STRATEGIC ELEMENTS

Annual Report 2012

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Corporate Information

Strategic Elements Limited
ABN 47 122 437 503

Solicitors
Kings Park Corporate Lawyers
Suite 8, 8 Clive Street,
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Directors
Seng Yap
Charles Murphy
Matthew Howard
Elliot Nicholls

Auditors
Nexia Perth Audit Services Pty Ltd
Level 7, The Quadrant,
1 William Street,
Perth WA 6000

Company Secretary
Matthew Howard

Securities Exchange Listing
ASX Limited
ASX Code: SOR

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Chairman's Letter

Dear Shareholder,

Strategic Elements Limited ("the Company", ASX code: SOR) listed on the Australian Stock Exchange raising approximately $2.46M in an IPO that closed in July 2011. Unfortunately stock markets seriously deteriorated around that time and have continued to experience very serious, global difficulties throughout the period. It is noted that many companies have failed in their efforts to list since June 2011.

Investments held in high risk – high reward exploration activities have been the worst affected. This is also the area where the Company's main investment in the exploration activities of its wholly-owned subsidiary, Strategic Materials Pty Ltd (SML) lies. SML strategically pursues high risk – but potentially very high reward investment returns.

During the year, SML has focused on leveraging what it believes to have been a temporary window to secure projects in New Zealand with prospective historical mining results and with little or no modern exploration techniques previously applied. After extensive review, it has moved to secure projects hosting previous mines, along strike from existing mines or located in intrusions that are favourable to host large scale deposits. The key criterion and focus remains with projects where a discovery could have a significant and major impact on shareholder value.

The Company is supportive of SML's strategy of timing its activities with reference to the financial environment and careful management of cash expenditure on exploration activities. SML is seeking the potential increase in values received (in normal market conditions) from 100% owned projects making a new large-scale discovery.

Many companies have significantly burnt through their cash reserves over the last 12 months whilst entering headlong into market conditions where they cannot raise additional capital without excessive dilution. These companies may have promising projects with significantly reduced valuations. This provides an opportunity for SOR to potentially make additional investments, with exposure to a different type of value to that sought by SML.

The Company has a strong cash position of approximately $3.36M at balance date and low overheads. Between the high risk – high reward projects held by SML and potential secondary investments into more advanced operations, we are very optimistic for the coming year. In combining this strategy with the capacity for most shareholders to pay no tax on capital gains and dividends, the Company is aiming to create value for all shareholders.

As a Pooled Development Fund, we actively seek new investments in small and medium Australian companies across the rare metals sector. The Company has remained in contact with overseas investment groups in regards to co-investment into various opportunities.

I take this opportunity to thank our management and contractors for their contributions to the Company's progress over the past year.

I would also like to thank our shareholders, who have on the majority, shown strong support and understanding in the direction of the Company. My fellow Directors and I look forward to rewarding your support by significantly changing the valuation of the Company over the coming period.

Seng Yap
Chairman

30th August 2012

Directors' Report

Your directors submit the annual financial report of the consolidated entity comprising Strategic Elements Limited and the entities it controlled during the financial year ended 30 June 2012. In order to comply with the provisions of the *Corporations Act 2001*, the directors report as follows:

Directors

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

Names, qualifications and experience:

Seng Yap

Non-Executive Chairman

Mr Yap was appointed Chairman in October 2006.

Mr Yap has worked as a senior advisor to leading venture capital groups and multi-nationals in Australia, Japan and China in a series of transactions worth in excess of AU$500 million. Earlier in his career Mr Yap was employed by Schlumberger Limited, working in international oil and gas exploration projects across New Zealand, Asia and Australia. Mr Yap previously served as the head of the Joint Venture between the NSW Investment Corporation and the Venture Capital operation of Daiwa Securities.

Mr Yap holds a Bachelor of Engineering degree from Kyoto University in Japan, a postgraduate Diploma in Investments and Securities Analysis from the Securities Institute of Australia and a postgraduate Company Director's Diploma.

Mr Yap is currently a director of the large Japanese multi-national Hokuriku Coca Cola and has managed their Asian partnerships and market entries. During the last three years Mr Yap was a director and chairman of MEC Resources Ltd, an ASX listed Pooled Development Fund (December 2005 to August 2009) and is currently a director of BlackGold International Holdings Ltd, an ASX listed company with producing coal mines.

Charles Murphy

Managing Director

Mr Murphy was appointed to the board in October 2006.

Mr Murphy led the Company's registration as a Pooled Development Fund. Mr Murphy has experience as a corporate advisor to resources and technology companies providing advice on transaction structuring, strategy and business development. He co-founded and developed ASX listed MEC Resources Ltd (December 2005 to November 2007), a Pooled Development Fund investing into a portfolio of energy and commodities investments.

Mr Murphy has successfully formed alliances and JV's for multi-million dollar exploration and technology programs as well as forming global collaborations with companies such as General Electric.

Mr Murphy is a qualified responsible Fund Manager and has a Masters Degree in Business Administration (MBA).

Mr Murphy is not currently a director of any other Australian listed companies and has not held any other directorships during the last 3 years.

Directors (continued)

Matthew Howard

Executive Director and Company Secretary

Mr Howard was appointed to the board in December 2008.

Mr Howard has worked with some of the largest financial institutions including Goldman Sachs JBWere, Macquarie Bank, ANZ Bank and National Australia Bank. He has helped close numerous multi-million dollar transactions with some of the largest Fortune 100 US technology companies in the Asia Pacific region including Oracle and BEA Systems. He has a combined Business and Information Technology Degree, holds a postgraduate qualification in Corporate Governance and is completing a Masters in Finance.

Mr Howard is not currently a director of any other Australian listed companies and has not held any other directorships during the last 3 years.

Elliot Nicholls

Executive Director

Mr Nicholls was appointed to the board in January 2009.

Mr Nicholls has worked in corporate advisory focusing on financial analysis and business model development. He has worked with clients in the mining and resources, oil & gas and industrial sectors including Rio Tinto and Hismelt. He has experience in financial analysis of large infrastructure projects in Australia and has been involved in projects investigating and resolving inter-company financial matters throughout the Asia-Pacific for Telstra Corporation.

Mr Nicholls has a Bachelor of Electronic Engineering with First Class Honours and a Bachelor of Commerce (Finance) from The University of Western Australia.

Mr Nicholls is not currently a director of any other Australian listed companies and has not held any other directorships during the last 3 years.

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

As at the date of this report, the interests of the directors in the shares and options of the Company were:

Director	Number of fully paid ordinary shares	Number of options over ordinary shares
S Yap	11,700,001	3,500,000
C Murphy	27,159,001	-
M Howard	5,611,000	-
E Nicholls	9,350,000	-

Details of unissued ordinary shares in the Company under options as at the date of this report are as follows:

Options series	Number of options	Exercise price	Expiry date
Director and executive options	3,500,000	20 cents	1 April 2015

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 Company is a registered and listed Pooled Development Fund (PDF). The Company invests into Australian companies across the rare earths and rare metals mining, processing and materials development sectors.

Directors' Report

Review of operations

The Company is registered as a Pooled Development Fund (PDF) under the Australian government's Pooled Development Fund Act 1992. The PDF program was established to encourage investment into small and medium sized Australian companies.

The Company primarily seeks to invest into opportunities across the rare metals materials sector (which includes rare earths and other rare metals). It is particularly attracted to opportunities where multi-commodity assets provide exposure to both rare and precious metals.

The Company is the only rare metals focused Pooled Development Fund on the ASX, which enables most shareholders to pay no tax on capital gains or dividend income received from their shareholding in the Company. This structure has the potential to significantly increase the benefit of any capital gain made by the Company's shareholders.

Strategic Materials Pty Ltd

The Company's primary investment is in its wholly owned subsidiary, Strategic Materials Pty Ltd (SML).

Since the Company listed on the ASX in August 2011, SML has largely focused on taking advantage of the significant opportunities it believes exist in New Zealand. It has sought to take advantage of several benefits:

1. There has been limited exploration since the late 1980's when many companies withdrew from New Zealand.
2. The country missed much of the exploration boom that occurred in Australia since in the 1990's.
3. The government has only in the last few years taken significant steps to support the industry.
4. It is a mineral rich country with favourable geology.
5. The country has large areas covered with dense vegetation and alluvial cover, yet there is a significant lack of geophysical surveys.

Throughout the year, SML has taken advantage of the above opportunities whilst they still exist, to gain exposure to highly prospective (yet underexplored) projects that are 100% owned (as opposed to paying significant amounts to acquire permits owned by other companies).

SML has specifically focused on opportunities with large scale potential upside from a discovery. These are by nature high risk but have potential for very high rewards. A sharpened focus will now occur on exploration of previous and newly added projects. It is hoped that this activity will also be occurring in an environment where the general stock market improves and exploration results are duly rewarded.

New Zealand Projects

Hohonu Project

The Hohonu project covers a large area (approx 850 sqkm) of the West Coast of the South Island of New Zealand. It covers a number of intrusions with historic reports of rare metal mineralisation situated adjacent to the Alpine Fault.

It is believed the west coast region has considerable mineral potential, however much of the surface area contained within the project is covered by vegetation due to humidity and rainfall.

The project area has remained highly underexplored due to the covered surface. Critically, airborne geophysical data to assist in identification of geological bodies under the covered surface have never been available. For the first time, the NZ government is funding a multi-million dollar airborne geophysical survey and SML will have first mover advantage holding a significant area of the west coast.

During the year, SML conducted its initial phase of work at the French Creek rare earths prospect. A preliminary visit to the Falls Creek tungsten prospect was also made. Samples have been sent for assay, and reports are being prepared by consulting geologists. Assays and reports will also be submitted on samples that have been sourced from previous exploration conducted by other companies in the area. No program of work has been commenced at the Rangitoto prospect. Historic gold and silver mines located in the project are yet to be followed up.

Review of operations (continued)

Mandamus Project

The Mandamus project is seeking to discover rare and precious metals in the Mandamus Intrusive Complex on the east coast of the South Island, New Zealand.

During the year, SML conducted a reconnaissance visit to the 100% owned Mandamus project and identified significant sulphide mineralization. Whilst scouting access roads, two zones of sulphide mineralization were discovered. There has been no previous exploration of the Mandamus Igneous Complex, thus the two zones of sulphide mineralization represent a significant discovery. It is unusual (and significant) to have such a high proportion of sulphides in these rock types (syenite and trachyte) as sulphides are invariably associated with precious metal deposits.

Academic reports indicate that the intrusive rocks at Mandamus and the ultramafic intrusion at the recently lodged Blue Mountain project are correlated geochemically and formed around the same time. Importantly, significant sulphide mineralization has now been identified at both of these north-east coast intrusive complexes.

The Mandamus exploration program has been expanded to incorporate precious metals. A coordinated sampling program is being planned to confirm the extent of sulphide mineralization. The initial target of rare metals is yet to be tested and remains valid.

Reefton South Project

The Reefton South project is aiming to make a new gold discovery under cover and along strike from the Reefton goldfield, South Island, New Zealand.

During the year, SML conducted an intensive review of New Zealand opportunities. It identified the Reefton South project and was granted a prospecting permit just 3km along strike from the prolific Reefton goldfield, which historically produced approx. 2,100,000 ounces of gold. The project has potential for a strike extension of the Reefton Goldfield. The Reefton goldfield is undergoing a significant resurgence with major mining company Oceana Gold Ltd developing the Globe Progress Open Pit mine with a JORC resource of 1,200,000 ounces of gold.

The northern boundary of the project is approximately 5 km south of the historic Blackwater Mine at Waiuta, which was the biggest mine in the Reefton Goldfield (750,000 ounces of historic production). Historic mining extended south from the Blackwater Mine, where the Greenland Group rocks outcropped towards the Reefton South project area. However, mining stopped at the contact with overlying gravel, as historic mining methods could not locate mineralisation beneath gravel cover. This has left the project area completely unexplored for hard rock gold, despite it being only a few kilometres along strike from southern end of the Reefton goldfield.

Golden Blocks Project

During the year SML conducted an intensive review of New Zealand based opportunities. It identified the Golden Blocks project and lodged a prospecting permit application over the entire historic Golden Blocks goldfields. The project contains significant potential upside from two separate styles of gold mineralisation.

1. The project encompasses the Golden Blocks Goldfield, which comprises 7 historic mines that produced approximately 39,154 ounces of gold. The largest mine was the Aorangi gold mine, which reportedly produced approximately 30,688 ounces of gold at an average grade of 36g/t. **There is potential for the Golden Blocks lode to continue underneath the historic mining levels.** Additional potential exists for further hidden gold discoveries outside of the old mines that would have not been visible to the old miners who were focused only on gold in quartz veins.
2. **The project also includes 3 areas which have potential for intrusion-related gold similar to Oceana Gold and MOD Resources' nearby Sam's Creek gold deposit with over 1,024,000 ounces of gold (inferred resource).** The Sam's Creek resource is all contained within an 800m strike length of the Main Zone prospect that represents less than 15% of the known 6km strike length of the Sams Creek dyke.

Review of operations (continued)

The 3 areas within the Golden Blocks project contain gold mineralised porphyry dykes in float and outcrop samples that are similar to the porphyry dykes that host the Sam's Creek gold deposit.

SML is waiting for grant of the prospecting permit. Once granted, exploration will commence on the two separate styles of gold mineralisation.

Blue Mountain Project

During the year, SML conducted an intensive review of New Zealand based opportunities. It identified the Blue Mountain project and lodged a prospecting permit application over the Blue Mountain Ultramafic intrusion, near Kaikoura on the East Coast of the South Island, New Zealand.

Historical exploration reports from the 1980's confirmed that Blue Mountain contains economic grades of the rare metal cobalt, along with copper and nickel in veins of sulphides at surface. Despite this, no geophysical survey has ever been conducted to identify buried zones of sulphides with potential to host large scale deposits. Exploration is intended to determine whether veins of sulphides discovered in the past are related to potential zones of sulphides beneath the surface.

Blue Mountain contains an ultramafic intrusion (a body of ultramafic magma that intruded its way to the surface). **Ultramafic intrusions host some of the world's giant metal deposits and are very favourable geological bodies to explore for large mineral deposits.**

At Blue Mountain, academic and government literature has confirmed the presence of the ultramafic intrusion. Limited historical exploration at Blue Mountain has reported disseminated sulphide mineralization occurring widely across the 1.5m x 1 km intrusion. Massive sulphide mineralization was reported in veins with rock chip assays with peak grades of (a) 2.1% Cu, 0.5% Ni, 0.1% Co and (b) 1.5% Cu, 1.3% Ni, 0.5% Co.

An exploration program incorporating geophysics is therefore required to detect buried deposits of sulphides containing copper, nickel and cobalt at Blue Mountain. Once all regulatory permits are received the Company plans to undertake sampling of the mineralized areas, and an appropriate program of geophysics to generate drill targets.

Australian Projects

In seeking to take advantage of the opportunities in New Zealand, SML only conducted minor activities on its Australian projects at Ramsay, Rylstone and Gifford Creek.

During the year, SML was alerted to a potential project in Western Australia and selected to lodge an application over the Rawlinna project. The project is targeting a potential geophysical feature. SML is waiting for consultant reports on the potential target and grant of the permit, which is expected in the September quarter, 2012.

Irish Project

Wicklow Project

The Company holds exploration rights to the 'Wicklow Tungsten Block', located approximately 60km SW of Dublin, Ireland. The Wicklow Tungsten Block contains an extensive tungsten system proven to occur over a distance of 5km by previous drilling, historical geochemical data indicates this may extend an additional 5km.

During the year, the Company with its Consultants has been researching the Wicklow Tungsten Block further. As announced on 9 March 2012 a large amount of existing data exists for Wicklow from historic exploration reports, geochemical data, soil samples and previous drilling results. A previous drilling program at Wicklow indicated grades of greater than 0.2% W (tungsten) and up to 0.35% Sn (tin). During the year the Company has been reviewing all historical data related to the prior drilling programs.

Directors' Report

Strategy

The Company's strategy is to provide capital, corporate and alliance development to a portfolio of multi-commodity rare metal opportunities. It is particularly attracted to opportunities where multi-commodity assets provide exposure to both rare and precious metals.

Whilst it is anticipated that the Company will predominately fund unlisted Australian companies, it may also invest into junior listed companies. The Company does not intend to sole fund investments.

The potential scope of activity is focused across the materials supply chain for technology products, as China's dominance of these products has created significant demand for alternative sources. This includes innovation, materials development and supply.

The information in this report that relates to Exploration Results is based on information compiled by Geoff Price, who is a Member of The Australasian Institute of Mining and Metallurgy and a Member of the Australian Institute of Geoscientists. Geoff Price is employed by Geopex Ltd. He has sufficient experience that 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 Resources and Ore Reserves'. Geoff Price consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

Operating result for the year

The consolidated entity's loss for the year ended 30 June 2012 was $809,161 (year ended 30 June 2011: $807,363). Included in the loss is an expense of $87,358 in respect of shares issued during the prior year which vested during the year.

Review of financial condition

At 30 June 2012, the consolidated entity had $3,360,771 in cash and term deposit balances (30 June 2011 $4,027,657).

Significant changes in the state of affairs

During the year the Company issued 12,324,100 shares raising $2,464,820 before costs. In the opinion of directors there were no other significant changes in the state of affairs of the consolidated entity that occurred during the year.

Significant events after balance date

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

Likely developments and expected results

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

Environmental legislation

With respect to its environmental obligations regarding its exploration activities the consolidated entity endeavours to ensure that it complies with all regulations when carrying out any exploration and evaluation activities and is not aware of any breach as this time.

Indemnification and insurance of Directors and Officers

The Company has entered into Director and Officer Protection Deeds ("Deed") with each Director and the Company Secretary ("Officers"). Under the Deed, the Company indemnifies the relevant Officer to the maximum extent permitted by law against legal proceedings, any damage or loss incurred in connection with the Officer being an officer of the Company. The Company has paid insurance premiums to insure the Officers against liability arising from any claim against the Officers in their capacity as officers of the Company.

Dividends

No dividends have been paid or declared in the year.

Remuneration Report (Audited)

This report outlines the remuneration arrangements in place for the key management personnel ("KMP") of Strategic Elements 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 three executives in the Parent and the Group.

Key Management Personnel

Seng Yap (Chairman)

Charles Murphy (Managing Director)

Matthew Howard (Executive Director)

Elliot Nicholls (Executive Director)

Remuneration philosophy

The performance of the Company depends upon the quality of the directors and executives. The philosophy of the Company in determining remuneration levels is to:

- set competitive remuneration packages to attract and retain high calibre employees;
- link executive rewards to shareholder value creation; and
- establish appropriate, demanding performance hurdles for variable executive remuneration.

Remuneration Committee

All directors at this time are members of the Remuneration Committee. The Remuneration Committee 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 with an overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team.

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 Company 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 Company will seek member approval to set a limit for the maximum aggregate payable to non-executive directors at the next AGM of the Company. Therefore no non-executive director has received a fee for being a director of the Company in the year ended 30 June 2012.

Director and executive remuneration

Remuneration consists of fixed remuneration and variable remuneration (comprising short-term and long-term incentive schemes).

Remuneration Report (continued)

Fixed remuneration

Fixed 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 Board has access to external, independent advice where necessary. No advice has been obtained during the year.

Directors and executives are given the opportunity to receive their fixed (primary) 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 Company. The fixed remuneration component of the most highly remunerated Company directors and executives is detailed in Table 1 in this report.

Variable remuneration

The objective of the short term incentive program is to link the achievement of the Company's operational targets with the remuneration received by the executives charged with meeting those targets. The total potential short term incentive available is to be set at a level so as to provide sufficient incentive to the executive to achieve the operational targets and such that the cost to the Company is reasonable in the circumstances.

Actual payments may be granted to each executive dependant on the extent to which specific operating targets set at the beginning of the financial year are met. For the year to 30 June 2012, and to the date of this report, the Company had made provision to pay a director's fee of $8,000 to Mr Charles Murphy and $8,000 to Mr Matthew Howard. It is expected these payments will be made early in the 2013 financial year.

The Company may also make long term incentive payments to reward senior executives in a manner that aligns this element of remuneration with the creation of shareholder wealth.

Employee Share Option Plan

Under the terms of the Company's employee share option plan (Plan), the Board may offer free options to Eligible Persons or Directors of the Company or any subsidiary based on a number of criteria including contribution to the Company, period of employment, potential contribution to the Company in future and other factors the Board considers relevant. Upon receipt of such an offer, the Eligible Person may nominate an associate to be issued with the options. The maximum number of options to be issued under the Plan at any one time is 5% of the total number of shares on issue in the Company provided that the Board may increase this percentage, subject to the Corporations Act and the ASX listing rules.

The Company does not have a policy for key management personnel to hedge their equity positions against future losses.

Executive Service Agreements

The Company has entered into Executive Service agreements with the following directors:

- Robinia Partners Pty Ltd (ACN: 009 017 627) (Robinia), a company controlled by Mr Charles Murphy, Under the agreement the Company will pay Robinia $150,000 per annum (exclusive of GST) in return for executive services. Under the agreement the Company will reimburse Robinia for all reasonable travel, accommodation and general expenses. Termination of the agreement is subject to a 3 month notice period.
- Ark N Pty Ltd (ACN: 148 007 952) (Ark), a company controlled by Mr Elliot Nicholls. Under the agreement the Company will pay Ark $78,000 per annum (exclusive of GST) in return for executive services. Under the agreement the Company will reimburse Ark for all reasonable travel, accommodation and general expenses. Termination of the agreement is subject to a 3 month notice period.

The Company intends to enter into an Executive Service agreement with Mr Matthew Howard with similar terms to those already agreed with the current executive directors. This agreement had not been finalised at the time of this report.

Remuneration Report (continued)

Table 1: Remuneration of key management personnel (KMP) for the year ended 30 June 2012 and the year ended 30 June 2011:

		Short-term employee benefits		Post-employment benefits	Equity			
		Fixed Salary & fees	Variable remuneration	Superannuation	Shares	Options	Total	Performance Related %
Executive directors								
Charles Murphy	2012	152,722	8,000	-	-	-	160,722	4.98
	2011	73,333	-	-	-	-	73,333	-
Matthew Howard	2012	114,277	8,000	-	-	-	122,277	6.54
	2011	-	-	-	-	-	-	-
Elliot Nicholls	2012	75,667	-	-	-	-	75,667	-
	2011	55,000		-	-	-	55,000	-
Sub-total Executive directors	2012	**342,666**	**16,000**	**-**	**-**	**-**	**358,666**	**4.46**
	2011	**128,333**	**-**	**-**	**-**	**-**	**128,333**	**-**
Non-Executive director								
Seng Yap	2012							
	2011							
Sub-total Non-Executive Director	2012							
	2011							
Non-Executive director								
Seng Yap	2012	-	-	-	46,667	40,691	87,358	-
	2011	-	-	-	233,333	49,733	283,066	-
Sub-total Non-Executive director	**2012**	**-**	**-**	**-**	**46,667**	**40,691**	**87,358**	**-**
	2011	**-**	**-**	**-**	**233,333**	**49,733**	**283,066**	**-**
Total	**2012**	**342,666**	**16,000**	**-**	**46,667**	**40,691**	**446,024**	**3.59**
	2011	**128,333**	**-**	**-**	**233,333**	**49,733**	**411,399**	**-**

Remuneration Report (continued)

There were no options granted to KMP as part of remuneration for the financial year ended 30 June 2012.

Table 2: Options granted as part of remuneration for the year ended 30 June 2011:

Key Management Personnel	Grant date	Granted (number)	Vested (number)	Fair value per option at grant date (Note 12)	% compen-sation for year consisting of options	Exercise price (Note 12)	Expiry date	Vesting date
S Yap	1 August 2011	3,500,000	3,500,000	3 cents	17.57	20cents	1 April 2015	1 April 2012

The options granted vested 1 April 2012. No options granted were forfeited during the year.

No options granted to directors or executives were exercised or lapsed during the year.

For details on the valuation of the options, including models and assumptions used, please refer to Note 12. There were no alterations to the terms and conditions of options granted as remuneration since their grant date.

There were no shares granted to KMP as part of remuneration for the financial year ended 30 June 2012.

Table 3: Shares granted as part of remuneration for the year ended 30 June 2011:

Key Management Personnel	Grant date	Granted (number)	Fair value per share at grant date (Note 12)	% compensation for year consisting of shares
S Yap	1 August 2011	3,500,000	8 cents	82.43

End of remuneration report.

Directors' Report

Directors' meetings

The directors meet regularly to discuss the matters of the Company and occupy the same office. Therefore frequently decisions of the Company are resolved via circular resolution. The Company aims however to have quarterly Board meetings.

The number of meetings of directors held during the year and the number of meetings attended by each director were as follows:

Total number of directors' meetings	Board Meetings	
	Number of meetings eligible to attend	Number of meetings attended
Seng Yap	3	3
Charles Murphy	3	3
Matthew Howard	3	3
Elliot Nicholls	3	3

The Company has formed an Audit & Risk Committee, Nomination Committee and Remuneration Committee. These Committees did not meet formally during the year. All matters relating to these Committees are covered in meetings of the full board.

Auditor Independence and Non-Audit Services

Section 307C of the *Corporations Act 2001* requires our auditors, Nexia Perth Audit Services Pty Ltd (Nexia Perth), to provide the directors of the Company with an Independence Declaration in relation to the audit of the financial report. This Independence Declaration is set out on page 17 and forms part of this directors' report for the year ended 30 June 2012.

Non-Audit Services

The following non-audit services were provided by our auditors, Nexia Perth. 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 APES110 Code of Ethics for Professional Accountants issued by the Accounting Professional & Ethical Standards Board.

Nexia Perth received, or were due to receive the following amounts for the provision of services not related to the audit of the financial report:

Audit of Australian Financial Services Licence (AFSL) - $2,500 (2011:Accru Page Kirk & Jennings received $16,300 for the AFSL audit and services provided in preparation of the prospectus).

Signed in accordance with a resolution of the directors.

Charles Murphy
Managing Director

Perth WA, 30th August 2012

Auditor's Independence Declaration

nexia
australia
the next solution

Lead auditor's independence declaration under section 307C of the *Corporations Act 2001*

To the directors of Strategic Elements Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2012 there have been:

(i) no contraventions of the auditor's independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

Nexia Perth Audit Services Pty Ltd

TJ SPOONER CA FCA(UK) ACIS ACSA
Director

30 August 2012
Perth

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Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2012

	Notes	CONSOLIDATED 2012 $	CONSOLIDATED 2011 (Restated) $
Depreciation	2	(4,637)	(2,473)
Project development expenditure		(260,216)	(163,293)
Directors' remuneration		(358,666)	(128,333)
Share based payment expense	2	(87,358)	(283,066)
Other expenses		(290,622)	(321,996)
		(1,001,499)	**(899,161)**
Interest received	2	193,298	91,798
Interest expense	2	(960)	-
		192,338	91,798
Loss before income tax		**(809,161)**	**(807,363)**
Income tax expense	3	-	-
Loss for the year		**(809,161)**	**(807,363)**
Other comprehensive income		-	-
Total other comprehensive income		-	-
Total comprehensive loss		**(809,161)**	**(807,363)**
Basic and diluted loss per share (cents per share)	4	(0.59)	(0.69)

The accompanying notes form part of these financial statements.

Consolidated Statement of Financial Position

AS AT 30 JUNE 2012

	Notes	CONSOLIDATED 2012 $	CONSOLIDATED 2011 (Restated) $
Assets			
Current assets			
Cash and cash equivalents	5	3,360,771	4,027,657
Trade and other receivables	6	40,654	79,634
Other current assets	7	37,947	79,875
Total current assets		**3,439,372**	**4,187,166**
Non-current assets			
Property, plant & equipment	8	15,402	14,572
Total non-current assets		**15,402**	**14,572**
Total assets		**3,454,774**	**4,201,738**
Liabilities			
Current liabilities			
Trade and other payables	10	142,638	105,355
Other current liabilities	11	-	2,423,920
Total current liabilities		**142,638**	**2,529,275**
Total liabilities		**142,638**	**2,529,275**
Net assets		**3,312,136**	**1,672,463**
Equity			
Issued capital	13	5,166,572	2,758,429
Share based payment reserve	14	90,424	49,733
Accumulated losses	15	(1,944,860)	(1,135,699)
Total equity		**3,312,136**	**1,672,463**

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2012

	Issued capital $	Accumulated losses (Restated) $	Option reserve (Restated) $	Total (Restated) $
Consolidated				
Balance at 1 July 2010	1,500,469	(328,336)	-	1,172,133
Loss for the year	-	(807,363)	-	(807,363)
Total comprehensive loss for the year	-	(807,363)	-	(807,363)
Shares issued for cash	1,737,667	-	-	1,737,667
Share issue costs	(713,040)	-	-	(713,040)
Share based payment	233,333	-	49,733	283,066
Balance at 30 June 2011	**2,758,429**	**(1,135,699)**	**49,733**	**1,672,463**

	Issued capital $	Accumulated losses $	Option reserve $	Total $
Consolidated				
Balance at 1 July 2011	2,758,429	(1,135,699)	49,733	1,672,463
Loss for the year	-	(809,161)	-	(809,161)
Total comprehensive loss for the year	-	(809,161)	-	(809,161)
Shares issued for cash	2,418,153	-	-	2,418,153
Share issue costs	(56,677)	-	-	(56,677)
Share based payment	46,667	-	40,691	87,358
Balance at 30 June 2012	**5,166,572**	**(1,944,860)**	**90,424**	**3,312,136**

The accompanying notes form part of these financial statements.

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2012

	Notes	CONSOLIDATED 2012 $	2011 (Restated) $
Cash flows from operating activities			
Payments to suppliers		(210,315)	(436,911)
Payments to directors & executives		(342,666)	(128,333)
Payments for project development		(224,935)	(163,298)
Interest received		179,901	91,798
Interest paid		(960)	-
Net cash used in operating activities	5	(598,975)	(636,744)
Cash flows from investing activities			
Payments for property, plant and equipment		(5,467)	(9,501)
Net cash used in investing activities		(5,467)	(9,501)
Cash flows from financing activities			
Proceeds from share subscriptions		-	3,961,587
Cost of share issues		(56,677)	(713,040)
Repayment of oversubscriptions		(5,767)	-
Net cash provided by/(used in) financing activities		(62,444)	3,248,547
Net increase in cash and cash equivalents		(666,886)	2,602,302
Cash and cash equivalents at beginning of the year		4,027,657	1,425,355
Cash and cash equivalents at end of the year	5	**3,360,771**	**4,027,657**

The accompanying notes form part of these financial statements.

Notes to the Financial Statements for the year ended 30 June 2012

NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of compliance and preparation

The Company is a listed Pooled Development Fund (PDF), incorporated in Australia and operating in Australia and New Zealand. The Company's principal activity is to invest in Australasian companies across the rare earths and rare metals mining, processing and materials development sectors.

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

The financial report complies with International Financial Reporting Standards and interpretations adopted by the International Accounting Standards Board.

The accounting policies detailed below have been consistently applied to all of the years presented except as disclosed in note 23. The consolidated financial statements of the Company as at and for the year ended 30 June 2012 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities"). The financial report was authorised for issue on 30th August 2012.

The financial report has also been prepared on a historical cost basis. Cost is based on the fair values of the consideration given in exchange for assets.

The financial report is presented in Australian dollars which is the consolidated entity's functional currency.

b. Amendments to accounting policy

The Group has amended its accounting policy with respect to the treatment of exploration expenses as they are incurred. The change has been applied retrospectively to the date of incorporation. The financial statements for the year ended 30 June 2011 have been restated. Details of the restatement are included in Note 24 to the financial statements. The amended policy is disclosed in Note 1(i).

c. Adoption of new and revised standards

In the year ended 30 June 2012, the Company 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. The Company has adopted all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2011.

The Company has reviewed all new Standards and Interpretations that have been issued but are not yet effective for the period 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 is necessary to company accounting policies. Amendments have been made to certain accounting standards and interpretations and new standards and interpretations have been issued during the financial year.

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2012, but have not been applied in preparing this financial report.

Notes to the Financial Statements for the year ended 30 June 2012

NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c. Adoption of new and revised standards (continued)

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2012, but have not been applied in preparing this financial report.

Australian Accounting Standard	Title	Mandatory Application Date[1]	Possible Impact
AASB 2011-9	Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income	1 July 2012	These amendments make a number of changes to the presentation of other comprehensive income including presenting separately those items that would be reclassified to profit or loss in future and those that would never be reclassified to profit or loss and the impact of tax on those items.
AASB 9	Financial Instruments (December 2010) (Includes financial assets and financial liability requirements)	1 January 2013	In AASB 9 (December 2010), the AASB added requirements for the classification and measurement of financial liabilities that are generally consistent with the equivalent requirements in AASB 139 except in respect of the fair value option; and certain derivatives linked to unquoted equity instruments. The AASB also added the requirements in AASB 139 in relation to the derecognition of financial assets and financial liabilities to AASB 9. AASB 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and contractual cash flow characteristics of the financial asset. The guidance in AASB 139 on impairment of financial asset and on hedge accounting continues to apply. The IASB has deferred the application date of IFRS 9 until 1 January 2015, however the AASB has yet to issue a corresponding amendment to AASB 9(2010) and AASB 9 (2009).
AASB 2010-7	Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)		
AASB 9	Financial Instruments (December 2009) (Financial asset requirements only)		
AASB 2009-11	Amendments to Australian Accounting Standards arising from AASB 9		
AASB 10	Consolidated Financial Statements	1 January 2013	AASB 10 introduces a new approach to determining which investee should be consolidated. An investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c. Adoption of new and revised standards (continued)

Australian Accounting Standard	Title	Mandatory Application Date[1]	Possible Impact
AASB 127	Separate Financial Statements (2011)	1 January 2013	AASB 127 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements with some minor clarifications.
AASB 11	Joint Arrangements	1 January 2013	If the parties have rights to and obligations for underlying assets and liabilities, the joint arrangement is considered a joint operation and partial consolidation is applied. Otherwise the joint arrangement is considered a joint venture and they must use the equity method to account for their interest.
AASB 128	Investment in Associates and Joint Ventures (2011)	1 January 2013	Limited amendments have been made to AASB 128 including the application of AASB 5 Non-current Assets held for Sale and Discontinued Operations to interests in associates and joint ventures and how to account for changes in interests in joint ventures and associates.
AASB 12	Disclosures of Interests in Other Entities	1 January 2013	AASB 12 contains the disclosure requirements for entities that have interest in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities.
AASB 2011-7	Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards	1 January 2013	This standard gives effect to many consequential changes to a number of standards arising from the issuance of the new consolidation and joint arrangements standard.
AASB 13	Fair value Measurement	1 January 2013	AASB 13 explains how to measure fair value when required to by other AASBs. It does not introduce new fair value measurements, nor does it eliminate the practicability exceptions to fair value that currently exists in certain standards.
AASB 2011-8	Amendments to Australian Accounting Standards arising from AASB 13		
AASB Interpretation 20	Stripping Costs in the Production Phase of a Surface Mine (November 2011)	1 January 2013	This interpretation clarifies that surface mining companies will capitalise production stripping costs that benefit future periods if certain criteria are met.
AASB 2012-5	Amendments to Australian Accounting Standards arising from Annual Improvements 2009 – 2011 Cycle	1 January 2013	A collection of non-current but necessary improvements to the following accounting standards: AASB 1, AASB 101, AASB 116, AASB 132, AASB 134 and AASB Interpretation 2.

NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c. Adoption of new and revised standards (continued)

Australian Accounting Standard	Title	Mandatory Application Date[1]	Possible Impact
AASB 2012-2	Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities (June 2012)	1 January 2013	AASB 7 is amended to increase the disclosures about offset positions, including the gross position and the nature of the arrangements.
AASB 2011-4	Amendments to Australian Accounting Standards to Remove Individual Key management Personnel Disclosure Requirements	1 July 2013	Removes the requirements to include individual key management personnel disclosures in the notes to the financial statements. Companies will still need to provide these disclosures in the Remuneration Report under section 300A of the *Corporations Act 2001*.
AASB 2012-3	Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities (June 2012)	1 January 2014	The amendments to AASB 132 clarify when an entity has a legally enforceable right to set off financial assets and financial liabilities permitting entities to present balances net on the balance sheet.
IFRSs & IFRICs		Mandatory Application Date	Possible Impact
Change in mandatory effective date for IFRS 9		1 January 2015	The IASB has deferred the mandatory effective date of IFRS 9 from 1 January 2013 to 1 January 2015. IFRS 9 is still available for early adoption.
Transition Guidance for IFRS 10, IFRS 11 and IFRS 12		1 January 2013	The IASB have issued these amendments to IFRS 10 and IFRS 11 to simplify transition and provide relief from the disclosures in respect of unconsolidated structured entities on transition to the suite of consolidation standards.

[1] Annual reporting periods beginning on or after.

NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d. Critical accounting estimates and judgements

The application of accounting policies requires the use of judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based upon historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

Share based payment transactions:
The Company 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 using a Black and Scholes model and is based on the assumptions detailed in Note 9.

e. Basis of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Strategic Elements Limited ('Company' or 'parent entity') as at 30 June 2012 and the results of all subsidiaries for the year then ended. Strategic Elements Limited and its subsidiaries are referred to in this financial report as the Group or the consolidated entity.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent entity, 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. Control exists where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing when the Group controls another entity.

f. Interest income

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

g. 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 adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax is accounted for using the balance sheet liability method in respect of all temporary differences at the balance date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

- when the deferred 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.

NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

g. Income tax (continued)

Deferred 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 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 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 tax asset to be utilised.

Deferred 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.

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.

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.

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

h. Cash and Cash Equivalents

Cash includes cash on hand and at call and deposits with banks or financial institutions and investments in money market instruments which are readily convertible to cash and used in the cash management function on a day to day basis, net of bank overdraft.

NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

i. Project Development Expenditure

Project development costs, excluding the costs of acquiring tenements and permits, are expensed as incurred. This is a change in accounting policy from the previous year where all costs were capitalised. Refer to Note 23 for full details of the effect of this change in accounting policy. Acquisition costs will be assessed on a case by case basis and, if appropriate, they will be capitalised. These acquisition costs are carried forward only if the rights to tenure of the area of interest are current and either:

- They are expected to be recouped through successful development and exploitation of the area of interest, or
- The activities in the area of interest at the reporting date have not 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.

Accumulated acquisition costs in relation to an abandoned area are written off in full against profit/(loss) in the year in which the decision to abandon the area is made.

The carrying values of acquisition costs are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

j. Impairment of Assets

At each reporting date, the Group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the statement of comprehensive income.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

k. Trade and Other Payables

Trade payables and other payables are carried at amortised cost using the effective interest method 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. Trade and other payables are presented as current liabilities unless payment is not due within 12 months.

l. Issued 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. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a new business are not included in the cost of acquisition as part of the purchase consideration.

m. Share Based Payment Transactions

Equity settled transactions:

The Group may provide benefits to Officers and Directors in the form of share-based payments, whereby services are rendered 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 of options granted is determined using a Black-Scholes model, further details of which are given in Note 9.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Strategic Elements 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).

Notes to the Financial Statements for the year ended 30 June 2012

NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

m. Share Based Payment Transactions (continued)

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 Company'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.

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.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of loss per share (see Note 4).

n. 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 diminishing value basis over the estimated useful life of the assets as follows:

Office equipment – 2.5 to15 years

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 reporting 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 unit 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 other expenses line item.

NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

n. Property, plant and equipment (continued)

(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 the statement of comprehensive income in the year the asset is derecognised.

o. Employee benefits

(i) Wages, salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual 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 the 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 as 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 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.

p. 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 15 days to 30 days.

Impairment of trade receivables is continually reviewed and those that are considered to be uncollectible are written off by reducing the carrying amount directly. An impairment loss is recognised when there is objective evidence that the Group will not be able to collect all amounts due according to the original contractual terms. Factors considered by the Group in making this determination include known significant financial difficulties of the debtor, review of financial information and significant delinquency in making contractual payments to the Group. The impairment allowance is set equal to the difference between the carrying amount of the receivable and the present value of estimated future cash flows, discounted at the original effective interest rate. Where receivables are short-term discounting is not applied in determining the allowance.

The amount of the impairment loss is recognised in the statement of comprehensive income within other expenses. Subsequent recoveries of amounts previously written off are credited against other expenses in the statement of comprehensive income.

NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

q. Earnings per share

Basic earnings per share is calculated as net profit/loss, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit/loss, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

r. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors of Strategic Elements Limited.

s. 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 Company determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end. All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Company 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.

t. Parent entity financial information

The financial information for the parent entity, Strategic Elements 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 financial statements of Strategic Elements Limited. Dividends received from associates are recognised in the parent entity's profit or loss, rather than being deducted from the carrying amount of these investments.

(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.

u. Comparative figures

Comparative figures for the prior year have been restated to reflect an adjustment to the valuation of share based payments and a change in the accounting policy.

Notes to the Financial Statements
for the year ended 30 June 2012

NOTE 2. REVENUE AND EXPENSES

	CONSOLIDATED	
	2012	2011
	$	$
Revenue		
Bank interest received and receivable	193,298	91,798
Bank interest paid and payable	(960)	-
	192,338	91,798
Expenses		
Depreciation of non-current assets	(4,637)	(2,473)
Share based payment expense	(87,358)	(283,066)

NOTE 3. INCOME TAX

	CONSOLIDATED	
	2012	2011
Reconciliation of tax benefits to statutory tax:	$	$
Loss for the year	(809,161)	(807,363)
Tax benefit at the applicable tax rate of 30%	(242,748)	(242,209)
s.40-880 expenses	(46,183)	-
Non-deductible expenses at the applicable tax rate of 30%	26,207	84,920
Difference in tax rate of Parent Company taxed at 25% due to Pooled Development Status	13,684	25,173
Unrecognised tax losses	249,040	132,116
Tax benefit reported in statement of comprehensive income	-	-
Unrecognised deferred tax assets:		
Carried forward tax losses	496,327	247,287
Components of deferred tax		
Prepayments	(6,231)	(14,344)
Trade and other payables	19,549	216,162
Carried forward tax losses	(13,318)	(201,818)
	-	-

Notes to the Financial Statements for the year ended 30 June 2012

NOTE 3. INCOME TAX (continued)

The potential deferred tax benefit of tax losses has not been recognised as an asset because recovery of tax losses is not considered probable in the context of AASB 112. The benefit of these tax losses will only be realised if:

a) The Group derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deduction for the losses to be realised.

b) The Group complies with the conditions for deductibility imposed by the law; and

c) No changes in tax legislation adversely affect the Company in realising the benefit from the deduction for the loss.

NOTE 4. LOSS PER SHARE

	CONSOLIDATED	
	2012	2011 (Restated)
	Cents per share	Cents per share
Basic loss per share from continuing operations	(0.59)	(0.69)

Basic loss per share

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

	2012	2011
- Loss ($)	(809,161)	(807,363)
- Weighted average number of ordinary shares (number)	136,910,052	116,595,148

Diluted loss per share

Diluted loss per share has not been calculated as the result is anti-dilutive in nature.

NOTE 5. CASH AND CASH EQUIVALENTS

	CONSOLIDATED	
	2012	2011
	$	$
Cash at bank and on hand	360,771	4,027,657
Short-term deposits	3,000,000	-
	3,360,771	4,027,657

Cash at bank earns interest at floating rates based on daily bank deposit rates.

Notes to the Financial Statements for the year ended 30 June 2012

NOTE 5. CASH AND CASH EQUIVALENTS (continued)

Short-term deposits are made for varying periods of between one month and three months, depending on the immediate cash requirements of the Group.

These deposits earn interest at the respective short-term deposit rates.

Cash and cash equivalents as shown in the statement of cash flows is reconciled to the related item in the statement of financial position as noted above.

Reconciliation of loss for the year to net cash flows from operating activities:

	CONSOLIDATED	
	2012	2011
	$	$
Loss from ordinary activities after income tax	(809,161)	(807,363)
Exploration expensed as incurred		
Depreciation	4,637	2,473
Equity settled share based payments	87,358	283,066
Changes in net assets and liabilities:		
(Increase)/decrease in other receivables	38,980	(68,504)
(Increase)/decrease in other assets	41,928	(64,182)
(Decrease)/increase in provisions		
(Decrease)/increase in trade creditors and accruals	37,283	17,766
Cash flows from operations	(598,975)	(636,744)

NOTE 6. TRADE AND OTHER RECEIVABLES

	CONSOLIDATED	
	2012	2011
	$	$
Interest receivable	13,397	-
GST recoverable	21,447	71,972
Other receivable	5,810	7,662
	40,654	79,634

NOTE 7. OTHER CURRENT ASSETS

	CONSOLIDATED	
	2012	2011
	$	$
Deposits	13,023	22,500
Prepayments	24,924	57,375
	37,947	79,875

NOTE 8. PROPERTY, PLANT AND EQUIPMENT

Consolidated	Office equipment $	Computer equipment $	Total $
At 30 June 2012			
Cost or fair value	7,936	15,139	23,075
Accumulated depreciation	(1,101)	(6,572)	(7,673)
At 30 June 2012 net of accumulated depreciation	6,835	8,567	15,402
At 30 June 2011			
Cost or fair value	7,490	10,397	17,887
Accumulated depreciation	(240)	(3,076)	(3,317)
At 30 June 2011 net of accumulated depreciation	7,250	7,322	14,572

Consolidated Year ended 30 June 2012	Office equipment $	Computer equipment $	Total $
At 1 July 2011 net of accumulated depreciation	7,250	7,322	14,572
Additions	726	4,741	5,467
Depreciation charge for the year	(1,141)	(3,496)	(4,637)
At 30 June 2012 net of accumulated depreciation	6,835	8,567	15,402
Year ended 30 June 2011			
At 1 July 2010 net of accumulated depreciation	1,038	6,506	7,544
Additions	6,421	3,080	9,501
Depreciation charge for the year	(209)	(2,264)	(2,473)
At 30 June 2011 net of accumulated depreciation	7,250	7,322	14,572

NOTE 9. SHARE BASED PAYMENTS

Options

There were no options granted during the year (2011: 3,500,000 options).

	CONSOLIDATED			
	2012		2011	
	Number of options No.	Weighted average exercise price $	Number of options No.	Weighted average exercise price $
Outstanding at the beginning of the year	3,500,000	0.20	-	-
Granted	-	-	3,500,000	0.20
Outstanding at the end of the year	3,500,000	0.20	3,500,000	0.20
Exercisable at the end of the year	3,500,000	0.20	3,500,000	0.20

The options outstanding at 30 June 2012 had an exercise price of $0.20 and a remaining contractual life of 2 years and 10 months. Options outstanding at 30 June 2011 had an exercise price on $0.20 and a remaining contractual life of 3 years and 10 months.

NOTE 9. SHARE BASED PAYMENTS (continued)

This price was calculated by using a Black-Scholes option pricing model applying the following inputs:

Grant date	4 Aug 2010
Weighted average exercise price	$0.20
Weighted average life used to value the options	20 months
Underlying share price	$0.08
Expected share price volatility	100%
Risk free interest rate	4.25%

Historical volatility of comparable listed companies has been the basis for determining expected share price volatility as it is assumed that this is indicative of future trends, which may not eventuate.

The life of the options is based on the historical exercise patterns, which may not eventuate in the future.

The expense is recognised over the following years, 2012 $40,691, 2011: $49,733. The value of the options is recognised in the option reserve.

Shares

There were no shares granted as remuneration during the year (2011: 3,500,000 shares).

The shares were granted on 4 August 2010 and the weighted average value of the shares determined by reference to the previous share issue price was 8 cents. A one year service condition was attached to the shares. The share based payment expense for the 2012 year is $46,667 (2011: $233,333).

NOTE 10. TRADE AND OTHER PAYABLES

	CONSOLIDATED	
	2012	2011
	$	$
Trade payables (i)	77,917	41,677
Accrued expenses	64,721	63,678
	142,638	105,355

Trade payables are non-interest bearing and are normally settled on 30 day terms with the exception of insurance premiums of $22,955 (2011: $9,256) which are payable in monthly instalments at an interest rate of 7.40% The final instalment is due 31 December 2012.

NOTE 11. OTHER CURRENT LIABILITIES

	CONSOLIDATED	
	2012	2011
	$	$
Share application money received in advance	-	2,423,920
	-	2,423,920

Share application money received in advance represents funds received by the Group for shares in the parent entity. Relevant shares had not been issued at the prior year end.

Notes to the Financial Statements for the year ended 30 June 2012

NOTE 12. REMUNERATION OF AUDITORS

	CONSOLIDATED 2012 $	2011 $
Amounts received & receivable by the auditor :		
Nexia Perth Audit Services Pty Ltd (FY12)		
Accru Page Kirk & Jennings (FY11)		
- an audit of the financial report of the Group	28,820	3,600
- other services	2,500	16,300
	31,320	19,900

NOTE 13. ISSUED CAPITAL

	2012 $	2011 $
Issued capital		
Ordinary shares issued and fully paid	5,166,572	2,758,429

Ordinary shares entitle the holder to participate in dividends and in the proceeds and winding up of the Company in proportion to the number of and amounts paid on the shares held.

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

	2012 Number of shares	2012 $	2011 Number of shares	2011 $
Movement in ordinary shares on issue				
At beginning of year	125,899,176	2,758,429	103,424,176	1,500,469
- Shares issued for cash	-	-	18,975,000	1,737,667
- Shares issued to director in lieu of director fees[1]	-	46,667	3,500,000	233,333
- Shares issued upon listing	12,324,100	2,418,153	-	-
- Cost of share issues		(56,677)	-	(713,040)
At end of year	138,223,276	5,166,572	125,899,176	2,758,429

[1] The amount expensed in the year ended 30 June 2012 comprises the recognition of the share based payment (refer to Note 9). A one year service condition was attached to the shares.

NOTE 14. RESERVES

	CONSOLIDATED	
	2012	2011
	$	$
Option Reserve		
Balance at beginning of year	49,733	-
Options issued to director	40,691	49,733
Balance at end of financial year	90,424	49,733

The option reserve is used to record the value of options granted as share based payments directors as part of their remuneration. Refer to Note 9 for further information on these options.

NOTE 15. ACCUMULATED LOSSES

	CONSOLIDATED	
	2012	2011
	$	$
Movement in accumulated losses:		
Balance at beginning of year	(1,135,699)	(328,336)
Loss for the year	(809,161)	(807,363)
Balance at end of financial year	(1,944,860)	(1,135,699)

NOTE 16. FINANCIAL INSTRUMENTS

The Group's principal financial instruments comprise cash, term deposits, trade payables and trade receivables. These financial instruments arise directly from the Group's operations.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, liquidity risk, foreign exchange risk and credit risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 1 to the financial statements.

	CONSOLIDATED	
	2012	2011
(a) Categories of financial instruments	$	$
Financial assets		
Cash and cash equivalents	3,360,771	4,027,657
Trade and other receivables	19,207	7,662
Financial liabilities		
Trade and other payables	142,638	105,355

NOTE 16. FINANCIAL INSTRUMENTS (continued)

(b) Interest rate risk

The Group is exposed to interest rate risk due to variable interest being earned on its assets held in cash and cash equivalents.

Profile

At the reporting date the interest rate profile of the Group's interest bearing financial instruments was:

	CONSOLIDATED			
	2012		2011	
	Carrying amount $	Interest rate %	Carrying amount $	Interest rate %
Fixed rate instruments				
Short term deposits	3,000,000	5.35	-	-
	3,000,000	5.35	-	--
Variable rate instruments				
Cash and bank balances	360,771	3.15	4,027,657	4.50

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2011.

	Equity		Profit and loss	
	100bp increase	100bp decrease	100bp increase	100bp decrease
30 June 2012: Consolidated				
Variable rate instruments	3,608	(3,608)	3,608	(3,608)
30 June 2011:Consolidated				
Variable rate instruments	40,277	(40,277)	40,277	(40,277)

Funds that are not required in the short term are placed on deposit for a period of no more than 6 months at a fixed interest rate. The Group's exposure to interest rate risk and the effective interest rate by maturity is set out below.

(c) Net fair values

The net fair value of cash and cash equivalents and non-interest bearing monetary financial assets and liabilities approximates their carrying value.

(d) Credit risk

There are no significant concentrations of credit risk within the Group.

With respect to credit risk arising from the other financial assets of the Company, which comprise cash and cash equivalents, and trade receivables, the Company's exposure to credit risk arises from default of the counter party, with a maximum exposure equal to the carrying amount of these instruments.

There is no requirement for collateral.

NOTE 16. FINANCIAL INSTRUMENTS (continued)

(e) Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of cash reserves.

The following table details the Group's expected contractual maturity for its financial liabilities:

30 June 2012: Consolidated	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Total
Financial liabilities	$	$	$	$	$
Non-interest bearing	119,683	-	-	-	119,683
Interest bearing	3,485	6,970	12,500	-	22,955
	123,168	6,970	12,500	-	142,638

30 June 2011: Consolidated	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Total
Financial liabilities	$	$	$	$	$
Non-interest bearing	96,099	-	-	-	96,099
Interest bearing	2,314	4,628	2,314	-	9,256
	98,413	4,628	2,314	-	105,355

(f) Capital Management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it may continue to provide returns for shareholders and benefits for other stakeholders. Due to the nature of the Group's activities, being mineral exploration, it does not have ready access to credit facilities and therefore is not subject to any externally imposed capital requirements, with the primary source of Group funding being equity raisings. Accordingly, the objective of the Group's capital risk management is to balance the current working capital position against the requirements to meet exploration programmes and corporate overheads. This is achieved by maintaining appropriate liquidity to meet anticipated operating requirements, with a view to initiating capital raisings as required.

(g) Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. The Group has no hedging policy in place to manage those risks however all foreign exchange purchases are settled promptly.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the balance date expressed in Australian dollars are as follows:

	Liabilities		Assets	
	2012	2011	2012	2011
Consolidated	$	$	$	$
New Zealand dollars	17,371	-	-	-

NOTE 16. FINANCIAL INSTRUMENTS (continued)

Foreign currency sensitivity analysis

The Group is exposed to New Zealand Dollar (NZD) currency fluctuations.

The following table details the Group's sensitivity to a 10% increase and decrease in the Australian dollar against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. A positive number indicates an increase in profit or loss and other equity where the Australian Dollar strengthens against the respective currency. For a weakening of the Australian Dollar against the respective currency there would be an equal and opposite impact on the profit and other equity and the balances below would be negative.

	Increase		Decrease	
	2012 $	2011 $	2012 $	2011 $
NZD impact				
Profit or loss (i)	1,737	-	(1,737)	-
Other equity	1,737	-	(1,737)	-

(i) This is attributable to the exposure outstanding on NZD payables at year end in the Group.

NOTE 17. COMMITMENTS

a) Project development expenditure commitments

In order to maintain current rights of tenure to mining tenements and permits, the Group has the following discretionary exploration expenditure requirements up until expiry of leases. These obligations, which are subject to renegotiation upon expiry of the leases, are not provided for in the financial statements and are payable:

	CONSOLIDATED	
	2012 $	2011 $
Within one year	175,456	116,029
Later than one year but not later than 5 years	702,712	-
	878,168	116,029

b) Operating lease commitments

Within one year	11,700	21,000
Later than one year but not later than 5 years	-	-
	11,700	21,000

If the Company decides to relinquish certain leases and/or does not meet these obligations, assets recognised in the statement of financial position may require review to determine the appropriateness of carrying values. The sale, transfer or farm-out of exploration rights to third parties will reduce or extinguish these obligations.

NOTE 18. SEGMENT INFORMATION

The Group is managed primarily on the basis of its exploration projects. Operating segments are therefore determined on the same basis. Reportable segments disclosed are based on aggregating tenements and permits where the tenements and permits are considered to form a single project. This is indicated by:

- having the same ownership structure;
- exploration being focused on the same mineral or type of mineral;
- exploration programs targeting the tenements and permits as a group, indicated by the use of the same exploration team, and shared geological data, knowledge and confidence across the areas; and
- shared mining economic considerations such as mineralisation, metallurgy, marketing, legal, environmental, social and government factors.

Basis of accounting for purposes of reporting by operating segments

Accounting policies adopted

Unless stated otherwise, all amounts reported to the Board of Directors as the chief operating decision maker with respect to operating segments are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group.

Where an asset is used across multiple segments, the asset is allocated to the segment that receives the majority of economic value from the asset. In the majority of instances, segment assets are clearly identifiable on the basis of their nature and physical location.

Unless indicated otherwise in the segment assets note, investments in financial assets, deferred tax assets and intangible assets have not been allocated to operating segments.

Segment liabilities

Liabilities are allocated to segments where there is direct nexus between the incurrence of the liability and the operations of the segment. Tax liabilities are generally considered to relate to the Group as a whole and are not allocated. Segment liabilities include trade and other payables.

Unallocated items

The following items of revenue, expense, assets and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment:

- income tax expense;
- deferred tax assets and liabilities;
- discontinuing operations.

	Rare earths and rare materials	**Research & development**	**Unallocated (Corporate)**	**Total**
Consolidated	**$**	**$**	**$**	**$**
Year ended 30 June 2012				
Segment revenue	-	-	193,298	193,298
Segment result	(274,934)	(41,020)	(493,207)	(809,161)
Included within segment result:				
Depreciation	(280)	-	(4,357)	(4,637)
Share based payments	-	-	(87,358)	(87,358)
Interest income	-	-	193,298	193,298
Segment assets	2,655	2,140	3,,449,979	3,454,774
Segment liabilities	(43,645)	-	(98,993)	(142,638)

NOTE 18. SEGMENT INFORMATION (continued)

Consolidated	Rare earths and rare materials $	Research & development $	Unallocated (Corporate) $	Total $
Year ended 30 June 2011:				
Segment revenue	-	-	91,798	91,798
Segment result	(99,855)	(6,000)	(701,508)	(807,363)
Included within segment result:				
Depreciation	-	-	(2,473)	(2,473)
Share based payments	-	-	(283,066)	(283,066)
Interest income	-	-	91,798	91,798
Segment assets	50,000	192,500	3,959,238	4,201,738
Segment liabilities	-	-	(2,529,275)	(2,529,275)

NOTE 19. RELATED PARTY DISCLOSURES

The consolidated financial statements include the financial statements of Strategic Elements Limited and the subsidiaries listed in the following table.

	Country of	% Equity Interest		Investment $	
Name	**Incorporation**	**2012**	**2011**	**2012**	**2011**
Strategic Materials Pty Ltd	Australia	100	100	1	1
Australian Advanced Materials Pty Ltd	Australia	100	100	1	1
APEC Ventures Pty Ltd	Australia	100	100	1	1

Strategic Elements Limited is the ultimate Australian parent entity and ultimate parent of the Group.

Transactions between related parties are on commercial terms and conditions, no more favourable than those available to other parties unless otherwise stated.

Transactions with related entities:

Director related entities

Remuneration for Directors is paid to entities controlled by the Directors. Please refer to the Remuneration report in the Directors Report and Note 22 for more detail.

NOTE 20. PARENT ENTITY INFORMATION

As at, and throughout, the financial year ending 30 June 2012 the parent company of the Group was Strategic Elements Limited.

Financial position of Parent entity at year end

	30 June 2012 $	30 June 2011 (Restated) $
Assets		
Current assets	3,413,953	4,187,166
Non-current assets	15,402	14,572
Total assets	3,429,355	4,201,738
Liabilities		
Current liabilities	117,219	2,529,275
Total liabilities	117,219	2,529,275
Equity		
Issued capital	5,166,572	2,758,429
Retained earnings	(1,944,860)	(1,135,699)
Reserves		
Share based payments	90,424	49,733
Total equity	3,312,136	1,672,463

Financial performance of Parent entity for the year

	Year ended 30 June 2012 $	Year ended 30 June 2011 $
Loss for the year	(809,161)	(680,666)
Other comprehensive income	-	-
Total comprehensive loss	(809,161)	(680,666)

NOTE 21. CONTINGENT LIABILITIES

There are no contingent liabilities outstanding at the end of the year.

NOTE 22. DIRECTORS' AND EXECUTIVES' DISCLOSURES

(a) Details of Key Management Personnel

(i) Directors

Seng Yap	Chairman (Non-executive)
Charles Murphy	Managing Director
Matthew Howard	Executive Director
Elliot Nicholls	Executive Director

(b) Key management personnel compensation

The key management personnel compensation for the year is as follows:

	Year ended 30 June 2012 $	Year ended 30 June 2011 $
Short term benefits	358,666	128,333
Post-employment benefits	-	-
Share based payments	87,358	283,066
Total	446,024	411,399

Information regarding individual directors' and executives' compensation disclosures as permitted by Corporations Regulations 2M.3.03 and 2M.6.04 is provided in the remuneration report section of the Directors' report.

NOTE 22. DIRECTORS' AND EXECUTIVES' DISCLOSURES (continued)

(c) Option holdings of Key Management Personnel

						Vested as at end of year		
30 June 2012	Balance at beginning of year	Granted as remune-ration	Options exercised	Net change Other	Balance at end of year	Total	Exercis-able	Not Exercis-able
Directors								
Seng Yap	3,500,000	-	-	-	3,500,000	3,500,000	3,500,000	-
Charles Murphy	-	-	-	-	-	-	-	-
Matthew Howard	-	-	-	-	-	-	-	-
Elliot Nicholls	-	-	-	-	-	-	-	-
Total	3,500,000	-	-	-	3,500,000	3,500,000	3,500,000	-

						Vested as at end of year		
30 June 2011	Balance at beginning of year	Granted as remune-ration	Options exercised	Net change Other	Balance at end of year	Total	Exercis-able	Not Exercis-able
Directors								
Seng Yap	-	3,500,000	-	-	3,500,000	3,500,000	3,500,000	-
Charles Murphy	-	-	-	-	-	-	-	-
Matthew Howard	-	-	-	-	-	-	-	-
Elliot Nicholls	-	-	-	-	-	-	-	-
Total		3,500,000			3,500,000	3,500,000	3,500,000	-

(d) Shareholdings of Key Management Personnel

Ordinary shares held in Strategic Elements Limited (number)

30 June 2012	Balance at beginning of year	Granted as remuneration	On exercise of options	Net change Other	Balance at end of year
Directors					
Seng Yap	11,700,001	-	-	-	11,700,001
Charles Murphy	26,900,001	-	-	259,000	27,159,001
Matthew Howard	5,550,000	-	-	-	5,550,000
Elliot Nicholls	9,350,000	-	-	-	9,350,000
Total	53,500,002	-	-	259,000	53,759,002

NOTE 22. DIRECTORS' AND EXECUTIVES' DISCLOSURES (continued)

(d) Shareholdings of Key Management Personnel (continued)

30 June 2011	Balance at beginning of year	Granted as remuneration	On exercise of options	Net change Other	Balance at end of year
Directors					
Seng Yap	4,200,001	3,500,000	-	4,000,000	11,700,001
Charles Murphy	18,400,001	-	-	8,500,000	26,900,001
Matthew Howard	1,600,000	-	-	3,950,000	5,550,000
Elliot Nicholls	17,800,000	-	-	(8,450,000)	9,350,000
Total	42,000,001	3,500,000	-	8,000,000	53,500,002

NOTE 23. CHANGE IN ACCOUNTING POLICY

During the financial year the consolidated entity elected to change its accounting policy relating to exploration expenditure. All exploration expenditure other than acquisition costs is to be expensed in the period incurred. The Board considers this policy to be a more prudent, conservative policy reflective of its attitude to risk.

The adjustments resulting from the change in policy applied are as follows:

	Previously reported	**Impact of change in accounting policy**	**Restated balance**
	$	**$**	**$**
Statement of Financial Position as at 30 June 2011			
Deferred exploration expenditure	20,842	(20,842)	-
Accumulated losses	(1,934,018)	(20,842)	(1,954,860)
Statement of Comprehensive Income for the year ended 30 June 2011			
Exploration expenses as incurred	-	(20,842)	(20,842)
Loss before income tax	(786,521)	(20,842)	(807,363)

The basic and diluted loss per share increased by 0.11 cents.

NOTE 24. PRIOR YEAR ERROR

In the 2011 Annual Report the valuation of share based payments was incorrectly disclosed as being $233,333. The correct valuation has been restated as $283,066.

NOTE 25. EVENTS SUBSEQUENT TO REPORTING DATE

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

Directors' Declaration

1. In the opinion of the directors of Strategic Elements Limited (the 'Company'):

   a. the accompanying financial statements and notes 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 and Corporations Regulations 2001 professional reporting requirements and other mandatory requirements;

   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;

   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 period ended 30 June 2012.

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

Charles Murphy
Managing Director

Perth WA, 30th August 2012

Independent Auditor's Report

nexia australia

the next solution

Independent auditor's report to the members of Strategic Elements Limited

Report on the financial report

We have audited the accompanying financial report of Strategic Elements Limited, 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 of the consolidated entity comprising 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 and fair presentation of the financial report that gives a true and fair view in accordance with the 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 gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In Note 1(a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report, comprising the financial statements and notes, complies with *International Financial Reporting Standards* as issued by the International Accounting Standards Board.

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, we consider internal controls 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 controls. 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.

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*.

Nexia Perth Audit Services Pty Ltd
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GPO Box 2570, Perth WA 6001
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Independent Auditor's Report

Opinion

In our opinion:

(a) the financial report of Strategic Elements 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 (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

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

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.

Opinion

In our opinion, the remuneration report of Strategic Elements Limited for the year ended 30 June 2012, complies with Section 300A of the *Corporations Act 2001*.

Nexia Perth Audit Services Pty Ltd

TJ SPOONER CA FCA(UK) ACIS ACSA

Director

30 August 2012

Perth

Additional Securities Exchange Information

Additional information required by the ASX Limited and not shown elsewhere in this report is as follows. This information is current as at 30th of August 2012.

1) Substantial shareholders

The names of the substantial shareholders listed in the Company's register are:

Holder	Number of fully paid ordinary shares	Percentage
Robinia Partners Pty Ltd (controlled by Mr Charles Murphy)	27,159,001	19.6%
Seng Yap	10,700,000	7.7%
Emnet Pty Ltd (controlled by Mr Elliot Nicholls)	9,350,000	6.8%
Neil Peter Jacobs	7,809,759	5.7%
Total	**55,018,760**	**39.8%**

2) Information on equity security classes

a) Ordinary Shares

138,223,276 fully paid ordinary shares are held by 1026 shareholders. All issued shares carry one vote per share and carry the rights to dividends. 437 shareholders had an unmarketable parcel given a share value of 3c.

The number of shareholders by size of holding:

	Ordinary shares	
	Number of holders	Number of shares
1 – 1,000	22	1,191
1,001 – 5,000	15	59,464
5,001 – 10,000	322	3,185,236
10,001 – 100,000	597	15,875,904
100,001 and over	70	119,101,481
Total		**138,223,276**

b) Options

3,500,000 unlisted options are held by 1 individual option holder. Options do not carry the right to vote.

The number of option holders by size of holding:

	Options expiring 1 April 2015 Exercisable at $0.20 (Unquoted)	
	Number of holders	Number of shares
1 – 1,000	-	-
1,001 – 5,000	-	-
5,001 – 10,000	-	-
10,001 – 100,000	-	-
100,001 and over	1	3,500,000
Total	**1**	**3,500,000**

Additional Securities Exchange Information

2) Information on equity security classes (continued)

c) The Company's unquoted equity securities are as follows:

Class	Holders	Number	Expiry date
Options exercisable at $0.20	1	3,500,000	1 April 2015
Ordinary shares	21	87,016,672	11 August 2013

Names of holders of 20% or more of unquoted equities:

	Unquoted equity security	Number	Percentage
Seng Yap	Options expiring 1 April 2015 Exercisable at $0.20	1	100

3) Top 20 shareholders

Twenty largest holders of quoted equity securities are:

Fully paid ordinary shares

Name	Number	Percentage
ROBINIA PTNRS PL	27,159,001	19.65%
YAP SENG	10,700,000	7.74%
EMNET PL	9,350,000	6.76%
JACOBS NEIL PETER	7,809,759	5.76%
FATIMA PROJECT PL (controlled by Mr Matthew Howard)	5,550,000	4.02%
MURPHY STEVEN + JANET	4,333,334	3.14%
BARLEY HLDGS PL	4,083,334	2.95%
KANG ANDREW	4,000,000	2.89%
FEAR GOD PL	3,333,334	2.41%
NICHOLLS JOHN + DENISE	2,666,667	1.93%
CITICORP NOM PL	2,510,000	1.82%
EZH HLDGS DE THREE LLC	2,500,000	1.81%
PARISI HLDGS PL	2,050,000	1.48%
KOCHU & MOL PL	2,000,000	1.45%
BIRD STANLEY NEIL	1,648,746	1.19%
MAK CARRIE LAI YAN	1,400,000	1.01%
BARNAO DAVID ANTHONY	1,353,000	0.98%
KANG IRENE MEI MEI	1,333,334	0.96%
SILVER CAP PROPRIERTY LTD	1,333,334	0.96%
SOON JUN HOUNG + TONG E L	1,333,334	0.96%
TOTAL	**20,984,083**	**46.76%**

4) On-Market Buy Back

At the date of this report, the Company is not involved in an on-market buy back.

5) Use of cash and assets

From the date of admission to the date of this report, the Company has used the cash and assets readily convertible to cash available at the time of admission solely for the purpose and objectives as described in the Company's perspective.

Corporate Governance

Strategic Elements Limited (the Company) and the Board are committed to achieving and demonstrating the highest standards of corporate governance. The Board continues to review the framework and practices to ensure they meet the interests of shareholders.

The disclosure of corporate governance practices can be viewed on the Company website at www. strategicelements.com.au The Company has a Corporate Government Statement which has been adopted by the Board. The aim of the Corporate Government Statement is to ensure that the Company is effectively directed and managed, that risks are identified, monitored and assessed and that appropriate disclosures are made.

The Directors incorporated the ASX Principles into the Corporate Government Statement to the extent that they were appropriate, taking into account the Company's size, the structure of the Board, its resources and its proposed activities.

	ASX Corporate Governance Principle	Company Comments
1	**Lay solid foundations for management and oversight**	
1.1	Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions.	The Board has adopted a Corporate Governance Statement (set out on the Company's website) which discloses the specific responsibilities of the Board and provides that the Managing Director or Chief Executive Officer is responsible for running the affairs of the Company under delegated authority from the Board.
1.2	Companies should disclose the process for evaluating the performance of senior executives.	The Chairperson and/or the Managing Director are responsible for reviewing the performance of each executive at least once every calendar year with reference to the terms of their employment contract.
1.3	Companies should provide the information indicated in the Guide to reporting on Principle 1.	The Company is not aware of any departure from Recommendations 1.1 or 1.2. Performance evaluations for senior executives have taken place in the reporting period in accordance with the process disclosed.The Corporate Governance Statement which is available on the Company's website discloses the specific responsibility of the Board. The Corporate Governance Statement also specifically outlines the role of the Company's Chairperson and Company Secretary.
2	**Structure the board to add value**	
2.1	A majority of the board should be independent directors.	The Board takes the view that Mr Yap (Chairman) is not independent in terms of the ASX Corporate Governance Council's discussion of independent status as he is a substantial shareholder. Messrs Murphy and Nicholls as executive directors are not independent. Despite these relationships, the Board believes that Messrs Yap, Murphy, and Nicholls are able, and do make, quality and independent judgement in the best interests of the Company on all relevant issues before the Board.The Company will regularly review whether each non-executive director is independent and each non-executive director should provide to the Board all information that may be relevant to this assessment. If a director's independence status changes this should be disclosed and explained to the market in a timely fashion.
2.2	The chair should be an independent director.	

Corporate Governance

	ASX Corporate Governance Principle	Company Comments
2.3	The roles of chair and chief executive officer should not be exercised by the same individual.	The role of chief executive officer is currently being fulfilled by Mr Murphy. The current chair is Mr Yap.
2.4	The Board should establish a nomination committee.	The Board considers that the Company is not currently of a size to justify the formation of a nomination committee. If any vacancies arise on the Board, all directors are involved in the search and recruitment of a replacement. The Board believes corporate performance is enhanced when the Board has an appropriate mix of skills and experience.
2.5	Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.	The Chairperson and/or the Managing Director are responsible for reviewing the performance of each executive at least once every calendar year with reference to the terms of their employment contract.
2.6	Companies should provide the information indicated in the Guide to reporting on Principle 2.	A description of the skills and experience of each of the current Directors is contained in the Director's report. Based on the Company's early stages of development and given the current size and structure of the Board, it has not fully complied with the Principle 2 of the ASX Principles. However, it will seek to do so as it develops and the Board grows. To facilitate independent decision making, the Board and any committees it convenes from time to time may seek advice from independent experts whenever it is considered appropriate. With the consent of the Chairperson, individual directors may seek independent professional advice, at the expense of the Company, on any matter connected with the discharge of their responsibilities.The policy for the appointment of new directors is set out on the Corporate Governance Statement on the Company's website.
3	**Promote ethical and responsible decision making**	
3.1	Companies should establish a code of conduct and disclose the code or a summary of the code as to: • the practices necessary to maintain confidence in the company's integrity; • the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders; and • the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.	The Company has adopted a Code of Conduct which provides a framework for decisions and actions in relation to ethical conduct in employment.The Code of Conduct is set out in Appendix A of the Corporate Governance Statement on the Company's website.

<table>
<tr><th></th><th>ASX Corporate Governance Principle</th><th>Company Comments</th></tr>
<tr><td>3.2</td><td>Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measureable objectives for achieving gender diversity and for the board to assess annually both the objectives and progress in achieving them.</td><td>The Company is currently not in compliance with this recommendation.The Company does not currently have a separate policy specifically addressing achieving diversity. Due to the current size of the Board and expected workforce, the Board does not consider it necessary to have a gender diversity policy, but will consider adopting a policy in the future.The Company has adopted a code of conduct, which provides a framework for undertaking ethical conduct in employment. Under the corporate code of conduct, the Company will not tolerate any form of discrimination or harassment in the workplace.</td></tr>
<tr><td>3.3</td><td>Companies should disclose in each annual report the measureable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.</td><td>The Company has not yet set the measurable objectives however these will be considered by the Board and disclosed in the annual report. In addition, the Board will review progress against any objectives identified on an annual basis.</td></tr>
<tr><td>3.4</td><td>Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.</td><td>As at the date of this report, the Company’s workforce profile includes:
<table>
<tr><th>Level</th><th>Male</th><th>Female</th></tr>
<tr><td>Directors</td><td>4</td><td>0</td></tr>
<tr><td>Senior Executives</td><td>0</td><td>0</td></tr>
<tr><td>Employees</td><td>0</td><td>0</td></tr>
<tr><td>Total</td><td>0</td><td>0</td></tr>
</table></td></tr>
<tr><td>3.5</td><td>Companies should provide the information indicated in the Guide to reporting on Principle 3.</td><td>The Company’s diversity policy does not include any measurable objectives, if any, set by the Board;
• progress against those objectives; and
• the proportion of women employees in the whole organisation, at senior management level and at Board level.</td></tr>
<tr><td>4</td><td colspan="2">Safeguard integrity in financial reporting</td></tr>
<tr><td>4.1</td><td>The board should establish an audit committee.</td><td rowspan="3">The Board considers that the Company is not of a size, nor are its financial affairs of such complexity to justify the formation of an audit committee. The Board as a whole undertakes the selection and proper application of accounting policies, the integrity of financial reporting, the identification and management of risk and review of the operation of the internal control systems.</td></tr>
<tr><td>4.2</td><td>The audit committee should be structured so that it:
• consists only of non-executive directors;
• consists of a majority of independent directors;
• is chaired by an independent chair, who is not chair of the board; and
• has at least three members.</td></tr>
<tr><td>4.3</td><td>The audit committee should have a formal charter.</td></tr>
</table>

	ASX Corporate Governance Principle	Company Comments
4.4	Companies should provide the information indicated in the Guide to reporting on Principle 4.	When the Company has grown to a sufficient size to warrant it, the Board will establish an audit and risk committee to assist the Board in monitoring and reviewing any matters of significance affecting financial reporting and compliance.
5	**Make timely and balanced disclosure**	
5.1	Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.	The Company has a continuous disclosure program in place designed to ensure compliance with ASX Listing Rule continuous disclosure and to ensure accountability at a senior executive level for compliance and factual presentation of the Company's financial position.A summary of this policy is set out in Appendix C of the Company's Corporate Governance statement.
5.2	Companies should provide the information indicated in Guide to reporting on Principle 5.	The Company is not aware of any departure from Recommendations 5.1 or 5.2.A summary of the Company's policy on Continuous Disclosure is publicly available on the Company's website.
6	**Respect the rights of shareholders**	
6.1	Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.	The Company has adopted a shareholder communications policy, which aims to promote effective communication with shareholders and ensure that shareholders are informed of all major developments affecting the Company's state of affairs.The shareholder communication policy of the Company is set out on the Company's website.
6.2	Companies should provide the information indicated in the Guide to reporting on Principle 6.	The Shareholder Communication Policy is publicly available on the Company's website.
7	**Recognise and manage risk**	
7.1	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	The Company has adopted polices for the management of business risks and a summary of these policies is available on the Company's website.
7.2	The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.	It is the responsibility of the Chief Executive Officer (or equivalent) to create, maintain and implement risk management and internal control policies for the Company, subject to review by the Board.The Board will review the effectiveness of implementation of the risk management system and internal control system at least annually.

	ASX Corporate Governance Principle	Company Comments
7.3	The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	The Chief Executive Officer (or equivalent) is required annually to state in writing to the Board that the Company has a sound system of risk management, that internal compliance and control systems are in place to ensure the implementation of Board policies, and that those systems are operating efficiently and effectively in all material respects.
7.4	Companies should provide the information indicated in Guide to reporting on Principle 7.	The Company is not aware of any departure from Recommendations 7.1, 7.2 or 7.3 although notes it is continuing to develop and refine its risk management and internal control processes.
8	**Remunerate fairly and responsibly**	
8.1 8.2	The board should establish a remuneration committee.The remuneration committee should be structured so that it: • consists of a majority of independent directors; • is chaired by an independent director; and • has at least three members.	The Board considers that the Company is not currently of a size, nor are its affairs of such complexity to justify the formation of a remuneration committee. The Board as a whole is responsible for the remuneration arrangements for Directors and executives of the Company and considers it more appropriate to set aside time at Board meetings each year to specifically address matters that would ordinarily fall to a remuneration committee.
8.3	Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.	The Board will distinguish the structure of non-executive director's remuneration from that of executive directors and senior executives. The Company's Constitution also provides that the remuneration of non-executive Directors will not be more than the aggregate fixed sum determined by shareholders in general meeting.
8.4	Companies should provide the information indicated in the Guide to reporting on Principle 8.	When the Company has grown to a sufficient size to warrant it, the Board will establish a remuneration committee for the purposes of reviewing and approving the executive remuneration policy. As at the date of this statement, there are no schemes for retirement benefits for non-executive Directors.

In relation to the above, the Directors believe that, notwithstanding the Company's departures from the ASX Principles 2.1, 2.2, 2.4, 3.2, 3.3, 4.1, 4.2, 4.3, 8.1 and 8.2 the Board has implemented suitable practices and procedures with respect to corporate governance, considering the size of the Board and the size and maturity of the Company. The Board wishes to acknowledge that nothing has come to its attention that would lead it to conclude that its current practices and procedures are not appropriate for an organisation of the size and maturity of the Company.

STRATEGIC
ELEMENTS

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