FIFTH ELEMENT RESOURCES LIMITED

ABN 92 166 025 047

AND CONTROLLED ENTITY

FINANCIAL REPORT

27 SEPTEMBER 2013 TO 31 JANUARY 2014

FINANCIAL REPORT
27 SEPTEMBER 2013 TO 31 JANUARY 2014

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DIRECTORS' REPORT

Your directors present their report on the consolidated group for the period from 27 September 2013 to 31 January 2014.

Directors

The names of the directors in office at any time during, or since the end of, the period are:

CHI HO WILLIAM LO

ANDREW SKINNER

SIU-WING SELWYN CHAN

NORIMAN MAK (Appointed 1-11-2013)

Directors have been in office since the inception of the company (27 September 2013) to the date of this report unless otherwise stated.

Information on Directors

WILLIAM LO Executive Chairman

Bachelor of Chemical Process Engineering and Fuel Technology (Sheffield – UK)

Chartered Accountant (UK)

Fellow Member of the Hong Kong Institute of Certified Public Accountants

Mr Chi Ho William Lo qualified as a Chartered Accountant in the United Kingdom in 1994 and is now a Fellow Member of the Hong Kong Institute of Certified Practicing Accountants. William also holds an honours Bachelor's degree in Chemical Engineering and Fuel Technology from Sheffield University (U.K.).

William has extensive experience in the resources industry and financial markets. He has been on the board of a number of listed companies in both Hong Kong and China. William started investing in the resources industry outside of Australia from 2006.

William is a director and largest ultimate shareholder of EJ Resources Pty Limited incorporated in New South Wales, which focuses on minerals exploration in other areas of New South Wales.

William is free from any business or other relationship that could materially interfere with the independent exercise of his judgement.

He is a founding member and largest shareholder of Fifth Element Resources Ltd since inception.

SELWYN CHAN Director

Bachelor of Civil Engineering (UNSW)

Master of Science (Geotechnical Engineering, Massachusetts Institute of Technology, USA)

Bachelor of Laws Hons (Wolverhampton)

Fellow, Chartered Institute of Arbitrators, UK

Fellow, Institution of Structural Engineers, UK

Member, Institution of Engineers, Australia

Solicitor, Hong Kong

Mr Selwyn Chan is a chartered professional engineer in both Australia and the UK specialising in civil, structural and soils engineering. He has extensive engineering experience and worked in various international consulting engineering firms as well as real estate developers before founding his own multi-disciplined construction project management consultancy in 1988 in Hong Kong.

DIRECTORS' REPORT

Information on Directors

SELWYN CHAN Director (Continued)

To extend his consulting scope, Selwyn completed his law degree and qualified as a solicitor in 2008 in Hong Kong where he practices law in the areas of corporate finance, mergers and acquisitions, commercial and construction law and litigation. He also advises numerous private and corporate clients in Australia and spends a considerable amount of time in Australia.

Selwyn has been involved in Fifth Element Resources Limited from the outset and has been advising the initial shareholders and senior management of the Company.

Selwyn is also a visiting lecturer with the Polytechnic University of Hong Kong covering subjects such as criminal law, public order and civil liberties.

He is free from any business or other relationship that could materially interfere with the independent exercise of his judgement.

ANDREW SKINNER Director

Master of Economics (Macquarie University)

Member, Australian Institute of Company Directors

Member, CPA Australia

Mr Andrew Skinner qualified as a Chartered Accountant in 1986 with Price Waterhouse Coopers and commenced a specialisation in superannuation governance. He has been a specialist in superannuation taxation and small business structuring and advice. In 2004, Andrew was the founding director of Augur Resources Ltd which went on to list on the ASX under the code AUK.

Andrew's extensive experience with mineral exploration companies resulted in his appointment as a director of Zamia Metals Ltd (code ZGM), which listed on the ASX in January 2007, and remains on that Board. He is on the Board of ASX listed Fiji focused gold and cooper explorer Dome Gold Mines Ltd (code DME). He is also on the Board of Magma mines Ltd which is currently preparing for a listing on the ASX.

Involved with Fifth Element Resources Ltd since inception, Mr Skinner has been working with management and shareholders to bring the Company to its current state.

Andrew lectures in the School of Accounting and Corporate Governance at Macquarie University in Business Ethics and is currently completing a Master of Corporate Governance.

He is free from any business or other relationship that could materially interfere with the independent exercise of his judgement.

NORIMAN MAK Director

BSc, Master of Science (soil mechanics and engineering seismology)

DIC, MBA, MIEAust, CPEng, NPER, RPEQ

Mr Noriman Mak is experienced in engineering innovation, property investments, general management and business development. As an advisor, he has prepared business proposals, investment and risk appraisals, strategic management directives, budget reports, project management reviews and technical audits for many large projects. He has issued numerous technical publications and has pioneered new innovative technologies for the engineering industry.

He is free from any business or other relationship that could materially interfere with independent exercise of his judgement.

DIRECTORS' REPORT

Company Secretary Information

NICHOLAS GEDDES Secretary

Fellow , Institute of Chartered Accountants England & Wales

Fellow, Institute of Chartered Secretaries Australia

Mr Nicholas Geddes is the principal of Australian Company Secretaries Pty Ltd, a company secretarial practice that he formed in 1993. Mr Geddes is a past President of Chartered Secretaries Australia and a former Chairman of the NSW Council of that Institute. His previous experience, as a Chartered Accountant and Company Secretary, includes investment banking and development and venture capital in Europe, Africa, the Middle East and Asia.

Nicholas has been the company secretary in office since inception of the company to the date of this report.

Directors Meetings

To date all Directors' resolutions have been conducted by telephone or by circular resolution.

Audit Committee Meetings

Due to the company not being listed, no audit committee meetings were held during the period.

Principal Activities

The principal activity of the consolidated group during the period was mining exploration.

No significant change in the nature of these activities occurred during the period.

Operating Results

The consolidated loss of the consolidated group for the period 27 September 2013 to 31 January 2014 after providing for income tax amounted to $198,003.

Review of Operations

Fifth Element Resources Limited was incorporated on the 27 September 2013 and is a mineral exploration and development company that has interests in mineral exploration in NSW.

The Group currently holds four exploration tenements in NSW, namely EL 8026 (Project Fairholme), EL 8027 (Project Pine Hill), EL 8140 (Project Trangie) and EL 8141 (Project Mendooran). Current exploration project details are as follows:

Project Fairholme EL 8026 *- 20km South-East of Condobolin, New South Wales*

- Tenement in area hosting Cu-Au porphyry
- Identification of magnetic anomalies

Review of Operations (continued)

Project Pine Hill EL 8027 *- 40km South-East of Condobolin, New South Wales*

- Tenement in area hosting Cu-Au porphyry
- Identification of magnetic anomalies

Project Trangie EL 8140 *- 40km North-West of Narromine, New South Wales*

- Tenement in area hosting Cu-Au porphyry
- Identification of magnetic anomalies

Project Mendooran EL 8141 *- 35km East of Gilgandra, New South Wales*

- Tenement in area hosting Cu-Au porphyry
- Identification of magnetic anomalies

Significant Changes in the State of Affairs

In January 2014 the consolidated group purchased four NSW Exploration Licences for Group 1 Elemental Minerals (Metallics), being EL8026, EL0827, EL8140 and EL8141 (as outlined above) from EJ Resources Pty Limited.

No other significant changes in the consolidated group's state of affairs occurred during the period.

Events Subsequent to the End of the Reporting Period

Fifth Element Resources Limited is currently preparing to list on the Australian Securities Exchange (ASX). The company seeks to raise equity capital of up to 25,000,000 ordinary shares in the capital of Fifth Element Resources Limited to raise up to $5,000,000. The Minimum Subscription to this Offer is 17,500,000 ordinary shares to raise $3,500,000. The Offer pricing will be $0.20 per ordinary Fifth Element Resources Limited share.

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

Likely Developments and Expected Results of Operations

Likely developments in the operations of the consolidated group and the expected results of those operations in future financial years have not been included in this report as the inclusion of such information is likely to result in unreasonable prejudice to the consolidated group.

DIRECTORS' REPORT

Going Concern

Notwithstanding the consolidated group loss for the period of $198,003, the financial report has been prepared on a going concern basis, which contemplates the realisation of assets and settlement of liabilities in the ordinary course of business. The Group has the financial support of its ultimate shareholder, Diamond Peak Overseas Limited and William Lo. The directors believe that such financial support will continue to be made available until the proposed ASX listing.

In the event that the Group does not obtain additional funding via the proposed ASX listing, it may not be able to continue its operations as a going concern and therefore may not be able to realise its assets and extinguish its liabilities in the ordinary course of operations and at the amounts stated in the financial report.

Environmental Regulation

The consolidated group holds exploration licences in NSW and is aware of the environmental regulations under the NSW Mining Act 1992.

Dividends

There were no dividends paid or declared since the start of the period.

Options

No options over issued shares or interests in the company or a controlled entity were granted during or since the end of the period and there were no options outstanding at the date of this report.

No shares were issued during or since the end of the period as a result of the exercise of an option over unissued shares or interests.

Indemnification of Officers

The Company has entered into deeds of indemnities for all four directors to the extent permitted by the law. Directors and Officers insurance policies will be procured by the company on successful completion of the Initial Public Offering on the Australian Stock Exchange (ASX).

Proceedings on Behalf of Company

No person has applied for leave of court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

The company was not a party to any such proceedings during the period.

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under s 307C of the *Corporations Act 2001* is set out on page 8.

This directors' report is signed in accordance with a resolution of the Board of Directors:

DIRECTOR – WILLIAM LO

Dated this 18th of February 2014

Bromley's
CHARTERED ACCOUNTANTS
A.B.N. 59 480 850 602

Suite 502,
71-73 Archer Street
Chatswood NSW 2067
Australia

P.O. Box 747
Chatswood 2057

Tel: (02) 9419 4566
Fax: (02) 9413 4165

Email:
admin@bromleys.com.au

FIFTH ELEMENT RESOURCES LIMITED

ABN: 92 166 025 047 AND CONTROLLED ENTITY

AUDITOR'S INDEPENDENCE DECLARATION
UNDER S 307C OF THE CORPORATIONS ACT 2001
TO THE DIRECTORS OF FIFTH ELEMENT RESOURCES LIMITED

I declare that, to the best of my knowledge and belief, during the period from 27 September 2013 to 31 January 2014 there have been no contraventions of:

i. the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

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

KN Bromley & Co
Kenneth N Bromley FCA
Dated 18th February 2014

Chatswood

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE PERIOD 27 SEPTEMBER 2013 TO 31 JANUARY 2014

	Note	Consolidated Group 27Sep13 - 31Jan14 $
Sales revenue	3	-
Cost of sales	4	-
Gross profit		-
Other income	3	-
Impairment of assets	4	-
Finance costs	4	-
Other expenses	4	(198,003)
Profit (loss) before income tax		(198,003)
Tax (expense)/income	5a	-
Profit (loss) for the period		(198,003)
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss		-
Items that will be reclassified subsequently to profit or loss when specific conditions are met		-
Items that have been reclassified to profit or loss		-
Total other comprehensive income for the period		-
Total comprehensive income for the period		(198,003)
Profit (loss) attributable to:		
Members of the parent entity		(198,003)
Total comprehensive income attributable to:		
Members of the parent entity		-
Earnings (loss) per share		
Basic and diluted loss per share (cents per share)	9	(0.0099)

The accompanying notes form part of these financial statements.

FIFTH ELEMENT RESOURCES LIMITED
ABN: 92 166 025 047 AND CONTROLLED ENTITY

STATEMENT OF FINANCIAL POSITION
AS AT 31 JANUARY 2014

	Note	Consolidated Group 31Jan14 $
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	10	104,467
Trade and other receivables	11	4,164
Deferred exploration & evaluation expenditure	12	68,798
Other	14	25,833
TOTAL CURRENT ASSETS		203,262
NON-CURRENT ASSETS		
Deferred tax assets	17	-
Deferred exploration & evaluation expenditure	12	55,323
Other assets	14	20,000
TOTAL NON-CURRENT ASSETS		75,323
TOTAL ASSETS		278,585
LIABILITIES		
CURRENT LIABILITIES		
Trade and other payables	15	114,183
TOTAL CURRENT LIABILITIES		114,183
NON-CURRENT LIABILITIES		
Borrowings	16	162,405
TOTAL NON-CURRENT LIABILITIES		162,405
TOTAL LIABILITIES		276,588
NET ASSETS		1,997
EQUITY		
Issued capital	18	200,000
Retained earnings/(losses)		(198,003)
TOTAL EQUITY		1,997

The accompanying notes form part of these financial statements.

FIFTH ELEMENT RESOURCES LIMITED

ABN: 92 166 025 047 AND CONTROLLED ENTITY

STATEMENT OF CHANGES IN EQUITY
FOR PERIOD 27 SEPTEMBER 2013 TO 31 JANUARY 2014

	Note	Ordinary Shares $	Retained Earnings $	Reserves $	Total $
Consolidated Group					
Opening Balance at 27 September 2013		-	-	-	-
Shares issued during the period		200,000	-	-	200,000
Comprehensive Income					
Profit (loss) for the period		-	(198,003)	-	(198,003)
Other comprehensive income		-	-	-	-
Total comprehensive income (loss) for the period attributable to members of the parent entity			(198,003)	-	(198,003)
Transfers to and from reserves		-	-	-	-
Dividends paid or provided for	8		-		-
Balance at 31 January 2014		200,000	(198,003)	-	1,997

The accompanying notes form part of these financial statements.

FIFTH ELEMENT RESOURCES LIMITED

ABN: 92 166 025 047 AND CONTROLLED ENTITY

STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED 31 JANUARY 2014

	Note	Consolidated Group 27Sep13 - 31Jan14 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers		-
Payments to suppliers and employees		(96,223)
Dividends received		-
Interest received		-
Finance costs		-
Income tax (paid)/refunded		-
Net cash provided by operating activities	20a	(96,223)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment		-
Purchase of deferred exploration & evaluation expenditure		(121,715)
Security deposits		(40,000)
Net cash (used in)/provided by investing activities		(161,715)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares		200,000
Proceeds from loans from related parties		162,405
Dividends paid		-
Net cash provided by/(used in) financing activities		362,405
Net increase in cash held		104,467
Cash and cash equivalents at beginning of period		-
Cash and cash equivalents at end of period	10	104,467

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD 27 SEPTEMBER 2013 TO 31 JANUARY 2014

The consolidated financial statements and notes represent those of FIFTH ELEMENT RESOURCES LIMITED and Controlled Entity (the "consolidated group" or "group").

The financial statements were authorised for issue on 18h February 2014 by the directors of the company.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards (including Australian Accounting Interpretations) of the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. The entity is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in financial statements containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards (IFRS). Material accounting policies adopted in the preparation of the financial statements are presented below and have been consistently applied unless stated otherwise.

The financial statements, except for cash flow information, have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities. The amounts presented in the financial statements have been rounded to the nearest dollar.

a. **Principles of Consolidation**

The consolidated financial statements incorporate the assets, liabilities and results of entities controlled by FIFTH ELEMENT RESOURCES LIMITED at the end of the reporting period. A controlled entity is any entity over which FIFTH ELEMENT RESOURCES LIMITED has the power to govern the financial and operating policies so as to obtain benefits from its activities.

Where controlled entities have entered or left the Group during the period, the financial performance of those entities is included only for the portion of that period that they were controlled. A list of controlled entities is contained in Note 13 to the financial statements.

In preparing the consolidated financial statements, all intragroup balances and transactions between entities in the consolidated group have been eliminated in full on consolidation.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b. **Income Tax**

The income tax expense (income) for the period comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to profit or loss is the tax payable on taxable income. Current tax liabilities (assets) are measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the period as well as unused tax losses.

Current and deferred income tax expense (income) is charged or credited outside profit or loss when the tax relates to items that are recognised outside profit or loss.

Except for business combinations, no deferred income tax is recognised from the initial recognition of an asset or liability where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled and their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability. With respect to non-depreciable items of property, plant and equipment measured at fair value and items of investment property measured at fair value, the related deferred tax liability or deferred tax asset is measured on the basis that the carrying amount of the asset will be recovered entirely through sale. When an investment property that is depreciable is held by the Group in a business model whose objective is to consume substantially all of the economic benefits embodied in the property through use over time (rather than through sale), the related deferred tax liability or deferred tax asset is measured on the basis that the carrying amount of such property will be recovered entirely through use.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where: (a) a legally enforceable right of set-off exists; and (b) the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities, where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. **Financial Instruments**

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. For financial assets, this is equivalent to the date that the Group commits itself to either purchase or sell the asset (ie trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified "at fair value through profit or loss", in which case transaction costs are recognised as expenses in profit or loss immediately.

Classification and subsequent measurement

Financial instruments are subsequently measured at fair value, amortised cost using the effective interest method, or cost. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Amortised cost is calculated as the amount at which the financial asset or financial liability is measured at initial recognition less principal repayments and any reduction for impairment, and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount calculated using the *effective interest method*.

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying amount with a consequential recognition of an income or expense item in profit or loss.

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

The Group does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of Accounting Standards specifically applicable to financial instruments.

(i) *Financial assets at fair value through profit or loss*

Financial assets are classified at "fair value through profit or loss" when they are held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying amount being included in profit or loss.

(ii) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial asset is derecognised.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. **Financial Instruments (Continued)**
Classification and subsequent measurement

(iii) *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Group's intention to hold these investments to maturity. They are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial asset is derecognised.

(iv) *Available-for-sale investments*

Available-for-sale investments are non-derivative financial assets that are either not capable of being classified into other categories of financial assets due to their nature or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

They are subsequently measured at fair value with any remeasurements other than impairment losses and foreign exchange gains and losses recognised in other comprehensive income. When the financial asset is derecognised, the cumulative gain or loss pertaining to that asset previously recognised in other comprehensive income is reclassified into profit or loss.

Available-for-sale financial assets are classified as non-current assets when they are not expected to be sold within 12 months after the end of the reporting period. All other available-for-sale financial assets are classified as current assets.

(v) Financial liabilities

Non-derivative financial liabilities other than financial guarantees are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial liability is derecognised.

Impairment

At the end of each reporting period, the Group assesses whether there is objective evidence that a financial asset has been impaired. A financial asset (or a group of financial assets) is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events (a "loss event") having occurred, which has an impact on the estimated future cash flows of the financial asset(s).

In the case of available-for-sale financial assets, a significant or prolonged decline in the market value of the instrument is considered to constitute a loss event. Impairment losses are recognised in profit or loss immediately. Also, any cumulative decline in fair value previously recognised in other comprehensive income is reclassified into profit or loss at this point.

In the case of financial assets carried at amortised cost, loss events may include: indications that the debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments; indications that they will enter bankruptcy or other financial reorganisation; and changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortised cost (including loans and receivables), a separate allowance account is used to reduce the carrying amount of financial assets impaired by credit losses. After having taken all possible measures of recovery, if management establishes that the carrying amount cannot be recovered by any means, at that point the written-off amounts are charged to the allowance account or the carrying amount of impaired financial assets is reduced directly if no impairment amount was previously recognised in the allowance account.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. **Financial Instruments (Continued)**

Impairment

When the terms of financial assets that would otherwise have been past due or impaired have been renegotiated, the Group recognises the impairment for such financial assets by taking into account the original terms as if the terms have not been renegotiated so that the loss events that have occurred are duly considered.

Financial guarantees

Where material, financial guarantees issued that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due are recognised as financial liabilities at fair value on initial recognition.

The fair value of financial guarantee contracts has been assessed using the probability-weighted discounted cash flow approach. The probability has been based on:

- the likelihood of the guaranteed party defaulting during the next reporting period;
- the proportion of the exposure that is not expected to be recovered due to the guaranteed party defaulting; and
- the maximum loss exposure if the guaranteed party were to default.

Financial guarantees are subsequently measured at the higher of the best estimate of the obligation in accordance with AASB 137: *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less, when appropriate, cumulative amortisation in accordance with AASB 118: *Revenue*. Where the entity gives guarantees in exchange for a fee, revenue is recognised under AASB 118.

Derecognition

Financial assets are derecognised when the contractual rights to receipt of cash flows expire or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised when the related obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

d. **Impairment of Assets**

At the end of each reporting period, the Group assesses whether there is any indication that an asset may be impaired. The assessment will include considering external sources of information and internal sources of information, including dividends received from subsidiaries, associates or jointly controlled entities deemed to be out of pre-acquisition profits. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use to the asset's carrying amount. Any excess of the asset's carrying amount over its recoverable amount is recognised immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with another Standard (eg in accordance with the revaluation model in AASB 116). Any impairment loss of a revalued asset is treated as a revaluation decrease in accordance with that other Standard.

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.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e. **Exploration and Evaluation Expenditure**

Exploration and evaluation costs, including the costs of acquiring licences, are capitalised as exploration and evaluation assets on an area of interest basis.

Exploration and evaluation assets are only recognised if the rights of the area of interest are current and either:

- the expenditures are expected to be recouped through successful development and exploitation of the area of interest; or
- activities in the area of interest have not at the reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation assets are assessed for impairment if sufficient data exists to determine technical feasibility and commercial viability and facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For the purposes of impairment testing, exploration and evaluation assets are allocated to cash generating units to which the exploration activity relates. The cash generating unit shall not be larger than the area of interest.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified from exploration and evaluation expenditure to mining property and development assets within property, plant and equipment.

No deferred tax asset, relating to exploration licence deductions, has been accounted for to date, as it can not be reliably determined that the Group will earn sufficient taxable profit in future periods to utilise the tax benefits, at this exploration and evaluation stage.

f. **Foreign Currency Transactions and Balances**

Functional and presentation currency

The functional currency of each group entity is measured using the currency of the primary economic environment in which that entity operates. The financial statements are presented in Australian dollars, which is the parent entity's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in profit or loss, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in other comprehensive income to the extent that the underlying gain or loss is directly recognised in other comprehensive income, otherwise the exchange difference is recognised in profit or loss.

g. **Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, deposits held at-call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the statement of financial position.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h. **Revenue and Other Income**

Revenue is measured at the fair value of the consideration received or receivable after taking into account any trade discounts and volume rebates allowed. Any consideration deferred is treated as the provision of finance and is discounted at a rate of interest that is generally accepted in the market for similar arrangements. The difference between the amount initially recognised and the amount ultimately received is interest revenue.

Revenue from the sale of goods is recognised at the point of delivery as this corresponds to the transfer of significant risks and rewards of ownership of the goods and the cessation of all involvement in those goods.

Interest revenue is recognised using the effective interest method, which for floating rate financial assets is the rate inherent in the instrument. Dividend revenue is recognised when the right to receive a dividend has been established.

Revenue recognition relating to the provision of services is determined with reference to the stage of completion of the transaction at the end of the reporting period and where outcome of the contract can be estimated reliably. Stage of completion is determined with reference to the services performed to date as a percentage of total anticipated services to be performed. Where the outcome cannot be estimated reliably, revenue is recognised only to the extent that related expenditure is recoverable.

All revenue is stated net of the amount of goods and services tax.

i. **Trade and Other Payables**

Trade and other payables represent the liabilities for goods and services received by the Group that remain unpaid at the end of the reporting period. The balance is recognised as a current liability.

j. **Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO).

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the ATO is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities, which are recoverable from or payable to the ATO, are presented as operating cash flows included in receipts from customers or payments to suppliers.

k. **Comparative Figures**

For the period 27 September 2013 to 31 January 2014 there are no comparative figures.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

l. **Critical Accounting Estimates and Judgments**

The directors evaluate estimates and judgments incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group.

Key estimates

(i) *Impairment – general*

The Group assesses impairment at the end of each reporting period by evaluation of conditions and events specific to the Group that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using value-in-use calculations which incorporate various key assumptions.

No impairment has been recognised in respect to the exploration licence assets at the end of the reporting period.

Key judgments

(i) *Exploration and evaluation expenditure*

The Group performs regular reviews on each area of interest to determine the appropriateness of continuing to capitalise costs in relation to that area of interest. These reviews are based on mining reports and results performed to balance date.

m. **Going concern**

Notwithstanding the consolidated group loss for the period of $198,003, the financial report has been prepared on a going concern basis, which contemplates the realisation of assets and settlement of liabilities in the ordinary course of business. The Group has the financial support of its ultimate shareholder, Diamond Peak Overseas Limited and William Lo. The directors believe that such financial support will continue to be made available until the proposed ASX listing.
In the event that the Group does not obtain additional funding via the proposed ASX listing, it may not be able to continue its operations as a going concern and therefore may not be able to realise its assets and extinguish its liabilities in the ordinary course of operations and at the amounts stated in the financial report.

n. **New Accounting Standards for Application in Future Periods**

The AASB has issued a number of new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods, some of which are relevant to the Group. The Group has decided not to early adopt any of the new and amended pronouncements. The Group's assessment of the new and amended pronouncements that are relevant to the Group but applicable in future reporting periods is set out below:

– AASB 9: *Financial Instruments* (December 2010) and AASB 2010–7: *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010).*

  These Standards are applicable retrospectively and include revised requirements for the classification and measurement of financial instruments, as well as recognition and derecognition requirements for financial instruments.

  The key changes made to accounting requirements include:

  - simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;
  - simplifying the requirements for embedded derivatives;

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

n. **New Accounting Standards for Application in Future Periods (Continued)**

- removing the tainting rules associated with held-to-maturity assets;
- removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;
- allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument;
- requiring financial assets to be reclassified where there is a change in an entity's business model as they are initially classified based on: (a) the objective of the entity's business model for managing the financial assets; and (b) the characteristics of the contractual cash flows; and
- requiring an entity that chooses to measure a financial liability at fair value to present the portion of the change in its fair value due to changes in the entity's own credit risk in other comprehensive income, except when that would create an accounting mismatch. If such a mismatch would be created or enlarged, the entity is required to present all changes in fair value (including the effects of changes in the credit risk of the liability) in profit or loss.

These Standards were mandatorily applicable for annual reporting periods commencing on or after 1 January 2013. However, AASB 2012–6: *Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures* (issued September 2012) defers the mandatory application date of AASB 9 from 1 January 2013 to 1 January 2015. In light of this change to the mandatory effective date, the Group is expected to adopt AASB 9 and AASB 2010–7 for the annual reporting period ending 31 December 2015. Although the directors anticipate that the adoption of AASB 9 and AASB 2010–7 may have a significant impact on the Group's financial instruments, it is impracticable at this stage to provide a reasonable estimate of such impact.

– AASB 1053: *Application of Tiers of Australian Accounting Standards* and AASB 2010–2: *Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements* (applicable for annual reporting periods commencing on or after 1 July 2013).

AASB 1053 establishes a revised differential financial reporting framework consisting of two tiers of financial reporting requirements for those entities preparing general purpose financial statements:

- Tier 1: Australian Accounting Standards; and
- Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements.

Tier 2 of the framework comprises the recognition, measurement and presentation requirements of Tier 1, but contains significantly fewer disclosure requirements.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

n. **New Accounting Standards for Application in Future Periods (Continued)**

Management believes that the Group qualifies for the reduced disclosure requirements for Tier 2 entities. However, it is yet to determine whether to adopt the reduced disclosure requirements.

– AASB 10: *Consolidated Financial Statements*, AASB 11: *Joint Arrangements*, AASB 12: *Disclosure of Interests in Other Entities*, AASB 127: *Separate Financial Statements* (August 2011) and AASB 128: *Investments in Associates and Joint Ventures* (August 2011) (as amended by AASB 2012–10: *Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments*), and AASB 2011–7: *Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards* (applicable for annual reporting periods commencing on or after 1 January 2013).

AASB 10 replaces parts of AASB 127: *Consolidated and Separate Financial Statements* (March 2008, as amended) and Interpretation 112: *Consolidation – Special Purpose Entities.*

AASB 10 provides a revised definition of control and additional application guidance so that a single control model will apply to all investees. This Standard is not expected to significantly impact the Group's financial statements.

AASB 11 replaces AASB 131*: Interests in Joint Ventures* (July 2004, as amended). AASB 11 requires joint arrangements to be classified as either "joint operations" (where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities) or "joint ventures" (where the parties that have joint control of the arrangement have rights to the net assets of the arrangement).

AASB 12 contains the disclosure requirements applicable to entities that hold an interest in a subsidiary, joint venture, joint operation or associate. AASB 12 also introduces the concept of a "structured entity", replacing the "special purpose entity" concept currently used in Interpretation 112, and requires specific disclosures in respect of any investments in unconsolidated structured entities. This Standard will affect disclosures only and is not expected to significantly impact the Group's financial statements.

To facilitate the application of AASBs 10, 11 and 12, revised versions of AASB 127 and AASB 128 have also been issued. The revisions made to AASB 127 and AASB 128 are not expected to significantly impact the Group's financial statements.

– AASB 13: *Fair Value Measurement* and AASB 2011–8: *Amendments to Australian Accounting Standards arising from AASB 13* (applicable for annual reporting periods commencing on or after 1 January 2013).

AASB 13 defines fair value, sets out in a single Standard a framework for measuring fair value, and requires disclosures about fair value measurement.

AASB 13 requires:

- inputs to all fair value measurements to be categorised in accordance with a fair value hierarchy; and

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

n. **New Accounting Standards for Application in Future Periods (Continued)**

- enhanced disclosures regarding all assets and liabilities (including, but not limited to, financial assets and financial liabilities) to be measured at fair value.

These Standards are expected to result in more detailed fair value disclosures, but are not expected to significantly impact the amounts recognised in the Group's financial statements.

– AASB 119: *Employee Benefits* (September 2011) and AASB 2011–10: *Amendments to Australian Accounting Standards arising from AASB 119 (September 2011)* (applicable for annual reporting periods commencing on or after 1 January 2013).

These Standards introduce a number of changes to accounting and presentation of defined benefit plans. The Group does not have any defined benefit plans and so is not impacted by the amendments.

AASB 119 (September 2011) also includes changes to:

- require only those benefits that are expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related service to be classified as short-term employee benefits. All other employee benefits are to be classified as other long-term employee benefits, post-employment benefits or termination benefits, as appropriate; and
- the accounting for termination benefits that require an entity to recognise an obligation for such benefits at the earlier of:
  (i) for an offer that may be withdrawn – when the employee accepts;
  (ii) for an offer that cannot be withdrawn – when the offer is communicated to affected employees; and
  (iii) where the termination is associated with a restructuring of activities under AASB 137: *Provisions, Contingent Liabilities and Contingent Assets*, and if earlier than the first two conditions – when the related restructuring costs are recognised.

These Standards are not expected to significantly impact the Group's financial statements.

– AASB 2012–2: *Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities* (applicable for annual reporting periods commencing on or after 1 January 2013).

AASB 2012–2 principally amends AASB 7: *Financial Instruments: Disclosures* to require entities to include information that will enable users of their financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position.

This Standard is not expected to significantly impact the Group's financial statements.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

n. **New Accounting Standards for Application in Future Periods (Continued)**

– AASB 2012–3: *Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities* (applicable for annual reporting periods commencing on or after 1 January 2014).

  This Standard adds application guidance to AASB 132: *Financial Instruments: Presentation* to address potential inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement.

  This Standard is not expected to significantly impact the Group's financial statements.

– AASB 2012–5: *Amendments to Australian Accounting Standards arising from Annual Improvements 2009–2011 Cycle* (applicable for annual reporting periods commencing on or after 1 January 2013).

  This Standard amends a number of Australian Accounting Standards as a consequence of the issuance of *Annual Improvements to IFRSs 2009–2011 Cycle* by the International Accounting Standards Board, including:

  - AASB 1: *First-time Adoption of Australian Accounting Standards* to clarify the requirements in respect of the application of AASB 1 when an entity discontinues and then resumes applying Australian Accounting Standards;
  - AASB 101: *Presentation of Financial Statements* and AASB 134: *Interim Financial Reporting* to clarify the requirements for presenting comparative information;
  - AASB 116: *Property, Plant and Equipment* to clarify the accounting treatment of spare parts, stand-by equipment and servicing equipment;
  - AASB 132 and Interpretation 2: *Members' Shares in Co-operative Entities and Similar Instruments* to clarify the accounting treatment of any tax effect of a distribution to holders of equity instruments; and
  - AASB 134 to facilitate consistency between the measures of total assets and liabilities an entity reports for its segments in its interim and annual financial statements.

This Standard is not expected to significantly impact the Group's financial statements.

NOTE 2: PARENT INFORMATION	27Sep13 - 31Jan14 $
The following information has been extracted from the books and records of the parent and has been prepared in accordance with Australian Accounting Standards.	
Statement of Financial Position	
ASSETS	
Current assets	278,652
Non-current assets	100
TOTAL ASSETS	278,752
LIABILITIES	
Current liabilities	111,777
Non-current liabilities	162,405
TOTAL LIABILITIES	274,182
EQUITY	
Issued capital	200,000
Retained earnings	(195,430)
TOTAL EQUITY	4,570
Statement of Profit or Loss and Other Comprehensive Income	
Total profit (loss)	(195,430)
Total comprehensive income	-

Guarantees

Fifth Element Resources Limited has not entered into any guarantees, in the current period, in relation to the debts of its subsidiaries.

Contingent liabilities

Fifth Element Resources Limited's contingent liabilities are outlined in Note 19, being the expected IPO costs of listing with the Australian Stock Exchange (ASX).

Contractual commitments

As at balance date, Fifth Element Resources Limited had not entered into any contractual commitments for the acquisition of property, plant or equipment. Refer Note 19 for group contractual commitments.

NOTE 3: REVENUE AND OTHER INCOME	Consolidated Group 27Sep13 - 31Jan14 $
Sales revenue	-
Other revenue:	
– dividends received	
– interest received:	
Total revenue	-
Other income:	
– gain on disposal of property, plant and equipment	
– gain on disposal of non-current investments	
Total other income	-

NOTE 4: PROFIT (LOSS) BEFORE INCOME TAX

Profit (loss) before income tax from continuing operations includes the following specific expenses:

a. **Expenses**	
Cost of sales	-
Total finance costs	-
Other expenses:	
Impairment of non-current investments	-
Foreign currency translation losses	-
Bad and doubtful debts	-
Rental expense on operating leases	-
Research and development costs	-
b. **Significant Revenue and Expenses**	
The following significant expense items are relevant in explaining the financial performance:	
Initial public offering ("IPO") costs	128,732
Employee benefit expenses (including directors fees)	26,667
Other expenses	42,604
Total expenses	198,003

NOTE 5: TAX EXPENSE	Note	Consolidated Group 27Sep13 - 31Jan14 $
a. The components of tax (expense)/income comprise:		
Current tax		-
Deferred tax	17	-
		-
b. The prima facie tax on profit (loss) from ordinary activities before income tax is reconciled to income tax as follows:		
Prima facie tax payable (benefit) on profit (loss) from ordinary activities before income tax at 30%		(59,401)
Add:		
Tax effect of:		
– other non-allowable items		-
– tax loss not recognised		31,378
– effect of net deferred tax assets\(liabilities) not been recognised		65,259
		37,236
Less:		
Tax effect of:		
– Deductible & depreciable capitalised exploration costs		(37,236)
Income tax attributable to entity		-
The applicable weighted average effective tax rates are as follows:		30%
c. Unrecognised deferred tax assets		
Deferred tax assets have not been recognised in respect of the following items:		
Tax loss		31,378
Other deferred tax assets		65,259
Net deferred tax assets not recognised		96,637

NOTE 6: KEY MANAGEMENT PERSONNEL COMPENSATION

The totals of remuneration paid to Key Management Personnel (KMP) of the company and the Group during the period are as follows:

	Consolidated Group 27Sep13 - 31Jan14 $
Short-tem employee benefits	24,409
Post-employment benefits	2,258
Other long-term benefits	-
	26,667

KMP Options and Rights Holdings

There are no options or rights held over shares by the KMP during the period.

Other KMP Transactions

There have been no other transactions involving equity instruments. For details of other transactions with KMP (including loans), refer to Note 23.

NOTE 7: AUDITORS' REMUNERATION

Remuneration of the auditor of the group:	
– auditing or reviewing the financial statements	-
– taxation services	-
– due diligence services	-
– taxation services provided by related practice of auditor	-
	-

NOTE 8: DIVIDENDS	Note	Consolidated Group 27Sep13 - 31Jan14 $
Distributions paid		-
Balance of franking account at year-end adjusted for franking credits.		-

NOTE 9: LOSS PER SHARE

Basic and diluted loss per share have been calculated using:		
Loss for the period attributed to equity holders		(198,003)
No of shares		
Weighted average number of shares at the end of the period using in basic and diluted loss per share		20,000,000
Basic and diluted loss per share (cents per share)		(0.0099)

NOTE 10: CASH AND CASH EQUIVALENTS

CURRENT		
Cash at bank and on hand		104,467
Short-term bank deposits		-
		104,467
Reconciliation of cash		
Cash at the end of the financial period as shown in the statement of cash flows is reconciled to items in the statement of financial position as follows:		
Cash and cash equivalents		104,467
Bank overdrafts	16	-
		104,467

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM 27 SEPTEMBER 2013 TO 31 JANUARY 2014

NOTE 11: TRADE AND OTHER RECEIVABLES	Note	Consolidated Group 27Sep13 - 31Jan14 $
CURRENT		
Trade receivables	11b	-
Provision for impairment	11a & b	-
		-
Other receivables – GST refundable		4,164

a. **Provision for impairment of receivables**
There is no provision for impairment of receivables.

b. **Collateral pledged**
No collateral is held over trade and other receivables.

NOTE 12: EXPLORATION AND EVALUATION ASSETS	
CURRENT	
Balance at 27 September 2013	-
Expenditure capitalised during the period	68,798
Balance at 31 January 2014	68,798
NON-CURRENT	
Balance at 27 September 2013	-
Expenditure capitalised during the period	55,323
Balance at 31 January 2014	55,323

The above exploration & evaluation assets are made up of costs attributable to the following NSW Exploration Licences:

Fairholme EL 8026 – Granted 30 Nov 12 & Expires 30 Nov 14	36,153
Pine Hill EL 8027 – Granted 30 Nov 12 & Expires 30 Nov 14	32,645
Total Current Exploration Licence	68,798
Trangie EL 8140 – Granted 23 Jul 13 & Expires 23 Jul 15	26,426
Mendooran EL 8141 – Granted 23 Jul 13 & Expires 23 Jul 15	28,897
Total Non-Current Exploration Licence	55,323
Total Exploration Licences	124,121

The Directors have reviewed the carrying value of deferred exploration and evaluation expenditure and after seeking advice from independent Geologists, are of the opinion that the carrying value is appropriate. The ultimate recoupment of these costs is dependent on the successful development and exploitation, or alternatively sale, of the respective areas of interest relating to these exploration licences.

NOTE 13: CONTROLLED ENTITIES

a. **Controlled Entities Consolidated**

	Country of Incorporation	Percentage Owned (%)*
Subsidiaries of Fifth Element Resources Limited:		
Fifth Element Exploration Pty Limited	Aust	100%

** Percentage of voting power is in proportion to ownership*

b. **Acquisition of Controlled Entities**

On 27 September 2013, the parent entity acquired 100% interest of Fifth Element Exploration Pty Limited as a part of the setup of the consolidated group. No goodwill was purchased.

Purchase Consideration:

Issue of 100 Ordinary Shares	$100

c. **Disposal of Controlled Entities**

There were no disposals of controlled entities during the period 27 September 2013 to 31 January 2014.

d. **Controlled Entities with Ownership Interest of 50% or Less**

There are no controlled entities with ownership interest of 50% or less in the Group.

NOTE 14: OTHER ASSETS	Consolidated Group 27Sep13 - 31Jan14 $
CURRENT	
Prepayments	5,833
Security Deposits	20,000
	25,833
NON-CURRENT	
Security Deposits	20,000
	20,000
TOTAL OTHER ASSETS	45,833

NOTE 15: TRADE AND OTHER PAYABLES	Note	Consolidated Group 27Sep13 - 31Jan14 $
CURRENT		
Unsecured liabilities:		
Trade payables		-
Sundry payables and accrued expenses		114,183
	15a	114,183
a. **Financial liabilities at amortised cost classified as trade and other payables**		
Trade and other payables:		
– total current		114,183
– total non-current		-
		114,183
Less other payables (net amount of GST payable)		-
Financial liabilities as trade and other payables	24	114,183

NOTE 16: BORROWINGS	Note	Consolidated Group 27Sep13 - 31Jan14 $
CURRENT		
Bank overdraft secured	16c	-
Total current borrowings		-
NON-CURRENT		
Loans from director	23	162,405
Total non-current borrowings		162,405
Total borrowings		162,405

a. Total current and non-current secured liabilities:

Bank overdraft	-
	-

b. There are no carrying amounts of non-current assets pledged as security.

c. There are no borrowings that are secured or pledged as collateral.

NOTE 17: TAX	Consolidated Group 27Sep13 - 31Jan14 $
CURRENT	
Income tax payable	-
	-

	Opening Balance $	(Charged)/ Credited to Profit or Loss $	(Charged)/ Credited Directly to Equity $	Closing Balance $
27Sep13 to 31Jan14				
Deferred tax asset on:				
Tax losses	-	-	-	-
Intangible assets – impairment	-	-	-	-
Other	-	-	-	-
	-	-	-	-
Deferred tax liability on:				
Other	-	-	-	-
	-	-	-	-
Net amount	-	-	-	-

The amounts of deductible temporary differences and unused tax losses for which no deferred tax assets have been brought to account:

	Consolidated Group 27Sep13 - 31Jan14 $
– deductible temporary differences	217,529
– tax losses – operating losses	104,594
	322,123

The benefits of the above temporary differences and unused tax losses will be realised when the conditions for deductibility set out in Note 1(b) occur. These amounts have no expiry date.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM 27 SEPTEMBER 2013 TO 31 JANUARY 2014

NOTE 18: ISSUED CAPITAL	Consolidated Group 27Sep13 - 31Jan14 $
20,000,000 ordinary shares issued at $0.01 each	200,000

a. **Ordinary Shares**	**No**
At the beginning of the reporting period	-
Shares issued during the period:	
– 27 September 2013	200,000
At the end of the reporting period	200,000

On incorporation the company issued 20,000,000 ordinary shares issued at $0.01. The shares are eligible for dividends immediately after issue.

The 20,000,000 ordinary shares will be subject to an escrow period of 24 months from ASX listing.

Ordinary shares participate in dividends and the proceeds on winding up of the company in proportion to the number of shares held.

At the shareholders' meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

b. **Capital Management**

The Group has significant budgeted exploration expenditure (refer Note 19) and the Company is seeking to increase its equity by capital raising, via listing on the Australian Stock Exchange (ASX). The gearing ratio will reduce significantly after this equity is raised.

The Group's debt and capital includes ordinary share capital and financial liabilities, supported by financial assets.

There are no externally imposed capital requirements.

The gearing ratios for the period ended 31 January 2014 is as follows:

	Note	Consolidated Group 27Sep13 - 31Jan14 $
Total borrowings	16	162,405
Trade and other payables	15	114,183
Less cash and cash equivalents	10	(104,467)
Net debt		172,121
Total equity		200,000
Total capital		372,121
Gearing ratio		46%

NOTE 19: COMMITMENTS AND CONTINGENT LIABILITIES

Estimates of the potential financial effect of commitments and contingent liabilities that may become payable:

Annual Tenement Expenditure Commitments

NSW Department of Trade & Investment's two year minimum exploration expenditure commitments in relation to the four exploration licences are $404,000.

Initial Public Offering (IPO)

On successful listing of the Fifth Element Resources Limited on the Australian Securities Exchange (ASX) it is estimated there will be further IPO costs incurred in the range of $496,000 to $596,000, dependent on the final subscription level.

NOTE 20: CASH FLOW INFORMATION

	Consolidated Group 27Sep13 - 31Jan14 $
a. Reconciliation of cash flow from operations with profit (loss) after income tax	
Profit (loss) after income tax	(198,003)
Non-cash flows in profit (loss):	
– Depreciation	-
– impairment of intangible assets	-
Changes in assets and liabilities:	
– (increase)/decrease in trade/other receivables	(4,164)
– (increase)/decrease in other assets	(5,833)
– (increase)/decrease in deferred tax receivable	-
– increase/(decrease) in payables	111,777
– increase/(decrease) in income taxes payable	-
– increase/(decrease) in deferred taxes payable	-
Net cash provided by operating activities	(96,223)

b. **Non-cash financing and investing activities**

During the period there were no non-cash financing and investing activities

c. **Credit standby arrangement and loan facilities**

The Group has no credit standby arrangements or bank loan facilities.

NOTE 21: SEGMENT INFORMATION

At present the Group operates in the one business segment of Mining Exploration in NSW. Consequently, no segment reporting is provided in the Group's financial statements.

NOTE 22: EVENTS AFTER THE REPORTING PERIOD

Fifth Element Resources Limited is currently preparing to list on the Australian Securities Exchange (ASX). The company seeks to raise equity capital of up to 25,000,000 ordinary shares in the capital of Fifth Element Resources Limited to raise up to $5,000,000. The Minimum Subscription to this Offer is 17,500,000 ordinary shares to raise $3,500,000. The Offer pricing will be $0.20 per ordinary Fifth Element Resources Limited share.

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

NOTE 23: RELATED PARTY TRANSACTIONS

Related Parties

The Group's main related parties are as follows:

a. **Entities exercising control over the Group**

The current ultimate parent entity, which exercises control over the Group, is Diamond Peak Overseas Limited. This ultimate parent entity is owned by William Lo, a director and he is a part of the key management personnel.

b. **Key management personnel**

Other than the directors listed in the directors report there were no key management personnel that had authority and responsibility for planning, directing and controlling the activities of the Group.

For details of disclosures relating to key management personnel, refer to Note 6: Key Management Personnel Compensation.

c. **Entities subject to significant influence by the Group**

An entity which has the power to participate in the financial and operating policy decisions of an entity, but does not have control over those policies, is an entity which holds significant influence. Significant influence may be gained by share ownership, statute or agreement.

There are no entities over which the Group exercises significant influence.

d. **Joint venture entities that are accounted for under the equity method**

The Group has a no interests in any joint venture entities.

e. **Other related parties**

Other related parties include close family members of key management personnel and entities that are controlled or jointly controlled by those key management personnel, individually or collectively with their close family members.

EJ Resources Pty Limited is a private company that is jointly controlled by the Group's directors/key management personnel and is a related party of the Group.

f. **Transactions with related parties**

The following transactions occurred with related parties:

		Note	Consolidated Group 27Sep13 - 31Jan14 $
(i)	*Unsecured loans advanced*		
	Directors Loan	16	162,405
	Unsecured loans are advanced to the Group on an interest free basis with an undefined term.		
(ii)	*Transfer of exploration licences*		
	In January 2014 four exploration licences were transferred from EJ Resources Pty Limited to Fifth Element Exploration Pty Ltd (subsidiary). These exploration licences were transferred at cost.	12	111,875

NOTE 24: FINANCIAL RISK MANAGEMENT

The Group is exposed to various risks in relation to financial instruments including credit risk, liquidity risk and market risk (including interest rate risk). The Group's overall risk management program focuses on managing these risks and implementing and monitoring of controls around the cash management function. The Group's principal financial instruments consist of cash and cash equivalents.
The Group's management of treasure activities is centralised and governed by policies approved by the Board of Directors. The Board provides principles for overall risk management, as well as policies covering specific areas, such as identifying risk exposure, analysing and deciding upon strategies and performance management.
The totals for each category of financial instruments, as detailed in Note 1c), are as follows:

	Note	Consolidated Group 27Sep13 - 31Jan14 $
Financial assets		
Cash and cash equivalents	10	104,467
Other receivables	11	4,164
Total financial assets		108,631
Financial liabilities		
Trade and other payables	15	114,183
Borrowings	16	162,405
Total financial liabilities		276,588

The Group manages the financial risks as follows:

a. **Credit risk**

Exposure to credit risk relating to financial assets arises from the potential non-performance by counterparties of contract obligations that could lead to a financial loss to the Group.

At balance date, cash and deposits were held with Commonwealth Bank of Australia (CBA) and the other receivables represented GST refundable by the Australian Taxation Office (ATO). Both institutions have sound credit worthiness and represent negligible credit risk.

b. **Liquidity risk**

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Group manages this risk through the following mechanisms:

- receiving financial support from its ultimate parent company and executive director;
- preparing forward-looking cash flow analyses in relation to its operating, investing and financing activities;
- maintaining a reputable credit profile;
- raising further funds via equity funding;
- managing credit risk related to financial assets;
- only investing surplus cash with major financial institutions; and
- comparing the maturity profile of financial liabilities with the realisation profile of financial assets.

NOTE 24: FINANCIAL RISK MANAGEMENT (CONTINUED)

b. **Liquidity risk (continued)**

The financial assets and the trade and other payables detailed in the table above are considered to have a maturity within 1 year. However the borrowings outlined in the financial liabilities have an undefined term and Directors expect that these borrowings will not be repaid within 1 year.

The table below reflects an undiscounted contractual maturity analysis for non-derivative financial liabilities.

Financial liability and financial asset maturity analysis

	Consolidated Group			
	For the period 27Sep13 to 31Jan14			
	Within 1 Year	1 to 5 Years	Over 5 Years	Total
	$	$	$	$
Financial liabilities due for payment				
Bank overdrafts and loans	-	-	-	-
Trade and other payables	114,183	-	-	114,183
Amounts payable to related parties	-	162,405	-	162,405
Total contractual outflows	114,183	-	-	276,588
Less bank overdrafts	-	-	-	-
Total expected outflows	114,183	162,405	-	276,588
Financial assets – cash flows realisable				
Cash and cash equivalents	104,467	-	-	104,467
Trade and other receivables	4,164	-	-	4,164
Total anticipated inflows	108,631	-	-	108,631
Net (outflow)/inflow on financial instruments	(5,552)	(162,405)	-	(167,957)

Financial assets pledged as collateral

No financial assets have been pledged as collateral.

NOTE 24: FINANCIAL RISK MANAGEMENT (CONTINUED)

c. **Market risk**

(i) *Interest rate risk*

Exposure to interest rate risk arises on financial assets and financial liabilities recognised at the end of the reporting period whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments. The Group is also exposed to earnings volatility on floating rate instruments. The financial instruments that expose the Group to interest rate risk are limited to borrowings and cash and cash equivalents.

There is currently no interest receivable or payable on the Group's borrowings or cash and cash equivalents. Therefore interest rate risk is currently nominal.

(ii) *Other price risk*

The Group does not have any direct material market or commodity price risk relating to its financial assets or liabilities.

Sensitivity analysis

As the Group is not currently exposed to interest rate or foreign exchange rate fluctuations no sensitivity analysis has been prepared.

Fair Values

Fair value estimation

The fair values of financial assets and financial liabilities are presented in the following table and can be compared to their carrying amounts as presented in the statement of financial position. Fair value is the amount at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Fair value may be based on information that is estimated or subject to judgment, where changes in assumptions may have a material impact on the amounts estimated. Areas of judgment and the assumptions have been detailed below. Where possible, valuation information used to calculate fair value is extracted from the market, with more reliable information available from markets that are actively traded. In this regard, fair values for listed securities are obtained from quoted market bid prices. Where securities are unlisted and no market quotes are available, fair value is obtained using discounted cash flow analysis and other valuation techniques commonly used by market participants.

NOTE 24: FINANCIAL RISK MANAGEMENT (CONTINUED)

Fair Values

Differences between fair values and carrying amounts of financial instruments with fixed interest rates are due to the change in discount rates being applied by the market since their initial recognition by the Group. Most of these instruments, which are carried at amortised cost (ie trade receivables, loan liabilities), are to be held until maturity and therefore the fair value figures calculated bear little relevance to the Group.

		Consolidated Group 27Sep13 - 31Jan14	
	Note	Carrying Amount	Fair Value
		$	$
Financial assets			
Cash and cash equivalents	(i)	104,467	104,467
Trade and other receivables	(i)	4,164	4,164
Total financial assets		108,631	108,631
Financial liabilities			
Trade and other payables	(i)	114,183	114,183
Borrowings	(ii)	162,405	162,405
Total financial liabilities		276,588	276,588

The fair values disclosed in the above table have been determined based on the following methodologies:

(i) Cash and cash equivalents, trade and other receivables, and trade and other payables are short-term instruments in nature whose carrying amount is equivalent to fair value.

(ii) Borrowings represent an interest free loan, with an undefined term therefore the carrying amount is equivalent to fair value.

Financial Instruments Measured at Fair Value

There are no financial instruments held by the group as at period end.

NOTE 25: COMPANY DETAILS

The registered office of the company is:

C/-SRK Consulting,
Unit 1, 1 Balbu Close
BERESFIELD NSW 2322

The principal place of business is:

Unit 1, 1 Balbu Close
BERESFIELD NSW 2322

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of FIFTH ELEMENT RESOURCES LIMITED, the directors of the company declare that:

1. The financial statements and notes, as set out on pages 9 to 44 are in accordance with the *Corporations Act 2001* and:
   a. comply with Australian Accounting Standards, which, as stated in accounting policy Note 1 to the financial statements, constitutes compliance with International Financial Reporting Standards (IFRS); and
   b. give a true and fair view of the financial position as at 31 January 2014 and of the performance for the period ended on that date of the consolidated group.

2. In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

WILLIAM LO

Dated this 18th day of February, 2014

Bromley's
CHARTERED ACCOUNTANTS
A.B.N. 59 480 850 602

Suite 502,
71-73 Archer Street
Chatswood NSW 2067
Australia

P.O. Box 747
Chatswood 2057

Tel: (02) 9419 4566
Fax: (02) 9413 4165

Email:
admin@bromleys.com.au

FIFTH ELEMENT RESOURCES LIMITED

ABN: 92 166 025 047 AND CONTROLLED ENTITY

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FIFTH ELEMENT RESOURCES LIMITED

Report on the Financial Report

We have audited the accompanying financial report of FIFTH ELEMENT RESOURCES LIMITED, which comprises the consolidated statement of financial position as at 31 January 2014, the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the period then ended, notes comprising a summary of significant accounting policies and other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the period's end or from time to time during the period.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101: *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards (IFRS).

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

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

FIFTH ELEMENT RESOURCES LIMITED

ABN: 92 166 025 047 AND CONTROLLED ENTITY

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FIFTH ELEMENT RESOURCES LIMITED

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001.* We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of FIFTH ELEMENT RESOURCES LIMITED, would be in the same terms if provided to the directors as at the time of this auditor's report.

Auditor's Opinion

In our opinion:

a. the financial report of FIFTH ELEMENT RESOURCES 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 31 January 2014 and of its performance for the period ended on that date; and

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

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

Name of Firm:

K N Bromley & Co Chartered Accountants

Name of Partner: Kenneth N Bromley FCA

Address: Chatswood NSW 2067

Date this: 18th Day of February, 2014