

Fourth Quarter Report 2019

Highlights of the fourth quarter 2019

- 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.
- On December 10 the Company signed an agreement with ABO/EHGO whereby both the issuance agreement and the share lending agreement were terminated. Consequently, Element would no longer be able to make drawdowns under the NOK 500 million convertible note facility and ABO/EHGO would no longer be entitled to require Element to issues new convertible notes. According to the agreement Element paid NOK 2.6 million in termination fees and all shares and warrants in Element held by EHGO and/or ABO will remain owned by them and may be disposed of as EHGO and ABO see fit.
- On December 20 Element sold its 26.7% of the outstanding shares in Ambershaw Metallics Inc. ("AMI") and agreed to restructure the convertible bond of USD 4.85 million plus the accrued interest. The transactions provided the Company with USD 2 million in cash at closing and an additional USD 500.000 in cash by July 2020.

Subsequent events

- 7 February 2020 Element published a prospectus to allow for 5.9 million shares, issued by Element ASA after the new Norwegian prospectus rules became effective in July 2019, to be tradeable on the Oslo Stock exchange.
- On February 26 Element was informed that the buyer of the CMT units, Manco Group Osead, had closed the fund and sold all remaining fund units. As per the agreement signed on 25 October 2019 between Element ASA as seller and Manco Group Osead as buyer, Element was entitled to receive 50% of any proceeds of a resale of the fund units, if a resale was to take place within 6 month after 25 October 2019. The fund units have been sold for a unit price of EUR 4,157; thus Element will be receiving additional EUR 173 085 for the units.

Financials

FOURTH QUARTER

Operating losses for the quarter amount to USD -0.5 million (-1.2m), where USD -0.26 million (-0.4m) relates to board and employee cost.

Financial income for the quarter was USD 0.4 million (0.1m) with the entire amount attributed to the sale of the CMT units.

Financial cost for the quarter equals USD -3.5 million (-3.8m). Of this USD 1.5 million is loss on sale of the equity in AMI. The new loans issued as part of the restructuring has a combined face value of USD 4.8 million, however IFRS9 requires all three loans to be included at amortized value in the accounts. This reduces the book value of the loans by USD 0.8 million and is recorded as financial cost in Q4.

The termination agreement with ABO included a termination fee of USD 300 thousand. Additionally, the capitalized cost of warrants previously issued to ABO and the remaining part of fixed fees already paid to ABO but not fully expensed, account for an additional USD 1.1 million in financial cost.

Thus, net financial loss for Q4 is USD -3.1 million (-3.9m)

Loss from discontinued operation (Mindoro) for the quarter was USD -2.6 million (-0.4m).

The company has in Q4 made a write down of the assets in discontinued operations (Mindoro) of USD 4.1 million. Simultaneously a write down of USD 1.7 million of associated liabilities has been recorded in Q4.

Net consolidated loss for the quarter, including discontinued operations (Mindoro), is USD -6.2 million (-5.4m).

At end of Q4 2019, cash and cash equivalents, including cash in the Philippines, amounted to USD 2.9 million (1.9m at Y.E. 2018). The sale of the CMT units improved the cash balance by USD 1.5 million, while the restructuring of AMI added USD 2.0 million of cash. The private placement added USD 0.2 million of cash, while the termination of the ABO agreement reduced cash by USD 0.3 million.

Total assets at the end of the quarter equals USD 7.7 million (19.6m at Y.E. 2018). The reduction of Total Asset values compared to Q3-19 reflects the sale of CMT units, sale of AMI equity and the write-down of all assets in Philippines.

Total equity at the end of quarter is USD 6.9 million (16.5m) with an equity ratio of 90%.

FULL YEAR 2019

Operating losses for 2019 amount to USD -3.1 million (-3.8m), where USD -1.1 million (-1.2m) relates to board and employee cost.

Net financial loss for the full year was USD -6.1 million (-9.3m), thus consolidated loss after was USD -9.2 million (-13.1m). Losses after inclusion of Discontinued Operations was USD -14,0 (-13.9m).

Cash flow from operation for the year was USD -7,3 million (-7.3m) while cash flow from investments was positive with USD 2.6 million (-9,6m). Cash from financing for 2019 was USD 3.2 million (15.0m). Cash balance at the end of 2019 was USD 3.5 million (2.1m).

Review of project portfolio

AMBERSHAW METALLICS INC - CANADA (AMI)

On 20 December Element announced that it had sold all its shares in AMI for USD 1.5 million and had agreed to restructure the USD 4,85 million convertible loan it had provided to AMI. The sale and restructuring gave Element USD 2.0 million in fresh cash in Q4.

Post restructuring, Elements remaining assets related to AMI consist of three separate loans with a combined face value of USD 4.8 million, extended to AMI or to entities associated with Legacy Hill resources as follows;

- One promissory note of USD 1.5 million with 5 years maturity and interest of 7%.
- One term loan of USD 2.8 million with 5 years maturity and interest of 7%.
- One term loan of USD 0.5 million with 6 months maturity and interest of 7%.

Both the promissory note and the larger term loan can be prepaid at a discount by borrower.

OSEAD FUND - INDIRECT OWNERSHIP IN CMT

During Q4 the Company 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 the buyer 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 has recorded a net gain of USD 0.4 million related to the sale of the fund units in the Q4 accounts.

MINDORO NICKEL PROJECT - THE PHILIPPINES

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.

Over the last six to eight months, Element has been in discussions with 13 different international and local entities that have shown interest in the Mindoro assets, however no firm offers have been received as of the date of this report. Consequently, Element is now considering the realistic options available in the Philippines.

Element is making an impairment write-down of the Philippine assets by USD 4.1 million and writing down related liabilities by USD 1.7 million. The consolidated net effect of the USD -2.4 million write-down combined with an operating loss in the Philippines of USD 0.2 million is USD -2.6 million for the quarter.

PALCAPITAL VENTURES

Element acquired 100% of the shares in PALCapital Venture Inc (PCV) in Q3-19. PCV is an investment company with early stage investments within the digital and blockchain.

During Q4-19 Element/PCV exercised its right to acquire convertible notes in AdNode for USD 50,000, which will be converted to equity in the next round of equity funding undertaken by AdNode. This comes in addition to the 4,444 restricted shares in AdNode that Element/PCV already own.

Additionally, in early Q1-20 Element/PCV participated with capital in the seed round for the US based company Horizon GlobexUS. Element acquired 0,46% of the common equity for USD 100 000 at a valuation of USD 20 million. Horizon GlobexUS offers a suite of blockchain software applications for compliant issuance and secondary trading of digital securities and their platform is SEC and FINRA approved (<https://www.horizon-globex.com/>).

The company has now embarked on its Series A round of funding at a valuation of USD 50 million. In January 2020 Element and PAL Capital was represented at the WEF in Davos. James Haft, representing both companies, was giving speeches and participating in panel debates

during the week. We are seeing increased interest in the ELE/PAL brand after the Davos week.

Corporate activities

THE ABO FACILITY

On December 10, 2019 Element signed an agreement with ABO/EHGO whereby both the issuance agreement and the share lending agreement were terminated. By signing the agreement, Element is no longer able to make drawdowns under the NOK 500 million convertible note facility and ABO is no longer entitled to require Element to issue new convertible notes. According to the agreement Element paid NOK 2.6 million in termination fee and all shares and warrants in Element held by EHGO and/or ABO will remain owned by them and may be disposed of as EHGO and ABO see fit.

Currently ABO/EHGO holds the following warrants, where each warrant give right to 1 ELE share:

Issue date	No. Of warrants	Strike price (NOK)	Expiry date
Mar-18	26,596	110	Mar-21
Mar-18	26,596	110	Mar-21
Mar-18	26,596	110	Mar-21
Mar-18	26,596	110	Mar-21
Mar-18	26,596	110	Mar-21
Jun-18	555,556	90	Jun-22
Jun-18	111,111	90	Jun-22
Dec-17	69,444	48	Dec-20
Dec-17	69,444	48	Dec-20
Oct-18	217,391	46	Jun-22
Nov-17	37,500	26	Nov-20
Mar-19	500,000	8	Jun-22
Jul-19	322,580	3.1	Jun-22

Number of warrants and strike price have been adjusted for the 1:20 reverse split that that Element effected in April 2019.

PROSPECTUS

On 7 February 2020 Element published a prospectus to allow for 5.9 million shares, issued by Element ASA after the new Norwegian prospectus rules became effective in July 2019, to be tradeable on the Oslo Stock exchange.

Outlook

Element will focus on completing the final step of the restructuring process through a sale or further down scaling of activities in Mindoro. The company is currently considering several strategic alternatives for the group and will continue to look for investment opportunities within the distributed ledger/blockchain space.

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, 28 February 2020, 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	Fourth quarter		Year to date		Year end
		31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2018
Net income/loss from equity acct. investments		49	-	156	-	0
Exploration and evaluation costs		-	-	-	-3	-3
Salary and social security cost		-261	-483	-1,145	-1,228	-1,228
Other operating expenses		-296	-671	-2,114	-2,571	-2,571
Operating loss		-508	-1,153	-3,103	-3,801	-3,801
Financial income		427	89	435	209	209
Financial costs		-3,528	-3,785	-6,549	-9,084	-9,084
Equity accounted investments	3	-	-193	-	-391	-391
Net financial items		-3,100	-3,889	-6,114	-9,266	-9,266
Loss before tax		-3,608	-5,043	-9,217	-13,068	-13,068
Income Taxes		-	-	-	-	-
Loss after tax		-3,608	-5,043	-9,217	-13,068	-13,068
Loss discontinued operations, after tax	7	-2,623	-401	-4,831	-854	-854
Loss for the period		-6,231	-5,444	-14,048	-13,922	-13,922
Basic and diluted earnings per share		-0.33	-0.05	-0.75	-0.15	-0.15
Basic and diluted earnings per share - continued operations		-0.19	-0.04	-0.49	-0.14	-0.14
Basic and diluted earnings per share - discontinued operations		-0.14	-0.00	-0.26	-0.01	-0.01
Other comprehensive income:						
Items that will be reclassified to income statement						
Currency translation adjustments		-3	1,225	-128	1,351	1,351
Other comprehensive income		-3	1,225	-128	1,351	1,351
Total comprehensive income		-6,234	-4,219	-14,176	-12,570	-12,570
Total comprehensive income attributable to Element shareholders		-6,234	-4,219	-14,176	-12,570	-12,570

Interim consolidated statement of financial position

<i>(USD '000)</i>	Note	Year to date 31/12/2019	Year end 31/12/2018
ASSETS			
Intangible asset		483	-
Financial investments	4	3,562	-
Property, plant and equipment		8	10
Equity accounted investments	3	-	3,060
Total non-current assets		4,053	3,070
Financial investments	4	553	7,252
Other receivables		104	1,632
Cash and cash equivalents	5	2,886	1,878
Total current assets		3,543	10,762
Assets classified as held for sale	7	64	5,718
Assets classified as held for sale		64	5,718
TOTAL ASSETS		7,660	19,550
EQUITY			
Share capital		3,440	1,229
Other paid-in-capital		94,657	93,392
Cumulative translation adjustments		11,733	11,861
Other equity		-102,957	-89,975
Total equity		6,872	16,507
LIABILITIES			
Other long term liabilities		-	-
Total long term liabilities		-	-
Trade payables		119	261
Convertible notes	4	-	-
Other current liabilities		141	563
Total current liabilities		260	824
Liabilities associated with assets classified as held for sale	7	529	2,219
Liabilities associated with assets classified as held for sale		529	2,219
TOTAL EQUITY AND LIABILITIES		7,660	19,550

Interim consolidated statement of cash flow

<i>(USD '000)</i>	Fourth quarter		Year to date		Year end
	31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2018
Profit/loss for the year, continued operations	-3,608	-5,042	-9,217	-13,068	-13,068
Profit/loss for the year, discontinued operations	-2,623	-401	-4,831	-854	-854
Operating activities					
Depreciation	-	-	3	-	-
Non-cash expenses related to warrants and impairments	-	640	-	7,660	7,660
Change in trade and other receivables	-54	2,194	404	-666	-666
Change in trade payables and other current liabilities	-359	-2,254	-284	-646	-646
Warrants and impairment	5,414	-	9,192	-	-
Change in assets held for sale	-47	277	-148	296	296
Cash flow from operating activities	-1,277	-4,586	-4,881	-7,278	-7,278
Investment activities					
Net expenditure on property, plant and equipment	-	-	-	-8	-8
Equity accounted investments	-	-	-	-2,915	-2,915
Investment in other financial assets	2,624	-	2,624	-6,708	-6,708
Cash flow from investment activities	2,624	-	2,624	-9,631	-9,631
Financing activities					
Proceeds from new shares issued	720	5,086	1,035	15,230	15,230
Repurchase of shares	2	-253	-80	-253	-253
Proceeds from borrowings	65	-	2,250	-	-
Cash flow from financing activities	787	4,833	3,205	14,977	14,977
Net change in cash and cash equivalents	2,134	247	948	-1,932	-1,932
Cash and cash equivalents at the start of the period	817	655	2,127	2,708	2,708
Sum translation effects	-1	1,225	-125	1,351	1,351
Cash and cash equivalents at the end of the period for cont. and disc. Operations	2,950	2,127	2,950	2,127	2,127

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>
Equity 1 January 2018		643	79,000	10,510	-16,786	-66,927	6,440
Loss for the period					-13,068	-854	-13,922
Other comprehensive income				1,351			1,351
Total comprehensive income				1,351	-13,068	-854	-12,570
Capital increase		597	14,634		-		15,231
Repurchase of shares		-11	-242		-		-253
Share options cost					6,916		6,916
Converted warrants					744		744
Total transactions with owners		586	14,392		7,659		22,637
Equity 31 December 2018		1,229	93,392	11,861	-22,194	-67,781	16,507
<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>
Equity 1 January 2019		1,229	93,392	11,861	-22,194	-67,781	16,507
Loss for the period					-9,217	-4,831	-14,048
Other comprehensive income				-128			-128
Total comprehensive income		-	-	-128	-9,217	-4,831	-14,176
Capital increase		2,229	1,326	-	537	-	4,091
Repurchase of shares		-19	-61	-	-	-	-80
Share options cost		-	-	-	188	-	188
Converted warrants		-	-	-	342	-	342
Total transactions with owners		2,211	1,265	-	1,066	-	4,542
Equity 31 December 2019		3,440	94,657	11,733	-30,345	-72,612	6,872

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>	Fourth quarter		Year to date		Year end
	31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2018
Opening balance	3,060	3,253	3,060	428	428
Net income/(loss) from equity accounted investments	-	-193	-	-391	-391
Acquisitions and increase in paid in capital	-	-	-	3,023	3,023
Dividend and other distributions	-	-	-	-	-
Other comprehensive income/(loss)	-	-	-	-	-
Divestments, derecognition and decrease in paid in capi	-3,060	-	-3,060	-	-
Ending balance	-	3,060	-	3,060	3,060

4 Financial assets and liabilities

USD ('000)	Year to date	Year end
	31/12/2019	31/12/2018
Other long-term receivables	3,562	-
Other short-term receivables	500	-
Convertible loan notes	-	5,034
Derivatives	-	1,132
Investments in fund units	53	1,086
Cash and cash equivalents	2,886	1,878
Total financial assets	7,001	9,130
Convertible notes	-	-
Trade payables	-119	-261
Total financial liabilities	-119	-261

FAIR VALUES USD ('000)	Fourth quarter		Year end 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Other long-term receivables	3,562	4,342	-	-
Other short-term receivables	500	500	-	-
Convertible loan notes	-	-	5,034	5,034
Derivatives	-	-	1,132	1,132
Investments in fund units	53	53	1,086	1,086
Cash and cash equivalents	2,886	2,886	1,878	1,878
Total financial assets	7,001	7,781	9,130	9,130
Convertible notes	-	-	-	-
Trade payables	-119	-119	-261	-261
Total financial liabilities	-119	-119	-261	-261

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 unobservable inputs (Level 3)
Assets measured at fair value	31/12/2019	-	-	2,271
Assets measured at amortized cost	31/12/2019	-	1,791	-
Convertible loan notes	31/12/2019	-	-	-
Derivatives	31/12/2019	-	-	-
Investments in fund units	31/12/2019	-	53	-
USD ('000)	Fair value measurement using			
	Date of valuation	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable 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>	31/12/2019	31/12/2018
Cash and bank deposits	2,843	1,494
Restricted bank deposits	42	384
Total cash and cash equivalents in the statement of financial position	2,885	1,878
Cash and cash equivalents related to discontinued operations	64	250
Cash and cash equivalents in the statements of cash flow	2,949	2,128

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	
Total		428,412	318,000	-

7 Discontinued operations

(USD '000)	Fourth quarter		Year to date		Year end
	31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2018
Other Revenue	-8	-	-8	-	-
Exploration and evaluation costs	-3	64	-89	-20	-20
Salary and social security cost	-97	-102	-364	-340	-340
Other Operating expenses	-2,515	-194	-4,371	-325	-325
Operating loss	-2,623	-233	-4,831	-686	-686
Financial income	-	-	-	-	-
Financial costs	-	-	-	-	-
Net financial items	-	-	-	-	-
Loss before tax	-2,623	-233	-4,831	-686	-686
Deferred tax expense	-	-168	-	-168	-168
Loss after tax	-2,623	-401	-4,831	-854	-854
Loss for the period	-2,623	-401	-4,831	-854	-854
			Year to date	Year end	
(USD '000)			31/12/2019	31/12/2018	
ASSETS					
Exploration and evaluation assets			-	5,328	
Property, plant and equipment			-	5	
Total non-current assets			0	5,333	
Other receivables			-	52	
Other financial assets			-	83	
Cash and cash equivalents			64	250	
Total current assets			64	385	
TOTAL ASSETS			64	5,718	
LIABILITIES					
Deferred tax			202	195	
Other long term liabilities			-	-	
Total long term liabilities			202	195	
Trade payables			166	182	
Other current liabilities			161	1,842	
Total current liabilities			327	2,024	
TOTAL LIABILITIES			529	2,219	

Reporting calendar

Financial reporting 2019

Annual Report 2019.....	29.04.2020
Quarterly Report – Q1.....	29.05.2020
Half year Report.....	31.08.2020
Quarterly Report – Q3.....	30.11.2020
Quarterly Report – Q4.....	26.02.2021

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