element

Annual Report 2018

General Statement

The enclosed Financial statements and Board of Directors' report, together with the accompanying notes, fulfills Element ASA's Norwegian statutory requirements for annual reporting. The Annual report 2018 is available in PDF-format on our website www.elementasa.com. Throughout this report "the Company" refers to parent company Element ASA, while "the Group" refers to Element ASA and its affiliate companies.

The Board of Directors and Management

Thomas Christensen, Chairman of the Board of Directors

Thomas is a graduate in mechanical engineering from the University of Gothenburg's institute, with an Master of Business Administration from BI Norwegian Business School. He mainly works experience is with technology and venture capital. He has extensive experience within Corporate Finance and has conducted over 40 M&A transactions, stock listings, debt and equity financing within shipping and technology, both as Chief Financial Officer and external adviser. He has also experience from challenging turnarounds through board positions in global businesses. He is chairman of the in companies like Grieg Shipbrokers, Didac AS, Nordic Light Norway AS and holds board seats in several companies abroad. Christensen was elected as a member of the Board of Directors in January 2019.

Frode Aschim, Board Member

Aschim holds a MSc in Shipping and Law from the University of Plymouth from 1996. His work experience includes Managing partner Range Capital Partners LLC/Range Exploration Partners LLC, Board Member Odfjell Invest Ltd, Portfolio Manager and Futures broker within the energy and shipping sector. He is a director for Ether Capital Ltd, and an independent investor and advisor. Aschim resides in London, UK. Aschim was elected as a member of the Board of Directors in May 2016.

Mona Lynne Eitzen, Board Member

Eitzen holds a Master of Law degree from the University of Oslo from 2001. Her previous work include lawyer at Ræder, lawyer at Vogt & Wiig and Higher Executive Officer at Ministry of Trade and Industry. She is currently the owner and Chairperson of LemonWax AS. She holds board seats in several companies like Favuseal AS and Favuseal Steel AS. Eitzen resides in Oslo, Norway. She was elected as a member of the Board of Directors in June 2016 and reelected by the Annual General Meeting in June 2018 for a period of 2 years.

Kari Mette Toverud, Board Member

Kari Mette Toverud is Director of Communications at Norkart AS. Ms. Toverud has worked in the telecom and datacom sectors for the past 23 years: Communication and Marketing Director at Broadnet and Ventelo from 2011 to 2014 and held the same position at Network Norway from 2006 to 2011). She was COO at Cloudberry Mobile from 2014 to 2015 and has held top management positions at Telenor Media, Telenor Mobil and Telenor Nordic Mobile (1995–2006). She has also served on a number of boards, notably Telenor Eiendom, Telenor Norge and Telenor Key Partner, and currently sits on the boards of NextGenTel Holding ASA, Totalctrl AS, KatrinUri AS, Systek AS and Norwegian Golf Federation. Ms. Toverud has a Master of Business and Marketing/Handeløkonom from BI Norwegian Business School/Handelsakademiet (1987–1991). Toverud was elected to the Board for a 2 year term at the AGM in June 2018.

Cecilie Grue, CEO

Grue holds a Master of Law degree from the University of Oslo from 1997. Her previous work include 8 years as equity partner of the lawfirm Wikborg Rein & Co, in-house lawyer at the Oslo Stock Exchange and Legal Director of Bionor ASA. She holds various directorship including Mobile Software AS and Tschudi Bio Company AS. Grue resides in Bærum, Norway. She was elected to the Board of Directors in June 2016 and withdrew therefrom, as a consequence of the Norwegian Public Limited Liability Company Act, to assume the position of Interim CEO of the Company effective January 2017.

Geir Johansen, CFO

Johansen holds a master's degree in international business from the Norwegian Business School BI and has completed an Executive development program at IMD. Johansen has broad financial experience from publicly traded companies and has in the past 12 years worked as Group CFO for Axactor AB, S.D. Standard Drilling and DOF Subsea ASA. Johansen has extensive international experience and has over the last 20 years lived and worked in Japan, the USA, Singapore, Romania and London, and is currently living in Oslo. Johansen joined Element in December 2018 and lives in Oslo, Norway.

Hans Ola Haavelsmo, COO

Haavelsrud holds an MSc in Philosophy from the London School of Economis and an Executive MBA in Finance from the Norwegian School of Economics (NHH). He has broad financial and industrial experience from seven years as a transactions advisor at PwC, and five years as a director at an international EPC firm within power generation and transmission with operations in Norway, Africa and Asia. Haavelsrud joined Element in September 2018 and lives in Oslo, Norway.

Operational review of business activities

Ambershaw Metallics Inc (AMI) – Canada

AMI is a metals and mining company incorporated under the laws of the Province of British Columbia, Canada. AMI is controlled by Legacy Hill Resources (LHR) while the Group retains a significant interest in the company. As of the date of this report, the Group holds 26.7% of the shares in AMI. AMI intends to provide the North American and international steel industry with normal grade concentrate and premium grade Direct Reduced Iron (DRI) pellets.

DRI is used by Electric Arc Furnaces (EAF) as a complement and substitute to scrap steel. EAF's are heavily dependent on high quality iron ore pellets as feed stock for recycling scrap steel, which are currently in short supply. End-users have to pay premiums for pellets with a higher Fe content

AMI holds the Bending Lake iron deposit in NW Ontario, Canada, which hosts a NI 43-101 compliant resource of 336 Mt magnetite ore in the Indicated and Inferred categories.

In August 2018, AMI filed an application to the Canadian authorities for an Advanced Exploration permit for 100 000 ton bulk sample. As at the date of this report, the application is still ongoing, and the permit is awaited but is subject to the authorities' approval of the Mine Closure Plan which constitutes the last part of the Advanced Exploration permit application.

During 2018 the Group entered into an Investment- and Shareholders Agreement ("SHA") with LHR and AMI setting out the details of the Group's right to become the owner of up to 51% of the shares in AMI on a fully diluted basis. The investment was made through the following three tranches:

- 1st payment of 0.35 MUSD: 8 February 2018. This first tranche was made through subscription of new shares in AMI;
- 2nd payment of 1.50 MUSD: 1 March 2018. This second tranche was made through subscription of new shares in AMI; and,
- 3rd payment of 4.85 MUSD: 15 June 2018. This third tranche was made through a new convertible bond.

The convertible bond has a first fixed and floating charge over the business and assets of AMI and a coupon of 7%. The maturity date will be the earlier of the listing of AMI or 31 December 2020, but Element may convert the bonds at any time prior to maturity. Assuming the principal amount of 4.85 MUSD and accrued interests thereon is converted into shares in AMI as of 31 December 2020, Element's ownership will be increased from 26.7% to approximately 50% of the shares of AMI on a fully diluted basis, and the total investment by the Group in AMI will in aggregate amount to 7.8 MUSD.

If the New Convertible Loan under the Third Tranche is converted by Element, Element has the right to swap the required number of AMI shares in a transaction with LHR under which LHR will receive Element shares as settlement, should Element require to do so, in order to reach 51% ownership on a fully diluted basis in AMI.

Mindoro Nickel project – The Philippines

Mindoro Nickel is a nickel-laterite deposit, which originally was discovered by the Group in 1996. It is one of the largest undeveloped nickel deposits in the world, with more than 344 million tons mineral resources defined, holding an estimated 3 million tons nickel. A Definitive Feasibility Study concluded that Mindoro Nickel could be a substantial low-cost producer of nickel for more than 100 years.

Resource Category	*Tonnage, MT*	*Ni, MT*	Ni, %	Co, %
Measured	16.7	0.143	0.85	0.09
Indicated	207.7	1.778	0.86	0.05
Measured + Indicated	224.4	1.921	0.86	0.06
Inferred	120.3	1.005	0.87	0.22
Total	**344.7**	**2.926**	**0.86**	**0.11**

Mineral resources (0.5% Ni cog for both limonite and saprolite)

Resource Category	*Tonnage, MT*	*Ni, MT*	Ni, %	Co, %
Proved	11.4	0.107	0.94	0.10
Probable	114.9	1.092	0.95	0.06
Proved + Probable	**126.3**	**1.199**	**0.95**	**0.06**

Proved and probable reserves by ore type (0.75% NIO cog for limonite and 0.85%Ni cog for saprolite)

Ore type	*Tonnage, MT*	*Ni, MT*	Ni, %	Co, %
Limonite	59.1	0.544	0.92	0.09
Saprolite	67.1	0.658	0.98	0.03

Proved and probable reserves by ore type (0.75% NIO cog for limonite and 0.85%Ni cog for saprolite)

During 2017 Sunbright Consulting has performed several laboratory tests with a Catalytic Reduction, Sintering and Magnetic Separation (CRSM) technology, which is a low energy consumption, low opex and capex technology, which indicate that it should be possible to upgrade the existing grade of the Mindoro ore into concentrate. The technology can be implemented on a modular basis, and the laboratory reports indicate that the Mindoro Nickel deposit may produce 600,000 ton of nickel concentrate per module with a capex of USD 26-35 million. The results show profitability with a nickel price at 6,300 USD/per ton and an EBITDA (before royalties) of USD 28-32 million p.a. with a market price between 14,000 and 15,000 USD/per ton and mining only 0.5% of the total recorded resources p.a. Pending pilot testing and subsequent full-scale testing of the CRSM technology the Group expect that the annual production can be increased by investing in several modules.

During 2018 the company started to extract a sample of up to 500 ton from the deposit for the purpose of using this in a small scale "proof of concept" production in China. The feasibility of the CRSM technology for the Mindoro deposit is scheduled to be concluded on within Q1 of 2020. The Group is working on increasing the potential of its Mindoro Nickel asset and is continuously considering divestment of the assets through a sale or other forms of partnerships.

In April 2019, the Group received a notice from the provincial governor in Oriental Mindoro to halt the ongoing sampling programme for 500 tons of mineralised ore from the Mindoro nickel deposit. As of the date of filing this report, the Group is considering its options with regards to seeking judicial relief in order to continue its 500 ton sampling programme for which approval from the Philippine central government was obtained in august 2018.

Ocead Funds investment with exposure to CMT, a publicly listed mining company in Morocco.

In 2018 Element acquired 396 fund units In Osead fund, Luxembourg which equals 3.96% of total units in the fund. The Osead fund indirectly controls 37% of the outstanding shares in CMT. CMT is the second largest mining company in Morocco founded in 1974, listed on the Casablanca Stock Exchange and specializing in the exploration, extraction and processing of base metal, precious metal and industrial metal ores.

Element also acquired an option to acquire up to 50% of the fund units in Ocead fund. The purchase price for achieving a 50% ownership of the Osead fund was approximately EUR 27,5m. At the time of entering in to the letter of intent, the share price of CMT was MAD 1800 (EUR 162) per share, while share price at the endo of 2018 was MAD 1297 (EUR 120) per share. A portion of the option to buy, must be utilized no later than 30.06.2019 and failing to do so will see the entire option agreement lapse.

At the time of publishing the 2018 annual report the Board of Element ASA has decided and announced that it will not use the option as described above, and that the company is considering selling the fund units as well.

Asset-Linked Token Project

On 27 October 2017, the Group announced that it had entered into a Terms of Agreement with Harmonychain AS to explore the issuance of asset-linked Tokens. The business case for the Token Project is based on blockchain technology and will be indirectly linked to commodities or products in which the Group has ownership interests.

In a rapidly changing world, there have been a lot of developments in token- and blockchain based technology. This technology has the potential to provide a fast and secure transaction structure with a verifiable, publicly available audit trail. Almost all tokens and "coins", like Bitcoin, lack a link or backing by physical assets. In comparison, the Tokens which Element is contemplating to issue would be indirectly linked to commodity pricing.

At the date of this Annual Report, the Group is currently in the process of evaluating the business case related to the Token Project with a view to ensure that the project is in compliance with all applicable laws and regulations.

Share capital and warrants

During the first quarter of 2018 GEM Global Yield Fund exercised all the 2 125 000 warrants awarded to GEM under the Share Subscription Facility which was announced on November 22, 2018. All warrants had a strike price of NOK 2.80 per share.

On March 29, 2018 the members of the board of directors in Element ASA exercised a total of 547 734 share options at a strike price of NOK 2.37 per share. The Board decided to issue the same number of shares to fulfil the Company's obligation to deliver the share under the share option agreement.

On April 9, 2018 ABO converted NOK 12.5 million to shares in Element ASA at a conversion price of NOK 4.70 per share. The amount converted to shares was part of the initial NOK 50 million convertible bond agreement entered in to between ABO and Element and announced on August 31, 2017.

On June 6, 2018 Element made the first drawdown of NOK 50 million under the new NOK 500 million convertible loan facility with ABO. At the same time the Company issued 2 222 222 warrants to ABO with a strike price of NOK 4.5 per share. The entire amount of NOK 50 million was converted to shares during the period of June 26, 2018 and September 5, 2018 at a weighted average conversion price of NOK 2.3 per share.

On June 12, 2018 ABO converted NOK 12.5 million to shares in Element ASA at a conversion price of NOK 3.80 per share. The amount converted to shares was the final conversion related to the initial NOK 50 million convertible bond agreement entered in to between ABO and Element and announced on August 31, 2017.

On October 1, 2018 Element made the second drawdown of NOK 50 million under the new NOK 500 million convertible loan facility with ABO. At the same time the Company issued 4 347 826 warrants to ABO with a strike price of NOK 2.3 per share. The entire amount of NOK 50 million was converted to shares during the period of October 11, 2018 and November 9, 2018 at a weighted average conversion price of NOK 1.46 per share.

On January 9, 2019 ABO exercised 500 000 warrants awarded to ABO under the initial Convertible Bond Facility which was announced on August 31, 2018. The warrants had a strike price of NOK 1.30 per share.

Report from the Board of Directors

The Business of the Group

Element ASA is an international company, engaged in the acquisition and development of mineral resources. The Company is listed on the Oslo Stock Exchange, with head office in Oslo, Norway and an office in Manila, the Philippines. Element is dedicated to the responsible development of natural resources.

The Group's strategy is to identify undervalued projects, closing in on cash flow, where infrastructure and other basic work have in large been completed. The Group currently has two mineral assets in its portfolio which are both in the developing stage and one financial investment in a fund which gives exposure to a mining company in Morocco, Additionally the Group has been working on an asset-linked token project during 2018.

Financial performance

The Group had no operating income in 2018. For the financial period ending 31 December 2018, the Group had a consolidated loss after tax from continuing operations of USD 13.1 million (2017: USD 3.3 million). Total loss after tax for the period was USD 13.9 million (2017: USD 3.9 million). Salary, social expenses and other administrative expenses by the end of the year was USD -3.8 million (2017: USD 2.0 million), while net financial items were USD -9.3 million (2017: USD -1.3 million). The financial cost amounted to USD 9.47 million (2017: USD 1.3 million), where USD 7.3 million was non-cash calculated cost related to options and warrants mainly associated with the ABO facility.

Cash flow from operating activities was negative USD 7.3 million (2017: negative USD 2.7 million). Cash flow from investment activities was negative USD 9.6 million (2017: negative USD 1.4 million) and was due to investments in Osead Funds (CMT) and Ambershaw Metallics Inc. All investment activities are related to continuing operation.

As at 31 December 2018, the Group's equity was USD 16.5 million (2017: 10.1 million) or USD 0.13 per outstanding share (2017: USD 0.10 per outstanding share). This corresponds to an equity ratio of 84.2% per cent (2017: 63.7 per cent), calculated by dividing total equity by total assets (alternative performance measure).

At the end of 2018 cash and bank deposits totalled USD 1.9 million (2017: USD 2.6 million). The cash reserves were placed in bank deposits denominated in NOK and USD. The Group has no interest-bearing debt.

During 2018, the Group has issued convertible noted in relation to financing activities. The Group has also issued warrants to external parties. Details of the warrants and convertible notes are described in Note 2 and note 14.

The Company is not engaged in any significant R&D activities.

Risk review

The Board and management consider systematic and deliberate management of risk as essential in the development of its projects and regard this as a significant factor for long-term value creation for the shareholders, employees and society. The risk assessment process involves analysing both external and internal risk factors, including corporate risk and project risk factors. A risk assessment is presented to the Board and the Audit committee on a regular basis.

Prolonged periods of low nickel and iron prices would have a material adverse effect on the Group

In recent years, commodity prices have been historically unfavorable to natural resource producers. This has had an adverse effect the Group's ability to sell or develop its assets. Changes in the long-term commodity prices could have an adverse impact on the economic viability of projects that are planned or in development.

The Group may fail to realize sufficient value in the execution and implementation of major projects or business acquisitions.

Major projects and acquisitions are subject to significant risk, and uncertainty in making the investment evaluation and project execution. Acquisitions may also contain significant unidentified risks and liabilities, which could have a material adverse effect on the Group's profits and financial position.

The Group is dependent on external financing to meet its strategic plans, and difficulties obtaining financing can impede the Groups ability to reach its strategic goals.

The Group has currently no on-going production or operating cash flow and focuses on value creation through diversification of the project portfolio, by identifying and investing in assets that are close to or in production. Failure to obtain the funding necessary to acquire and develop these assets will have an adverse effect on the Group's ability to obtain future cash flows.

Changes in regulatory framework or political environment in which the Group operates could have a materially adverse effect on the Group.

The Group's actions must strictly adhere to the laws and regulations in the countries in which the Group operates and must be in line with the Group's corporate values; integrity, compassion and dedication. The Group is making every effort to fully comply with local, national and international guidelines for responsible corporate conduct and sustainable development.

Regulatory matters specifically relating to the Group's Mindoro nickel project in the Philippines:

In January 2017, the Group's Environmental Compliance Certificate (ECC) connected to the Mindoro project was revoked due to its claimed expiry. The Group has asked for a reconsideration of such revocation and argued that the five-year term of the ECC should not be deemed expired as the time period were the ECC was revoked by the government, and subsequently the Group was prevented from fully implementing the Mindoro Nickel Project, should not be counted towards the expiry of the ECC. Moreover, the Group argued that it was denied of due process by the Philippine Department of Environment and Natural Resources (DENR) when it precipitately issued the cancellation letter without prior notice and hearing. As of the date of filing this report, the Group Is still awaiting a response from the DENR to its request for reconsideration.

Further, the Group received Show Cause Orders issued by the DENR. The DENR has publicly stated that the Mineral Production Sharing Agreements (MPSA's) of the Mindoro Nickel Project are being considered for cancellation by the DENR for being inside watershed areas. The Group's affiliate companies that are the holders of the mineral agreements have strongly contested this government action and stressed that the mineral agreements constitute mutually binding contracts with the government, as the law defines them so, and that the Project has complied with all the legal and statutory requirements for their approval, granting and continued monitoring. The Group's affiliates had already sent its Reply letters to the Show Cause Orders issued by the DENR explaining therein why the mineral agreements should not be cancelled unilaterally and arbitrarily. The Group is still awaiting the DENR's response and/or action on its Reply-letters. In the event that the Group receives an adverse decision from the DENR, appeal may be lodged against that decision to the Office of the President and thereafter, an application for judicial relief can be filed.

The 2017 submittals to the DENR on the ECC revocation and the MPSA Show Cause Orders as described above remain unacted, and there are no subsequent orders received from the Philippine government.

During the first quarter of 2018, the Group received the approvals of the Second Renewal of Exploration Periods for MPSA No. 341-2010-IVB and MPSA No. 277-2009-IVB of affiliate Aglubang Mining Corporation (AMC) and for MPSA No. 342-2010-IVB of affiliate Alagag Mining Incorporated. Further, during the same period, the Group received the approval of the Fourth Renewal of Exploration Period for MPSA No. 167-2000-IV, also of AMC. The approvals cover the two year implementation of Work Programs (exploration, environment and community development) for the four (4) licensed tenements areas.

In March of 2018, the DENR approved the Deed of Assignment of MPSA No. 342-2010-IVB, assigning all the rights and interests of Alagag Mining Incorporated to AMC. As of 2018, all the 4 MPSA titles and licenses are denominated under AMC.

In August of 2018, the Mines and Geosciences Bureau of DENR approved the amended Exploration Work Program for MPSA 167-2000-IV which subsequently included bulk sampling of nickel ore samples as part of the CRSM testing program that is planned to be carried out in China.

In April 2019, the Group received a notice from the provincial governor in Oriental Mindoro, Philippines to halt the ongoing sampling programme for 500 tons of mineralised ore from the Mindoro nickel deposit. As of the date of filing this report, the Group is considering its options with regards to seeking judicial relief in order to continue its 500 tons sampling programme for which approval from the Philippine central government was obtained in August 2018.

Element is seeking support from people directly affected by the Group's projects. For Mindoro Nickel, the Group believes that through continued efforts by way of education, information and open dialogue it can build further support also from people and groups expressing negative views on mining. The Group conducts the operations in the Philippines with respect for all people in its host communities and have placed special attention to the Indigenous population in its Mindoro concession area.

Corporate governance

Element’s governance systems are based on principles set out in the Norwegian Code of Conduct for Corporate Governance. In accordance with section 3-3b of the Norwegian Accounting Act, an overall report of corporate governance at Element has been pre-pared and enclosed as a separate document in the annual report.

Envireonment Impact and Corporate social responsibility

The core of our vision and values is to act responsibly and build sustainable communities based on ethical, social and environmental norms. The ethical guidelines for Element and the Company’s business ethics are being reviewed annually and the Company reports on international standards for corporate social responsibility.

The Company facilitates equal opportunities for professional and personal development regardless of gender. The Company has a reasonable gender balance and strives to maintain a good working environment. The company has not had any work accidents or incidents in 2018, and the Group has not had an effect on the external environment.

In accordance with section 3-3c of the Norwegian Accounting Act, a report of Corporate Social Responsibility has been prepared. The report is included as a separate document in the annual report and includes details on working environment, injuries, accidents, sickness absence, equality and non-discrimination, as well as social responsibility and external environment. This report is an integral part of the Board of Directors’ report.

Parent Company Results

The parent company had a loss for the year of NOK 98.3 million (2017: loss of NOK 35.7 million). This reflects net financial loss of NOK 64.1 million (2017: net financial loss of NOK 19.2 million). The Board proposes that no dividend is paid and that the annual result is transferred to other equity.

The annual accounts have been prepared based on the going concern assumption in accordance with section 3-3a of the Norwegian Accounting Act. This is based on the Group’s plans, budgets and level of activity going forward.

As of 31 December 2018, the parent company had cash and cash equivalents in the amount of NOK 16.3 million (2017: 21.5 million). In addition, the company has a remaining credit facility of NOK 350 million, thus sufficient sources of funds for the next 12 months are available.

The valuation of the Group’s assets, including intangible exploration assets, is based on the going concern assumption.

Assumptions of Continued Operation

The Group does not have any revenue and relies on other sources for liquidity and funds to finance operations. Currently the company has a convertible bond facility with ABO where NOK 380 million remain available. The Board considers this facility sufficenet to secure operations for the next 12 months (ref. note 14 in the annual report for further details about the facility)”. In accordance with section 3-3a of the Norwegain Accounting Act, the Board confirms that the assumptions of continuing operations are present.

Outlook

Element will continue to look for interesting investment opportunities within the mining and mineral space in the coming quarters. While the convertible bond facility with ABO currently is Element's main source of funds, the Board will actively be looking for alternative sources for funding.

The Group is working to increase the potential of its Mindoro Nickel asset through realization or other forms of partnerships, including a pilot test on the Catalytic Reduction, Sintering and Magnetic Separation (CRSM) technology and preparations for submitting applications for renewal of its mining permits in February 2020.

As a part of the ongoing strategy review the Board will also consider the best way forward for the token/blockchain initiative.

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

Thomas Christensen
Chairman of the Board

Mona Lynne Eitzen
Board Member

Kari Mette Toverud
Board Member

Frode Aschim
Board Member

Cecilie Grue
CEO

Consolidated financial statements

Consolidated statement of profit and loss and other comprehensive income

(USD '000)	*Note*	**2018**	**2017**
Other Revenue		-	-
Exploration and evaluation costs		-3	-3
Salary and social security cost	5, 6, 7, 8	-1 228	-482
Other Operating expenses	9, 10	-2 571	-1 520
Operating loss		**-3 802**	**-2 005**
Financial income	11	207	53
Financial costs	11	-9 083	-1 315
Equity accounted investments	4	-391	-10
Net financial items		**-9 267**	**-1 272**
Loss before tax		**-13 069**	**-3 277**
Income Taxes	12	-	-
Loss after tax		**-13 069**	**-3 277**
Loss discontinued operations, after tax	15	-854	-643
Loss for the period		**-13 922**	**-3 920**
Basic and diluted earnings per share	13	-0,15	-0,08
Basic and diluted earnings per share - continued operations	13	-0,14	-0,06
Basic and diluted earnings per share - discontinued operations	13	-0,01	-0,01
Other comprehensive income:			
Items that will be reclassified to income statement			
Currency translation adjustments		1 351	21
Other comprehensive income		**1 351**	**21**
Total comprehensive income		**-12 570**	**-3 899**
Total comprehensive income attributable to Element shareholders		**-12 570**	**-3 899**

Consolidated statement of financial position

(USD '000)	*Note*	**2018**	**2017**
ASSETS			
Property, plant and equipment		10	3
Equity accounted investments	4	3 060	428
Total non-current assets		**3 070**	**432**
Financial investments	11, 14	7 252	1 153
Other receivables	14, 16	1 632	74
Cash and cash equivalents	14, 17	1 878	2 619
Total current assets		**10 762**	**3 845**
Assets classified as held for sale	15	5 718	5 837
Assets classified as held for sale		**5 718**	**5 837**
TOTAL ASSETS		**19 550**	**10 114**
EQUITY			
Share capital	18	1 229	643
Other paid-in-capital	18	93 392	79 000
Cumulative translation adjustments	18	11 861	10 510
Other equity	18	-89 975	-83 713
Total equity		**16 507**	**6 440**
LIABILITIES			
Other long term liabilities	19	0	0
Total long term liabilities		**0**	**0**
Trade payables	20	261	247
Derivatives	14	0	721
Convertible notes		0	0
Other current liabilities	19, 20	563	502
Total current liabilities		**824**	**1 470**
Liabilities associated with assets classified as held for sale	15	2 219	2 204
Liabilities associated with assets classified as held for sale		**2 219**	**2 204**
TOTAL EQUITY AND LIABILITIES		**19 550**	**10 114**

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

Mona Lynne Eitzen
Board Member

Thomas Christensen
Chairman of the Board

Frode Aschim
Board Member

Kari Mette Toverud
Board Member

Cecilie Grue
CEO

Consolidated statement of cash flows

(USD '000)	*Note*	**2018**	**2017**
Profit/-loss for the year, continued operations		-13 068	-3 277
Profit/-loss for the year, discontinued operations		-854	-643
Operating activities			
Depreciation		-	6
Non-cash expenses related to options and warrants		7 660	369
Change in trade and other receivables		-666	-47
Change in trade payables and other current liabilities		-646	1 243
Changes in other long term liabilities		-	-317
Change in assets held for sale		296	-70
Cash flow from operating activities		**-7 278**	**-2 736**
Investment activities			
Net expenditure on property, plant and equipment		-8	-
Equity accounted investments		-2 915	-438
Investment in other financial assets		-6 708	-961
Cash flow from investment activities		**-9 631**	**-1 400**
Financing activities			
Proceeds from new shares issued		15 230	6 009
Repurchase of shares		-253	
Cash flow from financing activities		**14 977**	**6 009**
Net change in cash and cash equivalents		-1 932	1 874
Cash and cash equivalents at the start of the period		2 708	834
Sum translation effects		1 351	-
Cash and cash equivlents at the end of the period for cont. and disc. Operations		**2 127**	**2 708**

Consolidated statement of changes in equity

(USD '000)	*Note*	*Share capital*	*Other paid-in capital*	*Cumulative translation adjustments*	*Other equity*	*Held for sale*	*Total*
Equity 1 January 2017		**339**	**69 599**	**14 015**	**-13 243**	**-66 757**	**3 953**
Loss for the period		-	-	-	-3 920	-	-3 920
Other comprehensive income		20	3 676	-3 505	-	-170	21
Total comprehensive income		**20**	**3 676**	**-3 505**	**-3 920**	**-170**	**-3 899**
Capital increase		284	5 725	-	-	-	6 009
Share options cost		-	-	-	145	-	145
Converted w arrants		-	-	-	232	-	232
Total transactions with owners		**284**	**5 725**	**-**	**377**	**-**	**6 386**
Equity 31 December 2017		**643**	**79 000**	**10 510**	**-16 786**	**-66 927**	**6 440**

(USD 1 000)	*Share capital*	*Other paid-in capital*	*Cumulative translation*	*Other equity*	*Held for sale*	*Total*
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 w arrants				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**

Notes to the consolidated financial statements

01 Information about the company and the group

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

The consolidated financial statements for 2018 comprise the parent company and its subsidiaries (collectively referred to as the "Group" or to each company as a "group company"), and show the consolidated profit/loss and the consolidated financial position for the parent company Element ASA and the companies in which it has a controlling interest, when these are presented as a single financial unit.

The Group's main activity is international exploration and evaluation activities with a focus on non-precious metals and mineral projects. As at 31 December 2018, the Group's main activity is to identify assets close to or in production for investment. Current projects are related to Ambershaw Metallics Inc (AMI) in Canada, the Mindoro Nickel Project in the Philippines, and fund units in Minière De Touissit SA. The Mindoro Nickel Project is classified as Asset held for sale as the main focus is to realize this project. As of 31 December 2018, the Group owns 26,7% of AMI, and has exclusive financing rights to potentially obtain 51% of the company. As the Group has significant influence over AMI, the company is accounted for using the equity method as an investment in an associated company. The Group has the right to appoint 1 board member to the Board of Directors in AMI. Element owns 396 fund units In Osead fund, Luxembourg which equals 3.96% of total units in the fund. The Osead fund indirectly controls 37% of the outstanding shares in CMT. CMT is the second largest mining company in Morocco. Element has an option to acquire up to 50% of the fund units in Ocead fund.

The parent company was listed on Oslo Stock Exchange on 21 December 2006. The consolidated financial statements for Element ASA, including disclosure requirements for the accounting period ended 31 December 2018, were approved by the Board of Directors and CEO on 15 April 2019, and will be presented for approval at the annual General Meeting on 29 June 2018.

02 Basis of preparation of the financial statements

The consolidated financial statements for the financial year 2018 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and interpretations that are relevant to the Group, as well as the disclosure requirements in the Norwegian Accounting Act and requirements set out by Oslo Stock Exchange, which are effective for financial periods commencing 1 January 2018. The consolidated financial statements have been prepared on a historical cost basis, except certain financial assets and liabilities (including derivative instruments) which are recorded at fair value through equity or the statement of profit or loss

Going concern

The annual accounts have been prepared based on the going concern assumption in accordance with section 3-3a of the Norwegian Accounting Act. This is based on the Group’s plans, budgets and level of activity going forward.

As of 31 December 2018, the Group had cash and cash equivalents in the amount of USD 2,127 thousand, this is not sufficient to cover the Group's operating expenses, liabilities, and planned investment schedule for the 12 months following the end of year. Note that the expected investment schedule is not an obligation on the Group, but that the Group expects to complete the investment schedule in full. Should the Group choose to forfeit its investment schedule, there would not be sufficient cash at the date of this report to support the Group's operations for the next 12 months.

However, On 06 June 2018, the Group entered into a convertible bond facility with Alpha Blue Ocean Inc. Under the Convertible Note Facility Element may draw ten 10 tranches (each a “Tranche”) of 50 MNOK in convertible bonds over a period of four years. The Tranches may be drawn following a “cool down period” of maximum 30 days following issuance of any single Tranche. Each Tranche entitles Alpha Blue Ocean Inc to warrants, as set out below.

As of 31 December 2018, the Group had drawn down two tranches of the convertible not facility, and all tranches were converted in 2018.

The period following 31 December 2018,

On 22 February Element and ABO agreed to amend the third tranche of the Convertible Note Facility splitting tranche 3 into several sub-tranches. The first sub-tranche will be in the amount of MNOK 20, the subsequent tranches will be in the amount of MNOK 5-15. The remaining sub-tranches may be called by Element or ABO subject to a 20 trading day cool down period between each tranche.

The remaining ABO trances will secure the Group's operations for the next 12. months.

Consolidation of exploration and evaluation activities

As part of an intercompany reorganisation in 2009, the Group separated its various projects in separate legal entities. This resulted in the transfer of shares in the Philippine subsidiaries from Element ASA to Mindoro Nickel AS. Mindoro Nickel AS is a special purpose vehicle for the Mindoro Nickel Project, acting as direct holder of the Company’s mining interests in affiliate Philippine companies. The control of Mindoro Nickel lies within this legal entity.

Mindoro Nickel AS 100 %-owned Philippine subsidiary, Intex Resources Phils. Inc. (IRPI) is the Group's operational company in the Philippines, but it has only indirect ownership in the mining tenements:

Mindoro Nickel AS owns 40 % of three Philippine affiliate companies: Aglubang Mining Corp. (AMC), Alagag Mining Inc. (AMI), and Shapa Holding Corp. (SHC).

60 % of the shares in the local mining company AMI is held by SHC, while SHC and AMI have a combined 60 % ownership of the other mining company AMC: AMI holds 49 % while SHC holds 11 %. SHC in turn, is owned 60 % by Geber Holding Corp., a 100 % Philippine Corporation.

Element ASA's subsidiary, Mindoro Nickel AS, has a ready exercisable option agreement with SHC to purchase the 60 % outstanding shares in Alagag Mining Inc. valid until 15 July 2019**.** There are similar ready exercisable option agreements with Shapa Holding Corporation and Alagag Mining Inc. to purchase the 60 % outstanding shares in Aglubang Mining Corp. valid until 10 December 2019. Exercise prices are USD 638/NOK 5,5 million in total. Mindoro Nickel AS is free to assign the option agreements. The agreements give the Group present access to the benefits from the activities in the entities. Any payment is in fact to be paid to a 100% consolidated subsidiary and minority interests will not be presented in the consolidated statements.

Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the amendments to IFRS which have been implemented by the Group during the current financial year. Below we have listed the amendments in IFRS which have been applicable for the Group's 2018 financial statements.

IFRS 9 Financial instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group has applied IFRS 9 retrospectively, with the exception of hedge accounting, which the Group applied prospectively, with the initial application date of 1 January 2018. The Group has not adjusting the comparative information for the period beginning 1 January 2017.

Classification and measurement

Under IFRS 9, debt instruments are subsequently measured at fair value through profit or loss, amortised cost, or fair value through OCI. The classification is based on the Group's business model for managing the assets, and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding.

The Group continued measuring at fair value all financial assets previously held at fair value under IAS 39. The following are the changes in the classification of the Group's financial assets:

Trade receivables and Cash and cash equivalents:

- This instruments were previously classified as Loans and receivables, and are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are now classified and measured as Debt instruments at amortised cost.

There are no changes in classification and measurement for the Group's financial liabilities.

03 Accounting Principles

3-1 Basis for consolidation

Subsidiaries

Subsidiaries are companies over which the Group has control. Control is defined as the power to govern the financial and operating policies of another entity so as to obtain benefits from its activities. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date on which control ceases.

Eliminations

Intercompany transactions and balances are eliminated.

Foreign currency transactions

Functional currency and presentation currency

The functional currency of the parent company (Element ASA) is NOK, while the presentation currency for the Group is USD. Comparable companies use primarily USD as their presentation currency. The Company is of the opinion that the results for the Group are best reflected using USD as the presentation currency, since this provides comparability with other corresponding companies. All amounts are presented in whole thousands if not otherwise stated.

Transactions and balances in foreign currency

Each group company registers transactions in the currency that is commonly used in the financial community where the group company operates (functional currency).

In the preparation of the financial statements for the respective group companies, transactions in currencies other than the functional currency of the entity are translated to the functional currency of the respective group company at the foreign exchange rate on the transaction date. Monetary items in foreign currencies are translated to functional currency applying the foreign exchange rate at the balance sheet date. Currency gains and losses that occur as a consequence of currency fluctuations between the transaction date and the payment date, and currency gains/losses due to translation of monetary items from foreign currency to the functional currency at the exchange rate at the balance sheet date, are recognised in profit or loss.

Consolidation
The accounts of any unit in the Group which uses a functional currency deviating from the Group's presentation currency are translated to USD as follows:

- Assets and liabilities are translated at the foreign exchange rate at the balance sheet date;
- The income statement is translated at average exchange rates; and,
- All exchange differences are entered as separate items as part of the consolidated statement of changes in equity

Currency differences on monetary items that are a part of the Group's net investment in a subsidiary are recognised as other comprehensive income.

The Group's functional currencies are NOK (Norwegian krone) and PHP (Philippine pesos). At year end, balance sheet items were converted from functional currency NOK and PHP to presentation currency USD using the following exchange rates:

	NOK 31.12		PHP 31.12	
	2018	*2017*	*2018*	*2017*
USD	8,73	8,20	52,58	49,93

3-2 Use of estimates and assumptions
The management has used estimates and assumptions that have affected assets, liabilities, incomes, expenses and information on potential liabilities. This particularly applies to the depreciation of tangible fixed assets, impairment of goodwill and evaluations related to acquisitions and pension commitments. Future events may lead to these estimates being changed. Estimates and their underlying assumptions are reviewed on a regular basis and are based on best estimates and historical experience. Changes in accounting estimates are recognised during the period when the changes take place. If the changes also apply to future periods, the effect is divided among the present and future periods.

Judgments
The management has, when preparing the financial statements; made certain significant assessments based on critical judgment when it comes to application of the accounting principles. The following notes include the Group's assessments regarding:
- Control of an entity, note 04 Investments accounted for using the equity method
- Financial instruments, note 14 Financial assets and financial liabilities

Key areas for judgments, assumptions and estimates at the balance sheet date, which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below or in its respective note.

3-3 Cash and cash equivalents
Cash and cash equivalents include bank deposits and other short-term highly liquid investments. Restricted cash includes bank deposits for withholding taxes and bank deposits pledged as security to cover certain guarantees.

3-4 Revenue recognition
The Group does not have any revenues as at 31 December 2018.

3-5 Investments in assoicates
An associate is an equity investment in which Element has the ability to exercise significant influence, which is the power to participate in the financial and operating policy decisions of the entity. Significant influence is assumed to exist when Element owns between 20 and 50 percent of the voting rights unless other terms and conditions affect Element's influence. Special voting rights may extend control beyond what is conveyed through the owners' proportional ownership interest. Such rights may take the form of a specified number of board representatives, the right of refusal for important decisions, or the requirement of a qualified majority for important decisions which effectively results in joint control with the specific ownership situation. Element accounts for investments in associates and participation in joint ventures using the equity method. Element recognizes its share of net income, including depreciation and amortization of excess values and any impairment losses, in Share of the profit (loss) in equity accounted investments.

3-6 Employee benefits

Pension obligations

The Group has a defined contribution plan for its employees in Norway. A defined contribution plan is a pension arrangement where a fixed yearly contribution is paid to a pension fund. The Group has no legal or constructive obligation to pay further contributions. Compulsory contributions are recognised as personnel costs as they arise.

Share based payment

The Group has share-based programs for the executive management and board members. The programs are measured at fair value at the date of the grant. The share option program is settled in stocks. The fair value of the issued options is expensed over the vesting period which in this case is over the agreed-upon future service time.

The cost of the employee share-based transaction is expensed over the average vesting period. The value of the issued options of the transactions that are settled with equity instruments (settled with the company's own shares) is recognised as salary and personnel cost in profit and loss and in other paid-in capital.

Social security tax on options is recorded as a liability and is recognised over the estimated vesting period.

3-7 Income tax

The tax expense consists of the tax payable and changes to deferred tax. Deferred tax/tax assets are calculated on all differences between the book value and tax value of assets and liabilities, with the exception of:

- Temporary differences linked to goodwill that are not tax deductible
- temporary differences related to investments in subsidiaries, associates or joint ventures when the Group controls when the temporary differences are to be reversed and this is not expected to take place in the foreseeable future.

Deferred tax assets are recognised when it is probable that the company will have a sufficient profit for tax purposes in subsequent periods to utilise the tax asset. The companies recognise previously unrecognised deferred tax assets to the extent it has become probable that the company can utilise the deferred tax asset. Similarly, the company will reduce a deferred tax asset to the extent that the company no longer regards it as probable that it can utilise the deferred tax asset.
Deferred tax and deferred tax assets are measured on the basis of the expected future tax rates applicable to the companies in the Group where temporary differences have arisen.
Deferred tax and deferred tax assets are recognised at their nominal value and classified as non-current asset investments (long-term liabilities) in the balance sheet.
Taxes payable and deferred taxes are recognised directly in equity to the extent that they relate to equity transactions.
Due to uncertainty related to the possible utilisation of tax losses carried forward within a reasonable timeline, deferred tax assets as at 31 December 2018 and 31 December 2017 have not been recognised.

3-8 Earnings per share

The basic and diluted earnings per share as presented for ordinary shares.

The basic earnings per share are calculated by dividing the profit attributable to equity holders of the Group by the weighted average number of ordinary shares in issue during the period excluding ordinary shares purchased by the Group and held as treasury shares.

Diluted earnings per share are calculated by dividing the profit for the period with the weighted average number of outstanding shares adjusted for potential dilution effects. Options are dilutive when they result in the issue of ordinary shares for less than the average market price of ordinary shares during the period, and only when their conversion to ordinary shares would decrease earnings per share or increase loss per share. Stock options are excluded from the computation if their effect is anti–dilutive.

3-9 Discontinued operation

Assets-held-for-sale; all non-current assets that are held for sale, which is when its carrying amount will be recovered principally through a sales transaction. Assets-held-for-sale are measured at fair value less costs to sell.

Impairment loss on initial classification as Asset-held-for-sale are allocated to the asset and included in profit or loss. This also applies subsequent re-measurement of reversal of previous recorded impairment loss. Assets held-for-sale are reclassified to held-for-use if they no longer meet the criteria to be classified as held-for-sale. The presentation of an operation as a discontinued operation is limited to a component that is classified as held-for-sale, and;

- represents a separate major line of business or geographical area or operations;
- is part of a co-ordinated single plan to dispose of a separate major line of business or geographical area of operations; or,
- is a subsidiary acquired exclusively with a view to resale.

An operation segment will normally represent a separate major line of business or geographical area of operation.

The discontinued operations fall within Level 3 of the fair value hierarchy, and has been valued using a method of comparables, and discounted for asset specific risk factors. The fair value of the asset is done by the managements based on market assumptions and external inputs.

3-10 Share capital and shareholder information

Ordinary shares are classified as equity. Expenses that are directly attributable to the issue of ordinary shares are recognised as a reduction in equity (share premium reserve).

Dividend distributions to the shareholders of the Company are classified as liability from the date on which the dividend is adopted by the general meeting.

When treasury shares are repurchased, the purchase price including directly attributable costs is recognised in equity. Treasury shares are presented as a reduction in equity. Losses or gains on transactions involving treasury shares are not recognised in the statement of comprehensive income.

Translation differences arise in connection with exchange-rate differences of consolidated foreign entities.
Exchange-rate differences in monetary amounts (liabilities or receivables) which are in reality a part of a company's net investment in a foreign entity are also included as translation differences.
If a foreign entity is sold, the accumulated translation difference linked to the entity is reversed and recognised in the statement of comprehensive income in the same period as the gain or loss on the sale is recognised.

3-11 Current versus non-current classification

The Group presents assets and liabilities in the consolidated statement of financial position as either current or non-current.
The Group classifies an asset as current when it:

- Expects to realise the asset, or intends to sell or consume it, in its normal operating cycle
- Holds the asset primarily for the purpose of trading
- Expects to realise the asset within twelve months after the reporting period

Or

- The asset is cash or a cash equivalent, unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current, including deferred tax assets.
The Group classifies a liability as current when it:

- Expects to settle the liability in its normal operating cycle
- Holds the liability primarily for the purpose of trading
- Is due to be settled within twelve months after the reporting period

Or

- It does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

All other liabilities are classified as non-current, including deferred tax liabilities.

3-12 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.
The Group classified its financial assets in two categories:

- Financial assets at amortised cost
- Financial assets at fair value through profit and losses

Financial assets at amortised cost

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows and,

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.
The Groups financial assets at amortised cost includes short-term deposit.

Financial assets at fair value through profit and loss

Financial assets and liabilities are classifiet as fair value through profit and loss if they are held for sale or
ore are calssified as this at initial recognition. All financial assets can be classified as fair value through profit and loss if:

- The classificatioin reduces a msimatch in the measurement or regcongition that would otherwise have arisen as a resulut of different rules for measuring assets and liabilites

- The financaial asset are includeed in a portfolia as current measured and reported at fear value

Transaction costs are recongnized in profit or lsos when incurred. Financial assset at fair value are measuered at reporting date. Changes in fair value is recognized in the profit or loss.

The Group has the following assets recognised in the statement as fair value through profit and loss

- Convertible loan notes
- Derivatives
- Investment in fund units

A financial asset is deemed to be exposed to impairment if there are objective indications that one or more events have had a negative effect on the estimated future cash flow from the asset. Material financial assets are tested for impairment individually. The remaining financial assets are divided into groups where each group has similar credit risks/characteristics and the impairment assessment is performed on a group basis.

Financial liabilities

Financial liabilities are classified, at initial recognition, as loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.
The Group does not have financial liabilities held-for-trading or liabilities designated as at fair value through profit or loss.

Loans, borrowings and payables
After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.
Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.
Payables are measured at their nominal amount when the effect of discounting is not material.

3-13 Financial income and expense

Financial income consists of interest income on financial investments, gains related to the disposal of financial investments and changes in the fair market values of financial assets and liabilities at fair value through profit and loss.

3-14 Cash flow statement

The cash flow statement is presented using the indirect method. Cash and cash equivalents includes cash, bank deposits and other short term, highly liquid investments with maturities of three months or less.

04 Investments accounted for using the equity method

Entity	*Country*	*Industry*	*Ownership interest*	*Voting rights*
Ambershaw Metallics Inc (AMI)	Cannada	Mining	26 %	26 %

(USD '000)	**2018**	**2017**
Opening balance	428	-
Net income/(loss) from equity accounted investments	-391	-10
Acquisitions and increase in paid in capital	3 023	438
Dividend and other distributions	-	-
Other comprehensive income/(loss	-	-
Divestments, derecognition and decrease in paid in capital	-	-
Investment at 31 December 2018	**3 060**	**428**

Ambershaw Metallics Inc

As of 31 December 2018, Element 26,7% of the shares in Ambershaw Metallics Inc (AMI) with value of USD 3 060 thousand.

AMI is a metals and mining company incorporated under the laws of the Province of British Columbia, Canada. AMI is majority owned by Legacy Hill Resources and it has specific experience in magnetite mining and pelletizing technology.
Since December 2016, the Group has held an option to acquire 51% of AMI through a combination of paid in capital and a final share swap.

Group has entered into an investment and shareholder agreement with Legacy Hill Resources. This agreement grants the Group the right to appoint one board member to the board of directors in AMI, as well as extensive veto rights covering all significant business decisions. The agreement gives the Group exclusivity in financing AMI, and the Group expects to significantly increase its shareholding in AMI.

The following summarized financial information is based on AMI's annual report as of 31 December 2018

CAD ('000)	**31.12.2018**	**31.12.2017**
Cash and cash equivalents	7 409	82
Current assets	26	153
Non-Current assets	1 741	1741
Other current liabilities	-	0
Current liabilities	-225	-481
Non-Current liabilities	-6 754	-2670
Net assets	**2 198**	**-1257**
Gross revenues	-	0
Income/(loss) before tax	-1 764	-1412
Net income/(loss)	**-1 764**	**-1412**

The acquired assets are allocated as follows:

USD ('000)	**31.12.2018**	**31.12.2017**
Portion of identifiable net assets	587	-50
Goodwill	2 436	488
Consideration paid through share swap	**3 023**	**438**
Less portion of cash and cash equivalents acquired	-1 978	-3
Consideration paid, less cash and cash equivalents acquired	**1 045**	**435**

The difference in purchase price and net assets is allocated to goodwill.

05 Salaries and personnel expenses

(USD '000)	2018	2017
Payroll expenses	921	306
Social security costs	73	84
Pension costs	37	18
Costs related to options granted to employees and directors	490	144
Other benefits	46	9
Total	**1 568**	**562**
Of which are related to discontinued operations	-340	-80
Expensed salaries and personell costs	***1 228***	***482***
Average number of full time equivalents (continuing operations)	3,0	1,5

06 Remuneration of corporate management, the Board of Directors, etc

The Group Management consists of the Group Directors. Group Directors are the CEO, the CFO and the COO that are all employed by the parent company, in addition to the President in the largest subsidiaries.

Remuneration to group management 2018 (USD '000)	*Salary*	*Benefits in kind*	*Bonus*	*Pension cost*	*Total remune-ration*
Cecilie Grue, CEO	222	1	-	15	**239**
Hans Ola Haavelsrud, COO	51	0	12	4	**68**
Kim Andre Evensen, VP Finance and Accounting	146	4	-	10	**159**
Joselito R. Bacani, President	115	10	-	-	**126**
Total remuneration to group management	**535**	**15**	**12**	**29**	**591**

Remuneration to group management 2017 (USD '000)	*Salary*	*Benefits in kind*	*Bonus*	*Pension cost*	*Total remune-ration*
Henno Grennes, CEO	34	-	-	0	**34**
Svem M. Jensen, VP Exploration	79	1	-	7	**87**
Kim Andre Evensen, VP Finance and Accounting	113	2	-	10	**125**
Cecilie Grue, CEO	157	-	-	-	**157**
Joselito R. Bacani, President	110	6	-	7	**123**
Total remuneration to group management	**492**	**10**	**-**	**24**	**527**

The Group Management takes part in the general pension scheme described in the pension note (7).

Mr. Joselito Bacani is covered by the Group's retirement fund. The current monthly salary, and the length of service is the basis for computation. Further, Mr. Bacani has a severance payment in case of Change of Control of the assets related to the Mindoro Nickel Project. In the event of a Change of Control he may terminate the contract with one month written notice and will receive an amount equal to 2.5 months' basic salary (PHP 467 thousand per month).

The share option program for corporate management is described in note 8 *Share-based payment*.

CEO Cecilie Grue Has a loan to Element ASA of total USD 20 thousand per 31 Desember 2018.

Remuneration to the Board of Directors

Remuneration of the Board of Directors consists of a fixed annual fee depending on the role in the board, as well as a fee per board meeting. The members of the Board do not have agreements for severance pay. The election committee proposes the remuneration of the Board of Directors.

Remuneration to the board of directors (USD '000)	**2018**	**2017**
Lars Christian Beitnes	51	36
Frode Aschim	39	26
Cecilie Grue	-	2
Mona Lynne Eitzen	39	27
Per Johnny Bråthen	2	-
Jon Ola Frankplads	1	-
Kari Mette Toverud	26	-
Total remuneration to the board of directors	**160**	**91**

Both Mr. Lars Christian Beitnes and Mr. Frode Aschim has entered into a service agreement with the Group. The agreements are detailed in note 23 Related Parties.

Board members have been granted options. The share option program is described in more detail in note 8 *Share-based payment*.

Element ASA has a claim on Global Vision Limited, total USD 32,2 thousand. This is related to to service agreement with Lars Christian Beitnes. See note 20. No other loans or guarantees have been granted to the Board of Directors or other related parties in 2018 or 2017.

07 Pension obligations

The Group has a commitment to pay a yearly contribution for each employee of 5% of the salary up to 7.1 times the base amount (G) in the Norwegian Social Security Act and 11% salary between 7.1 and 12 times the base amount.

In addition, the Group has set up a disability insurance arrangement (70% of salary up to 12 times the base amount), a spouse/cohabitant pension agreement (60 % of the disability pension in 10 years) and a child pension arrangement (50% of the disability pension, payment for each child under the age of 21).

As at 31 December 2018, the Group's pension scheme had three members (31 December 2018: two members). In the accounting period, the costs related to the contribution plan amounted to USD 37 thousand (2017: USD 18 thousand).

08 Share based payment

The company has a share option programme covering certain employees in senior positions and board members.
Fair value of the options is measured using the Black–Scholes pricing model. Fair value of the share options is based on fair value at the grant date. Risk free interest rate is correspondingly set to interest level at the grant date. Volatility is equivalent to the 3-year annualized volatility starting on the grant date. Share option costs are recorded directly to equity according to the vesting schedule of the individual share option grants.

Social security expense on options is recognised over the estimated vesting period. The social security expense is calculated using the appropriate tax rate on the difference between the market price and the exercise price for the shares at the balance sheet date.

Grant date	Number of options on 01.01.2018	Granted 2018	Excerxised during year	Forfeited during the year	Average strike price	strike price excercised options	Remaining share options 31.12.2018	Expiry date
20.05.2015	100 000	-		100 000	9,00	9,00	-	-
14.12.2016	547 734	-	547 734		2,37	2,37	-	-
06.03.2017	400 000		-		1,82		400 000	14.12.2021
15.11.2017	600 000				1,95		600 000	14.12.2021
06.06.0218		1 200 000			4,05		1 200 000	06.06.2023
06.06.0218		1 080 000			4,05		1 080 000	06.06.2022
Total	1 647 734	**2 280 000**	**547 734**	**100 000**			**3 280 000**	

Variables in the model for the allotment of options	2018	2017
Expekcted life	1-3 Year	1-3 Year
Risk free interest	0,92% - 1,15%	*0,87% - 1,4%*
Volatility	91,2% - 107,9%	*52% - 107%*

Share based payments compensated to key managemetn are as follows:

	Number of options on 01.01.2018	Granted 2018	Excerxised during year	Forfeited during the year	Average strike price	Average strike price excercised options	Remaining share options 31.12.2018	Expiry date
Cecilie Grue	600 000	700 000			3,81		1 300 000	06.06.2023
Frode Aschim	182 578	360 000	182 578		4,05	2,37	360 000	06.06.2022
Kim Andre Evensen	400 000	500 000			3,06		900 000	06.06.2023
Lars Christian Beitnes	182 578	360 000	182 578		4,05	2,37	360 000	06.06.2022
Mona Lynne Eitzen	182 578	360 000	182 578		4,05	2,37	360 000	06.06.2022
Total	**1 547 734**	**2 280 000**	**547 734**	**-**			**3 280 000**	

Option incentive program for Board members

As per 31 December 2018, a total of 547,734 share options are exercised by three member of the Board of Directors.

The General Meeting 6 June 2018 granted 182,758 share options to three of the Group's board members. The options vesting in equal monthly tranches for the following 12 months. The share options must be exercised before 6 June 2022.

Option incentive program for employees

As per 31 December 2018, a total of 2,200,000 share options are granted to employees.

Throughout 2018, 1,200,000 share options were granted to employees in the Group. These were awarded based on the terms approved by the General Meeting on 6 June 2018. The options vest by 1/3 per annum. The Options must be exercised within two years after vesting.

In addition, 1 000,000 options are outstanding from the Group's previous option programme. All these will expire on 14 December 2021. If an employment agreement ceases, vested options can be exercised within 12 months of the date of termination.

09 Remuneration of Auditors

(USD '000)	**2018**	**2017**
Statutory audit	93	80
Other assurance services	-	15
Tax advisory	42	-
Other services		-
Total	**135**	**95**
Amounts excluding VAT		

10 Other operating expenses

(USD '000)	**2018**	**2017**
Travel and transportation cost	399	84
Marketing and investor relations	162	135
Hire and rent expenses	-	47
Consultancy fees	1 638	570
IT expenses	143	16
Depreciation	78	6
Other operating costs	476	671
Total	**2 896**	**1 530**
Of which is related to discontinued operations	-325	-10
Other Operating Costs	**2 571**	**1 520**

11 Financial income and expenses

(USD '000)	**2018**	**2017**
Interest from financial investments		
Interest Income	207	53
Financial income	**207**	**53**
Interest cost	-36	
Other financial costs	-9 041	-1 302
Net realized foreign exchange losses	-6	-2
Net unrealized foreign exchange losses	-	-11
Financial costs	**-9 083**	**-1 315**
Net financial items	**-8 876**	**-1 262**

The Group has recorded interest income arising from the Group's investment in convertible notes issued by Ambershaw Metallics Inc.

The Group has recorded financial expenses related to convertible note facility issued by Alpha Blue Ocean Inc, and warrants held by GEM Global Yield Fund. As of 31 December 2018

12 Tax

Reconciliation between nominal and actual tax rate, continued operations (USD)	2018	2017
Loss before tax	-13 069	-3 277
Expected income tax based on nominal tax rate	-3 006	-786
permanent differences	1 253	-584
Teporary differences	-1 000	852
Change in non recognized tax assets	-252	-518
Actual reccognized tax expense continued operations	**-**	**-**

At 31 December 2018, the parent company and the Norwegian subsidiaries had unutilized tax losses carried forward of USD 45.5 million (2017: USD 36.0 million) that can be offset by future profits. These losses can be carried forward indefinitely. In addition, the subsidiaries in the Philippines have tax losses carried forward of USD 2,95 million (2016: USD 2,7 million). The losses in the Philippines can be carried forward for three years.

Annual expiration of tax loss carried forward:

(USD '000)	*2019*	*2020*	*2021*	***Sum***	**Indefinite**	**Total**
Tax loss carried forward	770	661	1 524	2 954	45 572	48 527

As at 31 December 2018, there are no deferred tax liability in the balance sheet, as this is only related to discontinues operation.

The Group's temporary differences related to the following items:

(USD '000)	**2017**	**2017**
Tangible assets	-26	-35
Other provisions	-84	-842
Tax loss carried forwards	-48 527	-38 719
Pensions	-19	-22
Unrealized foreign currency gain/-losses	-1 527	-124
Long term receivables and liabilities in foreign currencies	17 893	14 459
Total future tax-increasing/-reducing differences	**-32 289**	**-25 284**
Of which is future tax-increasing/-reducing differences related to continuing operations	-27 790	-22 457
Of which is future tax-increasing/-reducing differences related to discontinued operations	-4 500	-2 827

Off-balancesheet deferred tax assets	**7 464**	**6 013**
Of which is off-balancesheet deferred tax assets related to continuing operations	6 114	5 165
Of which is off-balancesheet deferred tax assets related to discontinued operations	1 350	848

13 Earnings per share

As at 31 December 2018, the Group has options and warrants outstanding which have a dilutive effect on the number of shares outstanding, however, the effect is not included in earnings per share as the Group has recorded losses for 2018.

(USD '000)	**2018**	**2017**
Loss for the year from continuing operations	-13 068	-3 277
Loss for the year from discontinued operations	-854	-643
Weighted average number of shares outstanding	92 996 015	50 602 484
Effect of potential diluted shares	-	-
Weighted average number of shares outstanding including dilution	92 996 015	50 602 484

(USD)	**2018**	**2017**
Basic and diluted earnings per share	-0,15	-0,08
Basic and diluted earnings per share - continued operations	-0,14	-0,06
Basic and diluted earnings per share - discontinued operations	-0,01	-0,01

14 Financial assets and financial liabilities

Financial assets and liabilities

USD ('000)	**2018**	**2017**
Other receivables	-	74
Convertible Loan Notes	5 034	1 153
Derivatives	1 132	
Investments in fund units	1 086	
Cash and Cash equivalents	1 878	2 619
Total financial assets	**9 130**	**3 846**
Trade payables	-182	
Derivatives	-	-721
Total financial liabilities	**-182**	**-721**

Fair values

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial instruments:

	2018		**2017**	
USD ('000)	*Carrying amount*	*Fair value*	*Carrying amount*	*Fair value*
Convertible Loan Notes	5 034	5 034	1 153	1 153
Derivatives	1 132	1 132		
Investments in fund units	1 086	1 086		
Cash and Cash equivalents	1 878	1 878	2 619	2 619
Total financial assets	**9 130**	**9 130**	**3 846**	**3 846**
Derivatives	0	0	-721	-721
Total financial liabilities	**-**	**-**	**-721**	**-721**

Fair value hierarchy

Fair value measurement hierarchy for assets and liabilities as of 31 December 2018:

		Fair value measurement using		
USD ('000)	*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	-
Investments in fund units	31.12.2018	-	1 086	-
Liabilities measured at fair value				
Convertible notes	31.12.2018	-	-	-
Derivatives	31.12.2018	-	-	-

There were no transfers between level 1 and level 2 in 2018.

Fair value measurement hierarchy for assets and liabilities as of 31 December 2017:

		Fair value measurement using		
USD ('000)	*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	31.12.2017	-	-	1 153
Liabilities measured at fair value				
Derivatives	31.12.2017	-	-721	-

There were no transfers between level 1 and level 2 in 2017.

Financial risk management

The Group is exposed to a number of types of financial market risk arising from its normal business activities:

- Credit risk
- Liquidity risk
- Market risk
- Equity risk

The corporate management monitors the Group's most important financial risks and assesses whether measures are required to reduce a specific risk if a need to do so is identified.

Credit risk

Credit risk is the risk of financial loss to the Group if a counterparty to a financial instrument fails to meet its contractual obligations.

Credit risk related to bank deposits is considered limited as the Group uses only banks that international credit rating firms consider to have high creditworthiness.

A large proportion of the Group's cash is placed on high-interest-bearing account with DNB Bank in Norway.
The Group is exposed to credit risk related to the convertible note to Ambershaw Metallics Inc. The notes are both convertible and secured, which significantly reduces the related credit risk.

Liquidity risk

Liquidity risk is the risk that the Group being unable to fulfil its financial obligations when they fall due. Cash management will ensure there is sufficient available cash to fulfil the Group's obligations without involving unacceptable losses or a risk of damaging the Group's reputation.

On 06 May 2018, the Group entered into a convertible bond facility with Alpha Blue Ocean Inc. Under the Convertible Note Facility Element may draw ten 10 tranches (each a "Tranche") of 50 MNOK in convertible bonds over a period of four years. The Tranches may be drawn following a "cool down period" of maximum 30 days following issuance of any single Tranche. Each Tranche entitles Alpha Blue Ocean Inc to warrants, as set out below.

The conversion price of the Convertible Bonds shall equal 100% of the lowest daily VWAP of the ten (10) trading days preceding the notice of conversion from Alpha Blue Ocean. The convertible bonds are convertible at the option of Alpha Blue Ocean but will automatically convert twelve (12) months after the issue date. Alpha Blue Ocean will have 12 months to convert each Tranche in full. Each Tranche may be converted in one or several partial conversions, during the 12-month period. The Investor cannot request a cash redemption for the convertible bonds (except in a case of an event of default). No specifically restrictive covenants nor condition precedent are attached to the instruments. Alpha Blue Ocean is entitled to a cash fee equalling 5% of the total commitment of MNOK 500. The fee is payable on a pro rata basis in connection with the first three Tranches of the Convertible Note Facility, but shall in any event be paid within 6 months.

Key terms of the Warrants
The warrant coverage is 30% based on the total committed facility of MNOK 500, compared to 50% in the first facility provided by Alpha Blue Ocean. The Company shall issue Warrants 1 ("Warrants 1") in respect of each Tranche giving Alpha Blue Ocean the right to a number of shares equal to 20% of the amount drawn in the Tranch in question divided on the exercise price for the Warrants 1. The exercise price for the Warrants 1 shall equal 120% of the lowest daily VWAP during the ten (10) trading days preceding the notice of drawdown of the Tranche in question by the Company.The Company shall also issue Warrants 2 ("Warrants 2") in respect of the total commitment underthe Convertible Note Facility giving Alpha Blue Ocean the right to a number of shares equal to 10% of the par value of the total commitment divided on the exercise price for the Warrants 2. The exercise price for the Warrants 2 shall equal 120% of the lowest of (i) the lowest daily VWAP of the ten (10) trading days immediately preceding the signing of the LOI; (ii) the lowest daily VWAP of the ten (10) trading days immediately preceding the approval of the relevant resolutions by the general meeting of shareholders of the Company with respect to the transaction; and (iii) the lowest daily VWAP of the ten (10) trading days immediately preceding the request to issue the first tranche. Unless alternatives (ii) or (iii) provides a lower exercise price, the exercise price based on the 10 days prior to entering into the LOI will be NOK 5.37 and Alpha Blue Ocean will receive 9,310,986 Warrants 2 for shares at the exercise price immediately following the EGM. Should alternative (ii) or (iii) give a lower exercise price, the number of Warrants 2 will be adjusted accordingly.

The exercise period for the Warrants is four (4) years from the date of the EGM resolution regardless of when the Warrants are issued. Both Warrants 1 and Warrants 2 may be admitted to trading on the Oslo Stock Exchange.

As of 31 December 2018, the Group had drawn down two tranches of the convertible loan facility, and all tranches were converted in 2018.

(NOK '000)	*Date of draw down*	*Principal*	*Number of attached warrants*	*Exercise price*	*Last Conversion Date*	*Average Conversion Price*	*Number of shares*
Tranche 1	06.06.2018	50 000 000	2 222 222	4,50	05.09.2018	2,30	21 750 000
Tranche 2	01.10.2018	50 000 000	4 347 826	2,30	11.10.2018	1,46	34 206 932

On 22 february 2019, Element ASA agrred with Alpha Blue Ocean INC to change the thrid tranche. The agreement is cahnged so the third tranche is dived into minimum three and maximum seven tranches. The first sub-tranche wil amount to MNOK 20, and the subsequent tranches will amount to MNOK 5-15. The total amount of the sub-tranches shall not exceed MOK 50.

Market Risk

Market risk is the risk that changes in market prices, such as commodity prices, foreign exchange rates and equity prices will affect the Group's holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters.

Price risk

The value of the Groups assets may be affected by changes in commodity prices. The Group is primarily exposed to price risk arising from changes in the commodity price of iron, nickel and molybdenum.

Foreign currency risk

The Group is exposed to currency risk relating to costs, receivables and liabilities in currency other than the functional currencies for its entities, which are NOK and PHP. Foreign exchange transactions are mainly in USD. At present, the Group does not utilise financial instruments to handle its currency risk. However, the Group regularly assesses whether there is a need to switch currency in order reduce any currency risk that may arise.

In addition, the Group's balance sheet is exposed to exchange rate movements between the functional currencies and the presentation currency (USD). The majority of the Group's cash and cash equivalents are in NOK.

The following table shows the exposure of the Group's main financial assets in currencies other than the presentation currency.

USD ('000)	*Amount in currency NOK ('000)*	*NOK/USD 31.12.2018*	*Carrying amount USD ('000)*	*Effect of a ±10% change in NOK/USD in USD ('000)*
NOK	16 387	8,73	1 878	± 188

The table above shows the effect on the Group's equity as at 31 December 2018 if the specified currencies had appreciated/depreciated by 10% and all other variables remained constant.

Equity price risk

The Group's non-listed equity investments are susceptible to market price risk arising from uncertainties about future values of the investment securities. The Group manages the equity price risk through diversification and the group has limits on individual and total equity instruments. Results on the equity portfolio are reviewed by the Group's management on a regular basis. The Group's Board of Directors reviews and approves all changes in equity investments.

15 Discontinued operation/Assets held for sale

The Group has sharpened its strategy and focused its financial- and management resources to pursue the realization of the Mindoro Nickel Project. From this, it is considered that the carrying amount will be recovered through a sale transaction. As a result of this and from December 2015, The Mindoro Nickel Project is considered as *held-for*-sale. Further, as this represent a major line of business, this will be classified as *Discontinued operation.* Following the initial classification of the asset, the Group has not been able to sell the asset within the initial 12 month period. This is primarily due to sustained low nickel prices, and a rapidly changing regulatory environment in the Philippines. As of 31 December 2018, the Group has decided to continue the classification of the asset.

Valuation of exploration and evaluation activities
The exploration and evaluation assets held for sale have not been realized despite being actively marketed for sale. The value of exploration and evaluation activities (net 5.3 MUSD) are based on management estimates, third party valuation and market input. Valuation is dependent on political factors, commodity prices and the regulatory environment and a future transaction price may differ from the estimate. See further details in Note 15 – discontinued operations.

While the company has not yet been successful in selling the Philippine assets the company considers it correct to present the assets as held for sale in the financial statement for the following reasons:

- The ongoing efforts of extracting 500mt of bulk sample from the Mindoro resource is done in order to confirm, in a larger scale production environment, that the CRSM processing method is a viable way to enhance the NI content of the Mindoro ore. This in turn is expected to generate larger interest from potential buyers of the resource.
- Element does not have the resources nor the required organization for running a production scale operation on Mindoro, hence the company intends to enter into partnerships or divest the asset prior to entering into full scale production.

The carrying value of the exploration and evaluation asset as of 31 December 2018 is USD 5.3 million (2017; USD 5.6 million).

Other current liabilities amount to USD 1.8 million as at 31 December 2018 (2017; USD 1.9 million). This consists primarily of accrued stamp duties and occupational fees accumulated in the Philippines.

At 31 December 2018, the net value of the Mindoro Nickel Project of USD 3.5 million (3.6 million in 2018) is estimated to be fair value less cost to sell.

Intex Resources Philippines Inc. (IRPI) is included in discontinued operation. IRPI has established a defined benefit plan for its Philippine employees through the formation of a trust fund. According to the pension scheme, the employees are entitled to a pension payment of between 50 to 60 per cent of their salary at the retirement age of 60 years. No other pension arrangements are offered. As at 31 December 2018, the pension scheme had 10 members. The scheme does not have any retired individuals. There were no contributions made in 2018, as the present fair value of the plan exceeded that of the defined benefit obligation. The pension asset is included in *Asset classified as held for sale* with the amount of USD 83 thousand at 31 December 2018.

Statement of profit and loss from discontinued operations

(USD '000)	***2018***	***2017***
Other Revenue	-	-
Exploration and evaluation costs	-20	-246
Salary and social security cost	-340	-329
Other Operating expenses	-325	-240
Operating loss	**-686**	**-815**
Financial income	-	-
Financial costs	-	-
Net financial items	**-**	**-**
Loss before tax	**-686**	**-815**
Deferred tax expense	-168	171
Loss after tax	**-854**	**-643**
Loss for the period	**-854**	**-643**

Assets and liabilities related to discontinued operations

(USD '000)	***2018***	**2017**
ASSETS		
Exploration and evaluation assets	5 328	5 610
Property, pland and equipment	5	2
Total non-current assets	**5 333**	**5 613**
Other receivables	52	27
Other financial assets	83	108
Cash and cash equivalents	250	89
Total current assets	**385**	**224**
TOTAL ASSETS	**5 718**	**5 837**
LIABILITIES		
Deferred tax	195	47
Other long term liabilities	0	0
Total long term liabilities	**195**	**47**
Trade payables	182	230
Other current liabilities	1 842	1 927
Total current liabilities	**2 024**	**2 157**
TOTAL LIABILITIES	**2 219**	**2 204**

Statement of cash flow for continued and discontinued operations

	2018		2017	
(USD '000)	**Cont.**	**Discont.**	**Cont.**	**Discont.**
Profit/-loss for the year	-13 068	-854	-3 277	-643
Non-cash items	7 660		375	
Changes in working capital	-1 312	296	879	-70
Cash flow from operating activities	**-6 720**	**-558**	**-2 023**	**-713**
Investment activities				
Net expenditure on property, plant and equipment	-8		-	
Equity accounted investments	-2 915		-438	
Investment in other financial assets	-6 708	-	-961	-
Cash flow from investment activities	**-9 631**	**-**	**-1 400**	**-**
Financing avtivities				
Proceeds from new shares issued	15 230			
Repurchase of shares	-253	-	6 009	-
Cash flow from financing activities	**14 977**	**-**	**6 009**	**-**
Net change in cash and cash equivalents	**-1 374**	**-558**	**2 587**	**-713**
Cash and cash equivalents at the start of the period	2 618	90	706	128
Transferred from cont. To Discont. Operations	-919	919	-675	675
Translation effects	1 552	-201		
Cash and cash equivlents at the end of the period/year	**1 878**	**250**	**2 618**	**90**

16 Other receivables

Other receivables as at 31 December:

(USD '000)	**2018**	**2017**
Advance paymnets	1 308	74
Other short term receivables	304	
Loan to employee	20	-
Total other receivables	**1 632**	**74**

17 Cash and cash equivalents

(USD '000)	**2018**	**2017**
Cash and bank deposits	1 494	2 594
Restricted bank deposits	384	25
Total cash and cash equivalents in the statement of financial position	**1 878**	**2 619**
Cash and cash equivalents related to discontinued operations	250	89
Cash and cash equivalents in the statements of cash flow	**2 128**	**2 708**

18 Share capital and shareholder information

As at 31 December 2018, Element ASA had a share capital of NOK 10,351,026 comprising 130,719,173 shares with a par value of NOK 0.08. All shares have equal voting rights and rights to dividends from the Company. All shares are fully paid.

At 31 December 2018 the Company held 1,331,517 (31 December 2017: 87,927) treasury shares. The Group cannot vote and has no right to dividends from treasury shares. Outstanding shares at 31 December 2018 were 129,387,656(31 December 2017: 65,552,533) excluding treasury shares.

(NOK '000)	**Shares ourstanding**	**Share capital**
Shares outstanding as of 31 December 2017	**65 552 533**	**5 244**
Share repurchase		-99
Conversion of convertible debt	61 905 979	4 952
Warrants exercised	3 260 661	254
Shares outstanding as of 31 December 2018	**130 719 173**	**10 351**

20 largest shareholders 31.12.2018	*Number of shares*	*Ownership in % of total shares*
Nomura International Plc	8 123 982	6,21 %
RIKARD ARNE STORVESTRE	7 600 000	5,81 %
AUPLATA SA	7 500 000	5,74 %
PRO AS	4 958 413	3,79 %
Paschi International Limited	3 662 656	2,80 %
NOBELSYSTEM SCANDINAVIA AS	3 600 000	2,75 %
SILVERCOIN INDUSTRIES AS	3 231 203	2,47 %
LEGACY HILL RESOURCES	2 134 993	1,63 %
JOMANI AS	2 000 000	1,53 %
DEDEKAM HOLDING AS	1 831 000	1,40 %
SIX-SEVEN AS	1 658 919	1,27 %
TRAPESA AS	1 542 985	1,18 %
HUY QUOC DUONG	1 513 315	1,16 %
Nordnet Bank AB	1 508 072	1,15 %
ELEMENT ASA	1 331 517	1,02 %
STAVANGER KARTING AS	1 285 000	0,98 %
WIPS AS	1 228 000	0,94 %
FREDRIK GRIMELAND	1 188 250	0,91 %
NORDNET LIVSFORSIKRING AS	1 096 772	0,84 %
SIMBA AS	1 071 000	0,82 %
Other	72 653 096	55,58 %
Total shares	**130 719 173**	**100,00 %**

Shares Element ASA owned by corporate management and board members as at 31 December 2018:

Name	*Position*	*Shares*	*Options*	*Warrants*	*CFDs*
Lars Christian Beitnes	Chairman of the board	212 578	360 000		107 460
Frode Aschim	Member of the board	228 142	360 000		-
Mona Lynne Eitzen	Member of the board	87 587	360 000		-
Kari Mette Toverud	Member of the board	48 240			
Cecilie Grue	CEO	218 240	1 300 000		-
Kim Andre Evensen	VP Finance and Accounting	-	900 000		-
Total		**794 787**	**3 280 000**	**-**	**107 460**

The shares held by Mr. Frode Aschim are held through Hannibal AS.

19 Provisions and contingent liabilities

The Group is renting offices in Karenslyst Alle 53, and the agreement can be mutually terminated with 3-month notice. The total commitment amounts to USD 8.5 thousand.

20 Trade payables, other current liabilities and non-interest-bearing financial liabilities

Short term payables as at 31 December:

(USD '000)	2018	2017
Trade Payables	**261**	**247**
Public duties payable	179	69
Accrued operating expenses	384	99
Provisions and contingent liabilities	-	334
Total other current liabilities	**563**	**502**

21 Transactions with related parties

SERVICE AGREEMENT WITH GLOBAL VISION TRADING LIMITED

On 28 June 2018 the annual general meeting approved the entry into of a consultancy agreement with Global Vision Limited for providing administrative and consultancy services to the Group. The services from Global Vision Limited are provided by Mr. Lars C. Beitnes, Chairman of the Board of Element ASA. The services provided under this agreement are those over and above those duties normally covered by a non-executive Chairman. The agreement Is in effect until 30 June 2019, and the fee amounts to NOK 100,000 per month.

SERVICE AGREEMENT WITH ETHER CAPITAL LTD

On 28 June 2018 the annual general meeting approved the entry into of a consultancy agreement with Ether Capital Ltd for providing administrative and consultancy services to the Group. The services from Ether Capital Ltd are provided by Mr. Frode Aschim, Board Member of Element ASA. The services provided under this agreement are those over and above those duties normally covered by a non-executive Board Member. The agreement was in effect until 30 June 2019 with a monthly fee of NOK 120 000. With effect from 1 February 2019 Frode Aschim has terminated his consultancy contract with the company to get more flexibility to pursue other assignments. Mr. Aschim will continue to work for the company in his capacity as member of the Board of Directors.

22 Subsequent events

In an EGF held on January 25, Thomas Christensen was elected as new Chairman of the Company's Board of Directors. The same EGF further elected Plus Revisjon AS as new auditors for the company.

On 22 February Element and ABO agreed to amend the third tranche of the Convertible Note Facility splitting tranche 3 into several sub-tranches. The first sub-tranche will be in the amount of MNOK 20, the subsequent tranches will be in the amount of MNOK 5-15. The remaining sub-tranches may be called by Element or ABO.

On March 18, 2019 the Company made a drawdown request for the first sub-tranche of Tranche 3 in the amount of NOK 20,000,000. The Company will issued 200 new notes with par value NOK 100,000 and 10,000,000 warrants to the Investor as per the amended agreement with ABO.

Subsequent to the NOK 20 million drawdown ABO has as of April 18 converted NOK 5.5 million to 23 million shares in Element ASA at an average conversion price of NOK 0.24 per share

On March 31, 2019 the Board of Directors decided that the Company would not exercise the option it has to increase its ownership stake in Ocead Fund and thereby gain a larger indirect ownership in CMT.

On April 23, 2019 the EGM resolved a reverse split of the shares 20:1

On April 24, 2019 the Company received a Cease and Desist Order from the Governor in Oriental Mindoro

Parent company financial statements

Statement of profit and loss

(NOK '000)	*Note*	**2018**	**2017**
Other Revenue	3	-	735
Net loss from associated company	4	-3 253	-83
Exploration and evaluation costs		-	-1
Salary and social security cost	5, 6, 7	-10 034	-4 643
Other Operating expenses	6, 8	-20 867	-12 562
Operating loss		**-34 154**	**-16 553**
Interest income	9	1 691	437
Interest expense	9	-290	-34
Oterh financial income			
Other financial costs	9	-73 832	-10 710
Net currency gain/-loss	9, 11	8 317	-1 900
Impairment of financial assets	14	-	-6 966
Net financial items		**-64 114**	**-19 172**
Loss before tax		**-98 268**	**-35 725**
Tax on ordinary profit/-loss	10	-	-
Loss for the year		**-98 268**	**-35 725**
Allocation of profit/-loss:			
Transferred to/-from other equity		-98 268	-35 725

Statement of financial position

(NOK '000)	*Note*	**2018**	**2017**
ASSETS			
Furnitures, fixtures, etc		90	26
Equity accounted investments	4	26 699	3 512
Investment in subsidary companies		60	
Loans to subsidiaries	14	39 422	29 353
Total non-current assets		**66 271**	**32 891**
Investments in financial assets	9, 11, 12	63 280	9 454
Other receivables	15	12 975	603
Cash and cash equivalents	16	16 330	21 464
Total current assets		**92 585**	**31 521**
TOTAL ASSETS		**158 856**	**64 412**
EQUITY			
Share capital	18	10 351	5 244
Share premium reserve	18	488 770	363 188
Other paid in capital	18	285 231	285 231
Total equity		**784 351**	**653 663**
Other equity		-632 704	-601 279
Total retained earnings		**-632 704**	**-601 279**
TOTAL EQUITY		**151 647**	**52 384**
LIABILITIES			
Other long term liabilities	19	-	-
Total long term liabilities		**-**	**-**
Trade payables		2 276	2 024
Public duties payable		1 558	564
Derivatives	9	-	5 906
Other current liabilities	19	3 376	3 533
Total current liabilities		**7 209**	**12 028**
TOTAL LIABILITIES		**7 209**	**12 028**
TOTAL EQUITY AND LIABILITIES		**158 856**	**64 412**

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

Mona Lynne Eitzen
Board Member

Thomas Christensen
Chairman of the Board

Frode Aschim
Board Member

Kari Mette Toverud
Board Member

Cecilie Grue
CEO

Statement of cash flows

(NOK '000)	*Note*	**2018**	**2017**
Operating activities			
Profit/-loss for the year		-98 268	-35 725
Non-cash expenses		66 843	1 975
Change in trade and other receivables		-9 120	-243
Change in trade payables and other current liabilities		-8 823	9 946
Changes in other long term liabilities		-	-2 736
Recognized expenses settled in options and shares		-0	1 191
Non-cash impairment of financial assets		-	6 966
Cash flow from operating activities		**-49 368**	**-18 626**
Investment activities			
Net expenditure on property, plant and equipment		-64	-
Change in long term group receivables		-6 064	-3 938
Investment in financial assets		-80 326	-11 315
Cash flow from operating activities		**-86 454**	**-15 253**
Financing avtivities			
Capital increase		132 898	49 259
Repurchase of shares		-2 209	
Cash flow from financing activities		**130 688**	**49 259**
Net change in cash and cash equivalents		-5 134	15 380
Cash and cash equivalents at the start of the period		21 464	6 084
Cash and cash equivlents at the end of the period/year		**16 329**	**21 464**

Notes to the financial statements

01 General information

Element ASA is an international mining company focusing on exploration and evaluation of metals and minerals. The Company is the parent company of the Element Group and has early phase exploration and evaluation projects in Norway.

The Company was listed on Oslo Stock Exchange on 21 December 2006. A list of the largest shareholders as at 31 December 2018 is presented in note 16 *Share capital and shareholder information*.

The Company had three employees at the end of 2018.

02 Basis for preparation

This set of financial statements comprises the parent company accounts for Element ASA only, and has been prepared in accordance with the Accounting Act of 1998 and the generally accepted accounting principles in Norway (NGAAP).

The consolidated financial statements of Element ASA as of 31 December 2018 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and are presented in a separate section of this financial statements.

Going Concern

The annual accounts have been prepared based on the going concern assumption in accordance with section 3-3a of the Norwegian Accounting Act. This is based on the Company's plans, budgets and level of activity going forward.

As of 31 December 2018, the company had cash and cash equivalents in the amount of NOK 16,330 thousand, this is not sufficient to cover the Companys operating expenses, liabilities, and planned investment schedule for the 12 months following the end of year. Note that the expected investment schedule is not an obligation on the Group.

However, On 06 June 2018, the Group entered into a convertible bond facility with Alpha Blue Ocean Inc. Under the Convertible Note Facility Element may draw ten 10 tranches (each a "Tranche") of 50 MNOK in convertible bonds over a period of four years. The Tranches may be drawn following a "cool down period" of maximum 30 days following issuance of any single Tranche. Each Tranche entitles Alpha Blue Ocean Inc to warrants, as set out below.

As of 31 December 2018, the Group had drawn down two tranches of the convertible not facility, and all tranches were converted in 2018.

On 22 February Element and ABO agreed to amend the third tranche of the Convertible Note Facility splitting tranche 3 into several sub-tranches. The first sub-tranche will be in the amount of MNOK 20, the subsequent tranches will be in the amount

of MNOK 5-15. The remaining sub-tranches may be called by Element or ABO subject to a 20 trading day cool down period between each tranche.

This trance will secure the Group's operations for the next 12. months.

Use of estimates

The preparation of the financial statements is based on available information at the time of finalizing the annual accounts. Actual results/outcome may differ from the estimates. The effects of changes in accounting estimates are accounted for in the same period as the estimates are changed.

Key areas of judgments, assumptions and estimates at the balance sheet date, which have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed in its respective note.

03 Accounting principles

3-1 Currency

The accounts for the parent company are reported in NOK and rounded to the nearest thousand. Transactions in foreign currencies are recorded at monthly average exchange rates that correspond to market exchange rates.

Monetary items in foreign currencies are recorded at the year–end exchange rates. Currency gains/losses are recognised as financial items.

As at 31 December 2018 the exchange rate for the most important currency, USD, was 8.72 (31 December 2017: NOK/USD 8.2).

3-2 Revenue recognition

The company does not have any commercial operations as at 31 December 2018.

3-3 Income tax

The tax expense consists of the tax payable and changes to deferred tax. Deferred tax/tax assets are calculated on all differences between the book value and tax value of assets and liabilities. Deferred tax is calculated as 22% percent of temporary differences and the tax effect of tax losses carried forward. Deferred tax assets are recorded in the balance sheet when it is more likely than not that the tax assets will be utilized. Taxes payable and deferred taxes are recognised directly in equity to the extent that they relate to equity transactions.

3-4 Balance sheet classification

Current assets and short term liabilities consist of receivables and payables due within one year, and items related to the inventory cycle. Other balance sheet items are classified as fixed assets / long term liabilities.
Current assets are valued at the lower of cost and fair value. Short term liabilities are recognized at nominal value.
Fixed assets are valued at cost, less depreciation and impairment losses. Long term liabilities are recognized at nominal value.

3-5 Cash and cash equivalents

Bank deposits, cash and cash equivalents comprise cash, bank deposits and other liquid assets with an original maturity of three months or less.

3-6 Subsidiaries and investment in associates

Subsidiaries and investments in associates are valued at cost in the company accounts. The investment is valued as cost of the shares in the subsidiary, less any impairment losses An impairment loss is recognised if the impairment is not considered temporary, in accordance with generally accepted accounting principles. Impairment losses are reversed if the reason for the impairment loss disappears in a lather period.
Dividends, group contributions and other distributions from subsidiaries are recognised in the same year as they are recognised in the financial statement of the provider. If dividends / group contribution exceed withheld profits after the

acquisition date, the excess amount represents repayment of invested capital, and the distribution will be deducted from the recorded value of the acquisition in the balance sheet for the parent company.

3-7 Share capital and shareholder information

Ordinary shares are classified as equity. Expenses that are directly attributable to the issue of ordinary shares are recognised as a reduction in equity (share premium reserve).

Dividend distributions to the shareholders of the Company are classified as liability from the date on which the dividend is adopted by the general meeting.

3-8 Provision and contingent liabilities

Provisions are recognised when, the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.
Provisions are measured at the best estimate for the outflow necessary to settle the obligation at the date of the balance sheet. The amount is discounted to present value if the interest effect is material.

3-9 Transactions with related parties

Two parties are regarded as related if one of the parties exercises significant influence over the other party's strategic or operational management.

Related parties during the accounting period were the Company's board and management and subsidiaries. All transactions between related parties are based on the arm's length principle (estimated fair market value).

3-10 Intercompany balances - receivables

Long-term loans are recognised at the nominal value received when the loans were established. The borrowing capacity of the subsidiaries are tested on a yearly basis.

3-11 Employee benefits

Pension obligations

The Group has a defined contribution plan for its employees in Norway. A defined contribution plan is a pension arrangement where a fixed yearly contribution is paid to a pension fund. The Group has no legal or constructive obligation to pay further contributions. Compulsory contributions are recognised as personnel costs as they arise.

Share based payment

The Group has share-based programs for the executive management and board members. The programs are measured at fair value at the date of the grant. The share option program is settled in stocks. The fair value of the issued options is expensed over the vesting period which in this case is over the agreed-upon future service time.

The cost of the employee share-based transaction is expensed over the average vesting period. The value of the issued options of the transactions that are settled with equity instruments (settled with the company's own shares) is recognised as salary and personnel cost in profit and loss and in other paid-in capital.

Social security tax on options is recorded as a liability and is recognised over the estimated vesting period.

3-12 Cash flow statement

The cash flow statement is presented using the indirect method. Cash and cash equivalents includes cash, bank deposits and other short term, highly liquid investments with maturities of three months or less.

04 Investments in associates

Ambershaw Metallics Inc

As of 31 December 2018, Element 26,7% of the shares in Ambershaw Metallics Inc (AMI) with value of USD 3 060 thousand / TNOK 26,699.

AMI is a metals and mining company incorporated under the laws of the Province of British Columbia, Canada. AMI is majority owned by Legacy Hill Resources and it has specific experience in magnetite mining and pelletizing technology.

Since December 2016, the Group has held an option to acquire 51% of AMI through a combination of paid in capital and a final share swap.

Group has entered into an investment and shareholder agreement with Legacy Hill Resources. This agreement grants the Group the right to appoint one board member to the board of directors in AMI, as well as extensive veto rights covering all significant business decisions. The agreement gives the Group exclusivity in financing AMI, and the Group expects to significantly increase its shareholding in AMI.

05 Personnel expenses

(NOK '000)	**2018**	**2017**
Payroll expenses	5 115	2 529
Social security costs	570	696
Pension costs	238	150
Costs related to options granted to employees and directors	4 004	1 191
Other personnel costs	106	78
Expensed salaries and personell costs	**10 034**	**4 643**
Of which are allocated to other group companies	0	-662
Average number of full time equivalents	3,0	1,5

06 Remuneration of executive management, board of directors and auditors

Remuneration to managment 2018 in (NOK '000)	*Salary*	*Benefits in kind*	*Bonus*	*Pension cost*	*Total*
Cecilie Grue, CEO	1 818	11	-	122	1 951
Hans Ola Haavelsrud, COO	417	1	100	36	554
Kim Andre Evensen, VP Finance and Accounting	1 191	30	-	80	1 301
Total remuneration to management	**3 426**	**42**	**100**	**238**	**3 806**

Corporate Group Management 2017

Remuneration to managment 2017 in (NOK '000)	*Salary*	*Benefits in kind*	*Bonus*	*Pension cost*	*Total*
Henno Grennes, CEO	279	-	-	3	282
Svem M. Jensen, VP Exploration	653	12	-	57	722
Kim Andre Evensen, VP Finance and Accounting	930	20	-	81	1 031
Cecilie Grue, CEO	1 300	1	-	-	1 301
Total remuneration to management	**3 162**	**33**	**-**	**141**	**3 336**

As at 31 December 2018, the Company's pension scheme had three members (31 December 2017: two members). In the accounting period, the costs related to the contribution plan amounted to NOK 238 thousand (2017: NOK 141 thousand).

The share option program for corporate management is described in note 7 *Share-based payment*.

CEO Cecilie Grue Has a loan to Element ASA of total TNOK 174 per 31 Desember 2018.

Remuneration to the Board of Directors

Remuneration of the Board of Directors consists of a fixed annual fee depending on the role in the board, as well as a fee per board meeting. The members of the Board do not have agreements for severance pay. The election committee proposes the remuneration of the Board of Directors.

Remuneration to board of directors 2018 in (NOK '000)	**2018**	**2017**
Lars Christian Beitnes	417	300
Frode Aschim	322	216
Cecilie Grue	-	18
Mona Lynne Eitzen	322	220
Per Johnny Bråthen	18	-
Jon Ola Frankplads	12	-
Kari Mette Toverud	216	-
Total remuneration to the board of directors	**1 307**	**754**

Both Mr. Lars Christian Beitnes and Mr. Frode Aschim has entered into a service agreement with the company. The agreements are detailed in note 23 Related Parties.

Board members have been granted options. The share option program is described in more detail in note 8 *Share-based payment*.

Element ASA has a claim on Global Vision Limited,total NOK 281 thousend. This is related to to service agreement with Lars Christian Beitnes. See note 20. No other loans or guarantees have not been granted to the Board of Directors or other related parties in 2018 or 2017.

Remuneration to auditor

(NOK '000)	**2018**	**2017**
Statutory audit incl. Technical assistance with financial statements	716	486
Other assurance services	-	-
Tax advisory	345	120
Other services		-
Total remuneration to auditors	**1 061**	**606**

Amounts excluding VAT

07 Shared-based payment

The company has a share option programme covering certain employees in senior positions and board members.
Fair value of the options is measured using the Black–Scholes pricing model. Fair value of the share options is based on fair value at the grant date. Risk free interest rate is correspondingly set to interest level at the grant date. Volatility is equivalent to the 3-year annualized volatility starting on the grant date. Share option costs are recorded directly to equity according to the vesting schedule of the individual share option grants.

Social security expense on options is recognised over the estimated vesting period. The social security expense is calculated using the appropriate tax rate on the difference between the market price and the exercise price for the shares at the balance sheet date.

Grant date	*Number of options on 01.01.2018*	*Granted 2018*	*Excerxised during year*	*Forfeited during the year*	*Average strike price*	*strike price excercised options*	Remaining share options 31.12.2018	*Expiry date*
20.05.2015	100 000	-		100 000	9,00	9,00	-	A
14.12.2016	547 734	-	547 734		2,37	2,37	-	A
06.03.2017	400 000		-		1,82		400 000	14.12.2021
15.11.2017	600 000				1,95		600 000	14.12.2021
06.06.0218		1 200 000			4,05		1 200 000	06.06.2023
06.06.0218		1 080 000			4,05		1 080 000	06.06.2022
Total	1 647 734	**2 280 000**	**547 734**	**100 000**			**3 280 000**	

Variables in the model for the allotment of options	2018	2017
Expekcted life	1-3 Year	1-3 Year
Risk free interest	0,92% - 1,15%	*0,87% - 1,4%*
Volatility	91,2% - 107,9%	*52% - 107%*

The fair value of the options has been calculated using Black & Scholes option-pricing model.
The average fair value of the options granted in is in 2018 is TNOK 9 196 (2017: TNOK 1 785).

Share based payments compensated to key managemetn are as follows:

	Number of options on 01.01.2018	*Granted 2018*	*Excerxised during year*	*Forfeited during the year*	*Average strike price*	*Average strike price excercised options*	Remaining share options 31.12.2018	*Expiry date*
Cecilie Grue	600 000	700 000			3,81		1 300 000	06.06.2023
Frode Aschim	182 758	360 000	182 758		4,05	2,37	360 000	06.06.2022
Kim Andre Evensen	400 000	500 000			3,06		900 000	06.06.2023
Lars Christian Beitnes	182 578	360 000	182 758		4,05	2,37	360 000	06.06.2022
Mona Lynne Eitzen	182 578	360 000	182 758		4,05	2,37	360 000	06.06.2022
Total	**1 547 914**	**2 280 000**	**548 274**	**-**			**3 280 000**	

Option incentive program for Board members

As per 31 December 2018, a total of 547,914 share options are granted to the Board of Directors.

The General Meeting 6 June 2018 granted 182,758 share options to three of the Group's board members. The options vesting in equal monthly tranches for the following 12 months. The share options must be exercised before 6 June 2022.

Option incentive program for employees

As per 31 December 2018, a total of 2,200,000 share options are granted to employees.

Throughout 2018, 1,200,000 warrants were granted to employees in the Group. These were awarded based on the terms approved by the General Meeting on 6 June 2018. The options vest by 21/3 per annum. The Options must be exercised within two years after vesting.

In addition, 1 000,000 options are outstanding from the Group's previous option programme. All these will expire on 14 December 2021. If an employment agreement ceases, vested options can be exercised within 12 months of the date of termination.

08 Other operating costs

(NOK '000)	2018	2017
Travel and transportation cost	1 421	696
Marketing and investor relations	3 459	1 115
Hire and rent expenses	-	391
Consultancy fees	15 313	4 744
IT expenses	143	132
Depreciation	37	52
Other operating costs	494	5 432
Total	**20 867**	**12 562**

9 Financial income and expense

(USD '000)	2018	2017
Interest from financial investments		
Interest Income	1 691	437
Net unrealized foreign exchange income	8 367	-
Financial income	**10 058**	**437**
Interest expences	-290	-
Other financial costs	-73 832	-10 743
Net realized foreign exchange losses	-50	-19
Net unrealized foreign exchange losses	-	-1 881
Impairment of financial assets	-	-6 966
Financial costs	**-74 173**	**-19 609**
Net financial items	**-64 114**	**-19 172**

The Company has recorded interest income amounting to NOK 1 691 thousand arising from its investment in convertible notes issued by Ambershaw Metallics Inc.

The company has substantial receivables denominated in foreign currencies. These receivables has been revaluated to the exchange rate at the balance sheet date. The net unrealized currency incomewas NOK 8,367 thousand in 2018, and NOK 1,881 thousand in 2017

10 Tax

(NOK '000)	**2018**	**2017**
Tax expense for the year are as follows:		
Income tax payable for the period	-	-
Change in deferred tax assets	-	-
Tax on ordinary profit	**-**	**-**
Reconciliation between nominal and actual tax rate		
Loss before tax	**-98 268**	-35 725
Expected income tax based on nominal tax rate	**-22 602**	-8 574
Tax effect from the following items:		
Non-deductible costs	**47 525**	-20 093
Effect of change in tax rate	**-**	-
Change in tax rate from 24% to 23'%	**-**	-
Actual recognized tax expense	**-**	**-**
Reconciliation between loss before tax and taxable loss:		
Loss before tax	**-98 268**	**-35 725**
Permanent differences	**47 525**	**-20 093**
Changes in temporary differences	**-43 836**	**35 179**
Correction of change in temproray differences from prior period	**5 906**	**-**
Increase in tax loss carried forward	**88 673**	**20 639**
Taxable loss for the period	**-**	**-**

Deferred tax assets are calculated on temporary differences arising between the tax bases of assets and liabilities and their carrying amount at the balance sheet date. Specification of the tax effect of temporary differences and tax loss carry forward:

(NOK '000)	**2018**	**2017**
Tangible assets	-226	-289
Other provisions	-734	-6 900
Long term receivables and liabilities in foreign currencies	156 128	118 522
Tax loss carried forwards	-383 070	-281 993
Total tax-increasing/-reducing differences	**-227 902**	**-170 660**
Deferred tax assets	50 138	39 252
Off balance sheet deferred tax assets	50 138	39 252

11 Financial market risk

The Company is exposed to a number of types of financial market risk arising from its normal business activities:

- Credit risk
- Liquidity risk
- Market risk

The corporate management monitors the Company's most important financial risks and assesses whether measures are required to reduce a specific risk if a need to do so is identified.

Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. Most of the Company's financial assets are bank deposits and other receivables.

Credit risk related to bank deposits is considered limited as the company uses only banks that international credit rating firms consider to have high creditworthiness.

A large proportion of the Company's cash is placed on high-interest-bearing account with DNB Bank in Norway.

The company is exposed to credit risk related to the convertible note to Ambershaw Metallics Inc. The notes are both convertible and secured, which significantly reduces the related credit risk.

Liquidity risk

Liquidity risk is the risk that the Group being unable to fulfil its financial obligations when they fall due. Cash management will ensure there is sufficient available cash to fulfil the Group's obligations without involving unacceptable losses or a risk of damaging the Group's reputation.

On 06 May 2018, the Group entered into a convertible bond facility with Alpha Blue Ocean Inc. Under the Convertible Note Facility Element may draw ten 10 tranches (each a "Tranche") of 50 MNOK in convertible bonds over a period of four years. The Tranches may be drawn following a "cool down period" of maximum 30 days following issuance of any single Tranche. Each Tranche entitles Alpha Blue Ocean Inc to warrants, as set out below.

The conversion price of the Convertible Bonds shall equal 100% of the lowest daily VWAP of the ten (10) trading days preceding the notice of conversion from Alpha Blue Ocean. The convertible bonds are convertible at the option of Alpha Blue Ocean but will automatically convert twelve (12) months after the issue date. Alpha Blue Ocean will have 12 months to convert each Tranche in full. Each Tranche may be converted in one or several partial conversions, during the 12-month period. The Investor cannot request a cash redemption for the convertible bonds (except in a case of an event of default). No specifically restrictive covenants nor condition precedent are attached to the instruments. Alpha Blue Ocean is entitled to a cash fee equalling 5% of the total commitment of MNOK 500. The fee is payable on a pro rata basis in connection with the first three Tranches of the Convertible Note Facility, but shall in any event be paid within 6 months.

Key terms of the Warrants
The warrant coverage is 30% based on the total committed facility of MNOK 500, compared to 50% in the first facility provided by Alpha Blue Ocean. The Company shall issue Warrants 1 ("Warrants 1") in respect of each Tranche giving Alpha Blue Ocean the right to a number of shares equal to 20% of the amount drawn in the Tranch in question divided on the exercise price for the Warrants 1. The exercise price for the Warrants 1 shall equal 120% of the lowest daily VWAP during the ten (10) trading days preceding the notice of drawdown of the Tranche in question by the Company.The Company shall also issue Warrants 2 ("Warrants 2") in respect of the total commitment under the Convertible Note Facility giving Alpha Blue Ocean the right to a number of shares equal to 10% of the par value of the total commitment divided on the exercise price for the Warrants 2. The exercise price for the Warrants 2 shall equal 120% of the lowest of (i) the lowest daily VWAP of the ten (10) trading days immediately preceding the signing of the LOI; (ii) the lowest daily VWAP of the ten (10) trading days immediately preceding the approval of the relevant resolutions by the general meeting of shareholders of the Company with respect to the transaction; and (iii) the lowest daily VWAP of the ten (10) trading days immediately preceding the request to issue the first tranche. Unless alternatives (ii) or (iii) provides a lower exercise price, the exercise price based on the 10 days prior to entering into the LOI will be NOK 5.37 and Alpha Blue Ocean will receive 9,310,986 Warrants 2 for shares at the exercise price immediately following the EGM. Should alternative (ii) or (iii) give a lower exercise price, the number of Warrants 2 will be adjusted accordingly.

The exercise period for the Warrants is four (4) years from the date of the EGM resolution regardless of when the Warrants are issued. Both Warrants 1 and Warrants 2 may be admitted to trading on the Oslo Stock Exchange.

As of 31 December 2018, the Group had drawn down two tranches of the convertible not facility, and all tranches were converted in 2018.

(NOK '000)	Date of draw down	Principal	Number of attached warrants	Exercise price	Last Conversion Date	Average Conversion Price	Number of shares
Tranche 1	06.06.2018	50 000 000	2 222 222	4,50	05.09.2018	2,30	21 750 000
Tranche 2	01.10.2018	50 000 000	4 347 826	2,30	11.10.2018	1,46	34 206 932

On 22 february 2019, Element ASA agrred with Alpha Blue Ocean INC to change the thrid tranche. The agreement is cahnged so the third tranche is dived into minimum three and maximum seven tranches. The first sub-tranche wil amount to MNOK 20, and the subsequent tranches will amount to MNOK 5-15. The total amount of the sub-tranches shall notexceed MOK 50.

Market Risk

Market risk is the risk that changes in market prices, such as commodity prices, foreign exchange rates and equity prices will affect the Company's holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters.

Price risk

The Company does not have any significant assets or liabilities which are exposed to price risk.

Foreign currency risk

The Company is exposed to currency risk mainly relating to receivables in currency other than the functional currencies, which are NOK. Foreign exchange transactions are mainly in USD. At present, the Company does not utilise financial instruments to handle its currency risk.

(NOK '000)	Amount in currency	NOK/USD 31.12.2018	Carrying amount	Effect of a ±10% change in NOK/USD
Gross receivables	72 255	8,73	630 484	± 63 048
Carrying amount of receivables	4 518	8,73	39 422	± 3 942

The table shows the effect on the company's equity as at 31 December 2018 if the specified currencies had appreciated/ depreciated by 10% and all other variables remained constant.

12 Financial instruments

(NOK '000)	Acquisition cost	Carrying value	Market value	Changes in value recognised in p&l
Other financial instruments				
Convertible loan notes	43 925	43 925	43 925	
Derivatives	12 693	9 874	9 874	2 819
Investments in fund units	15 908	9 481	9 481	6 427
Total other financial instruments	**72 526**	**63 280**	**63 280**	**9 246**

Financial instruments has been assessed at fair value. The fair value has been set in accordance with the value observable in the market at the balance sheet date.

13 Investments in subsidiaries

(NOK '000)	*Registered office*	*Direct ownership voting share*	*Year of acquisition*
Molynor AS	Oslo	100 %	2007
Mindoro Nickel AS	Oslo	100 %	2007
Element Asset Holding AS	Oslo	100 %	2018
Element Digital Ventures AS	Oslo	100 %	2018

(NOK '000)	Acquisition cost	Capital increase 2011	Impair-ment 2017	Carrying value 31.12.2017	Impair-ment 2018	Carrying value 31.12.2018
Molynor AS	120	8 000	-8 120	-	-	-
Mindoro Nickel AS	518		-518			
Element Asset Holding AS	30			-	-	30
Element Digital Ventures AS	30					30
Total Carrying value	**698**	**8 000**	**-8 638**	**-**	**-**	**60**

The Company has loans to Philippine and Norwegian subsidiaries. Please refer to note 13 *Intercompany balances - receivables* for further details.

14 Intercompany balances - receivables

The long-term receivables to Philippine subsidiaries, are denominated in USD, and have been revaluated to the exchange rate at the balance sheet date.

Total impairment as at 31 December 2018 amounted to NOK 591,5 million, NOK 555,5 million in 2018. The increase in totals arises from changes in the exchange rate between NOK and USD.

(NOK '000)	**2018**	**2017**
Molynor AS	3 921	3 877
Mindoro Nickel AS	890	842
Intex Resources Phils Inc	482 715	449 295
Aglubang Mining Corp	141 588	129 618
Alagag Mining Inc.	771	725
Shapa Holding Corp.	525	493
Element Asset Holding AS	73	
Impairment	-591 063	-555 497
Total carrying value	**39 422**	**29 353**

15 Accounts receivable and other short term receivables

Other receivables as at 31 December 2018:

(NOK '000)	**2018**	**2017**
Short term receivables	1 566	603
Prepaid costs	11 409	
Public duties	-	-
Total other receivables	**12 975**	**603**

16 Cash and cash equivalents

(NOK '000)	**2018**	**2017**
Unrestricted cash and cash equivalents	3 042	*21 261*
Restricted bank deposits	13 287	203
Total cash and cash equivalents	**16 330**	**21 464**

17 Share capital and shareholder information

As at 31 December 2018, Element ASA had a share capital of NOK 10,351,026 comprising 130,719,173 shares with a par value of NOK 0.08. All shares have equal voting rights and rights to dividends from the Company. All shares are fully paid.

At 31 December 2018 the Company held 1,331,517 (31 December 2017: 87,927) treasury shares. The Group cannot vote and has no right to dividends from treasury shares. Outstanding shares at 31 December 2018 were 129,387,656(31 December 2017: 65,552,533) excluding treasury shares.

(NOK '000)	**Shares ourstanding**	**Share capital**
Shares outstanding as of 31 December 2017	**65 552 533**	**5 244**
Share repurchase		-99
Conversion of convertible debt	61 905 979	4 952
Warrants exercised	3 260 661	254
Shares outstanding as of 31 December 2018	**130 719 173**	**10 351**

20 largest shareholders 31.12.2018	*Number of shares*	*Ownership in % of total shares*
Nomura International Plc	8 123 982	6,21 %
RIKARD ARNE STORVESTRE	7 600 000	5,81 %
AUPLATA SA	7 500 000	5,74 %
PRO AS	4 958 413	3,79 %
Paschi International Limited	3 662 656	2,80 %
NOBELSYSTEM SCANDINAVIA AS	3 600 000	2,75 %
SILVERCOIN INDUSTRIES AS	3 231 203	2,47 %
LEGACY HILL RESOURCES	2 134 993	1,63 %
JOMANI AS	2 000 000	1,53 %
DEDEKAM HOLDING AS	1 831 000	1,40 %
SIX-SEVEN AS	1 658 919	1,27 %
TRAPESA AS	1 542 985	1,18 %
HUY QUOC DUONG	1 513 315	1,16 %
Nordnet Bank AB	1 508 072	1,15 %
ELEMENT ASA	1 331 517	1,02 %
STAVANGER KARTING AS	1 285 000	0,98 %
WIPS AS	1 228 000	0,94 %
FREDRIK GRIMELAND	1 188 250	0,91 %
NORDNET LIVSFORSIKRING AS	1 096 772	0,84 %
SIMBA AS	1 071 000	0,82 %
Other	72 653 096	55,58 %
Total shares	**130 719 173**	**100,00 %**

Shares Element ASA owned by corporate management and board members as at 31 December 2018:

Name	*Position*	*Shares*	*Options*	*Warrants*	*CFDs*
Lars Christian Beitnes	Chairman of the board	212 578	360 000		107 460
Frode Aschim	Member of the board	228 142	360 000		-
Mona Lynne Eitzen	Member of the board	87 587	360 000		-
Kari Mette Toverud	Member of the board	48 240			
Cecilie Grue	CEO	218 240	1 300 000		-
Kim Andre Evensen	VP Finance and Accounting	-	900 000		-
Total		**794 787**	**3 280 000**	**-**	**107 460**

The shares held by Mr. Frode Aschim are held through Hannibal AS.

18 Equity

(USD 1 000)	Share capital	Share premium fund	Other paid in capital	**Total paid-in capital**	Other equity	**Total equity**
	Attributable to equity holders of the parent					
Equity 1 January 2017	**2 914**	**316 260**	**284 040**	**603 214**	**-567 477**	**35 737**
Loss for the period	-	-	-	-	-35 725	**-35 725**
Total Income	**-**	**-**	**-**	**-**	**-35 725**	**-35 725**
Capital increase	2 330	46 928	-	**49 259**	-	**49 259**
Share options cost	-	-	1 191	**1 191**	-	**1 191**
Converted warrants	-	-	-	**-**	1 923	**1 923**
Total transactions with owners	**2 330**	**46 928**	**1 191**	**50 450**	**1 923**	**52 373**
Equity 31 December 2017	**5 244**	**363 188**	**285 231**	**653 663**	**-601 279**	**52 385**

(USD 1 000)	Share capital	Share premium fund	Other paid in capital	**Total paid-in capital**	Other equity	**Total equity**
Equity 1 January 2018	**5 244**	**363 188**	**285 231**	**653 663**	**-601 279**	**52 385**
Loss for the period	-	-	-	-	-98 268	**-98 268**
Total Income	**-**	**-**	**-**	**-**	**-98 268**	**-98 268**
Capital increase	5 206	127 692	**-**	132 898	**-**	**132 898**
Repurchase of shares	-99	-2 110		-2 209		**-2 209**
Share option costs	-	-	-	**-**	4 004	**4 004**
Warrants costs					56 350	**56 350**
Converted warrants	**-**	**-**	-	**-**	6 489	**6 489**
Total transactions with owners	**5 107**	**125 582**	**-**	**130 689**	**66 843**	**197 532**
Equity 31 December 2018	**10 351**	**488 770**	**285 231**	**784 351**	**-632 704**	**151 647**

Throughout the financial year, the Company has raised capital through private placements, share swaps, convertible notes, and warrants. Refer to note 11 for details of capital increases throughout the financial year ending 31 December 2018.

19 Provision and contingent liabilities

The Company is renting offices in Karenslyst Alle 53, and the agreement can be mutually terminated with 3 months notice. The total commitment amounts to NOK 72 thousand.

20 Transactions with related parties

SERVICE AGREEMENT WITH GLOBAL VISION TRADING LIMITED

On 28 June 2018 the annual general meeting approved the entry into of a consultancy agreement with Global Vision Limited for providing administrative and consultancy services to the Group. The services from Global Vision Limited are provided by Mr. Lars C. Beitnes, the previous Chairman of the Board of Element ASA. The agreement Is in effect until 30 June 2019, and the fee paid up until 31.12.2018 has been NOK 100,000 per month.

SERVICE AGREEMENT WITH ETHER CAPITAL LTD

On 28 June 2018 the annual general meeting approved the entry into of a consultancy agreement with Ether Capital Ltd for providing administrative and consultancy services to the Group. The services from Ether Capital Ltd are provided by Mr. Frode Aschim, Board Member of Element ASA. The services provided under this agreement are those over and above those duties normally covered by a non-executive Board Member. The agreement was in effect until 30 June 2019 with a monthly fee of NOK 120 000. With effect from 1 February 2019 Frode Aschim has terminated his consultancy contract with the company to get more flexibility to pursue other assignments. Mr. Aschim will continue to work for the company in his capacity as member of the Board of Directors.

21 Subsequent events

In an EGF held on January 25, Thomas Christensen was elected as new Chairman of the Company's Board of Directors. The same EGF further elected Plus Revisjon AS as new auditors for the company.

On 22 February Element and ABO agreed to amend the third tranche of the Convertible Note Facility splitting tranche 3 into several sub-tranches. The first sub-tranche will be in the amount of MNOK 20, the subsequent tranches will be in the amount of MNOK 5-15. The remaining sub-tranches may be called by Element or ABO subject to a 20 trading day cool down period between each tranche.

CMT OPTION

Element announced 13 August 2018 that the company had signed a call option agreement for the acquisition of 50% of a Luxembourg fund which indirectly holds a 37% stake in CMT, in a joint venture with Auplata. In accordance with the option agreement, Element acquired 3,97% of the of the units of the Luxembourg fund with the remaining 46,03% to be exercised under the call option agreement.

As part of the ongoing project and strategic review, the Board has decided that Element will not exercise the option at the deadline 30 June 2019. The Board further decided that the company will evaluate selling the units currently owned by Element.

"Element continues to see value in the CMT asset but has decided not to increase the stake as this would require a payment of around EUR 27 million, an investment which Element's balance sheet today would not be in a position to support. The units that we currently own will remain in our ownership, but we will consider selling them at the right terms," says Cecilie Grue, CEO of Element.

As a consequence of the decision not to exercise the option the company will write down the book value of the options and realize a loss of USD 1.1 million in Q1 2019.

Responsibility Statement

We confirm, to the best of our knowledge, that the financial statements for the period 1 January to 31 December 2018 have been prepared in accordance with current applicable accounting standards, and give a true and fair view of the assets, liabilities, financial position and profit or loss of the entity and the Group taken as a whole.

We also confirm to the best of our knowledge that the Board of Directors report includes a true and fair review of the development and performance of the business and the position of the entity and the Group, together with a description of the principal risks and uncertainties facing the entity and the Group.

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

Mona Lynne Eitzen *Board Member*	Thomas Christensen *Chairman of the Board*	Frode Aschim *Board Member*
Kari Mette Toverud Board Member		Cecilie Grue CEO

Corporate Governance

1. Corporate governance

Element is required to report on corporate governance by section 3-3b of the Norwegian Accounting Act and by the Norwegian Code of Practice for Corporate Governance, ref. ongoing obligations for listed companies point 7. The Norwegian Accounting Act is available at www.lovdata.no. The Norwegian Code of Practice for Corporate Governance, last revised 17 October 2018, is available at www.nues.no.

This document addresses the framework of guidelines and principles regulating the interaction between the Company's shareholders, the board of directors (the "Board"), the chief executive officer (the "CEO") and the Company's executive management team (the "Executive Management Team"). This document, which has been discussed and adopted by the Board, presents the main principles and guidelines for corporate governance at Element.

2. Values and ethical guidelines

Element is an international company, engaged in the acquisition and development of mineral resources. The Group's head office is in Oslo. Elements activities are based on our values: Exploration and development is done in a responsible manner. The Group's objective is to increase values for the shareholders and other interested parties, while continuing to seek new exploration and recovery projects. Element places emphasis on performing its activities within the framework of relevant legislation and regulations. We have a specific focus on health and safety and the environment and on safeguarding local culture, knowledge and expertise.

Element has ethical guidelines that describe the Group's principles, values, standards and rules for behaviour and govern the Group's decisions, procedures and systems in such a way that they contribute to the well-being of our main interests and respect the rights of all those affected by our activities.

Regarding the Group's social responsibility, please refer to the annual report for 2018, where this is covered in detail.

3. Business

Elements business is defined in article 3 of the Company's articles of association. "The Company is engaged in trade, production, and other economic activity, hereunder participation in Norwegian and international companies."

Elements articles of association are available on our website: www.elementasa.com. The website will be updated on an ongoing basis with relevant information about the Company's activities and development.

At the time of issuing this report on Corporate Governance, the Board is in the middle of the annual strategic review process. The current strategy of the Group is searching for undervalued assets with cash flow or relatively short term to cash flow, to invest in with or without partners. In addition, the strategy includes realisation of the Mindoro Nickel project.

4. Equity and dividends

The Board aims to maintain a capital structure suited to the Group's risk profile and providing sufficient financial flexibility to manage unforeseen situations.

The Company's objective is to generate a return for the shareholders at a level which is at least equal to other investment possibilities with comparable risk. The Company does not distinguish between such a return in the form of dividends and in the form of capital appreciation. Given the Company's requirement for capital for ongoing exploration and development projects, it is unlikely that the Group will pay dividend on a regular basis. This situation may change if one or more projects are sold or in other ways monetized, or a partnership is entered into.

5. Equal treatment of shareholders and transactions with close associates

Element has only one class of share and all shares have the same rights in the Company. In situations where normal preferential rights shall be deviated from, the Company's board will prepare grounds for such a decision in accordance with the Norwegian Code of Practice for Corporate Governance and shall present these to the General Meeting. This will in turn be based on the joint best interests of the Company and the shareholders.

All Elements transactions in its own shares are performed on the stock exchange or otherwise at stock exchange prices. In the case of significant transactions between the Company and shareholders, board members and senior management or close associates of these, the Board will ensure that a valuation is performed by an independent third party. This does not apply if the General Meeting shall discuss the matter in accordance with the rules of the Public Limited Company Act. An independent valuation will also be obtained in the case of transactions between companies in the same group where one of the companies involved in the transaction has minority interests.

Element has guidelines to ensure that board members and senior management advise the Board if they have a direct or indirect significant interest in a transaction or agreement being entered into by the Group.

6. Freely negotiable shares

All shares in Element ASA are freely negotiable and the Company's articles of association do not contain any form of restriction on negotiability.

7. General meetings

The Board of Element will facilitate conditions for the shareholders to be able to exercise their rights by participating in the Company's general meetings and for the general meetings to be an effective meeting place for shareholders and the Board.

This means that:

- the notice for the general meeting shall be sent to shareholders no later than three weeks before the general meeting is held;
- all documentation for the general meeting shall be made available on the Company's website no later than three weeks before the general meeting;
- these documents shall be sufficiently detailed to allow shareholders to come to a decision on all items to be discussed;
- in order to register for participation at the general meeting the shareholder must be registered in the shareholders register five working days before the general meeting;
- shareholders who cannot attend themselves shall be given the opportunity to vote by proxy; and
- the chairman of the Board, the nominating committee and the auditor will be represented at the general meeting.

The General Meeting elects the members of the Board and the Company's external auditor. The annual General Meeting is held no later than 30 June each year. The notice of the General Meeting shall inform of the procedure shareholders must follow in order to participate and vote at the general meeting.

8. Nominating Committee

Article 7 of Elements articles of association states that the Company shall have a nomination committee.

The nominating committee shall consist of three members, elected by the General Meeting for a period of up to two years. The nominating committee shall be composed in such a way as to safeguard the shareholders' interests. The committee members shall be independent of the board and of senior management. No more than one member of the nominating committee can be a board member who should not then stand for re-election. The CEO and other senior managers shall not be members of the committee. As of 31 December 2018, the nomination committee consisted of tree members.

The nominating committee proposes candidates for the Company's board and remuneration for board members. The nominating committee will explain the background for its proposals. Element informs who the members of the nominating committee are.

9. The board: composition and independence

Element is not required to have a corporate assembly. The board members are elected at the general meeting. The decision is taken by a simple majority. Board members are elected for a period of two years and may be re-elected.

The Company's articles of association state that the Board shall consist of minimum three and maximum eight members. The Board is composed in such a way that it can safeguard the shareholders' interests, as well as the Company's need for competence, capacity and diversity. Attention has been paid to ensuring that the Board shall function as a collegial body.

The Board of Element currently consists of four members. Information about each of the board members is available on Elements website: www.elementasa.com.

The members of the Board are issued options in Element (see point 12 below) and are encouraged to own shares.

Element has routines for handling situations where board members and senior management control a significant financial interest that coincides with the Group's interests. Such circumstances will immediately be reported to the Group's board and presented in the Group's annual report. This does not apply to situations where board members or senior managers have a financial interest in the Group.

10. The work of the board

The Group's board is responsible for monitoring the Group's senior managers and the Group's strategic development and for ensuring that the interests of shareholders and other interested parties are safeguarded in a satisfactory manner.

The Group's board should determine an annual plan for its work, with particular emphasis on goals, strategy and implementation.

The Group's board shall:

- ensure that the Group is appropriately organised and that the Group's activities are carried out in accordance with prevailing legislation and regulations, the Group's objectives and articles of association and ethical guidelines, approve and monitor major business and financial strategies and their implementation and further approve key agreements and transactions;
- appoint a CEO and constantly evaluate his or her performance;
- establish a policy for remuneration to senior managers; and,
- ensure that the Group has good internal and external control routines and appropriate systems for risk management.

Element has established a clear distribution of responsibilities and duties between the Group's board and senior management. The chair of the Board is responsible for ensuring that the Group's board performs its tasks in an effective and correct manner.

Two members of the Board have entered into service agreements with the company. The services provided under this agreement are those over and above those duties normally covered by a non-executive Board Member.

The CEO is responsible for the Group's operations. The Group's board has laid down instructions for the CEO and these instructions define which decisions require the Board's approval.

The Group's board shall lead the Group's strategic planning. The Group has determined specific instructions (board instructions) and detailed rules for the Board's work and relevant procedures. Board meetings may take the form of physical or telephone meetings.

The Group is exempt from the requirement to have an audit committee due to the limited size of the balances sheet and the number of employees. The Board has decided that the full Board will act as the audit committee for the Group. This committee shall improve the Group's quality assurance of financial reporting and monitor the Group's internal control and risk management systems. The committee will also be in contact with the Group's elected auditor regarding auditing the Group's annual accounts, as well as monitoring the auditing Group's impartiality.

11. Risk management and internal control

The Group's board ensures that Element has good internal control and appropriate systems for risk management in relation to the nature and extent of the Group's activities. The internal control and systems also embrace the Group's basic values and ethical guidelines.

The framework for internal control includes routines to ensure that risks associated with the Group's day-to-day operations are identified, analysed and managed routines to review the Group's commercial risk and operational risk routines for internal control of various processes, including compliance with guidelines, routines, instructions and authorisations

The Board of Element has through its meetings an overview of how risks develop in the Group, with a review of financial developments and administrative conditions. In the Group's annual report, the Board reports on the main trends in the Group's systems for internal control and risk management and how these are linked to the Group's financial reporting.

12. Remuneration of the board

Remuneration to board members is determined by the General Meeting, based on the nominating committee's recommendations. The remuneration reflects the Board's responsibility, skills and time spent and the complexity of the Group.

All board members have been granted share options. The share option program has been approved by the annual shareholders meeting. The company has chosen to Issue options to the Board members as an alternative to paying a higher remuneration to the member of the Board.

Members of the Group's board and/or companies with which they are associated should not take on specific assignments for the Group in addition to serving on the Board. If a board member does however take on such an assignment, this must be reported to the Board as a whole. Remuneration for such additional obligations shall be approved by the Board. All remuneration to board members is described in detail in notes to the Group's accounts.

As of the balance sheet date the Group has signed consulting contracts with two of its Board members. The contracts are limited in time and has a clearly defined compensation element for work done over and beyond what a regular Board position would require. The Board members in question are highly qualified to implement the strategy of the Group. In the view of the Group it is in the Group's best interest to engage these Board members on a limited basis. Once the Group is financially stable and the strategy has been properly implemented the Group will find permanent solutions for the work required outside its Board of Directors. At the time of the publication of the annual report none of the Board members have consulting contracts with the Company.

13. Remuneration of the senior management

The Group's board has determined guidelines for remuneration of the CEO. This remuneration will be reviewed annually.

The Group's option program and similar agreements is approved by the General Meeting before the agreements are introduced. A proposed agreement shall include information about distribution principles, the value of options, accounting consequences and possible dilution effects.
Pay policy for the Group's senior management, information about remuneration, pension agreements and agreements on severance packages for the general manager and senior management are described in more detail in the notes of the annual report.

14. Information and communications

The Group’s board has established guidelines for how Element shall communicate and report financial and other information to shareholders, based on openness and with consideration of the requirement for equal treatment of all those involved in the securities market.

It is the Board’s goal to provide information about the Group’s activities on an ongoing basis to the Group’s shareholders, the Oslo Stock Exchange, analysts and investors. This is done by publishing information and holding presentations.

The Group’s financial calendar for the coming year will be published no later than 31 December in the current year. The financial calendar and other stock exchange-related information will be first published through the Oslo Stock Exchange news website www.newsweb.no, before the information is also released through news agencies and the Group’s website www.elementasa.com

All information that is communicated to the Company’s shareholders shall be published on the Group’s website at the same time as it is sent to shareholders.

The Group’s board wishes to maintain a regular dialogue with shareholders. Contact information is published on the Element website.

Elements spokespersons are the chairman of the Board and the CEO.

15. Takeovers

Element’ articles of association do not include any active instruments designed to prevent or obstruct a bid to take over the Group’s shares.

In any takeover process, the bidder, the Board of Element ASA and management, have an independent responsibility to help ensure that the shareholders of Element ASA receive equal treatment and that the activities of the target Group are not unduly disturbed. The Board has a specific responsibility for ensuring that shareholders have sufficient time and information to be able to come to a decision on the bid.

The Board shall not without specific grounds seek to prevent or impede anyone from putting forward a bid for the Group’s business or shares. If a bid is presented for the Group’s shares, the Group’s board shall not use its authority to issue shares or take any other action for the purpose of hindering the process of the bid, unless this has been approved by the general meeting after the bid has become known.

If a bid for the Group’s shares is presented, the Board shall issue a statement with its assessment of the bid and a recommendation of whether shareholders shall accept or not. If the Board finds that it cannot give the shareholders a recommendation of whether they should accept the bid or not, an explanation for this will be given

The Board’s statement about the bid should indicate whether the assessment is unanimous, and if not on what grounds some board members have dissociated themselves from the board’s statement.

The Board will consider whether to obtain an assessment from an independent expert. If any board member or senior manager or close associate or anyone who has recently held such a position is a bidder or has specific interest in the bid, the Board will obtain an independent assessment in any case. The same applies- if the bidder is a major shareholder. The assessment will be attached to, repeated in or be referred to in the Board's statement.

Transactions that in reality mean the disposal of the business will be presented to the general meeting. If it is in the shareholders' interests, the board will, if appropriate, attempt to present a competing bid.

16. Auditor

The Group's board and auditor shall have at least one meeting each year without the general manager or other members of senior management present. The auditor shall annually present to the Board the main items of a plan for completion of the auditing work. At least once a year, the auditor shall review the Group's internal control with the Board, including identifying weaknesses and suggestions for improvement.

The auditor shall attend board meetings where the annual accounts are discussed. In meetings, the auditor shall give a briefing on any significant changes in the Group's accounting principles, give an assessment of major accounting estimates and report all significant circumstances where there has been disagreement between the auditor and the Group's senior management.

The auditor receives notices of meetings of the audit committee with relevant documents and attends these meetings regularly.

The Group's auditor, Plus Revisjon AS, was elected in a extraordinary general meeting held in January 2019. The Board will receive a written declaration from the auditor each year that the auditor still satisfies the requirements for independence.

In addition to the audit itself, the auditor has from time to time provided assistance with accounts, as well as providing other services such as reporting services and tax advice. The Group's board will report on the remuneration paid to the auditor at the general meeting, including details of fees paid for the auditing work and any fees paid for other specific assignments. The annual accounts also include a specific note about this information.

The Group's senior management has regular meetings with the auditor. Accounting principles, risk areas, internal control procedures and tax questions are discussed at these meetings.

The Board makes regular assessments of whether the auditor is performing the audit function in a satisfactory manner.

Corporate social responsibility

For companies operating in the mining industry CSR is particularly important, as its activities potentially lead to changes which will affect many local parties. All main elements of the amendments to the Norwegian Accounting Act with regards to CSR reporting are relevant and will be reported on. These are: Human rights, working conditions and social issues, environment as well as anti-corruption.

That said it is also important to note that the Group does not have any active mining operations or production activities. Its activities are limited to investment in and development of mineral deposits. Therefore, reporting requirements regarding implementation and results achieved are not particularly suited for the Group.

1. Human rights

The Group's activities depend on a license to operate. This license is often a partnership with national authorities. In addition to strictly following national rules and regulations, the Group also conducts its business in line with fundamental international rules including those defined in the United Nations Declaration of Human Rights and supports the standards developed by the International Labour Organization. Any violations of basic human rights are totally unacceptable to the Group. The Group aims to keep and deepen the good relations in its projects.

2. Working conditions and social issues

Health and safety form an indispensable component in all the Group's projects and activities. All hazards and risks to health and safety must be avoided. This is achieved by ongoing and proactive commitments to the health, safety and welfare of the Group's employees, service contractors and other associated personnel through timely provision of appropriate and effective training and advice, support and guidance on all health and safety matters.

The Company facilitates equal opportunities for professional and personal development regardless of gender. The Company has a reasonable gender balance and strives to maintain a good working environment. The company has not had any work accidents or incidents in 2018, and the Group has not had an effect on the external environment.

The Group's CSR program seeks to empower local stakeholders, to be active partners in the development of their communities. Under the program, the Group implements strategies aimed at alleviating poverty and improving the standard of living through sustainable projects that harness safety, health and productivity, as well as strengthen self-reliance values.

Efforts include the use of local staff where possible and desirable.

The Group's ambition is to make sure that its projects generate sustained value locally even where the necessary actions are not stipulated by law. Regarding HSE the Group continues to aim for a zero accident rate in all of our operations.

3. Environment

To uphold the Group's license to operate a sound environmental management is essential. As mentioned earlier the Group's activities are limited to discovery and development of mineral deposits which are in turn to be operated by mining companies. As a result it sees its environmental responsibility twofold: To minimize adverse environmental effects of its own activities and to design its projects in a way that allows for high standards of green mining in the operation phase.

The basic guiding principle for the Group's plans is that land use activities will be temporary and that land used will be returned in a state after operation that allows for sustainable future use.

For its direct activities the Group is firmly committed to the protection and enhancement of the environment.

4. Anti-corruption

The Group has zero tolerance for corruption and at all times conducts its business according to the relevant laws, while observing the highest ethical standards and with no compromise to its commitment to integrity. As some operations take place in regions where the perceived level of corruption is high, at times this can be a challenge for the Group's operation. However the Group has strict guidelines in place regarding such situations, and regularly trains its staff in the practical implementation. Guidelines how to handle for example receiving and giving gifts are in place and also include procedures and requirements for partners and suppliers.

The Group actively fights corruption in its businesses, and constantly monitors its conduct on all levels to avoid any exposure to unacceptable practices.

PlusRevisjon

To the Shareholders' Meeting of Element ASA

Independent auditor`s report

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Element ASA (the Company), in our opinion:

- The financial statements are prepared in accordance with the law and regulations
- The accompanying financial statements give a true and fair view of the financial position of the parent company as at December 31, 2018, and (of) its financial performance and its cash flows for the year then ended in accordance with Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.
- The accompanying financial statements give a true and fair view of the financial position of the group as at December 31, 2018, and (of) its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

The financial statements comprise

- The financial statements of the parent company, which comprise the balance sheet as at December 31, 2018, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and
- The financial statements of the group, which comprise the balance sheet at 31 December 2018, and income statement, statement of comprehensive income, statement of changes in equity, cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

Basis for Opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company as required by laws and regulations, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

According to note 14 Liquidity risk to the financial statements and the Board of Directors` report, the Company has not sufficient funds to cover the Group`s operationg expenses, liabilities and planned investment schedule for the 12 months following the end of year. The company entered into a convertible bond facility with Alpha Blue Ocean, as their current main source of funds. Such facility will ensure, sufficient funding the 12 months following the end of year. However, the company is dependent on drawing further on the facility or securing financing through other sources. This indicates that a material uncertainty exists that may cast significant doubt on the Company`s ability to continue as a going concern. Our opinion is not modified in respect of this matter.

PlusRevisjon

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements 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.

In addition to the matter described in the Material uncertainty related to going concern section of our report, we have determind the matters described below to be the key audit matters to be communicated in our report.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, aur audit included the performance of procedures designed to respond to aur assessment of the risks of material misstatement of the financial statements. The results of our procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the financial statements.

Convertible bond facility

The Company entered into a conditional issuance agreement for convertible notes and attached warrants with Alpha Blue Ocean in May 2018. The investor shall agree to fund NOK 500.000.000 by 10 tranches of NOK 50.000.000 over a period of 4 years. Two tranches are drawn in 2018. The facility is the company`s main source of funds, and has a complexity and significance to the company`s financial statement 2018. Therefore this is considered as a key audit matter.

We have assesset the agreement, accompanying documentation, such as board minutes etc. to veryfy obligations and rights, effecting Element ASA.

Investments in financial assets (CMT)

The Company acquired Osead fund unit and options by MEUR 2,5 and MEUR 0,5 accordingly. The Osead fund is a securitization fund gowerned by the law of Luxembourg. We refer to note 14 for more information. Compliance with IFRS 9, the Group is required to have a fair value assessment. The complexity, significant judgements and assumptions involved, consequently define this as a key area audit.

Our audit procedures include, among others, reviewing management`s documentation of the groups fair value assessement, call option agreement and due diligence report. We have reviewed the fair value methology and management judgements (internal control). We have considered if there are factors indicating estimates/assumptions are not realistic.

Equity investment Ambershaw Metallics Inc

The Group holds 26,7 % of the shares in Ambershaw Metallics Inc (AMI) and convertible notes of USD 5,0 million. Further, Element has a funding agreement with AMI and Legacy Hill Resources (LHR) in, giving Element a right to become the owner of 51 % of the shares in AMI. The details of this agreement was formalized in an Investment- and Shareholder Agreement in February 2018. Based on the agreements in place, the Group has accounted for AMI as an equity investment in the Group's consolidated financial statements. Judgment was involved in evaluating if the Group has significant influence over the investee under the funding agreement, which made this a key audit matter.

We read and evaluated the funding agreement with LHR and AMI to understand the Group-s potential ownership and voting rights under the funding agreement. We inquired management and evaluated management's assessment of significant influence. Further, we obtained other relevant information, such as board minutes and the Investment and Shareholder Agreement between the Group and LHR with respect to the ownership and potential ownership of shares in AMI.
Refer to note 2 and note 4 in the financial statement for the Group's assessment of the Equity investment.

Assets held for sale - discontinued operations
Assets held for sale amounted to USD 5,3 million as of 31 December 2018. The exploration assets held for sale have not been realized despite being actively marketed for sale. The uncertain political situation in the mining sector in the Philippines, and the significant judgement involved in determining the fair value of the assets held for sale made this a key audit matter.
The key audit matter in this regard pertains to the appropriate application of IFRS 5, in particular:
- Whether the transaction meets the criteria for separate presentation of assets and liabilities classified as held for sale.
- Whether the assets and liabilities are measured at the lower of the fair value less costs to sell, or their carrying amounts.

The audit procedures included, assessing the selling process, at current stage, compared with criteria according to IFRS 5, examining minutes from the directors' board meetings, and holding discussions with Group management to determine whether the assets and liabilities should be classified as held for sale or a continued operation. Further, we assessed the 3rd party valuation of exploration.
Refer to note 2 and note 15 in the financial statement for the Group`s impairment assessment.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements 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 statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements 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 this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director (Management) are responsible for the preparation and fair presentation of the financial statements of the parent company in accordance with Norwegian Accounting Act and accounting standards and practices generally accepted in Norway, and for the preparation and fair presentation of the financial statements of the group in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's and the Group`s ability to continue as a going concern, disclosing, as applicable, matters related to going concern. The financial statements of the parent company use the going concern basis of accounting insofar as it is not likely that the enterprise will be wound up. The financial statements of the group use the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are 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 laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Refer to https://revisorforeningen.no/revisjonsberetninger which contains a description of Auditor's responsibilities.

We also provide those charged with governance 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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report and in the statements on Corporate Governance and Corporate Social Responsibility concerning the financial statements, the going concern assumption and the proposal for the allocation of the profit is consistent with the financial statements and complies with the law and regulations.

Opinion on Registration and Documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, «Assurance Engagements Other than Audits or Reviews of Historical Financial Information», it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the Company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Oslo, 29. april 2019
Plus Revisjon AS

Bent Wessel Eide
State authorised Public Accountant

Plus Revisjon AS
Rosenkrantz' gate 20, 0160 Oslo
Tlf: 23 03 91 60

www.plus-revisjon.no

Reporting calendar

Financial year 2018

Annual General meeting 28.06.2019

Financial year 2019

Quarterly Report – Q1	31.05.2019
Quarterly Report – Q2	30.08.2019
Quarterly Report – Q3	29.11.2019
Quarterly Report – Q4	28.02.2020

Contact details

Element ASA
Karenslys Allé 53
0279 Oslo
Norway
www.elementasa.com