

FIFTH Element

R E S O U R C E S Ltd

ACN 166 025 047

UPDATED PRO-FORMA STATEMENT OF FINANCIAL POSITION \$4,192,000 RAISING

DATED: 20 MAY 2014

PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION

The following pro forma consolidated statement of financial position has been prepared to illustrate the effects of the pro forma adjustments, including the Offer which are set out below and in Section 6.7 – Pro Forma Adjustments as if they had occurred on or before 31 January 2014.

As at 31 January 2014	Notes	Audited \$'000 ¹	Actual \$4,192,000 Subscription Pro Forma \$'000
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	4	104	3,755
Trade and other receivables		4	4
Deferred exploration & evaluation expenditure		69	69
Other		26	26
TOTAL CURRENT ASSETS		203	3,854
NON-CURRENT ASSETS			
Deferred exploration & evaluation expenditure		55	55
Other assets		20	20
TOTAL NON-CURRENT ASSETS		75	75
TOTAL ASSETS		278	3,929
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables		114	114
TOTAL CURRENT LIABILITIES		114	114
NON-CURRENT LIABILITIES			
Borrowings	7	162	76
TOTAL NON-CURRENT LIABILITIES		162	76
TOTAL LIABILITIES		276	190
NET ASSETS		2	3,739

¹ The historical consolidated statement of financial position has been extracted from the audited statement of financial position.

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PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION

The following pro forma consolidated statement of financial position has been prepared to illustrate the effects of the pro forma adjustments, including the Offer which are set out below and in Section 6.7 – Pro Forma Adjustments as if they had occurred on or before 31 January 2014.

As at 31 January 2014	Notes	Audited \$'000 ¹	Actual \$4,192,000 Subscription Pro Forma \$'000
EQUITY			
Issued capital	5	200	4,079
Accumulated losses	6	(198)	(340)
TOTAL EQUITY		2	3,739

The historical and pro forma consolidated statement of financial position should be read in conjunction with the following notes.

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NOTES TO THE PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION

PRO FORMA ADJUSTMENTS

The following transactions and events contemplated in this Prospectus referred to as the Pro Forma Adjustments, which are to take place on or before the completion of the Offer are presented as if they together with the Offer had occurred on or before 31 January 2014.

With the exception of the pro forma adjustments noted below, no other material transactions have occurred between 31 January 2014 and the date of this Prospectus which the Directors consider require disclosure.

Pro forma transactions:

1 The offer (final subscription)

The issue of 20,960,000 ordinary shares, at \$0.20 each, amounting to \$4,192,000.

2 The offer costs (final subscription)

The expenses associated with the minimum offer (including broker commission, corporate advisory, legal, accounting and administrative fees as well as printing, advertising and other expenses) are estimated to be \$541,000 in addition to an amount of \$129,000 which has already been expensed to 31 January 2014.

3 Recognition of a deferred tax asset

A deferred tax asset has not been recognised in relation to the capitalised Offer cost due to the uncertainty surrounding the flow of economic benefit that will flow of economic benefits that will flow in future periods.

4 Cash and Cash Equivalents

The pro forma cash and cash equivalents is set out below:

	Actual \$4,192,000 Subscription Pro Forma \$'000
Cash and cash equivalents at 31 January 2014	104
<i>Pro forma transactions:</i>	
Proceeds from shares issued under the Offer	4,192
Payment of outstanding cash Offer costs	(541)
Pro forma cash and cash equivalents	<hr/> 3,755 <hr/>

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NOTES TO THE PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION

5 Issued Capital

The pro forma issued capital is set out below:

	Actual \$4,192,000 Subscription Pro Forma \$'000
Contributed equity at 31 January 2014	200
<i>Pro forma transactions:</i>	
Restricted Shares Issued before Listing per ASX Listing Rule 1.1 Condition 10	86
Proceeds from shares issued under the Offer	4,192
Capital raising costs paid under the Offer	(399)
Pro forma contributed equity	4,079

	Actual \$4,192,000 Subscription Pro Forma No. of Shares
Number of shares at 31 January 2014	20,000,000
<i>Pro forma transactions:</i>	
Restricted Shares Issued before Listing per ASX Listing Rule 1.1 Condition 10	431,142
Shares issued under the Offer	20,960,000
Pro forma number of shares	41,391,142

6 Accumulated losses

The pro forma accumulated losses are set out below:

	Actual \$4,192,000 Subscription Pro Forma \$'000
Accumulated losses at 31 January 2014	(198)
<i>Pro forma transactions:</i>	
Costs of the Offer expensed to the income statement	(142)
Pro forma accumulated losses	(340)

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NOTES TO THE PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION

7 Borrowings

The pro forma borrowings is set out below:

	Actual \$4,192,000 Subscription Pro Forma \$'000
Borrowings at 31 January 2014	162
<i>Pro forma transactions:</i>	
Adjustment for Restricted Shares Issued on 2 May 2014	(86)
Pro forma borrowings	<u>76</u>

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NOTES TO THE PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION

8 Summary of Significant Accounting Policies

8.1 Basis of Preparation

The pro forma consolidated statement of financial position presented in this Financial Information section represents the ongoing business of Fifth Element Resources Limited.

The financial information set out in this Prospectus has been prepared in accordance with the recognition and measurement principals (but not all the disclosure requirements) prescribed by Australian Accounting Standards and other pronouncements of the Australian Accounting Standards Board.

8.2 Going Concern Basis

Notwithstanding the consolidated group loss for the period 27 September 2013 to 31 January 2014 of \$198,003, the financial information has been prepared on a going concern basis, which contemplates the realisation of assets and settlement of liabilities in the ordinary course of business. The Group has the financial support of its ultimate shareholder, Diamond Peak Overseas Limited and William Lo. The directors believe that such financial support will continue to be made available until the proposed ASX listing.

In the event that the Group does not obtain additional funding via the proposed ASX listing, it may not be able to continue its operations as a going concern and therefore may not be able to realise its assets and extinguish its liabilities in the ordinary course of operations and at the amounts stated in the financial information.

8.3 Significant Accounting Policies

a. Exploration and evaluation expenditure

Exploration and evaluation costs, including the costs of acquiring licences, are capitalised as exploration and evaluation assets on an area of interest basis.

Exploration and evaluation assets are only recognised if the rights of the area of interest are current and either:

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

Exploration and evaluation assets are assessed for impairment if sufficient data exists to determine technical feasibility and commercial viability and facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For the purposes of impairment testing, exploration and evaluation assets are allocated to cash generating units to which the exploration activity relates. The cash generating unit shall not be larger than the area of interest.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified from exploration and evaluation expenditure to mining property and development assets within property, plant and equipment.

No deferred tax asset, relating to exploration licence deductions, has been accounted for to date, as it can not be reliably determined that the Group will earn sufficient taxable profit in future periods to utilise the tax benefits, at this exploration and evaluation stage.

b. Trade and other payables

Trade and other payables represent the liabilities for goods and services received by the Group that remain unpaid at the end of the reporting period. The balance is recognised as a current liability.

NOTES TO THE PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION

8 Summary of Significant Accounting Policies (Continued)

c. Goods and services tax ("GST")

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO).

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the ATO is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities, which are recoverable from or payable to the ATO, are presented as operating cash flows included in receipts from customers or payments to suppliers.

d. Principles of consolidation

The consolidated financial statements incorporate the assets, liabilities and results of entities controlled by Fifth Element Resources Limited at the end of the reporting period. A controlled entity is any entity over which Fifth Element Resources Limited has the power to govern the financial and operating policies so as to obtain benefits from its activities.

Where controlled entities have entered or left the group during the year, the financial performance of those entities is incurred only for the portion of the period that they were controlled.

In preparing the consolidated financial information, all intergroup balances and transactions between entities in the consolidated group have been eliminated in full on consolidation.

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