

Strategic Elements Limited

ABN 47 122 437 503

Appendix 4D – 31 December 2016 Half-Year Report

1. Results for Announcement to the Market.

	31 Dec' 2016 \$'000	31 Dec' 2015 \$'000	% Change
	\$	\$	
2.1 Revenue from ordinary activities (excluding interest income)	112	5	2,140
2.2 Profit/(loss) from continuing operations after tax attributable to members.	(1,347)	(590)	(128)
2.3 Net profit/(loss) for the period attributable to members.	(1,347)	(590)	(128)
2.4 Amount per security and franked amount per security of interim dividend.	No interim dividends have been paid or provided for during the period		
2.5 Record date for determining entitlements to the dividends and payment date.	Not applicable		
2.6 Brief explanation of any of the figures in 2.1 to 2.4 necessary to enable the figures to be understood.	See Directors Report – Financial Report for the Half-Year Ended 31 December 2016.		

2. Net Tangible Assets per Security

	31 Dec' 2016	31 Dec' 2015
	Cents	Cents
Net tangible assets per security	2.58	0.83

3. Details of Dividend and Distribution Payments

No dividends or distributions have been paid or provided for during the period.

4. Dividend Reinvestment Plans

There are no dividend or distribution reinvestment plans in operation.

5. Associates and Joint Venture Entities

Not applicable

6. Foreign Entities

Not applicable

7. Audit Dispute or Qualification

None.

STRATEGIC ELEMENTS LIMITED

A.B.N. 47 122 437 503

INTERIM FINANCIAL REPORT

FOR THE HALF-YEAR ENDED
31 DECEMBER 2016

STRATEGIC ELEMENTS LIMITED

<i>Contents</i>	<i>Page</i>
Corporate information	2
Directors' report	3
Auditor's independence declaration	5
Condensed consolidated statement of profit or loss and other comprehensive income	6
Condensed consolidated statement of financial position	7
Condensed consolidated statement of cash flows	8
Condensed consolidated statement of changes in equity	9
Notes to the condensed consolidated financial statements	10
Directors' declaration	16
Independent review report to the members of Strategic Elements Limited	17

CORPORATE INFORMATION

Directors

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

Company Secretary

Matthew Howard

Registered office

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Subiaco WA 6008
Australia

Principal place of business

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Auditors

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

Solicitors

Kings Park Corporate Lawyers
Level 2, 45 Richardson Street
West Perth WA 6005
Australia

Share Registry

Security Transfer Registrars
770 Canning Highway
Applecross WA 6153
Australia

ASX code: SOR

DIRECTORS' REPORT

The directors of Strategic Elements Limited submit herewith the interim financial report of Strategic Elements Limited and its subsidiaries ("Consolidated entity" or "Group") (ASX code: SOR) for the half-year ended 31 December 2016. In order to comply with the provisions of the *Corporations Act 2001*, the directors report as follows:

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

Mr. C. Murphy	Managing Director (Chairman)
Mr. M. Howard	Executive Director
Mr. E. Nicholls	Executive Director

Directors were in office for the entire period unless otherwise stated.

REVIEW OF OPERATIONS

(a) Overview

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

During the half-year ended 31 December 2016, the Company focused its resources on progressing the Nanocube technology held in 100% owned subsidiary Australian Advanced Materials Pty Ltd. Australian Advanced Materials has rapidly developed the Nanocube technology throughout the period, achieving a number of key development milestones. Research and development is ongoing in conjunction with UNSW and the VTT group in Finland.

Maria Resources has started work on the Officer Project with an initial reconnaissance trip completed late in 2016 and further exploration planned for early 2017. Strategic Materials has continued maintaining its New Zealand Exploration Permit whilst consultations are continuing on logistics and permit access.

During the half-year Australian Advanced Materials received \$112,154 under the R&D Tax Incentive Program for Research and Development conducted during the 2015 financial year. Australian Advanced Materials and Maria Resources have successfully registered under the R&D Tax Incentive Program for research and development conducted during the 2016 financial year, consequently a significant proportion of research and development expenditure may be rebated.

(b) Operating result

The Group incurred an after tax loss for the half-year ended 31 December 2016 of \$1,347,484 (2015: \$590,300). The loss was attributable to the funding of project development conducted through the Group's subsidiaries and the costs associated with operating an ASX listed company in Australia.

DIRECTORS' REPORT (continued)

REVIEW OF OPERATIONS (continued)

(c) Corporate

On 31 December 2016 the Group had a cash balance of \$6,287,246.

During the period the Company issued 3,000,000 options to the inventors of the Nanocube technology which is being developed by the Company's wholly-owned subsidiary, Australian Advanced Materials Pty Ltd. The unlisted options have an exercise price of 17 cents and an expiry date of 26 January 2018. The options vest on 26 July 2017 and are subject to Australian Advanced Materials Pty Ltd achieving a specific development milestone relating to the Nanocube technology.

During the period the Company issued 700,000 options to an external consultant for services provided. The unlisted options have an exercise price of 16 cents and an expiry date of 28 February 2018. The options vested on issue.

EVENTS AFTER THE BALANCE DATE

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

AUDITOR'S INDEPENDENCE DECLARATION

Section 307C of the *Corporations Act 2001* requires our auditors, Nexia Perth Audit Services Pty Ltd, to provide the Directors of the Company with an Independence Declaration in relation to the review of the interim financial report. This Independence Declaration is set out on page 5 and forms part of the directors' report for the half-year ended 31 December 2016.

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

On behalf of the Directors



Charles Murphy
Managing Director
Perth, 23 February 2017

Auditor's independence declaration under section 307C of the Corporations Act 2001

To the directors of Strategic Elements Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the period ended 31 December 2016 there have been:

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

**Nexia Perth Audit Services Pty Ltd**

PTC Kloppe
Director

Perth
23 February 2017

STRATEGIC ELEMENTS LIMITED

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

	Note	CONSOLIDATED	
		Half-year ended	Half-year ended
		31 Dec 2016	31 Dec 2015
		\$	\$
Revenue from continuing operations	2	112,154	4,991
Project development		(524,122)	(163,984)
Employee benefits	3	(268,071)	(216,771)
Depreciation		(2,708)	(1,696)
Marketing expense		(29,960)	(40,359)
Professional fees		(63,235)	(21,521)
Rent and outgoings		(49,041)	(22,497)
Share-based payment expense	4	(419,721)	(15,323)
Other expenses		(125,272)	(125,298)
Loss from operating activities		(1,369,976)	(602,458)
Financial income		26,512	11,472
Financial expenses		(924)	(899)
Foreign exchange differences		(3,096)	1,585
Net financing income		22,492	12,158
Loss before income tax expense		(1,347,484)	(590,300)
Income tax expense		-	-
Loss for the period		(1,347,484)	(590,300)
Total comprehensive loss for the period		(1,347,484)	(590,300)
Basic and diluted loss per share (cents per share)		(0.56) cents	(0.32) cents

The accompanying notes form part of these financial statements.

STRATEGIC ELEMENTS LIMITED

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016

	Note	CONSOLIDATED	
		31 Dec 2016	30 June 2016
		\$	\$
Current assets			
Cash and cash equivalents		6,287,246	7,273,194
Trade and other receivables		63,839	44,562
Other assets		36,391	47,998
Total current assets		6,387,476	7,365,754
Non-current assets			
Plant and equipment		34,894	18,949
Total non-current assets		34,894	18,949
Total assets		6,422,370	7,384,703
Current liabilities			
Trade and other payables		150,007	234,577
Total current liabilities		150,007	234,577
Total liabilities		150,007	234,577
Net assets		6,272,363	7,150,126
Equity			
Issued capital	5	12,999,231	12,949,231
Share-based payment reserve		724,517	310,612
Accumulated losses		(7,451,385)	(6,109,717)
Total equity		6,272,363	7,150,126

The accompanying notes form part of these financial statements.

STRATEGIC ELEMENTS LIMITED

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

	CONSOLIDATED	
	Half-year ended 31 Dec 2016 \$	Half-year ended 31 Dec 2015 \$
Cash flows from operating activities		
Income received	112,154	4,384
Interest received	26,512	11,472
Interest paid	(924)	(899)
Project development expenditure	(524,361)	(157,542)
Payments to suppliers and employees	(576,580)	(401,069)
Net cash used in operating activities	(963,199)	(543,654)
Cash flows from investing activities		
Payments for purchases of plant and equipment	(18,653)	(2,598)
Net cash used in investing activities	(18,653)	(2,598)
Cash flows from financing activities		
Proceeds from exercise of options	50,000	30,000
Payment of refund of share oversubscription	(51,000)	-
Net cash from financing activities	(1,000)	30,000
Net decrease in cash and cash equivalents	(982,852)	(516,252)
Cash and cash equivalents at the beginning of the period	7,273,194	2,149,278
Effect of exchange rates on cash balances	(3,096)	-
Cash and cash equivalents at the end of the period	6,287,246	1,633,026

The accompanying notes form part of these financial statements.

STRATEGIC ELEMENTS LIMITED

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

	Issued Capital	Share-based payment reserve	Accumulated Losses	Total Equity
	\$	\$	\$	\$
Balance at 1 July 2015	6,567,838	7,270	(4,473,972)	2,101,136
<i>Total comprehensive loss for the period</i>				
Loss for the period	-	-	(590,300)	(590,300)
Other comprehensive income/(loss)	-	-	-	-
Total comprehensive loss for the period	-	-	(590,300)	(590,300)
Transfer to accumulated losses from share-based payment reserve on exercise of options	-	(1,454)	1,454	-
Shares issued on exercise of options	30,000	-	-	30,000
Share-based payment	-	15,323	-	15,323
Balance at 31 December 2015	6,597,838	21,139	(5,062,818)	1,556,159
Balance at 1 July 2016	12,949,231	310,612	(6,109,717)	7,150,126
<i>Total comprehensive loss for the period</i>				
Loss for the period	-	-	(1,347,484)	(1,347,484)
Other comprehensive income/(loss)	-	-	-	-
Total comprehensive loss for the period	-	-	(1,347,484)	(1,347,484)
Transfer to accumulated losses from share-based payment reserve on exercise/expiry of options	-	(5,816)	5,816	-
Shares issued on exercise of options	50,000	-	-	50,000
Share-based payment	-	419,721	-	419,721
Balance at 31 December 2016	12,999,231	724,517	(7,451,385)	6,272,363

The accompanying notes form part of these financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

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

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

Basis of preparation

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

The accounting policies and methods of computation adopted in the preparation of the interim financial report are consistent with those adopted and disclosed in the Company's financial report for the financial year ended 30 June 2016.

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) (referred to as the consolidated entity in these financial statements). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the consolidated entity.

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

Amendments to AASBs and the new Interpretations that are mandatory for the current reporting period

There were no new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) applicable to the consolidated entity for the current half-year.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

Exploration and evaluation

Exploration and evaluation costs, excluding the costs of acquiring licences (acquisition costs), are expensed as incurred. Acquisition costs will be assessed on a case by case basis and, if appropriate, they will be capitalised. These acquisition costs are only carried forward 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 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.

Significant Accounting Judgements and Key Estimates

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

In preparing this interim financial report the significant judgements made by management in applying the consolidated entity's accounting policies and key sources of estimation uncertainty were the same as those that applied to the financial report for the year ended 30 June 2016.

2. Revenue from continuing operations

	1 July 2016 to 31 December 2016 \$	1 July 2015 to 31 December 2015 \$
R&D Tax offset	112,154	-
Refunds	-	4,991
Total for the period	112,154	4,991

3. Employee benefits

	1 July 2016 to 31 December 2016 \$	1 July 2015 to 31 December 2015 \$
Directors' fees	238,221	187,000
Other employee salaries	29,850	29,771
Total for the period	268,071	216,771

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. Share-based payments*Unlisted options*

During the period the Company issued 3,000,000 options (Series No.1) to the inventors of the Nanocube technology which is being developed by the Company's wholly-owned subsidiary, Australian Advanced Materials Pty Ltd. The options are unlisted, have an exercise price of 17 cents and an expiry date of 26 January 2018. The options vest on 26 July 2017 and are subject to Australian Advanced Materials Pty Ltd achieving a specific development milestone relating to the Nanocube technology. The option issue expense is recognised on a straight-line basis over the vesting period. The expense recognised in the period for the issue is \$41,566.

During the period the Company issued 700,000 options (Series No.2) to an external consultant. The options are unlisted, have an exercise price of 16 cents and an expiry date of 28 February 2018. The options vested on issue. The expense recognised in the period for the issue is \$57,689.

	Series No.1	Series No.2
Value per right (cents)	3.82	8.24

The weighted average remaining contractual life of the options at 31 December 2016 is 1.09 years.

The weighted average fair value of unlisted options granted during the period is 4.65 cents per option.

The inputs to the options valuation were:

	Series No.1	Series No.2
Dividend yield (%)	n/a	n/a
Expected volatility (%)	172	167
Risk-free interest rate (%)	1.49	1.44
Expected life of option (years)	1.39	1.50
Exercise price (cents)	17.0	16.0
Grant date share price (cents)	12.0	12.5

The value of the options was calculated using the Black-Scholes pricing method.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

5. Issued capital

	31 December 2016 \$	30 June 2016 \$
<i>Issued and paid up capital</i>		
Fully paid ordinary shares	12,999,231	12,949,231
	6 months to 31 December 2016 Number	12 months to 30 June 2016 Number
<i>Movements in fully paid shares on issue</i>		
At beginning of period	242,246,454	186,289,943
Shares issued on the exercise of options	500,000	300,000
Shares issued for cash	-	55,656,511
Balance at end of period	242,746,454	242,246,454
<i>Movements in options on issue</i>		
At beginning of period	2,200,000	1,500,000
Issued during the period	3,700,000	1,000,000
Exercised during the period	(500,000)	(300,000)
Expired during the period	(700,000)	-
Balance at end of period	4,700,000	2,200,000

6. Commitments and Contingencies

	31 December 2016 \$	31 December 2015 \$
Commitments		
Office lease expenditure commitments		
not later than 1 year	19,548	44,345
Later than 1 year but not later than 5 years	-	-
	19,548	44,345
Exploration expenditure commitments		
Minimum exploration expenditure:		
not later than 1 year	930,651	50,511
Later than 1 year but not later than 5 years	3,635,970	3,753,817
	4,566,621	3,804,328

In the opinion of the directors there were no contingent liabilities at the date of this report.

STRATEGIC ELEMENTS LIMITED

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

7. Segment Information

The following table presents the revenue and loss information regarding the segment information provided to the Board of Directors for the half-year periods ended 31 December 2015 and 31 December 2016:

	Metals and materials \$	Research and development	Unallocated Corporate \$	Total \$
31 December 2015				
Segment revenue	4,991	-	-	4,991
Segment result	(13,183)	(166,503)	(410,614)	(590,300)
Included within segment results:				
Depreciation	-	-	(1,696)	(1,696)
Financial income	1,585	-	11,472	13,057
Financial expense	-	-	(899)	(899)
Segment assets	121,125	7,762	1,581,018	1,709,905
Segment liabilities	9,799	3,309	140,638	153,746
31 December 2016				
Segment revenue	-	112,154	-	112,154
Segment result	(329,224)	(146,879)	(871,381)	(1,347,484)
Included within segment results:				
Depreciation	-	(1,506)	(1,202)	(2,708)
Financial income	-	-	26,512	26,512
Financial expense	-	-	(924)	(924)
Segment assets	87,461	69,745	6,265,164	6,422,370
Segment liabilities	14,787	1,161	134,059	150,007

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

8. Events after the balance sheet date

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

9. Related Parties

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

10. Subsidiaries

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

STRATEGIC ELEMENTS LIMITED

DIRECTORS' DECLARATION

In the opinion of the Directors of the Company:

1. The attached financial statements and notes thereto are in accordance with the Corporations Act 2001 including:
 - (a) complying with Accounting Standard AASB 134 "Interim Financial Reporting" and the *Corporations Regulations 2001*; and
 - (b) giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year then ended.
2. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

On behalf of the Directors



Charles Murphy
Managing Director
Perth, 23 February 2017

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

Report on the Interim Financial Report

We have reviewed the accompanying interim financial report of Strategic Elements Limited and its controlled entities (the "Group"), which comprises the condensed consolidated statement of financial position as at 31 December 2016, the condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the period ended on that date, notes comprising a summary of accounting policies, other explanatory notes 1 to 10, and the directors' declaration of the Group comprising the Company and the entities it controlled at the half-year end or from time to time during the interim period.

Directors' Responsibility for the Interim Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and its performance for the period ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Strategic Elements Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Conclusion

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

- (a) giving a true and fair view of the Group's financial position as at 31 December 2016 and of its performance for the period ended on that date; and
- (b) complying with Accounting Standard AASB 134 Interim Financial Reporting and *Corporations Regulations 2001*.



Nexia Perth Audit Services Pty Ltd



PTC Klopper
Director

Perth
23 February 2017