

# Third Quarter Report 2019

## Highlights of the third quarter 2019

- On July 3 Element made a drawdown of NOK 5 million under the convertible note facility.
- On July 15 Element ASA announced that the company is evaluating strategic alternatives for the company's investments in AMI, Canada.
- On August 14 the company announced that it had acquired 100% of the shares of PALCapital Ventures Inc. in order to strengthen its position within the digital- and blockchain sector. The consideration for the shares in PALCapital Ventures, was settled by Element against the issuance of 2,650,000 new shares in Element at par value of NOK 1.60.

## Subsequent events

- On October 14 Element completed a private placement of 433 000 shares at a share price of NOK 4.50 pr. share. Gross proceeds from the transaction was NOK 2.1 million/USD 0.2 million.
- On October 25 Element sold all the 396 fund units in the Osead Fund to Manco Group Osead for a total consideration of EUR 1.3 million in cash. The transaction brought approximately USD 1.5 million in available liquidity to the company and a net gain of USD 0.4 million was realized from the sale. After this transaction Element has completely divested its interest In Osead Fund/CMT.

## Financials

Operating losses for the quarter amount to USD -0.8 million (-1.3m), where USD -0.25 million (-0.4m) relates to board and employee cost.

Net financial cost for the quarter equals USD -0.25 million (-3.9m) where all the costs are calculated non-cash items.

Net loss after-tax amount to USD -1.0 million for the quarter (USD -5.2). Net loss including discontinued operations (Mindoro) is USD -2.7 million (-5.4m), where USD -1.5 million relates to an impairment made on the Mindoro assets.

Element made a drawdown of NOK 5.0 million under the convertible ABO facility's during Q3 while ABO has converted NOK 11.2 million to 5.05 million ELE shares during the quarter. Element has recognized a convertible debt of total USD 0.3 million in the balance sheet at the end of the quarter to account for the part of the NOK 25 million sub tranche which at the end of Q3 had not yet been converted to shares by ABO.

At end of Q3 2019, cash and cash equivalents, including cash in the Philippines, amounted to USD 0.8 million (USD 2.1 million at Y.E. 2018).

Total assets at the end of the quarter equals USD 15.7 million (19.6m at Y.E. 2018). The activities in Philippines continue to be accounted for as assets held for sale with total asset value reduced by USD 1.5 million to USD 4.2 million at the end of the quarter (5.7million at Y.E. 2018).

Total equity at the end of quarter is USD 12.3 million (16.5 million) with an equity ratio of 79%.

## Review of project portfolio

### **AMBERSHAW METALLICS INC - CANADA (AMI)**

AMI is a Canadian metals and mining company which holds rights to an Iron ore deposit in NW Ontario, Canada. AMI is controlled by Legacy Hill Resources (LHR). Element today holds 26,7% of the shares in AMI and has additionally provided a convertible loan to AMI for a total amount of USD 4.85m. The convertible loan combined with a share swap agreement between Element and LHR, can bring Element's stake in AMI to 51% by 31 December 2020.

As announced in the stock exchange notice on July 15 2019, Element is now considering selling or otherwise monetize all or parts of its

investment in AMI due to the change of development strategy for the iron resource in Bending Lake.

During Q3 Element has been engaged in advanced negotiations related to a sale and/or restructuring of the entire Investment in AMI. At the time of this report the company is still engaged in these discussions.

### **OSEAD FUND - INDIRECT OWNERSHIP IN CMT**

In Q1 2019 Element announced that it considered selling the 396 fund units in Osead Fund. During Q2/Q3 2019 the company has actively been looking for potential buyers for the fund units. On October 25 the company announced that it had reached agreement with Manco Group Osead regarding sale of all 396 fund units which Element owns in the fund.

Element sold the 396 units for EUR 1.3 million (corresponding to a unit price of EUR 3,283 per unit), whereby EUR 1.0 million was settled in cash by Manco Group Osead and EUR 0.3 million was settled by release of funds held in separate restricted account pursuant to the call option agreement, thus in total the transaction brought approximately USD 1.5 million in available liquidity to the company

Element may become entitled to an additional purchase price if Manco sell any units in the fund for a unit price exceeding the Unit Price during the first 12 months after the date of the agreement. If Manco makes such sale within six months, Element shall receive 50% of the consideration exceeding the unit price. If Manco makes such sale after six months, but before 12 months, Element shall receive 30% of the consideration exceeding the unit price.

The company will in the Q4 report realize a net gain of approx. USD 0.4 million related to the sale of the fund units.

### **MINDORO NICKEL PROJECT - THE PHILIPPINES**

Mindoro Nickel is a nickel-laterite deposit, which was discovered by Element in 1996. Since 31 December 2015, Element's primary focus has been to realize the value in the Mindoro Nickel Project through a sale of the asset or a strategic partnership.

The political and regulatory climate continues to adversely affect the Mindoro project and the Company has prepared for legally addressing

the Provincial Moratorium Ordinances and have them declared as unconstitutional by judicial authority.

On 28 August 2019, the Company invoked the Force Majeure clause in the MPSA agreement. This was done for Element to be relieved of some of the obligations under the MPSA, which the company is not able to execute due to the Moratorium and the Cease and Desist Order received in April 2019. The company is of the opinion that invoking the Force Majeure clause would also defer the expiry date of the MPSAs.

Currently there is no ongoing mining related activity by the company on Mindoro other than community engagement activities which are required to continue in order to comply with the MPSA obligations.

The company has taken steps to reduce the cash burn in the Philippines, primarily through staff reductions, while at the same time keeping sufficient resources in the organization to comply with MPSA requirements related to mandatory community engagements. Further to this the company received in Q4 a permit to relocate the 290 tons of sample ore to another location on the Mindoro island in order to reduce the storage cost.

During Q3 the company has had several discussions with companies that could potentially be interested in buying our interest in Mindoro or in other ways cooperate with Element for the development of the mine. However, none of these processes has progressed beyond the initial discussion phase.

### **TOKEN/DIGITAL PROJECT**

On August 14, Element announced the acquisition of 100% of the shares in PALCapital Venture Inc (PCV). PCV is an investment company with early stage investments within the digital and blockchain sectors. More specifically, PCV holds rights to equity and/or rights to tokens (when issued) in 4 different companies within the digital and blockchain industry. The acquisition of PCV was settled with 2.65 million Element shares and the investment has been recorded at cost with a book value of USD 0.5m. in the Q3 balance sheet.

Investors, both funds and individuals, who want to have exposure to the digital economy but want or must be invested in liquid assets, Element is now able to offer the investors exposure to the digital industry, while at the same time letting the investor stay in a liquid

security, the Element share, which they could trade on a regulated market place, Oslo Børs.

Through buying PALCapital Venture, Element has taken the first step towards creating this opportunity for existing and new shareholders in Element. PCV offers exposure to companies within the digital and blockchain industry, as all assets in PCV represents potential exposure to the very early phase in the portfolio companies lives.

During Q3 Element has been speaking at blockchain conferences in US and Europe and taking one-on-one meetings to raise awareness of Element among investors and potential investment targets within the digital space.

## **Corporate activities**

### **THE ABO FACILITY**

At the time of this report the company has drawn NOK 25 million out of the NOK 50 million available under tranche 3. Of the NOK 25 million drawn, ABO has converted NOK 24.9 million to shares, thus NOK 0.1 million remains to be converted to shares by ABO.

Element has initiated discussions with ABO regarding termination of the loan agreement, however at the time of writing this report the parties have not been successful in reaching an agreement.

### **PROSPECTUS**

During Q3 Element has been developing a listing prospectus for the 5,4 million shares that have been issued since July 2019. The prospectus will need to be approved by the Norwegian Financial Authorities before the shares become tradable. Element expect to have the prospect approved no later than January 31, 2020.

## **Outlook**

Element will continue the restructuring process with a view to exit, in full or in part, from Mindoro and AMI, as well as endeavor to reach an agreement with ABO regarding a termination of the loan agreement.

The company will continue to look for investment opportunities within the distributed ledger/blockchain space, which represents an area of the economy which continues to expand and evolve.

## Responsibility statement

We confirm to the best of our belief that the financial statements for the fourth quarter of 2019, which have been prepared in accordance with IAS 34 – Interim Reporting, give a true and fair view of the company's assets, liabilities, financial position and results of operation.

Oslo, 29 November 2019, Board of Directors, Element ASA

Kris Gram  
*Board Member*

Thomas Christensen  
*Chairman*

Kari Mette Toverud  
*Board Member*

Geir Johansen  
*CEO*

## Interim consolidated statement of profit and loss and other comprehensive income

(USD '000)	Note	Third quarter		Year to date		Year end
		30/09/2019	30/09/2018	30/09/2019	30/09/2018	31/12/2018
Net income/loss from equity acct. investments		-	-82	-	-198	0
Exploration and evaluation costs		-	-	-	-3	-3
Salary and social security cost		-254	-398	-884	-745	-1,228
Other operating expenses		-503	-828	-1,711	-1,900	-2,571
<b>Operating loss</b>		<b>-757</b>	<b>-1,309</b>	<b>-2,595</b>	<b>-2,847</b>	<b>-3,801</b>
Financial income		18	105	8	120	209
Financial costs		-268	-4,035	-3,021	-5,299	-9,084
Equity accounted investments	3	-	-	-	-	-391
<b>Net financial items</b>		<b>-250</b>	<b>-3,930</b>	<b>-3,014</b>	<b>-5,179</b>	<b>-9,266</b>
<b>Loss before tax</b>		<b>-1,007</b>	<b>-5,239</b>	<b>-5,609</b>	<b>-8,026</b>	<b>-13,068</b>
Income Taxes		-	-	-	-	-
<b>Loss after tax</b>		<b>-1,007</b>	<b>-5,239</b>	<b>-5,609</b>	<b>-8,026</b>	<b>-13,068</b>
Loss discontinued operations, after tax	7	-1,700	-162	-2,208	-453	-854
<b>Loss for the period</b>		<b>-2,708</b>	<b>-5,401</b>	<b>-7,817</b>	<b>-8,479</b>	<b>-13,922</b>
Basic and diluted earnings per share		-0.16	-0.06	-0.45	-0.11	-0.15
Basic and diluted earnings per share - continued operations		-0.06	-0.05	-0.32	-0.10	-0.14
Basic and diluted earnings per share - discontinued operations		-0.10	-0.01	-0.13	-0.01	-0.01
<b>Other comprehensive income:</b>						
<b>Items that will be reclassified to income statement</b>						
Currency translation adjustments		-211	282	-125	126	1,351
<b>Other comprehensive income</b>		<b>-211</b>	<b>282</b>	<b>-125</b>	<b>126</b>	<b>1,351</b>
<b>Total comprehensive income</b>		<b>-2,919</b>	<b>-5,119</b>	<b>-7,942</b>	<b>-8,353</b>	<b>-12,570</b>
<b>Total comprehensive income attributable to Element shareholders</b>		<b>-2,919</b>	<b>-5,119</b>	<b>-7,942</b>	<b>-8,353</b>	<b>-12,570</b>

## Interim consolidated statement of financial position

<i>(USD '000)</i>	Note	Year to date 30/09/2019	Year end 31/12/2018
<b>ASSETS</b>			
Property, plant and equipment		7	10
Equity accounted investments	3	3,080	3,060
<b>Total non-current assets</b>		<b>3,087</b>	<b>3,070</b>
Financial investments	4	6,527	7,252
Other receivables	4	1,174	1,632
Cash and cash equivalents	5	679	1,878
<b>Total current assets</b>		<b>8,380</b>	<b>10,762</b>
Assets classified as held for sale	7	4,189	5,718
<b>Assets classified as held for sale</b>		<b>4,189</b>	<b>5,718</b>
<b>TOTAL ASSETS</b>		<b>15,656</b>	<b>19,550</b>
<b>EQUITY</b>			
Share capital		3,134	1,229
Other paid-in-capital		94,363	93,392
Cumulative translation adjustments		11,736	11,861
Other equity		-96,930	-89,975
<b>Total equity</b>		<b>12,304</b>	<b>16,507</b>
<b>LIABILITIES</b>			
Other long term liabilities		-	-
<b>Total long term liabilities</b>		<b>-</b>	<b>-</b>
Trade payables		263	261
Convertible notes	4	264	-
Other current liabilities		636	563
<b>Total current liabilities</b>		<b>1,163</b>	<b>824</b>
Liabilities associated with assets classified as held for sale	7	2,190	2,219
<b>Liabilities associated with assets classified as held for sale</b>		<b>2,190</b>	<b>2,219</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>15,656</b>	<b>19,550</b>

## Interim consolidated statement of cash flow

(USD '000)	Third quarter		Year to date		Year end
	30/09/2019	30/09/2018	30/09/2019	30/09/2018	31/12/2018
Profit/-loss for the year, continued operations	-1,007	-5,240	-5,609	-8,026	-13,068
Profit/-loss for the year, discontinued operations	-1,700	-162	-2,208	-453	-854
<b>Operating activities</b>					
Depreciation	1	-	3	3	-
Non-cash expenses related to warrants and impairment	1,596	2,439	3,523	7,017	7,660
Change in trade and other receivables	326	-1,117	458	-2,856	-666
Change in trade payables and other current liabilities	-183	-1,419	75	1,608	-646
Warrants and impairment	-	-	-	-	-
Change in assets held for sale	71	-102	-101	19	296
<b>Cash flow from operating activities</b>	<b>-897</b>	<b>-5,600</b>	<b>-3,859</b>	<b>-2,687</b>	<b>-7,278</b>
<b>Investment activities</b>					
Net expenditure on property, plant and equipment	-	-12	-	-12	-8
Equity accounted investments	-	-	-	-2,915	-2,915
Investment in other financial assets	-	-3,011	-	-6,708	-6,708
<b>Cash flow from investment activities</b>	<b>-</b>	<b>-3,023</b>	<b>-</b>	<b>-9,635</b>	<b>-9,631</b>
<b>Financing activities</b>					
Proceeds from new shares issued	-315	5,722	-	10,144	15,230
Repurchase of shares	5	-	-77	-	-253
Proceeds from borrowings	1,127	-	2,751	-	-
<b>Cash flow from financing activities</b>	<b>817</b>	<b>5,722</b>	<b>2,674</b>	<b>10,144</b>	<b>14,977</b>
Net change in cash and cash equivalents	-80	-2,901	-1,185	-2,178	-1,932
Cash and cash equivalents at the start of the period	1,108	3,275	2,127	2,708	2,708
Sum translation effects	-211	282	-125	126	1,351
<b>Cash and cash equivalents at the end of the period for cont. and disc. Operations</b>	<b>817</b>	<b>656</b>	<b>817</b>	<b>656</b>	<b>2,127</b>



## Interim consolidated statement of changes in equity

<i>(USD '000)</i>	<i>Note</i>	<i>Share capital</i>	<i>Other paid-in capital</i>	<i>Cumulative translation adjustments</i>	<i>Other equity</i>	<i>Held for sale</i>	<i>Total</i>
<b>Equity 1 January 2018</b>		<b>643</b>	<b>79,000</b>	<b>10,510</b>	<b>-16,786</b>	<b>-66,927</b>	<b>6,440</b>
Loss for the period					-13,068	-854	-13,922
Other comprehensive income				1,351			1,351
<b>Total comprehensive income</b>				<b>1,351</b>	<b>-13,068</b>	<b>-854</b>	<b>-12,570</b>
Capital increase		597	14,634		-		15,231
Repurchase of shares		-11	-242		-		-253
Share options cost					6,916		6,916
Converted warrants					744		744
<b>Total transactions with owners</b>		<b>586</b>	<b>14,392</b>		<b>7,659</b>		<b>22,637</b>
<b>Equity 31 December 2018</b>		<b>1,229</b>	<b>93,392</b>	<b>11,861</b>	<b>-22,194</b>	<b>-67,781</b>	<b>16,507</b>
<i>(USD '000)</i>		<i>Share capital</i>	<i>Other paid-in capital</i>	<i>Cumulative translation adjustments</i>	<i>Other equity</i>	<i>Held for sale</i>	<i>Total</i>
<b>Equity 1 January 2019</b>		<b>1,229</b>	<b>93,392</b>	<b>11,861</b>	<b>-22,194</b>	<b>-67,781</b>	<b>16,507</b>
Loss for the period					-5,609	-2,208	-7,817
Other comprehensive income				-125			-125
<b>Total comprehensive income</b>		<b>-</b>	<b>-</b>	<b>-125</b>	<b>-5,609</b>	<b>-2,208</b>	<b>-7,942</b>
Capital increase		1,923	1,030	-	350	-	3,304
Repurchase of shares		-18	-59	-	-	-	-77
Share options cost		-	-	-	182	-	182
Converted warrants		-	-	-	330	-	330
<b>Total transactions with owners</b>		<b>1,905</b>	<b>971</b>	<b>-</b>	<b>862</b>	<b>-</b>	<b>3,739</b>
<b>Equity 30 September 2019</b>		<b>3,134</b>	<b>94,363</b>	<b>11,736</b>	<b>-26,941</b>	<b>-69,989</b>	<b>12,304</b>

# Notes to the interim consolidated financial statements

## 1 Information about the Group

Element ASA is a public limited liability company incorporated and domiciled in Norway. The Group's office address is Karenslyst Allé 53, 0279 Oslo, Norway. The Group's shares are listed on the Oslo Stock Exchange.

As at the date of this report, the Group's main activity is to identify assets close to or in production for investment.

## 2 Basis for preparation and changes to the Group's accounting policies

This condensed consolidated interim financial information has been prepared in accordance with IAS 34, 'Interim financial reporting'.

The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2017, which have prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

### ACCOUNTING PRINCIPLES

The same accounting principles and methods of calculation have been applied as in the Annual Report for 2018. Future effects of new accounting standards were described in the Consolidated Financial Statements for 2018.

### ESTIMATES

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

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2018.

### 3 Investments accounted for using the equity method

<i>(USD '000)</i>	<b>Second quarter</b>		<b>First half</b>		<b>Year end</b>
	<u>6/30/2019</u>	<u>6/30/2018</u>	<u>6/30/2019</u>	<u>6/30/2018</u>	<u>12/31/2018</u>
Opening balance	3,060	3,415	3,060	428	428
Net income/(loss) from equity accounted investments	-	-80	-	-116	-391
Acquisitions and increase in paid in capital	-	-	-	3,023	3,023
Dividend and other distributions	-	-	-	-	-
Other comprehensive income/(loss)	-	7	-	7	-
Divestments, derecognition and decrease in paid in capi	-	-	-	-	-
<b>Ending balance</b>	<b>3,060</b>	<b>3,343</b>	<b>3,060</b>	<b>3,343</b>	<b>3,060</b>

## 4 Financial assets and liabilities

USD ('000)	Year to date	Year end
	30/09/2019	31/12/2018
Convertible loan notes	5,027	5,034
Derivatives	-	1,132
Investments in fund units	1,034	1,086
Shares in PALcapital Ventures Inc	467	
Cash and cash equivalents	679	1,878
<b>Total financial assets</b>	<b>7,207</b>	<b>9,130</b>
Convertible notes	-264	-
Trade payables	-263	-261
<b>Total financial liabilities</b>	<b>-527</b>	<b>-261</b>

### FAIR VALUES

USD ('000)	Third quarter		Year end	
	Carrying amount	Fair value	Carrying amount	Fair value
Convertible loan notes	5,027	5,027	5,034	5,034
Derivatives	-	-	1,132	1,132
Investments in fund units	1,034	1,034	1,086	1,086
Shares in PALcapital Ventures Inc	467	467	-	-
Cash and cash equivalents	679	679	1,878	1,878
<b>Total financial assets</b>	<b>7,207</b>	<b>7,207</b>	<b>9,130</b>	<b>9,130</b>
Convertible notes	-264	-264	-	-
Trade payables	-263	-263	-261	-261
<b>Total financial liabilities</b>	<b>-527</b>	<b>-527</b>	<b>-261</b>	<b>-261</b>

### FAIR VALUE HIERARCHY

USD ('000)	Fair value measurement using			
	Date of valuation	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant un-observable inputs (Level 3)
Assets measured at fair value				
Convertible loan notes	30/09/2019	-	-	5,027
Derivatives	30/09/2019	-	-	-
Investments in fund units	30/09/2019	-	1,034	-
Shares in PALcapital Ventures Inc	30/09/2019	-	-	467

USD ('000)	Fair value measurement using			
	Date of valuation	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant un-observable inputs (Level 3)
Assets measured at fair value				
Convertible loan notes	31/12/2018	-	-	5,034
Derivatives	31/12/2018	-	1,132	-
Investment in fund units	31/12/2018	-	1,086	-

## 5 Cash and cash equivalents

	Year to date	Year end
<i>(USD '000)</i>	30/09/2019	31/12/2018
Cash and bank deposits	534	1,494
Restricted bank deposits	145	384
<b>Total cash and cash equivalents in the statement of financial position</b>	<b>679</b>	<b>1,878</b>
Cash and cash equivalents related to discontinued operations	138	250
<b>Cash and cash equivalents in the statements of cash flow</b>	<b>817</b>	<b>2,128</b>

## 6 Related party disclosures

Name	Position	Shares	Options	CFDs
Thomas Christensen	Chairman of the board	400,000	100,000	
Kari Mette Toverud	Member of the board	28,412	43,000	
Kris Gram	Member of the board		25,000	
James Haft	Consultant		50,000	
Geir Johansen	CEO		50,000	
Hans Ola Haavelsrud	COO		50,000	
<b>Total</b>		<b>428,412</b>	<b>318,000</b>	<b>-</b>

## 7 Discontinued operations

(USD '000)	Third quarter		Year to date		Year end
	30/09/2019	30/09/2018	30/09/2019	30/09/2018	31/12/2018
Other Revenue	-	-	-	-	-
Exploration and evaluation costs	-3	-41	-86	-84	-20
Salary and social security cost	-90	-78	-267	-238	-340
Other Operating expenses	-1,608	-39	-1,855	-131	-325
<b>Operating loss</b>	<b>-1,700</b>	<b>-158</b>	<b>-2,207</b>	<b>-453</b>	<b>-686</b>
Financial income	-	-4	-	-	-
Financial costs	-	-	-	-	-
<b>Net financial items</b>	<b>-</b>	<b>-4</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Loss before tax</b>	<b>-1,700</b>	<b>-162</b>	<b>-2,207</b>	<b>-453</b>	<b>-686</b>
Deferred tax expense	-	-	-	-	-168
<b>Loss after tax</b>	<b>-1,700</b>	<b>-162</b>	<b>-2,207</b>	<b>-453</b>	<b>-854</b>
<b>Loss for the period</b>	<b>-1,700</b>	<b>-162</b>	<b>-2,207</b>	<b>-453</b>	<b>-854</b>

(USD '000)	Year to date	Year end
	30/09/2019	31/12/2018
<b>ASSETS</b>		
Exploration and evaluation assets	3,919	5,328
Property, plant and equipment	4	5
<b>Total non-current assets</b>	<b>3,923</b>	<b>5,333</b>
Other receivables	43	52
Other financial assets	85	83
Cash and cash equivalents	138	250
<b>Total current assets</b>	<b>266</b>	<b>385</b>
<b>TOTAL ASSETS</b>	<b>4,189</b>	<b>5,718</b>
<b>LIABILITIES</b>		
Deferred tax	198	195
Other long term liabilities	0	0
<b>Total long term liabilities</b>	<b>198</b>	<b>195</b>
Trade payables	163	182
Other current liabilities	1,829	1,842
<b>Total current liabilities</b>	<b>1,992</b>	<b>2,024</b>
<b>TOTAL LIABILITIES</b>	<b>2,190</b>	<b>2,219</b>

# Reporting calendar

## Financial reporting 2019

Quarterly Report – Q4 .....28.02.2020

## Contact details

Element ASA  
Karenslys Allé 53  
0279 Oslo  
Norway  
[www.elementasa.com](http://www.elementasa.com)