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STRATEGIC
ELEMENTS

STRATEGIC ELEMENTS LIMITED

ABN 47 122 437 503

INTERIM FINANCIAL REPORT

FOR THE HALF-YEAR ENDED
31 DECEMBER 2019

STRATEGIC ELEMENTS LIMITED

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STRATEGIC ELEMENTS LIMITED

CORPORATE INFORMATION

Directors

Charles Murphy (Managing Director)
Matthew Howard (Executive Director)
Elliot Nicholls (Executive Director)

Company Secretary

Matthew Howard

Registered office

138 Churchill Avenue
Subiaco WA 6008
Australia

Principal place of business

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Subiaco WA 6008
Australia

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Website: www.strategicelements.com.au

Auditors

Nexia Perth Audit Services Pty Ltd
Level 3, 88 William Street
Perth WA 6000
Australia

Solicitors

HFW Australia
123 St Georges Terrace
Perth WA 6000
Australia

Share Registry

Security Transfer Registrars
770 Canning Highway
Applecross WA 6153
Australia

ASX code: SOR

STRATEGIC ELEMENTS LIMITED

DIRECTORS' REPORT

The directors of Strategic Elements Limited submit herewith the interim financial report of Strategic Elements Limited and its subsidiaries ("Consolidated entity" or "Group") (ASX code: SOR) for the half-year ended 31 December 2019. In order to comply with the provisions of the *Corporations Act 2001*, the directors report as follows:

The names of the directors of the Company during or since the end of the half-year are:

Mr. C. Murphy	Managing Director
Mr. M. Howard	Executive Director
Mr. E. Nicholls	Executive Director

Directors were in office for the entire period.

REVIEW OF OPERATIONS

(a) Overview

The Company remains registered under the Pooled Development Fund program. Benefits for shareholders are described on the Company's website.

(b) Operating result

The Group incurred an after-tax loss for the half-year ended 31 December 2019 of \$1,827,950 (2018: \$1,263,292). The loss was attributable to the funding of project developments conducted through the Group's subsidiaries and the costs associated with operating an ASX listed company in Australia.

(c) Corporate

On 31 December 2019 the Group had a cash balance of \$3,523,438.

During the period, shareholders approved the issue of Performance Rights (PRs). Details of the issue are contained in note 4.

EVENTS AFTER THE BALANCE DATE

Subsequent to the balance date no matter or circumstance has arisen which has significantly affected, or may significantly affect the operations of the Group, the result of those operations, or the state of affairs of the Group in subsequent financial years.

DIRECTORS' REPORT (continued)

REVIEW OF OPERATIONS (continued)

AUDITOR'S INDEPENDENCE DECLARATION

Section 307C of the *Corporations Act 2001* requires our auditors, Nexia Perth Audit Services Pty Ltd, to provide the Directors of the Company with an Independence Declaration in relation to the review of the interim financial report. This Independence Declaration is set out on page 5 and forms part of the directors' report for the half-year ended 31 December 2019.

This report is signed in accordance with a resolution of the Board of Directors made pursuant to section 306(3) of the *Corporations Act 2001*.

On behalf of the Directors



Charles Murphy
Managing Director
Perth, 25 February 2020

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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 review for the period ended 31 December 2019 there have been:

- (i) no contraventions of the auditors independence requirements as set out in the *Corporations Act 2001* in relation to the review; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the review.

**Nexia Perth Audit Services Pty Ltd****M. Janse Van Nieuwenhuizen
Director**

Perth
25 February 2020

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STRATEGIC ELEMENTS LIMITED

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

	Note	CONSOLIDATED	
		Half-year ended 31 Dec 2019 \$	Half-year ended 31 Dec 2018 \$
Revenue from continuing operations	2	194,001	544
Project development		(927,818)	(630,336)
Employee benefits	3	(645,772)	(405,346)
Depreciation		(4,590)	(5,046)
Marketing expense		(116,749)	(6,695)
Professional fees		(65,868)	(29,533)
Regulatory and compliance		(48,951)	(33,250)
Rent and outgoings		(24,582)	(35,940)
Share-based payment expense	4	(49,829)	(44,895)
Other expenses		(148,533)	(109,465)
Loss from operating activities		(1,838,691)	(1,299,962)
Financial income		15,660	37,235
Financial expenses		(1,084)	(298)
Foreign exchange differences		(3,835)	(267)
Net financing income		10,741	36,670
Loss before income tax expense		(1,827,950)	(1,263,292)
Income tax expense		-	-
Loss for the period		(1,827,950)	(1,263,292)
Total comprehensive loss for the period		(1,827,950)	(1,263,292)
Basic and diluted loss per share (cents per share)		(0.69) cents	(0.52) cents

The accompanying notes form part of these financial statements.

STRATEGIC ELEMENTS LIMITED

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

	Note	CONSOLIDATED	
		31 Dec 2019	30 Jun 2019
		\$	\$
Current assets			
Cash and cash equivalents		3,523,438	2,390,475
Trade and other receivables		152,427	41,960
Other assets		29,003	23,120
Total current assets		3,704,868	2,455,555
Non-current assets			
Plant and equipment		27,329	31,918
Total non-current assets		27,329	31,918
Total assets		3,732,197	2,487,473
Current liabilities			
Trade and other payables		819,119	162,538
Provisions		54,220	21,676
Total current liabilities		873,339	184,214
Total liabilities		873,339	184,214
Net assets		2,858,858	2,303,259
Equity			
Issued capital	5	15,970,451	13,636,731
Share-based payment reserve	4	49,829	-
Accumulated losses		(13,161,422)	(11,333,472)
Total equity		2,858,858	2,303,259

The accompanying notes form part of these financial statements.

STRATEGIC ELEMENTS LIMITED

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

	CONSOLIDATED	
	Half-year ended 31 Dec 2019 \$	Half-year ended 31 Dec 2018 \$
Cash flows from operating activities		
Income received	194,001	544
Interest received	15,660	37,235
Interest paid	(1,084)	(298)
Project development expenditure	(271,186)	(610,159)
Payments to suppliers and employees	(1,134,313)	(687,171)
Net cash used in operating activities	(1,196,922)	(1,259,849)
Cash flows from financing activities		
Proceeds from the issue of shares	2,348,000	-
Issue costs	(14,280)	-
Net cash from financing activities	2,333,720	-
Net Increase/(decrease) in cash and cash equivalents	1,136,798	(1,259,849)
Cash and cash equivalents at the beginning of the period	2,390,475	4,280,715
Effect of exchange rates on cash balances	(3,835)	(269)
Cash and cash equivalents at the end of the period	3,523,438	3,020,597

The accompanying notes form part of these financial statements.

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STRATEGIC ELEMENTS LIMITED

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

	Issued Capital	Share-based payment Reserve	Accumulated Losses	Total Equity
	\$	\$	\$	\$
Balance at 1 July 2018	12,999,231	615,441	(9,375,935)	4,238,737
<i>Total comprehensive loss for the period</i>				
Loss for the period	-	-	(1,263,292)	(1,263,292)
Total comprehensive loss for the period	-	-	(1,263,292)	(1,263,292)
Share-based payment	-	44,895	-	44,895
Transfer to accumulated losses from share-based payment reserve on expiry of performance rights	-	(22,836)	22,836	-
Transfer to issued capital on conversion of performance rights	637,500	(637,500)	-	-
Balance at 31 December 2018	13,636,731	-	(10,616,391)	3,020,340
Balance at 1 July 2019	13,636,731	-	(11,333,472)	2,303,259
<i>Total comprehensive loss for the period</i>				
Loss for the period	-	-	(1,827,950)	(1,827,950)
Total comprehensive loss for the period	-	-	(1,827,950)	(1,827,950)
Share-based payment	-	49,829	-	49,829
Issue of shares for cash	2,348,000	-	-	2,348,000
Share issue costs	(14,280)	-	-	(14,280)
Balance at 31 December 2019	15,970,451	49,829	(13,161,422)	2,858,858

The accompanying notes form part of these financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Significant accounting policies

Statement of compliance

The interim financial report is a general purpose financial report prepared in accordance with the requirements of the *Corporations Act 2001*, AASB 134 'Interim Financial Reporting' and other pronouncements of the Australian Accounting Standards Board ("AASB"). Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

The condensed consolidated interim financial report does not include full disclosure of the type normally included in an annual financial report, and accordingly this report should be read in conjunction with the most recent annual financial report and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001* and the ASX listing rules.

Basis of preparation

The condensed consolidated financial statements have been prepared on the basis of historical cost. Cost is based on the fair values of the consideration given in exchange for assets. The Consolidated entity, comprising Strategic Elements Limited, Strategic Materials Pty Ltd, Australian Advanced Materials Pty Ltd, Maria Resources Pty Ltd and Stealth Technology Ltd is domiciled in Australia and all amounts are presented in Australian dollars, unless otherwise indicated.

The accounting policies and methods of computation adopted in the preparation of the interim financial report are consistent with those adopted and disclosed in the Company's financial report for the financial year ended 30 June 2019, except for the adoption of new accounting standards as set out below.

For the purpose of preparing the report, the half-year has been treated as a discrete reporting period.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) (referred to as the Consolidated entity in these financial statements). Control is achieved 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 accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Consolidated entity.

In preparing the consolidated financial statements, all inter-company balances and transactions, income and expenses, profit and losses resulting from intra-group transactions have been eliminated in full.

New Standards and Interpretations applicable for the half year ended 31 December 2019

For the period ended 31 December 2019, the Directors have reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to the Group and effective for the current reporting period. Those which have a material impact on the Group are set out below.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Significant accounting policies

AASB 16 Leases

AASB 16 replaces AASB 117 Leases and sets out the principles for the recognition, measurement, presentation and disclosure of leases.

AASB 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligations to make lease payments.

A lessee measures right-of-use assets similarly to other financial assets (such as property, plant and equipment) and lease liabilities similar to other financial liabilities. As a consequence, a lessee recognises depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and presents them in the statement of cash flows applying *AASB 107 Statement of Cash Flows*.

AASB 16 substantially carries forward the lessor accounting requirements in *AASB 117 Leases*. Accordingly, a lessor continues to classify its leases as operating leases or finance leases.

The consolidated entity only has short term leases which, under the standard, can continue to be recognised on a straight line/systematic basis over the lease term.

New Standards and Interpretations on issue not yet adopted

The Directors have also reviewed all of the new and revised Standards and Interpretations in issue not yet adopted for the period ended 31 December 2019. As a result of this review the Directors have determined that there is no material impact of the Standards and Interpretations in issue not yet adopted on the Group and, therefore, no change is necessary to Group accounting policies.

Significant Accounting Judgements and Key Estimates

The preparation of this interim financial report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expense. Actual results may differ from these estimates.

In preparing this interim financial report the significant judgements made by management in applying the Consolidated entity's accounting policies and key sources of estimation uncertainty were the same as those that applied to the financial report for the year ended 30 June 2019.

STRATEGIC ELEMENTS LIMITED

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. Revenue from continuing operations

	1 July 2019 to 31 December 2019	1 July 2018 to 31 December 2018
	\$	\$
Revenue		
Project revenue	41,500	-
Total for the period	41,500	-
Other income		
Sale of tenement	150,000	-
Refunds	2,501	544
Total for the period	152,501	544
	194,001	544

3. Employee benefits

	1 July 2019 to 31 December 2019	1 July 2018 to 31 December 2018
	\$	\$
Directors' fees	374,900	359,900
Other employee salaries	270,872	45,446
Total for the period	645,772	405,346

4. Share-based payments

Performance rights

On 27 September 2019 shareholders approved the issue of 8,500,000 Performance Rights ("PRs"), with a fair value of \$284,414, to Directors of the Company.

The total expense recognised in the period for share-based payments is \$49,829 (2018: \$44,895).

Details of the PRs issued during the period are set out below:

	Tranche No.1	Tranche No.2	Tranche No.3
Number of performance rights (PRs)	1,500,000	1,500,000	5,500,000
Vesting period (months)	12	24	24
Performance period starts	27 Sep 19	27 Sep 19	27 Sep 19
Performance period ends	27 Sep 21	27 Sep 21	27 Sep 21
Barrier price (cents)	n/a	n/a	11.99
Value per right (cents)	6.30	6.30	1.73
Total value (dollars)	94,500	94,500	95,414

STRATEGIC ELEMENTS LIMITED

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. Share-based payments (continued)

The PRs were issued to Directors as follows:

Director	Tranche No.1	Tranche No.2	Tranche No.3
Charles Murphy	750,000	750,000	2,000,000
Matthew Howard	750,000	750,000	2,000,000
Elliot Nichol	-	-	1,500,000

Vesting conditions

Tranches 1 and 2 are dependent on the Directors remaining in continuous employment with the Company.

Tranche 3 is dependent on the Company achieving a market capitalisation of \$30 million during the performance period.

The inputs to the PRs valuation were:

	Series No.1	Series No.2	Series No.3
Dividend yield (%)	n/a	n/a	n/a
Expected volatility (%)	n/a	n/a	82.91
Risk-free interest rate (%)	n/a	n/a	0.73
Expected life of rights (years)	1.0	2.0	2.0
Grant date share price (cents)	6.30	6.30	6.30

The value of the options was calculated using the Cox, Ross and Rubinstein binomial tree method.

The expected life of the options is based on time to expiry and is not necessarily indicative of exercise patterns that may occur. No other features of options granted were incorporated into the measurement of fair value.

	6 months to 31 December 2019 Number	12 months to 30 June 2019 Number
<i>Movements in performance rights on issue</i>		
At beginning of period	-	10,500,000
Issued during the period	8,500,000	-
Converted during the period	-	(4,500,000)
Expired during the period	-	(6,000,000)
Balance at end of period	8,500,000	-

STRATEGIC ELEMENTS LIMITED

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

5. Issued capital

	31 December 2019	30 June 2019
	\$	\$
<i>Issued and paid up capital</i>		
Fully paid ordinary shares	15,970,451	13,636,731

	6 months to 31 December 2019	12 months to 30 June 2019
	\$	\$
<i>Movements in fully paid shares on issue</i>		
At beginning of period	13,636,731	12,999,231
Shares issued on the conversion of options	-	637,500
Shares issued for cash	2,333,720	-
Balance at end of period	15,970,451	13,636,731

	6 months to 31 December 2019	12 months to 30 June 2019
	Number	Number
<i>Movements in fully paid shares on issue</i>		
At beginning of period	247,246,454	242,746,454
Shares issued on the conversion of options	-	4,500,000
Shares issued for cash	39,133,437	-
Balance at end of period	286,379,891	247,246,454

6. Commitments and Contingencies

	31 December 2019	30 June 2019
	\$	\$
Commitments		
Office lease expenditure commitments		
Not later than 1 year	3,554	1,194
Later than 1 year but not later than 5 years	-	-
	3,554	1,194
Exploration expenditure commitments		
Minimum exploration expenditure:		
Not later than 1 year	361,000	564,101
Later than 1 year but not later than 5 years	2,739,000	3,979,140
	3,100,000	4,543,241

Capital commitment includes minimum expenditures and rent payable under granted tenements. The Company also has the discretion to surrender one or more of these tenements and thereby avoid payment of these commitments.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

6. Commitments and Contingencies (continued)

In the opinion of the directors there were no contingent liabilities at the date of this report apart from the below agreement.

Land Access and Mineral Exploration Agreement

Under the terms of the Land Access and Mineral Exploration Agreement entered into by the Company in October 2018, the entity has an obligation to make certain payments in relation to the annual expenditure and rent in respect of that licence. The majority of the payments are subject to the commencement of exploration activities, which cannot be reliably measured at this time.

7. Segment Information

The following table presents the segment information provided to the Board of Directors for the half-year periods ended 31 December 2018 and 31 December 2019:

	Resources	Technology	Unallocated Corporate	Total
	\$	\$	\$	\$
31 December 2018				
Segment revenue	-	-	544	544
Segment result	(632,370)	(49,224)	(581,698)	(1,263,292)
Included within segment results:				
Depreciation	-	(1,701)	(3,345)	(5,046)
Financial income	66	45	37,124	37,235
Financial expense	-	-	(298)	(298)
Segment assets	235,059	98,182	2,826,126	3,159,367
Segment liabilities	63,475	15,367	60,185	139,027
31 December 2019				
Segment revenue	152,501	41,500	-	194,001
Segment result	(508,464)	(578,304)	(741,182)	(1,827,950)
Included within segment results:				
Depreciation	-	(1,701)	(2,889)	(4,590)
Financial income	36	-	15,624	15,660
Financial expense	-	-	(1,084)	(1,084)
Segment assets	216,348	120,503	3,395,346	3,732,197
Segment liabilities	505,393	261,466	106,480	873,339

8. Events after the balance sheet date

Subsequent to the balance date no matter or circumstance has arisen which has significantly affected, or may significantly affect the operations of the Group, the result of those operations, or the state of affairs of the Group in subsequent financial years.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

9. Related Parties

Key management personnel continue to receive compensation in the form of short term employee benefits and post-employment benefits.

10. Subsidiaries

The Company has a 100% interest in Strategic Materials Pty Ltd (incorporated 18 November 2009), Maria Resources Pty Ltd (incorporated 8 April 2011), Australian Advanced Materials Pty Ltd (incorporated 27 July 2010) and Stealth Technologies Ltd (incorporated 4 November 2015). All subsidiaries were incorporated in Australia for \$1 each.

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STRATEGIC ELEMENTS LIMITED

DIRECTORS' DECLARATION

In the opinion of the Directors of the Company:

1. The attached financial statements and notes thereto are in accordance with the *Corporations Act 2001* including:
 - (a) complying with Accounting Standard AASB 134 "Interim Financial Reporting" and the *Corporations Regulations 2001*; and
 - (b) giving a true and fair view of the Consolidated entity's financial position as at 31 December 2019 and of its performance for the half-year then ended.
2. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors made pursuant to s.303(5) of the *Corporations Act 2001*.

On behalf of the Directors



Charles Murphy
Managing Director
Perth, 25 February 2020

Independent Auditor's Review Report to the members of Strategic Elements Limited

Report on the Interim Financial Report

Conclusion

We have reviewed the accompanying interim financial report of Strategic Elements Limited and its controlled entities (the "Group"), which comprises the condensed consolidated statement of financial position as at 31 December 2019, the condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the period ended on that date, notes comprising a summary of accounting policies, selected other explanatory notes and the directors' declaration of the Group comprising the Company and the entities it controlled at the half-year end or from time to time during the interim period.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Strategic Elements Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the Group's financial position as at 31 December 2019 and of its performance for the half-year period ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Directors' Responsibility for the Interim Financial Report

The directors of the Company are responsible for the preparation of the interim financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such controls as the directors determine are necessary to enable the preparation of the interim financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2019 and its performance for the period ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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A review of an interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Group, would be in the same terms if given to the directors as at the time of this auditor's review report.



Nexia Perth Audit Services Pty Ltd



M. Janse Van Nieuwenhuizen
Director

Perth
25 February 2020