone Resources Australia Limited	100
	P38/3951	Epsilon	Granted	Stone Resources Australia Limited	100
	E38/1937	Eta	Granted	Stone Resources Australia Limited	100
	E38/2234	Eta	Granted	Stone Resources Australia Limited	100
	E38/2332	Eta	Granted	Stone Resources Australia Limited	100
	E38/2361	Eta	Granted	Stone Resources Australia Limited	100
	E38/2596	Eta	Granted	Stone Resources Australia Limited	100
	M38/1241	Eta	Granted	Stone Resources Australia Limited	100
	P38/3159	Eta	Granted	Stone Resources Australia Limited	100
	P38/3799	Eta	Granted	Stone Resources Australia Limited	100
	P38/3801	Eta	Granted	Stone Resources Australia Limited	100
	P38/3873	Eta	Granted	Stone Resources Australia Limited	100
	P38/3874	Eta	Granted	Stone Resources Australia Limited	100
	P38/3875	Eta	Granted	Stone Resources Australia Limited	100
	P38/3952	Eta	Granted	Stone Resources Australia Limited	100
GRANTED TENEMENTS WEST LAVERTON	M38/314	Hawkes Nest	Granted	Stone Resources Australia Limited	100
	M38/381	Hawkes Nest	Granted	Stone Resources Australia Limited	100
	M38/94	Hawkes Nest	Granted	Stone Resources Australia Limited	100
	M38/95	Hawkes Nest	Granted	Stone Resources Australia Limited	100

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