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STRATEGIC ELEMENTS

STRATEGIC ELEMENTS LIMITED

(ABN 47 122 437 503)

Annual Report

30 June 2019

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CORPORATE INFORMATION

Strategic Elements Limited ABN 47 122 437 503	**Solicitors** HFW Level 15, Brookfield Place – Tower 2 123 St George's Terrace Perth WA 6000
Directors Charles Murphy Matthew Howard Elliot Nicholls	**Auditors** Nexia Perth Audit Services Pty Ltd Level 3, 88 William Street Perth WA 6000
Company Secretary Matthew Howard	**Securities Exchange Listing** ASX Limited ASX Code: SOR
Registered office 138 Churchill Avenue Subiaco WA 6008 Tel: +61 8 9278 2788 Fax: +61 8 9288 4400 Web: www.strategicelements.com.au	**Share Register** Security Transfer Registrars 770 Canning Highway Applecross WA 6153 Tel: +61 8 9315 2333 Fax: +61 8 9315 2233 www.securitytransfer.com.au

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DIRECTORS' REPORT

Your directors submit the annual financial report of the consolidated entity comprising Strategic Elements Limited and the entities it controlled during the financial year ended 30 June 2019. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

Directors

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

Names, qualifications and experience:

Charles Murphy – Managing Director & Acting Chairman

Mr Murphy was appointed to the board in October 2006. Mr Murphy is acting Chairman effective from 1 September 2015.

Mr Murphy led the Company's registration as a Pooled Development Fund. Mr Murphy has experience as a corporate advisor to resources and technology companies providing advice on transaction structuring, strategy and business development. Mr Murphy is a qualified responsible Fund Manager and has a Masters Degree in Business Administration (MBA).

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

Matthew Howard – Executive

Director and Company Secretary

Mr Howard was appointed to the board in December 2008.

Mr Howard has consulted to some of the largest financial institutions including Goldman Sachs, JB Were, Macquarie Bank, ANZ Bank and National Australia Bank. He has helped close numerous large technology transactions with some of the largest US technology companies including Oracle, Sybase and BEA Systems. Mr Howard has a combined Business and Information Technology Bachelor Degree, a Masters Degree in Applied Finance and a postgraduate qualification in Corporate Governance.

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

Elliot Nicholls – Executive Director

Mr Nicholls was appointed to the board in January 2009.

Mr Nicholls has worked in corporate advisory focusing on financial analysis and business model development. Mr Nicholls has a Bachelor of Electronic Engineering with First Class Honours and a Bachelor of Commerce (Finance) from The University of Western Australia.

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

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

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

Director	Number of fully paid ordinary shares	Performance Rights	Number of options over ordinary shares
C Murphy	19,692,969	-	-
M Howard	7,805,192	-	-
E Nicholls	9,350,000	-	-

There are no unissued ordinary shares under options issued to employees/consultants of the Company as at the date of this report.

Dividends

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

Principal activities

The Company is a registered Pooled Development Fund (PDF).

Review of operations

The Company is registered as a Pooled Development Fund (PDF) under the Australian Government's Pooled Development Fund Act 1992 ("PDF Act"). The Company invests in small to medium sized Australian companies to assist in the development or expansion of the investee company.

The Company maintains a business of making and holding investments under the PDF Act and has continued to invest in and develop its wholly owned investees. The Company takes a venture builder approach to managing development within investee companies and has to date focused on the technology and resources sector. During the year the Company's investee businesses included:

Investee	Principle Activity	Sector	Owned
Stealth Technologies Pty Ltd	Robotics and AI development	Technology	100%
Australian Advanced Material Pty Ltd	Nanocube Memory Ink development	Technology	100%
Maria Resources Pty Ltd	Frontier mineral exploration	Resources	100%
Strategic Materials Pty Ltd	Brownfield mineral exploration	Resources	100%

Stealth Technologies

The Company recently announced the launch of Artificial Intelligence (AI) and robotics company, Stealth Technologies. During the year, the Company has built an experienced in-house team of international award-winning PhD and Masters qualified research engineers with deep capabilities in AI, machine learning, automation, computer vision and robotics (hardware and software).

The Company has intentionally shaped the Stealth group as a multi-disciplinary team with the capability of delivering complex intelligent solutions by utilising both hardware and software. Stealth Technologies' point of difference is:

1. Custom built automated robotic machines;

2. Integrated computer vision capabilities enabling a computer to see (through cameras and sensors); and

3. Creation of custom AI models through machine learning and software development.

The Company seeks to utilise its capability and differentiated offering in the market to grow revenue and intellectual property within Stealth Technologies over the coming financial year.

Australian Advanced Materials

Australian Advanced Materials is developing an advanced printable memory ink for enabling storage onto plastic and glass for use in structural electronics. The Nanocube Memory Ink has evolved in conjunction with UNSW, CSIRO and VTT. During the period, the Company has overcome key technical challenges and filed further patent protection of new intellectual property.

The Company has maintained an active involvement with Australian Advanced Materials by securing Government grants and rebates to fund research and development of the Nanocube Memory Ink. This approach has significantly reduced development expenditure during the period.

This year, the Company will continue developing a transparent electronics demonstrator in conjunction with a leading Australian electronics product design company. The demonstrator is focused on showcasing the ability to print memory cells onto glass and the transparent nature of the ink.

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Review of operations (continued)

Maria Resources

Maria Resources has been progressing the projects within the Officer Basin (Lennis and Behemoth). The Company recently announced the discovery of multiple, large anomalous zones of chargeable material potentially reflecting zones of sulphides within an unexplained, multi-ringed magnetic ring feature buried in the Gibson Desert. Technical experts are divided on whether the large multi-ringed magnetic feature at the Behemoth Project is caused by the impact of a meteorite from above or an intrusion of magma from below and/or associated mineral system.

Irrespective of the model, the chargeable material detected by a recent IP geophysical survey indicates large potential zones of disseminated sulphides with potential for base, precious and/or rare metal mineralization.

Maria Resources has secured the competitive Exploration Incentive Scheme (EIS) funding grant which will be applied towards drilling the recently identified IP survey anomalies discovered at the Behemoth Project. The drilling program, currently being planned, will test three targets identified by gravity and IP surveys. Additional tenements were also lodged during the period as a direct result of Behemoth activities.

Strategic Materials

Strategic Materials is working through issues surrounding access to Golden Blocks. The Company is working to resolve matters with central government agencies and local stakeholders. Golden Blocks is a promising project and the Company intends to pursue all options to continue exploration activities in the future.

Corporate

During the year 1,500,000 Performance Rights fully vested and a further 6,000,000 Performance Rights expired. Also, during the year the Company issued 4,500,000 shares on conversion of Performance Rights which fully vested during the year and a previous financial year. The shares were issued under the Strategic Elements Performance Rights Plan to two executive directors.

The total expense recognised in the year for share-based payments is $44,894 (2018: $166,138).

Operating result for the year

The consolidated entity's loss for the year ended 30 June 2019 was $1,980,372 (year ended 30 June 2018: $1,024,404).

Review of financial condition

At 30 June 2019, the consolidated entity had $2,390,475 in cash and term deposit balances (30 June 2018: $4,280,715).

Significant changes in the state of affairs

In the opinion of the directors there were no significant changes in the state of affairs of the consolidated entity that occurred during the year.

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Significant events after balance date

Subsequent to the balance date the Company announced it had secured funding of $150,000 from the West Australian government Exploration Incentive Scheme. The funds will be directed towards drilling at the Behemoth project in the Gibson Desert.

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

Likely developments and expected results

Disclosure of information regarding likely developments in the operations of the consolidated entity in future financial years and the expected results of those operations has been made in the Review of Operations above.

Environmental legislation

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

Indemnification and insurance of Directors and Officers

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

Dividends

No dividends have been paid or declared during or subsequent to the financial year end.

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REMUNERATION REPORT (Audited)

This report outlines the remuneration arrangements in place for the key management personnel ("KMP") of Strategic Elements Limited (the "Company") for the financial year ended 30 June 2019. The information provided in this remuneration report has been audited as required by Section 308 (3C) of the Corporations Act 2001.

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

Key Management Personnel

Charles Murphy (Managing Director & Acting Chairman)

Matthew Howard (Executive Director)

Elliot Nicholls (Executive Director)

Remuneration philosophy

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

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

Remuneration Committee

The Board as a whole is responsible for the remuneration arrangements for Directors and executives of the Company and considers it more appropriate to set aside time at Board meetings each year to specifically address matters that would ordinarily fall to a remuneration committee.

Remuneration structure

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

DIRECTORS REPORT (continued)

REMUNERATION REPORT (Audited) (continued)

Non-executive director remuneration

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

The ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. The maximum aggregate payable to non-executive directors approved by shareholders is $100,000 per annum.

Director and executive remuneration

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

Fixed remuneration

Fixed remuneration is reviewed annually by the Board. The process consists of a review of relevant comparative remuneration in the market and internally and, where appropriate, external advice on policies and practices. The Board has access to external, independent advice where necessary. No advice has been obtained during the year.

Directors and executives are given the opportunity to receive their fixed (primary) remuneration in a variety of forms including cash and fringe benefits such as motor vehicles and expense payment plans. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Company. The fixed remuneration component of the most highly remunerated Company directors and executives is detailed in Table 1 in this report.

Variable remuneration

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

Actual payments may be granted to each executive dependent on the extent to which specific operating targets set at the beginning of the financial year are met.

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

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DIRECTORS REPORT (continued)

REMUNERATION REPORT (Audited) (continued)

Employee Share Option Plan

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

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

Executive Service Agreements

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

- Mr Charles Murphy (Managing Director & Acting Chairman)
  - Under the agreement the Company will pay up to a maximum of $265,000 per annum (exclusive of GST) in return for executive services and will provide reimbursement for all reasonable travel, accommodation and general expenses.
  - Termination by the Company is no less than a 3 month notice period by either party or by paying the aggregate of amounts which, but for such termination, would otherwise have been paid. In addition to this a 3 month termination payment will be paid.
- Mr Matthew Howard (Director)
  - Under the agreement the Company will pay up to a maximum of $195,000 per annum (exclusive of GST) in return for executive services and will provide reimbursement for all reasonable travel, accommodation and general expenses.
  - Termination by the Company is no less than a 3 month notice period by either party or by paying the aggregate of amounts which, but for such termination, would otherwise have been paid. In addition to this a 3 month termination payment will be paid.
- Mr Elliot Nicholls (Director)
  - Under the agreement the Company will pay up to a maximum of $180,000 per annum (exclusive of GST), in return for executive services and will provide reimbursement for all reasonable travel, accommodation and general expenses.
  - Termination by the Company is no less than a 3 month notice period by either party or by paying the aggregate of amounts which, but for such termination, would otherwise have been paid.

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DIRECTORS REPORT (continued)

REMUNERATION REPORT (Audited) (continued)

Table 1: Remuneration of key management personnel (KMP) for the year ended 30 June 2019 and the year ended 30 June 2018:

		Short-term employee benefits		Post-employment benefits	Equity		Total	Performance Related %
		Fixed Salary & fees	Variable remuneration	Superannuation	Performance Rights Shares	Options		
Executive directors								
Charles Murphy	2019	265,000	25,000	-	22,447	-	312,447	7.18
	2018	265,000	-	-	83,069	-	348,069	23.87
Matthew Howard	2019	195,000	25,000	-	22,447	-	242,447	9.26
	2018	195,000	-	-	83,069	-	278,069	29.87
Elliot Nicholls	2019	149,800	5,000	-	-	-	154,800	-
	2018	150,745	-	-	-	-	150,745	-
Total executive directors	2019	**609,800**	**55,000**	**-**	**44,894**	**-**	**709,694**	**6.33**
	2018	**610,745**	**-**	**-**	**166,138**	**-**	**776,883**	**21.39**

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DIRECTORS REPORT (continued)

REMUNERATION REPORT (Audited) (continued)

Share-based payments

Performance Rights

There were no Performance Rights issued during the year.

On 10 October 2018 1,500,000 Performance Rights ("PRs"), with a fair value of $127,500 vested. Service conditions were part of the performance requirements of the rights. These rights and 3,000,000 Performance Rights, which vested in the previous financial year with a fair value of $510,000, were converted to shares under the terms of the Strategic Elements Performance Rights Plan.

6,000,000 Performance Rights expired on the same date resulting in a credit adjustment of $22,835.

The total expense recognised in the year for share-based payments is $44,894 (2018: $166,138).

No Performance Rights existed at the end of the year.

---END OF REMUNERATION REPORT--

Directors' meetings

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

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

Director	Board Meetings	
	Number of meetings eligible to attend	Number of meetings attended
Charles Murphy	4	4
Matthew Howard	4	4
Elliot Nicholls	4	4

Auditor Independence and Non-Audit Services

Section 307C of the Corporations Act 2001 requires our auditors, Nexia Perth Audit Services Pty Ltd (Nexia Perth), to provide the directors of the Company with an Independence Declaration in relation to the audit of the financial report. This Independence Declaration is set out on page 14 and forms part of this directors' report for the year ended 30 June 2019.

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DIRECTORS' REPORT (continued)

Modification of Auditor Rotation Requirements

On 29 May 2017, the Board of directors granted an approval for the extension of the Group's audit partner for up to a further 2 years when the initial period of 5 years as permitted under Corporations Act 2001 expired in June 2017. The Board's decision was based on the following reasons:

• the Board was satisfied with the skills and personal qualities of the audit partner and the audit team and is of the view that they display a good understanding of the Company and strong technical accounting competence;

• the Board was satisfied that Nexia Perth Audit Services conducts an effective audit with focus on the appropriate areas of risk; and

• the Board was satisfied that the approval of an extension of up to 2 years does not give rise to a conflict of interest situation.

The audit partner's final Audit Report under the extension is for the 30 June 2019 Annual Report.

Non-Audit Services

The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are of the opinion that the services do not compromise the auditor's independence as all non-audit services have been reviewed to ensure that they do not impact the integrity and objectivity of the auditor and none of the services undermine the general principles relating to auditor independence as set out in Code of Conduct APES110 Code of Ethics for Professional Accountants issued by the Accounting Professional & Ethical Standards Board.

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

Audit of Australian Financial Services Licence (AFSL) - $3,500 (2018: $2,750)
Other non-assurance services $nil (2018: $nil)

Signed in accordance with a resolution of the directors.

Charles Murphy
Managing Director
Perth WA,14th August 2019

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Nexia Australia

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

To the directors of Strategic Elements Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2019 there have been:

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

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

Nexia Perth Audit Services Pty Ltd

PTC Klopper
Director

Perth
14 August 2019

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2019

		CONSOLIDATED	
		2019	**2018**
	Notes	**$**	**$**
Contract revenue	1(f)	51,250	-
Other income	2(a)	406,505	1,041,933
		457,755	1,041,933
Depreciation	2(b)	(7,911)	(12,859)
Insurances		(29,622)	(25,447)
Professional fees		(101,608)	(295,055)
Project development expenditure		(943,832)	(645,908)
Regulatory & compliance		(55,091)	(50,016)
Remuneration	22(b)	(664,800)	(610,745)
Other employees' costs		(363,780)	(101,650)
Rent & outgoings		(57,546)	(48,628)
Share-based payments	9	(44,894)	(166,138)
Other expenses		(222,205)	(186,379)
		(2,033,534)	**(1,100,892)**
Foreign exchange losses		(1,896)	(1,162)
Interest received	2(a)	57,292	79,645
Interest expense	2(a)	(2,234)	(1,995)
		53,162	76,488
Loss before income tax		**(1,980,372)**	**(1,024,404)**
Income tax expense	3	-	-
Loss for the year		**(1,980,372)**	**(1,024,404)**
Other comprehensive income			
Items that will never be reclassified to profit or loss		-	-
Items that are or may be reclassified to profit or loss		-	-
Total other comprehensive income		-	-
Total comprehensive loss		**(1,980,372)**	**(1,024,404)**
Basic and diluted loss per share (cents per share)	4	(0.81)	(0.42)

The accompanying notes form part of these financial statements.

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2019

		CONSOLIDATED	
		2019	**2018**
	Notes	**$**	**$**
Assets			
Current assets			
Cash and cash equivalents	5	2,390,475	4,280,715
Trade and other receivables	6	41,960	47,712
Other current assets	7	23,120	30,312
Total current assets		**2,455,555**	**4,358,739**
Non-current assets			
Property, plant and equipment	8	31,918	39,537
Total non-current assets		**31,918**	**39,537**
Total assets		**2,487,473**	**4,398,276**
Liabilities			
Current liabilities			
Trade and other payables	10	162,538	159,539
Provisions	11	21,676	-
Total current liabilities		**184,214**	**159,539**
Total liabilities		**184,214**	**159,539**
Net assets		**2,303,259**	**4,238,737**
Equity			
Issued capital	13	13,636,731	12,999,231
Share-based payments reserve	14	-	615,441
Accumulated losses	15	(11,333,472)	(9,375,935)
Total equity		**2,303,259**	**4,238,737**

The accompanying notes form part of these financial statements.

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2019

	Issued capital	Accumulated losses	Share-based payments reserve	Total
	$	$	$	$
Consolidated				
Balance at 1 July 2017	12,999,231	(8,769,549)	867,321	5,097,003
Loss for the year	-	(1,024,404)	-	(1,024,404)
Total comprehensive loss for the year	-	(1,024,404)	-	(1,024,404)
Expiry of options	-	146,877	(146,877)	-
Expiry of PRs	-	271,141	(271,141)	-
Share-based payments	-	-	166,138	166,138
Balance at 30 June 2018	**12,999,231**	**(9,375,935)**	**615,441**	**4,238,737**
Balance at 1 July 2018	12,999,231	(9,375,935)	615,441	4,238,737
Loss for the year	-	(1,980,372)	-	(1,980,372)
Total comprehensive loss for the year	-	(1,980,372)	-	(1,980,372)
Conversion of PRs	637,500	-	(637,500)	-
Expiry of PRs	-	22,835	(22,835)	-
Share-based payments	-	-	44,894	44,894
Balance at 30 June 2019	**13,636,731**	**(11,333,472)**	**-**	**2,303,259**

The accompanying notes form part of these financial statements.

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CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2019

		CONSOLIDATED	
		2019	**2018**
	Notes	**$**	**$**
Cash flows from operating activities			
Receipts from customers		62,298	54,559
Receipts from R&D tax incentive		395,457	987,374
Payments to suppliers		(413,010)	(599,403)
Payments to directors & employees		(1,016,097)	(712,395)
Payments for project development		(970,123)	(621,569)
Interest received		57,292	79,645
Interest paid		(2,234)	(1,618)
Net cash used in operating activities	5	(1,886,417)	(813,407)
Cash flows from investing activities			
Payments for property, plant and equipment		(1,927)	-
Net cash used in investing activities		(1,927)	-
Net decrease in cash and cash equivalents		(1,888,344)	(813,407)
Cash and cash equivalents at beginning of the year		4,280,715	5,095,287
Effects of exchange rate changes on cash and cash equivalents		(1,896)	(1,165)
Cash and cash equivalents at end of the year	5	**2,390,475**	**4,280,715**

The accompanying notes form part of these financial statements.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of compliance and preparation

The Company is a listed Pooled Development Fund (PDF), incorporated in Australia and operating in Australia and New Zealand. The Company's principal activity is a Pooled Development Fund.

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

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

The accounting policies detailed below have been consistently applied to all of the years presented. The consolidated financial statements of the Company as at and for the year ended 30 June 2019 comprise the Company and its subsidiaries (together referred to as the "Group" or the "consolidated entity" and individually as "Group entities"). The financial report was authorised for issue on 14th August 2019.

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

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

b. Application of new and revised International Financial Reporting Standards (AASBs)

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the current year.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The following Accounting Standards and Interpretations are most relevant to the Group:

AASB 9 Financial Instruments

The Group has adopted AASB 9 from 1 July 2018. The standard introduced new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows which arise on specified dates and that are solely principal and interest. A debt investment shall be measured at fair value through other comprehensive income if it is held within a business model whose objective is to both hold assets in order to collect contractual cash flows which arise on specified dates that are solely principal and interest as well as selling the asset on the basis of its fair value. All other financial assets are classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading or contingent consideration recognised in a business combination) in other comprehensive income ('OCI'). Despite these requirements, a financial asset may be irrevocably designated as measured at fair value through profit or loss to reduce the effect of, or eliminate, an accounting mismatch. For financial liabilities designated at fair value through profit or loss, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b. Application of new and revised International Financial Reporting Standards (AASBs) cont'd

AASB 9 Financial Instruments cont'd

New impairment requirements use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment is measured using a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. For receivables, a simplified approach to measuring expected credit losses using a lifetime expected loss allowance is available.

AASB 15 Revenue from Contracts with Customers

The Group has adopted AASB 15 from 1 July 2018. The standard provides a single comprehensive model for revenue recognition. The core principle of the standard is that an entity shall recognise revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard introduced a new contract-based revenue recognition model with a measurement approach that is based on an allocation of the transaction price. This is described further in the accounting policies below. Credit risk is presented separately as an expense rather than adjusted against revenue. Contracts with customers are presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Customer acquisition costs and costs to fulfil a contract can, subject to certain criteria, be capitalised as an asset and amortised over the contract period.

Impact of adoption

AASB 9 and AASB 15 were adopted using the modified retrospective approach and as such comparatives have not been restated. There was no impact of adoption on opening retained profits as at 1 July 2018.

c. New Accounting Standards and Interpretations not yet mandatory or early adopted

AASB 16 Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured at the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under AASB 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component. For lessor accounting, the standard does not substantially change how a lessor accounts for leases. The Group does not have any long term lease agreements (of over one year) therefore, the adoption of the new leases standard will not have a material impact.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. Critical accounting estimates and judgements

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

Share-based payment transactions:

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using an appropriate valuation model and is based on the assumptions detailed in Note 9.

e. Basis of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Strategic Elements Limited ('Company' or 'parent entity') as at 30 June 2019 and the results of all subsidiaries for the year then ended. Strategic Elements Limited and its subsidiaries are referred to in this financial report as the Group or the consolidated entity.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies. In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Control exists where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing when the Group controls another entity.

f. Revenue and other income

Revenue from contracts with customers
Revenue is recognised at an amount that reflects the consideration to which the consolidated entity is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, the consolidated entity: identifies the contract with a customer; identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.

Variable consideration within the transaction price, if any, reflects concessions provided to the customer such as discounts, rebates and refunds, any potential bonuses receivable from the customer and any other contingent events. Such estimates are determined using either the 'expected value' or 'most likely amount' method. The measurement of variable consideration is subject to a constraining principle whereby revenue will only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f. Revenue and other income (continued)

Revenue from contracts with customers (continued)
The measurement constraint continues until the uncertainty associated with the variable consideration is subsequently resolved. Amounts received that are subject to the constraining principle are recognised as a refund liability.

Contract revenue

Revenue from a contract to provide services is recognised over time as the services are rendered based on either a fixed price or an hourly rate.

The Group earned $51,250 of revenue from the provision of consulting services and services rendered to build customised aviation software. $21,250 consulting services revenue was recognised as the services were provided and the services required were fully provided and recognised during the year. $30,000 of software development services revenue was recognised at points in time as the services were provided. The services were fully provided and recognised during the year.

Sale of goods
Revenue from the sale of goods is recognised at the point in time when the customer obtains control of the goods, which is generally at the time of delivery.

Research and development refund
R&D refunds are a tax offset under the R&D tax incentive recognised on receipt of funds from the Australian Taxation Office for research and development expenditure incurred in the previous financial year. They are presented in the statement of profit and loss and other comprehensive income as other income.

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

g. Income tax

The income tax expense or benefit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

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

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

- when the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or

- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g. Income tax (continued)

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

- when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or

- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

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

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

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss. Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Other taxes

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

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

- receivables and payables, which are stated with the amount of GST included.

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h. Cash and cash equivalents

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

i. Project development expenditure

Project development costs, excluding the costs of acquiring tenements and permits, are expensed as incurred.

Exploration and evaluation

Acquisition costs will be assessed on a case by case basis and, if appropriate, they will be capitalised. These acquisition costs are carried forward only if the rights to tenure of the area of interest are current and either:

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

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

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

Research and development

Expenditure during the research phase of a project is recognised as an expense when incurred. Development costs are capitalised only when technical feasibility studies identify that the project will deliver future economic benefits and these benefits can be measured reliably.

Development costs have a finite life and are amortised on a systematic basis matched to the future economic benefits over the useful life of the project.

j. Impairment of assets

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k. Trade and other payables

Trade payables and other payables are carried at amortised cost using the effective interest method and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. Trade and other payables are presented as current liabilities unless payment is not due within 12 months.

l. Issued capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a new business are not included in the cost of acquisition as part of the purchase consideration.

m. Share-based payment transactions

Equity settled transactions:

The Group may provide benefits to Officers and Directors in the form of share-based payments, whereby services are rendered in exchange for shares or rights over shares (equity-settled transactions).

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value of options granted is determined using an appropriate valuation model, further details of which are given in Note 9.

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

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

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

m. Share-based payment transactions (continued)

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

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

n. Property, plant and equipment

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

Depreciation is calculated on a diminishing value basis over the estimated useful life of the assets as follows:

Office equipment – 2.5 to 15 years

Computer equipment – 2.5 to 4 years

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

(i) Impairment

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

The recoverable amount of plant and equipment is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to be close to its fair value.

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

For plant and equipment, impairment losses are recognised in the statement of profit or loss and other comprehensive income in the other expenses line item.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

n. Property, plant and equipment (continued)

(ii) De-recognition and disposal

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

Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss and other comprehensive income in the year the asset is derecognised.

o. Employee benefits

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

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

(ii) Long service leave

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

p. Trade and other receivables

Trade receivables are measured on initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method, less any allowance for impairment. Trade receivables are generally due for settlement within periods ranging from 15 days to 30 days.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

q. Earnings per share

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

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

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares, divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

r. Segment reporting

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

s. Parent entity financial information

The financial information for the parent entity, Strategic Elements Limited, disclosed in Note 19 has been prepared on the same basis as the consolidated financial statements, except as set out below.

(i) Investments in subsidiaries, associates and joint venture entities

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of Strategic Elements Limited. Dividends received from associates are recognised in the parent entity's profit or loss, rather than being deducted from the carrying amount of these investments.

(ii) Share-based payments

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution to that subsidiary undertaking. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

NOTE 2. REVENUE AND EXPENSES

	CONSOLIDATED	
	2019	2018
	$	$
(a) Other income		
Research and development tax offset	395,457	987,374
Sundry income	11,048	54,559
	406,505	1,041,933
Bank interest received and receivable	57,292	79,645
Bank interest paid and payable	(2,234)	(1,995)
	55,058	77,650
(b) Expenses		
Depreciation of non-current assets	7,911	(12,859)

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

NOTE 3. INCOME TAX

	CONSOLIDATED	
	2019	2018
Reconciliation of tax expense to statutory tax:	$	$
Loss for the year	(1,980,372)	(1,024,404)
Tax benefit at the applicable tax rate of 27.50% (2018: 27.50%)	(544,602)	(281,711)
s.40-880 expenses	(4,488)	(4,489)
Change in temporary differences	(5,430)	(3,195)
Difference in tax rate of Parent Company taxed at 25% due to Pooled Development Status	16,097	8,644
Underprovision/(overprovision) of prior year tax losses	262,893	42,190
Unrecognised tax losses	275,530	238,561
Tax expense reported in statement of profit and loss and other comprehensive income	-	-
Unrecognised deferred tax assets:		
Carried forward tax losses	1,623,877	1,540,233
Temporary differences	(5,430)	(3,195)
Components of deferred tax		
Prepayments	91	211
Accruals	176	(3,406)
Provisions	(5,697)	-
Tax Losses	1,623,877	1,540,233
Unrecognised deferred tax assets	(1,618,447)	(1,537,038)
	-	-

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

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

NOTE 4. LOSS PER SHARE

	CONSOLIDATED	
	2019	2018
	Cents per share	Cents per share
Basic loss per share from continuing operations	(0.81)	(0.42)

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

- Loss ($)	(1,980,372)	(1,024,404)
- Weighted average number of ordinary shares (number)	244,776,345	242,746,454

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

NOTE 5. CASH AND CASH EQUIVALENTS

	CONSOLIDATED	
	2019	2018
	$	$
Cash at bank and on hand	2,390,475	4,280,715
	2,390,475	4,280,715

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

NOTE 5. CASH AND CASH EQUIVALENTS (CONTINUED)

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

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

	CONSOLIDATED	
	2019	**2018**
	$	**$**
Loss from ordinary activities after income tax	(1,980,372)	(1,024,404)
Depreciation	7,911	12,859
Foreign exchange losses	1,896	1,165
Losses on disposal of plant and equipment	1,635	-
Share-based payments	44,894	166,138
Changes in working capital:		
(Increase)/decrease in other receivables	5,752	11,110
(Increase)/decrease in other assets	7,192	8,286
(Decrease)/increase in trade creditors and accruals	2,999	11,439
(Decrease)/increase in provisions	21,676	-
Cash flows from operations	(1,886,417)	(813,407)

NOTE 6. TRADE AND OTHER RECEIVABLES

	CONSOLIDATED	
	2019	**2018**
	$	**$**
Sundry receivable	3,422	-
GST recoverable	38,538	47,712
	41,960	47,712

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

NOTE 7. OTHER CURRENT ASSETS

	CONSOLIDATED	
	2019	**2018**
	$	**$**
Prepayments	22,433	29,625
Other current assets	687	687
	23,120	30,312

NOTE 8. PROPERTY, PLANT AND EQUIPMENT

Consolidated	**Office equipment** $	**Computer equipment** $	**Total** $
At 30 June 2019			
Cost	38,308	26,264	64,572
Accumulated depreciation	(15,812)	(16,842)	(32,654)
At 30 June 2019 net of accumulated depreciation	22,496	9,422	31,918
At 30 June 2018			
Cost	43,076	40,229	83,305
Accumulated depreciation	(15,129)	(28,639)	(43,768)
At 30 June 2018 net of accumulated depreciation	27,947	11,590	39,537

Consolidated	**Office equipment**	**Computer equipment**	**Total**
Year ended 30 June 2019	**$**	**$**	**$**
At 1 July 2018 net of accumulated depreciation	27,947	11,590	39,537
Additions	1,927	-	1,927
Write-offs	(1,256)	(379)	(1,635)
Depreciation charge for the year	(6,122)	(1,789)	(7,911)
At 30 June 2019 net of accumulated depreciation	22,496	9,422	31,918
Year ended 30 June 2018			
At 1 July 2017 net of accumulated depreciation	33,202	19,194	52,396
Additions	-	-	-
Depreciation charge for the year	(5,255)	(7,604)	(12,859)
At 30 June 2018 net of accumulated depreciation	27,947	11,590	39,537

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

NOTE 9. SHARE-BASED PAYMENTS

	2019	2018
	$	$
Performance rights	44,894	166,138
	44,894	166,138

Options

There were no options granted during the year (2018: nil options)

No options expired during the year (2018: 4,700,000 options).

There were no options exercised during the year (2018: nil options).

	CONSOLIDATED			
	2019		2018	
Options	**Number of options**	**Weighted average exercise price**	**Number of options**	**Weighted average exercise price**
	No.	**$**	**No.**	**$**
Outstanding at the beginning of the year	-	-	4,700,000	0.16
Expired during the year	-	-	(4,700,000)	0.16
Outstanding at the end of the year	-	-	-	-
Exercisable at the end of the year	-	-	-	-

Performance rights

On 10 October 2018 1,500,000 Performance Rights ("PRs"), with a fair value of $127,500 vested. Service conditions were part of the performance requirements of the rights. These rights and 3,000,000 Performance Rights, which vested in the previous financial year with a fair value of $510,000, were converted to shares under the terms of the Strategic Elements Performance Rights Plan.

6,000,000 Performance Rights expired on the same date resulting in a credit adjustment of $22,835.

The total expense recognised in the year for share-based payments is $44,894 (2018: $166,138).

No Performance Rights existed at the end of the year.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

NOTE 9. SHARE BASED PAYMENTS (CONTINUED)

Performance rights

Performance Rights	2019 No.	2018 No.
Outstanding at the beginning of the year	10,500,000	9,000,000
Granted during the year	-	7,500,000
Converted during the year	(4,500,000)	-
Lapsed during the year	(6,000,000)	(6,000,000)
Outstanding at the end of the year	-	10,500,000
Vested at the end of the year	-	3,000,000

NOTE 10. TRADE AND OTHER PAYABLES

	CONSOLIDATED 2019 $	CONSOLIDATED 2018 $
Trade payables (i)	138,000	82,660
Accrued expenses	24,538	76,879
	162,538	159,539

(i) Trade payables are non-interest bearing and are normally settled on 30 day terms with the exception of insurance premiums of $21,706 (2018: $17,815) which are payable in monthly instalments at a flat interest rate of 7.56%. The final instalment is due 13 March 2020.

NOTE 11. PROVISIONS

	CONSOLIDATED 2019 $	CONSOLIDATED 2018 $
Provision for annual leave	21,676	-
	21,676	-

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

NOTE 12. REMUNERATION OF AUDITORS

	CONSOLIDATED	
	2019	2018
	$	$
Amounts received & receivable by the auditor:		
Nexia Perth Audit Services Pty Ltd		
- audit of the financial report of the Group	25,860	22,652
- other services	3,500	2,750
	29,360	25,402

NOTE 13. ISSUED CAPITAL

	2019	2018
	$	$
Issued capital		
Ordinary shares issued and fully paid	13,636,731	12,999,231

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

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

	2019		2018	
	Number of shares	$	Number of shares	$
Movement in ordinary shares on issue				
At beginning of year	242,746,454	12,999,231	242,746,454	12,999,231
Shares issued on the conversion of PRs	4,500,000	637,500	-	-
At end of year	247,246,454	13,636,731	242,746,454	12,999,231

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

NOTE 14. RESERVES

	CONSOLIDATED	
	2019	2018
	$	$
Share-based payment reserve		
Balance at beginning of year	615,441	867,321
PRs issued during the year	44,894	166,138
PRs converted during the year	(637,500)	-
PRs and options expired during the year	(22,835)	(418,018)
Balance at end of financial year	-	615,441

The share-based payments reserve is used to record the value of options and performance rights (PRs) granted as share-based payments as part of total remuneration. Refer to Note 9 for further information on these options and performance rights.

NOTE 15. ACCUMULATED LOSSES

	CONSOLIDATED	
	2019	2018
	$	$
Movement in accumulated losses:		
Balance at beginning of year	(9,375,935)	(8,769,549)
Credit from option reserve on expiry of options	-	418,018
Credit from option reserve on expiry of PRs	22,835	-
Loss for the year	(1,980,372)	(1,024,404)
Balance at end of financial year	(11,333,472)	(9,375,935)

NOTE 16. FINANCIAL INSTRUMENTS

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

NOTE 16. FINANCIAL INSTRUMENTS (CONTINUED)

	CONSOLIDATED	
	2019	**2018**
(a) Categories of financial instruments	**$**	**$**
Financial assets		
Cash and cash equivalents	2,390,475	4,280,715
Financial liabilities		
Trade and other payables	162,538	159,539

(b) Interest rate risk

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

Profile

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

	CONSOLIDATED			
	2019		2018	
	Carrying amount	**Interest rate**	**Carrying amount**	**Interest rate**
	$	**%**	**$**	**%**
Variable rate instruments				
Cash and bank balances	2,390,475	1.41	4,280,715	1.62

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2018.

	Equity		Profit or loss	
	100bp increase	**100bp** decrease	**100bp** increase	**100bp** decrease
30 June 2019: Consolidated				
Variable rate instruments	23,905	(23,905)	23,905	(23,905)
30 June 2018: Consolidated				
Variable rate instruments	42,807	(42,807)	42,807	(42,807)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

NOTE 16. FINANCIAL INSTRUMENTS (CONTINUED)

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

The Group also has insurance premium arrangements of $21,706 (2018: $17,815) which are payable in monthly instalments at a flat interest rate of 7.56% The final instalment is due 13 March 2020.

(c) Net fair values

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

(d) Credit risk

There are no significant concentrations of credit risk within the Group, apart from its cash balances with its bank.

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

There is no requirement for collateral.

(e) Liquidity risk

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

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

30 June 2019: Consolidated	**Less than 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 5 years**	**Total**
Financial liabilities	$	$	$	$	$
Non-interest bearing	140,832	-	-	-	140,832
Interest bearing	2,304	4,687	14,715	-	21,706
	143,136	4,687	14,715	-	162,538

30 June 2018: Consolidated	**Less than 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 5 years**	**Total**
Financial liabilities	$	$	$	$	$
Non-interest bearing	141,724	-	-	-	141,724
Interest bearing	2,044	4,088	11,683	-	17,815
	143,768	4,088	11,683	-	159,539

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

NOTE 16. FINANCIAL INSTRUMENTS (CONTINUED)

(f) Capital Management

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

(g) Foreign currency risk management

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

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

	Liabilities		**Assets**	
	2019	**2018**	**2019**	**2018**
Consolidated	$	$	$	$
New Zealand dollars	3,348	1,595	3,497	12,934

Foreign currency sensitivity analysis

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

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

	Increase		**Decrease**	
	2019	**2018**	**2019**	**2018**
	$	$	$	$
NZD impact				
Profit or loss (i)	8,634	7,482	(8,634)	(7,482)
Other equity	8,634	7,482	(8,634)	(7,482)

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

NOTE 17. COMMITMENTS

a) Project development expenditure commitments

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

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

	CONSOLIDATED	
	2019	**2018**
	$	**$**
Within one year	564,101	461,920
Later than one year but not later than 5 years	3,979,140	1,847,680
	4,543,241	2,309,600
b) Office lease commitments		
Within one year	1,194	1,777
Later than one year but not later than 5 years	-	-
	1,194	1,777

c) Research commitments

During the year, the Company committed to providing $100,000 of funding under a research services arrangement. At year end, $50,000 remained outstanding and is due by November 2019.

NOTE 18. SEGMENT INFORMATION

The Group is managed primarily on the basis of its exploration projects (resource segment) and research and development of the nanocube technology and robotics and AI solutions (technology segment). Operating segments are therefore determined on the same basis. Reportable segments disclosed are based on aggregating tenements and permits where the tenements and permits are considered to form a single project. This is indicated by:

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

NOTE 18. SEGMENT INFORMATION (CONTINUED)

Basis of accounting for purposes of reporting by operating segments

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

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

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

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

Unallocated items
The following items of revenue, expense, assets and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment:
- income tax expense;
- deferred tax assets and liabilities; and
- discontinuing operations.

	Resources	**Technology**	**Unallocated (Corporate)**	**Total**
Consolidated	**$**	**$**	**$**	**$**
Year ended 30 June 2019:				
Segment revenue	130,416	317,297	10,042	457,755
Segment result	(684,643)	(136,614)	(1,159,115)	(1,980,372)
Included within segment revenue & result:				
Contract revenue	-	51,250	-	51,250
R&D tax offset	129,049	266,408	-	395,457
Depreciation	-	(1,701)	(6,210)	(7,911)
Interest income	902	1,116	55,274	57,292
Segment assets	135,533	149,420	2,202,520	2.487,473
Segment liabilities	16,114	56,473	111,627	184,214

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

NOTE 18. SEGMENT INFORMATION (CONTINUED)

	Resources	Technology	Unallocated (Corporate)	Total
Consolidated	**$**	**$**	**$**	**$**
Year ended 30 June 2018:				
Segment revenue	187,672	851,761	2,500	1,041,933
Segment result	(410,943)	554,638	(1,168,099)	(1,024,404)
Included within segment revenue & result:				
Contract revenue	-	-	-	-
R&D tax offset	135,613	851,761	-	987,374
Depreciation	-	(5,047)	(7,812)	(12,859)
Interest income	664	4,608	74,373	79,645
Segment assets	131,281	101,695	4,165,300	4,398,276
Segment liabilities	27,327	15,000	117,212	159,539

NOTE 19. RELATED PARTY DISCLOSURES

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

	Country of	% Equity Interest		Investment $	
Name	Incorporation	2019	2018	2019	2018
Maria Resources Pty Ltd	Australia	100	100	1	1
Strategic Materials Pty Ltd	Australia	100	100	1	1
Australian Advanced Materials Pty Ltd	Australia	100	100	1	1
Stealth Technologies Pty Ltd	Australia	100	100	1	1

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

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

NOTE 19. RELATED PARTY DISCLOSURES (CONTINUED)

Transactions with related entities:

Director related entities

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

During the year the Group engaged Enbit Pty Ltd, an entity related to Elliot Nicholls, a director of the Company for IT services. Enbit received a total of $4,997 plus GST during the year. Enbit also acquired software development services from Stealth Technologies Pty Ltd for a consideration of $30,000 during the year. There were no amounts outstanding between Enbit and the consolidated entity at 30 June 2019.

NOTE 20. PARENT ENTITY INFORMATION

As at, and throughout, the financial year ending 30 June 2019 the parent company of the Group was Strategic Elements Limited.

Financial position of Parent entity at year end

	30 June 2019 $	30 June 2018 $
Assets		
Current assets	2,174,276	4,131,137
Non-current assets	240,609	224,812
Total assets	2,414,885	4,355,949
Liabilities		
Current liabilities	111,626	117,211
Total liabilities	111,626	117,211
Equity		
Issued capital	13,636,731	12,999,231
Retained earnings	(11,333,472)	(9,375,935)
Reserves		
Share-based payments	-	615,441
Total equity	2,303,259	4,238,737

Financial performance of Parent entity for the year

	Year ended 30 June 2019 $	Year ended 30 June 2018 $
Loss for the year	(1,980,372)	(1,024,404)
Other comprehensive income	-	-
Total comprehensive loss	(1,980,372)	(1,024,404)

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

NOTE 21. CONTINGENT LIABILITIES

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

NOTE 22. DIRECTORS' AND EXECUTIVES' DISCLOSURES

(a) Details of Key Management Personnel

(i) Directors

Charles Murphy	Managing Director & Acting Chairman
Matthew Howard	Executive Director
Elliot Nicholls	Executive Director

(b) Key management personnel compensation

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

	Year ended 30 June 2019	Year ended 30 June 2018
	$	**$**
Short term benefits	664,800	610,745
Equity benefits	44,894	166,138
Total	709,694	776,883

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

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

(c) Performance Rights holdings of Key Management Personnel

30 June 2019	Balance at beginning of year	Converted during the year	Expired during the year	Balance at end of year	Vested	Not vested
Directors						
Charles Murphy	5,250,000	(2,250,000)	(3,000,000)	-	-	-
Matthew Howard	5,250,000	(2,250,000)	(3,000,000)	-	-	-
Elliot Nicholls	-	-	-	-	-	-
Total	10,500,000	(4,500,000)	(6,000,000)	-	-	-

30 June 2018	Balance at beginning of year	Granted as remuneration	Expired during the year	Balance at end of year	Vested	Not vested
Directors						
Charles Murphy	4,500,000	3,750,000	(3,000,000)	5,250,000	1,500,000	3,750,000
Matthew Howard	4,500,000	3,750,000	(3,000,000)	5,250,000	1,500,000	3,750,000
Elliot Nicholls	-	-	-	-	-	-
Total	9,000,000	7,500,000	(6,000,000)	10,500,000	3,000,000	7,500,000

NOTE 23. EVENTS SUBSEQUENT TO REPORTING DATE

Subsequent to the balance date the Company announced it had secured funding of $150,000 from the West Australian government Exploration Incentive Scheme. The funds will be directed towards drilling at the Behemoth project in the Gibson Desert.

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

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DIRECTORS' DECLARATION

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

   a. the accompanying financial statements and notes are in accordance with the Corporations Act 2001 including:

      i. giving a true and fair view of the consolidated entity's financial position as at 30 June 2019 and of its performance for the year then ended; and

      ii. complying with Australian Accounting Standards and Corporations Regulations 2001, professional reporting requirements and other mandatory requirements;

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

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

2. This declaration has been made after receiving the declarations required to be made to the Directors in accordance with Section 295A of the Corporations Act 2001 for the financial year ended 30 June 2019.

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

Charles Murphy
Managing Director
Dated this 14th day of August 2019

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Independent Auditor's Report to the Members of Strategic Elements Ltd

Report on the audit of the financial report

Opinion

We have audited the financial report of Strategic Elements Ltd (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

i) giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the year then ended; and

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

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial report' section of our report. We are independent of the entity in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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Key audit matter	How our audit addressed the key audit matter
Funding and liquidity **Refer to note 15 (f)** Strategic Elements Limited is a Pooled Development Fund with investments in exploration and information technology companies. The key activities of its investee companies are to explore for gold and copper minerals and to perform research and development in the field of technology. The investees' activities have not yet advanced to a stage where it is able to generate revenue, accordingly the Group is reliant on funding from external sources, such as capital raisings, to support its operations. We focussed on whether the Group had sufficient cash resources and access to funding to allow the Group to continue as a going concern. The adequacy of funding and liquidity as well as the relevant impact on the going concern assessment is a key audit matter due to the inherent uncertainties associated with the future development of the Group's projects and the level of funding required to support that development.	We evaluated the Group's funding and liquidity position at 30 June 2019 and its ability to repay its debts as and when they fall due for a minimum of 12 months from the date of signing the financial report. In doing so, we: • obtained management's cash flow forecast for the 18 months from the commencement of the 2020 financial year; • assessed the reliability and completeness of management's assumptions by comparing the forecast cash flows to those of current and previous years and as well as our understanding of future events and conditions; and • considered events subsequent to year end to determine whether any additional facts or information have become available since the date on which management made its assessment.

Other information

The directors are responsible for the other information. The other information comprises the information in Strategic Elements Limited's annual report for the year ended 30 June 2019, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of the other information we are required to report that fact. We have nothing to report in this regard.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation of the consolidated 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.

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In preparing the consolidated financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the entity or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibility for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at The Australian Auditing and Assurance Standards Board website at:
http://www.auasb.gov.au/auditors_responsibilities/ar2.pdf

This description forms part of our auditor's report. We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 8 to 12 of the Directors' Report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of Strategic Elements Limited for the year ended 30 June 2019, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

NPAS

Nexia Perth Audit Services Pty Ltd

PKlopper

PTC Klopper
Director

Perth
14 August 2019

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ADDITIONAL SECURITIES EXCHANGE INFORMATION

Additional information required by the ASX Limited and not shown elsewhere in this report is as follows. This information is current as at 31 July 2019.

1) Substantial shareholders

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

Holder	Number of fully paid ordinary shares	Percentage
Robinia Partners Pty Ltd	19,692,969	7.96%
Total		

2) Information on equity security classes

a) Ordinary Shares

247,246.454 fully paid ordinary shares are held by 2,209 shareholders. All issued shares carry one vote per share and carry the rights to dividends. 45 shareholders had an unmarketable parcel of less than $500 given a share value of 4.5c.

The number of shareholders by size of holding:

	Ordinary shares	
	Number of holders	**Number of shares**
1 – 1,000	94	7.399
1,001 – 5,000	201	769,395
5,001 – 10,000	364	3,209.582
10,001 – 100,000	1,150	45,212,869
100,001 and over	400	198,047,209
Total	2,209	247,246,454

ADDITIONAL SECURITIES EXCHANGE INFORMATION (CONTINUED)

b) Options

There are currently no options issued.

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ADDITIONAL SECURITIES EXCHANGE INFORMATION (CONTINUED)

3) Top 20 shareholders

The twenty largest holders of quoted equity securities are:

Rank	Holder Name	Current Securities	%
1	ROBINIA PTNRS PL	19,692,969	7.96%
2	EMNET PL	9,350,000	3.78%
3	HOWARD KIM LI + M D M	7,764,192	3.14%
4	BARNAO DAVID ANTHONY	4,984,366	2.02%
5	STEVEN MURPHY ELECTRICAL	3,975,834	1.61%
6	CAHILL PAUL	3,700,495	1.50%
7	BARLEY HLDGS PL	3,478,843	1.41%
8	J P MORGAN NOM AUST PL	3,194,476	1.29%
9	FEAR GOD PL	3,100,000	1.25%
10	CHAN KUEN SENG	3,078,261	1.25%
11	CONNOR BRENDON GABRIEL	2,830,246	1.14%
12	DIVERGENT ASSETS PL	2,500,000	1.01%
13	SO YUNG YUNG	2,266,202	0.92%
14	PARISI HLDGS PL	2,149,076	0.87%
15	CITICORP NOM PL	2,057,201	0.83%
16	GRANBOROUGH PL	2,000,000	0.81%
17	KANG ANDREW	1,930,435	0.78%
18	PARISI HLDGS PL	1,700,435	0.69%
19	CARRAN GRAEME	1,657,291	0.67%
20	KEELING YADRANKA	1,500,000	0.61%

4) On-Market Buy Back

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