11. Independent Taxation Report

GRJ:30910:RD

6 May, 2011

Accru+ Page Kirk & Jennings

The Directors
Strategic Elements Limited
PO Box 757
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Dear Sirs

Independent Taxation Report Strategic Elements Limited

We have been requested to provide a report detailing the income tax issues applying to Strategic Elements Limited ("Strategic Elements" or the "Company") and income tax issues that may apply to prospective shareholders of Strategic Elements ("Shareholder").

The report has been prepared for inclusion in a Prospectus to be dated on or about 9 May 2011. Investors will be invited to subscribe for ordinary shares through an initial public offering.

This report is based on taxation laws contained in the Income Tax Assessment Act 1936, Income Tax Assessment Act 1997 and Income Tax Rates Act 1986 (these acts are collectively referred to as "the Act").

We have provided a general overview of the income tax provisions affecting Strategic Elements and the prospective Shareholders of Strategic Elements. This is not intended to be detailed advice or an analysis of all potential income tax issues. Investors should consult their taxation advisors for advice on specific issues or circumstances.

This report should be read in conjunction with the disclaimer at the conclusion of the report.

Background

Strategic Elements is a Pooled Development Fund ("PDF") that is, a resident Australian Company registered under the Pooled Development Act 1992 ("PDF Act"). The Company is therefore regulated by the Pooled Development Fund Registration Board in accordance with the PDF Act.

Potentially significant income tax concessions are provided to both the PDF and its shareholders. These concessions include reduced rates of income tax applicable to the income of the PDF and exemptions from the taxation of dividends and capital gains for the shareholders of a PDF. These concessions are discussed in further detail in our report.

The PDF Act was introduced to encourage investment is small-medium enterprises (SMEs) carrying on certain eligible activities. Eligible PDF investments are made by acquiring newly issued shares in SMEs with total assets of not more than $50 million. The SME must have issued the shares to raise capital for the following purposes:

- establish a new business activity;
- substantially expand production capacity and services;
- expand or develop markets.

A PDF can invest up to 30% of their raised capital in any one investee business.

Strategic Elements will be focusing on investing in companies in the materials supply chain for high technology products.

Taxation Implications for Shareholders of Strategic Elements

Shareholders in a PDF are generally taxed at a concessional rate on their relevant PDF income. However, tax implications of investing in a PDF will vary depending on each shareholders structure and income tax considerations. Therefore, shareholders should seek and rely on their own taxation advice specific to their particular circumstances.

- **Dividends**

  Dividends received by a resident of Australia for income tax purposes from a PDF are exempt from income tax.

  Dividends paid by a PDF to non-residents are not subject to withholding tax.

  An Australian resident may elect to include a dividend as assessable income. This may be advantageous if the taxpayer's marginal rate of tax is less than 30% (the rate at which the dividend is franked).

  In this context, investors should seek their own advice.

  An Australian tax resident company will include the franking credit in their franking account irrespective of how they treat the dividend, that is, exempt or assessable.

- **45 Day Holding Rule**

  Shareholders are required to have held shares "at risk" (as defined in the Act) for at least 45 days to obtain the benefit of the franking credits. Certain concessions are available for superannuation funds and widely held trusts. There is also an exclusion from the rules for individuals where total franking credits received in an income year do not exceed $5,000. However, discretionary trusts may be required to make a Family Trust Election in order to obtain the benefit of franking credits.

  Investors should seek specific advice as to their eligibility to claim franking credits.

- **Gains and Losses on Disposal of Shares in Strategic Elements**

  Shares, Rights and Options

  A capital gain or capital loss made from a capital gains tax event in relation to shares, rights and options in a PDF are disregarded under the Act.

  Gains on the disposal of shares held on income account are tax exempt.

  When a company ceases to be a PDF, shareholders are deemed to have sold their shares and immediately re-acquired them for their market value at that time.

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- **Receipt of a PDF Distribution by Relevant Venture Capital Investors**
  Special concessions apply to complying superannuation funds, complying approved deposit funds (other than a self-managed superannuation fund), pooled superannuation trusts or life insurance companies.

  These entities are entitled to a venture capital tax offset. The broad effect of the venture capital tax offset is the recipient recovers the tax paid by the PDF on the underlying venture capital gains. These rules can become complex and therefore specific advice should be sought for affected shareholders.

- **Deductions**
  Expenses incurred in holding shares in a PDF, for example interest on funds borrowed to acquire the shares, would most likely be non-deductible.

Taxation Implications for Strategic Elements

The income tax rules apply to a PDF company in broadly the same way as they do to non PDF companies with some important exceptions:

- **Income Tax Rate**
  The taxable income of a PDF is divided into two components:
  - The SME income component taxed at 15%;
  - The unregulated investment component – taxed at 25%.

  SME Income Component comprises assessable income from SMEs, being the non-CGT income derived from the SME investments plus any capital gains allocated to the SME income component. Allowable deductions, including prior year losses, are deductions against SME income.

  Unregulated Investment Component - This component is the difference between the taxable income of the PDF and the SME income component.

- **Dividend Imputation**
  A PDF derives franking credits on the same basis as other companies. The PDF can frank dividends paid to shareholders at the general company tax rate for the relevant year (30% for the year ended 30 June 2011).

- **45 Day Holding Rule**
  Shares in an investee company are required to be held for 45 days before Strategic Elements is entitled to add the imputation credits to its franking account.

- **Venture Capital Franking**
  Special "venture capital franking rebates" are available to complying superannuation funds and like entities.

  This has no income tax effect on Strategic Elements, however, if venture capital franking rebates are applicable, Strategic Elements would be required to maintain a separate "Venture Capital Sub-Account".

- **Dividend Withholding Tax**
  PDF dividends paid to persons classified as non-residents for Australian income tax purposes are not subject to dividend withholding tax.

- **Losses**
  Special rules apply to the deductibility of losses on income account and capital account.

  Losses are applied first against SME assessable income and PDF losses are only deductible in years in which they retain their PDF status.

  Capital gains and losses are determined by income class, that is, the SME income component or unsegregated investment income component. Capital gains in one class are reduced by capital losses in that class and then by capital losses in the other class. Excess losses are carried forward and offset first against capital gains in the SME assessable income class.

- **Ceasing to be a PDF**
  Where a company ceases to meet the requirements of a PDF during a year of income, it is taxed at the ordinary company rate of tax (currently 30%) on its taxable income for the year.

Disclaimer

We set out below a summary of the basis and scope of this opinion.

1. Our taxation report is of a general nature only and is therefore subject to certain assumptions. It is not intended to be advice to individual persons. Given that individual circumstances may impact upon the taxation of certain transactions, independent, specific, professional taxation advice should be obtained before investing in Strategic Elements.
2. We have assumed that the proposed investment will proceed as set out in the Prospectus but do not make any predictions as to how the investment will proceed.
3. Potential applicants should also note the following in relation to our involvement in the proposed investment:
   - None of the partners or associated persons of Accru+ Page Kirk & Jennings have any interest in the promotion of the proposed investment.
   - The giving of its consent to the inclusion of this report in the Prospectus should not be taken as an endorsement of the investment or a recommendation by Accru+ Page Kirk & Jennings of any participants in the investment by any person; and,
   - Accru+ Page Kirk & Jennings gives no assurance whatsoever in respect of either the successful operation or performance of the investment.
4. Accru+ Page Kirk & Jennings, its agents and servants specifically deny any liability whatsoever to any party who may use or rely on the whole, or any part, of this report, or to the party to whom it is addressed for use, whether in whole or in part, for any purpose other than that herein set out.

Yours faithfully
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M A RUSH
Partner