



# Strategic Energy Resources

Business Review 2011

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## **Strategic Energy Resources**

(ASX: SER) is a versatile explorer working on a diversified portfolio of assets.

SER is committed to unlocking project potential to create shareholder value.

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A clump of high grade graphitic ore from the Main Road deposit

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## Chairman's letter

### Dear Shareholder

The recent financial year has seen significant progress for Strategic Energy Resources (SER) in realising value for its key project the Uley Graphite mine. While SER has owned Uley for many years, the graphite market has been plagued by low prices and over capacity, mainly from China, preventing any chance of commencing an economic operation.

Over the last two years the prices of some graphite products have risen substantially and sustainably. This has been driven mainly by tariffs that China has imposed on exports and its need to divert more of its production to internal consumption. As a result SER has been approached by consumers and traders in Japan, Asia, Europe and North America with offtake agreements and development proposals. Understandably these approaches often focused on the customers or traders own needs for particular products and pricing structures and not building the required technical or marketing skills in SER that would allow the company to maximise value from Uley. Importantly, many of the approaches did not deliver value to SER for the potentially large market developing in graphite for high tech applications, including graphite's use as an anode in the fast growing lithium-ion battery market.

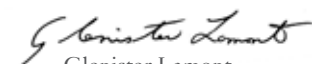
After evaluating many approaches, the one from Mega Graphite offered the best opportunity for SER shareholders of realising significant value quickly for Uley and also giving shareholders the possibility to participate in the potential upside from value adding to the graphite and growth in the high-tech markets. The transaction is complicated and will take considerable time to implement, however we believe it is the best path forward and have been delivered a substantial cash payment by our new partner to ensure completion of the transaction, reducing costs to shareholders.

While Uley has correctly been the main focus of the company considering it has developed into a \$70 million transaction for what was a year ago, a company only capitalised at \$10 million, the other assets have not been neglected. The company sold for over \$900,000 in cash the majority of its interest in its oil permit in South Australia and reached agreement with the various involved parties to retain a 5% unencumbered interest. Once the weather conditions permit, SER has a manageable, yet considerable, upside to success in the block.

Drilling was also carried out at Myall Creek, however the weather and the shortage of drills in the Eyre Peninsula have conspired to not yet permit a result from this work, but we remain focused on trying to progress the project. SER remains active in looking at alternative value proposals for its Bass Strait oil and gas prospects, with the oil market only providing modest support.

During the year the previous chairman, Kim McGrath, retired and we thank him for his contribution in stabilising the company after its change of board in late 2008. We welcome Mr Peter Armitage to the board and look forward to his assistance in extracting further value from the assets.

I would like to thank our board, management, technical consultants and other contractors who put in considerable effort to ensure value is extracted from the assets. Thank you also to our shareholders, who while seeing a considerable rise in the value of their shares have chosen to support us and we look forward to your support in the coming year.

  
Glenister Lamont  
Chairman

### Achievements & Objectives

#### Achievements in 2010/2011

- Upgraded whole Uley main road resource to indicated
- Secured JV partner for Uley & progressed towards production
- Actively developed pipeline of project with high-impact discovery potential
- Continued to strengthen financial position
- Completed proposed drilling programme
- Agreement reached with PEL 182

#### Objectives for 2012

- Finalise the Uley sale
- Commence income stream through royalties on Uley project
- Work towards agreements to fund exploration for offshore Gippsland basin permits
- Strengthen financial position
- Seek new exploration projects



## Projects Review

### JORC compliant resource upgrade

In 2009, SER announced its first JORC compliant resource statement for Uley's Main Road graphite deposit and in January 2010 a subsequent resource upgrade was obtained from Coffey Mining Pty Ltd: 4 million tonnes @ 8.1% graphitic carbon.

In January 2011, approximately 1200 metres of drilling was completed at the Main Road deposit. The purpose of the drilling was to confirm the shape of the deposit and upgrade the resource. Analysis of the infill drilling program at the Uley Main Road deposit delivered a significant resource upgrade for the deposit as well as highlighted its high grade graphitic carbon.

The resource upgrade resulted in our indicated JORC rising 95% from 2.2 million tonnes to 4.3 million tonnes and the inferred JORC rising 27% for 1.8 million tonnes to 2.3 million tonnes. Excellent grade average was also achieved with an upgrade from 8.1% to 8.7%.

#### Uley Main Road Project

Lower Grade Cutoff of 3.8% Graphite - Whole Rock Grades Reported  
Ordinary Kriged Estimate using a Parent Block of 4mN by 10mE and 4mRL

Resource Classification	Lower Cutoff Grade (Graphitic Carbon %)	Tonnage (Mt)	Average Grade (Graphitic carbon %)
Indicated	3.8	4.3	9.4
Inferred	3.8	2.3	7.5
Total		6.6	8.7

*The information in this report that relates to Resources and Exploration Results is based on information compiled by Albert Tbamm who is a Fellow of the Australasian Institute of Mining and Metallurgy. Albert Tbamm, who is an employee of Coffey Mining, has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the Australasian Code of Reporting of Exploration Results, Mineral Resources and Ore Reserves. He has consented to the inclusion in the report of these matters based on his information in the form and context in which it appears, on 15 June, 2011 in West Perth, Western Australia.*

### Uley Graphite Mine South Australia

Located just 23 kilometres from Port Lincoln, the regional centre for the Lower Eyre Peninsula in South Australia, Uley is part of the Mikkira Graphite Province which is recognised as a substantive and significant area of graphite mineralisation. Mineralisation is near surface and the graphite produced from the former operation was accepted by many traders for its high quality.

Uley, one of the largest coarse flake graphite deposits in the world, contains disseminated, high-grade flake graphite and was discovered just over 100 years ago. The mine was worked intermittently since the late 1920's and last production ceased in 1993 due to unfavourable market conditions. The mine and processing facility has been under care and maintenance ever since.

When in operation the plant was capable of producing up to 14,000 tonnes per year. The 20 tonnes per hour processing plant is substantially intact and operable, however, it requires some refurbishment. Power, water and communication lines are still connected.



The original pit as mined until 1993 is now used as a water catchment area.

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## Projects Review

### Mega Graphite Deal

On December 2010, SER announced that it had signed a non-binding, non-exclusive term sheet with a North American minerals group for the development of the Uley graphite project. On signing of a definitive joint venture agreement, SER would receive USD\$1,000,000, with the proceeds to be applied to the base engineering, planning, permitting, etc, for the proposed 45,000 TPA processing facility. The incoming group would also commit USD\$32,500,000 on an “as needs basis” during the construction stages in 2011 for a 51% interest in the project.

The North American group was in fact Mega Graphite Inc, a private company based in Ontario, Canada. During the due diligence process for the potential joint venture, Mega indicated that they thought, considering the technology they had for upgrading graphite that acquiring the project would be more beneficial to both companies.

The directors of SER announced in May 2011 that they were able to negotiate a non-binding term sheet with Mega, which was considerably more favourable to SER and its shareholders than the joint venture agreement with Mega that was previously agreed. The intention is that shareholders of SER would receive equity in a foreign listed entity in exchange for all issued capital in the SER group company that holds the rights to the Uley Graphite Project, giving SER's shareholders exposure to a major high technology graphite and rare earths company.

In July 2011, SER announced that an Implementation agreement had been signed with Mega and that a payment of CDN\$800,000 had been received.



The highlights of the agreement are as follows:

- Implementation Deed signed with MEGA Graphite Inc for the acquisition of a demerged subsidiary of SER which owns all rights to the Uley graphite project.
- The Demerger Scheme and Transfer Scheme are subject to the approval of the SER shareholders and Participants.
- 80% of the shares in a demerged subsidiary containing the Uley graphite project will be distributed to shareholders and 20% retained by SER.
- Shares in the demerged subsidiary will be acquired under a Transfer Scheme, in exchange for shares in MEGA Graphite, if MEGA Graphite obtains listing on the TSX; or a listed entity with which MEGA Graphite merges (Transfer Scheme Scrip).
- The amount of the Transfer Scheme Scrip will be equal to the greater of:
  - 33% of the issued capital of MEGA Graphite; or
  - a higher percentage of the issued capital in MEGA Graphite if required to reflect the value of Uley, which value must be a minimum of CDN\$70m.
- A CDN\$800,000 cash payment has been received by SER from MEGA Graphite, and a further CDN\$200,000 payment is due upon the Transfer Scheme becoming Effective.
- SER to retain a direct holding in MEGA Graphite (or a listed merger entity) allowing shareholders exposure to graphite value adding business.
- The minimum project value of CDN\$70m has an indicative value of approximately 20 cents per SER share on a fully diluted basis.
- SER Shareholders can retain their shares in SER which will also have an interest in MEGA Graphite (or a listed merger entity), and SER retains a 1.5% royalty on all product sales revenue from the Uley graphite project.



## Exploration Potential & Target Ranking

Coffey Mining Pty Ltd, SER's consultants on the project, were previously engaged to rank the exploration potential of other identified deposits in the entire Uley project area.

Based upon the available drillhole data, Coffey estimates that the leases have an exploration potential of 25 - 150 million tonnes at 6-9% total carbon.

Homestead was highlighted as the highest priority target, as there are thick intersections of higher grade material. This deposit is close to surface and close to the existing processing facilities within the Mining Lease, which could contribute to cost savings.

Prospect Name	Surface Area km <sup>2</sup>	Discovery Hole	Intersections	Target ranking
Homestead	0.25	83MKRC10	18-60m, 42m @ 7.0% C 30-60m, 30m @ 8.6% C	1
Salt Lake	2.5	83MKRC08	16-42, 26m @ 7.5% C	2
Casey	3.00	83KRD011	44.2-51.9m, 7.7m @ 9.2% C	3
Remnant Uley	2.0	82MKD14	40-46m, 6m @ 6.1% C	4
Fisheries	1.5	83MKRC11	68.0-99.2m, 31m @ 7.1% C	5

## Monash University ARC Agreement

SER has formed a strategic alliance with Monash University to develop a technological base for the utilisation of graphite in high-tech applications, such as the energy sector. The energy sector is a growing market for the use of graphite and SER is focussed on becoming a participant. The Company is also aware of the vast advances nanotechnology is making to utilise graphite based materials for electronic, energy, and environmental applications. We believe creating an intellectual knowledge-base is an important element of our business plan that will maximise the potential of our Uley graphite project.

With limited resources for undertaking research and development, SER is partnering Monash University to explore opportunities in a cost effective manner. This collaboration will enable us to develop a long term relationship and thereby create additional opportunities in developing the Uley graphite deposit. While SER will make small cash and in-kind contribution to the research over three years, Monash is expected to receive over \$200,000 from the Australian Research Council. Past production at Uley produced +50, +80 and +100 mesh product. Graphite measured at minus 150 microns, referred to as 'fines' were discarded. SER and the team from Monash University are attempting to utilise these 'fines' to create value added products. Our research project will be specifically aimed at reclamation of 'fines' and the generation of intellectual property for converting these fines into high-value products for super-capacitor and battery applications.

The formal documentation has been completed and agreed by both parties, however, at this time stage is not signed. SER looks forward to working with Monash on this exciting project.

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## Other Mineral Projects

### Falcon Bridge, Western Australia

(SER 95% diluting)

The Falcon Bridge Project is 80km north of Laverton in the highly prospective Duketon Greenstone Belt. In late 2009, Ishine International Resources Ltd (“Ishine”) entered into a Joint Venture Agreement allowing Ishine to earn up to a 70% interest from SER in the tenements by funding up to \$3 million on exploration expenditure. The Joint Venture area covers approximately 17km of strike of ultramafic rich stratigraphy in the Duketon Greenstone Belt coincident with linear magnetic anomalism.

During 2010 Ishine completed two rounds of drilling at the Falcon Bridge Nickel Project. Initially 73 Aircore holes were drilled for 3,462m across six east-west traverses which resulted in the encouraging nickel and copper assays.

During late 2010 a short 8-hole reverse circulation (RC) drilling program was carried out to test some of these anomalies beneath the base of weathering and/or intersect the basal contact position of the ultramafic unit. A total of 1,199m were drilled with most holes reaching target depth.

Results were generally consistent with the first program of drilling with elevated nickel within the upper, weathered portion of the holes drilled. Results included:

- FBRC001 57m @ 0.43% Ni & 71ppm Cu from 30m
- FBRC00 45m @ 0.52% Ni & 87ppm Cu from 39m

Ishine has received an external specialist’s review report on the Falcon Bridge JV project. Upon completion of a review of this report, ISH will make a further decision on its position on exploration programs for this project.



### Myall Creek, South Australia

(SER 50%)

The Myall Creek Copper Project (EL3538) covers an area of 381 km<sup>2</sup> and is located on the southern Stuart Shelf between Whyalla and Port Augusta, a highly prospective part of the eastern margin of the Gawler Craton. SER holds a 50% interest in the licence. The license area is immediately west of the Torrens Hinge Zone and close to the sites of the Hiltaba granites. Copper and base metal mineralisation has been delineated over a wide area and in a range of the Proterozoic host rocks in this region.

The exploration programme was focused on a prospect named Honeymoon Dam. The Honeymoon Dam Prospect is 2.5km south of the known Myall Creek mineralisation zone. Depths to the mineralisation zones in the area are in the range of 50-150m.

Two holes were completed after hitting basement rocks, with mineralisation evident in the holes. The third and final hole encountered a number of difficulties and ceased at 105.2 meters, some 10 meters short of the interpreted mineralised zone. The hole was called to a halt due to poor weather conditions. Further drilling will depend on weather and rig availability. The core for the two completed holes has not been submitted for assay and analysis at this stage. The Joint Venture partners have agreed not to submit the cores for analysis until the third and final hole has been completed. This means it could be sometime before results are available.

A formal joint venture agreement between SER and U Energy Pty Ltd and its parent company, Fleurieu Mines NL, was finalised during the year.

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### **Cultana, South Australia**

(SER 75%)

The Cultana Lease EL3547 covers an area of 792 km<sup>2</sup> within the Cultana Army Training Area south of Port Augusta in South Australia. Access to the Army Base has only been approved for mineral exploration on three prior occasions. Ten holes were drilled in the licence area, and none of them penetrated crystalline basement. The Cultana Inlier is considered to be one of the best remaining blocks to explore for IOCG (iron oxide, copper, gold) mineralisation in South Australia. SER holds a 75% interest in the licence.

The project still requires the standard regulatory approvals from PIRSA and more importantly, access permission from both the Department of Defence and Department of Finance prior to any exploration program. There are also Cultural Heritage issues that require consultation and clearance from indigenous groups. The approval process is currently being worked through.

SER believes access permission should be granted for drilling, subject to all approvals.

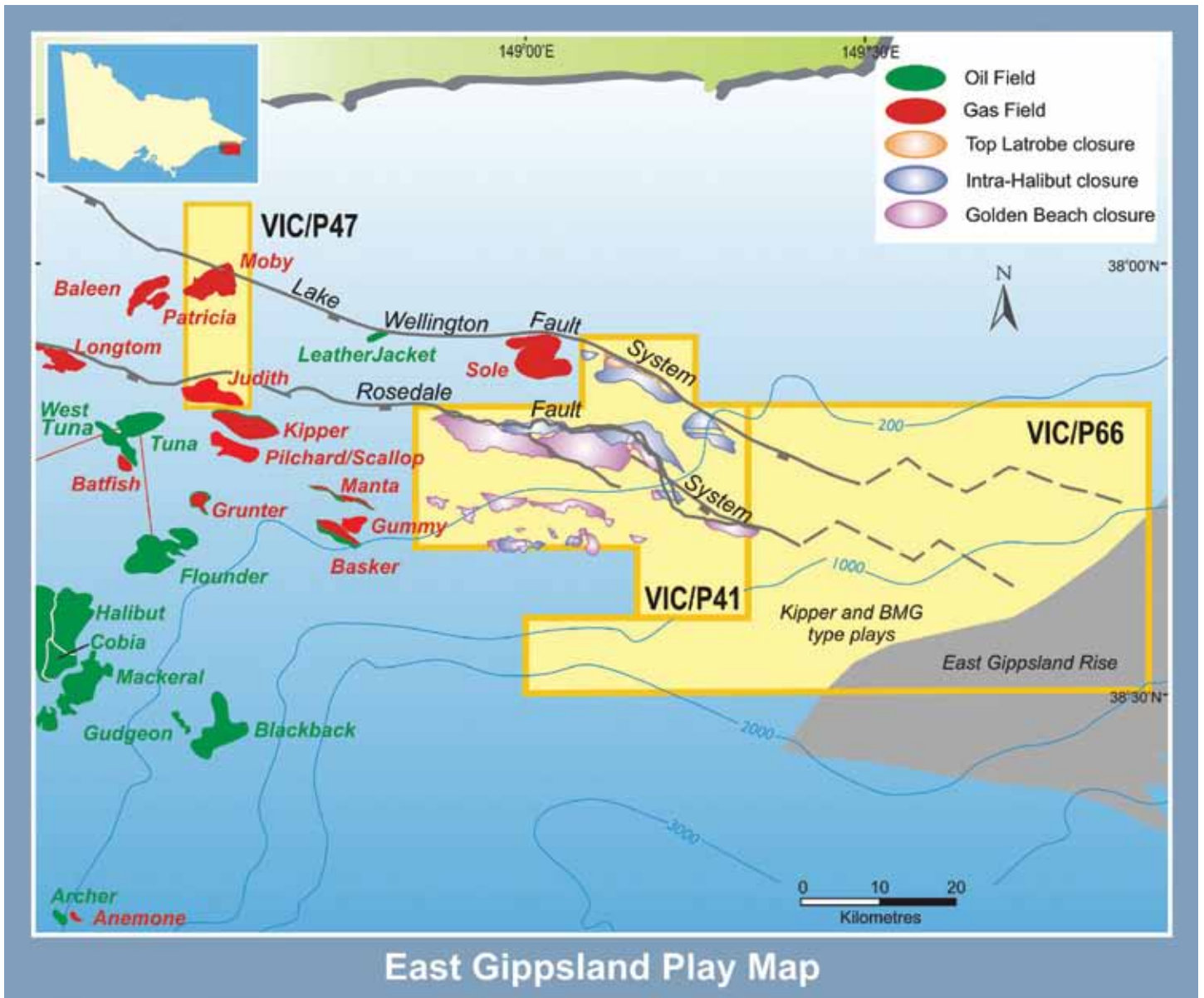
A formal joint venture agreement between SER and U Energy Pty Ltd and its parent company, Fleurieu Mines NL, was finalised during the year.

### **Casterton, Victoria**

(SER 5%)

In 2010 a sale and operating agreement was signed with Encounter Minerals Pty Ltd on EL 5040, a tenement located near Casterton in Victoria. SER has sold a 95% interest in the exploration licence to Encounter Minerals Pty Ltd for a 5% free-carried interest for the first five years of the permit or the first \$600,000 of expenditure of the work program, whichever occurs first. SER was also reimbursed back-costs associated with acquiring the exploration licence.





SER's offshore oil interests in the Gippsland Basin

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## Oil and Gas Exploration

### Onshore Petroleum Exploration

Cooper Basin,  
South Australia  
(SER 5%)

In 2010 SER sold its 37.6% interest in PEL182 for a total cash consideration of \$927,000. SER had previously been in dispute with Australian Oil Company No2 regarding an additional interest in the joint venture. This dispute was resolved with the result being SER holds an unencumbered 5% interest in the permit.

### Offshore Gippsland Basin

VIC/P47 (SER 25%)  
VIC/P41 (SER 25% possibly diluting to 17.5%)  
VIC/P66 (SER 23%)

The Vic/P47 exploration permit is located in the offshore Gippsland Basin, 14 km from the coast and south of the Victorian town of Orbost, with water depths ranging up to 80m.

Vic/P47 contains the Judith and Moby gas discoveries. Judith contains certified gas resources (Gaffney Cline & Associates 2008) and both Judith and Moby are in close proximity to existing and planned infrastructure in adjacent licences. 22 km to the west, the Longtom Field has commenced gas production – the first production from the same geological unit as the Judith discovery.

A short distance to the south of the Judith field, ExxonMobil is currently drilling Kipper field development wells with a target of first production of gas and liquids in 2011.

The Joint Venture is preparing to commence a simultaneous seismic inversion study to enhance the definition of the Judith and Moby fields.

Discussions with potential Vic/P47 farminees are continuing.

Permits Vic/P41 and Vic/P66 are located adjacent to each other in the east of the offshore Gippsland Basin, from approximately 40 km south of the Victorian coast. The operator maps extensions of two productive trends across its East Gippsland permits:

- the eastward extension Rosedale Fault system sets up prospects analogous to the Kipper oil and gas field (development drilling underway ahead of first production scheduled for 2011)
- further south, a second trend extension is analogous to the Basker / Manta / Gummy oil and gas fields (in production since December 2006 for Roc Oil and partners).

Vic/P41 contains a number of large prospects defined on modern 3D seismic, notably Kipling, Benchley and Oscar, whereas Vic/P66 while containing a part of the 2D-defined 'Lead A' feature, is still at an early stage of exploration with clear potential to further extend the Rosedale trend into new areas.

To further define and 'de-risk' these opportunities two new technical studies have been completed. A simultaneous seismic inversion project (Vic/P41) analysed both 2D and 3D seismic over Rosedale trend prospects and leads (i.e. Kipper analogues) for indications of hydrocarbon anomalies and other factors. This work has demonstrated that the seismic inversion signature of these prospects is exactly the same as that of the Kipper Field, greatly reducing the risk associated with drilling. In addition, a basin modelling project (jointly funded by Vic/P41 and Vic/P66) has defined the nature of hydrocarbon charge in to the east Gippsland area as well as the timing and migration pathways of this charge. It shows the area immediately south of the permits is mature. It is modelled as having generated and expelled hydrocarbons at a time where they could migrate towards the basin margin and be trapped in the structures identified in Vic/P41 and Vic/P66. The interpretation that the gas in the Sole Field is biodegraded thermogenic gas further enhances the concept of a "fill/spill chain" through the permit.

Vic/P41 is due for renewal during the September 2011 quarter. The Joint Venture is currently preparing the renewal application for submission to the authorities.

Discussions with potential Vic/P41 and Vic/P66 farminees are continuing.

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## Directors & Executives

### Non-Executive Chairman



Mr Glenister Lamont BEng Mining (Hons), MBA (IMD Switzerland, FAICD, FFin MAusIMM

Mr Lamont has expansive expertise in the resources sector. He has worked both within companies as an investor relations manager and as an external advisor. His expertise extends to his board positions that he holds with numerous resource listed companies. He has international mining experience in base metals, gold, coal and other commodities.

### Non-Executive Director



Mr Peter Armitage FCA FAICD

Mr Armitage is Principal of an accounting practice and has 30 years' experience as a director of a number of listed exploration companies in both Australia and New Zealand. He has also recently been part of a number of successful IPOs and has been involved in consulting assignments in People's Republic of China, Canada, USA, Hong Kong and UK for Fortune 500 companies.

### Managing Director



Mr Mark M Muzzin BA

Mr Muzzin has more than 20 years' commercial experience. He has been involved in multiple capital raisings for resource companies and has consulted to several oil, gas and minerals companies during his career. He holds a number of directorships and he is a member of the Petroleum Exploration Society of Australia.

### Company Secretary



Ms Melanie J Leydin B.Bus CA

Ms Leydin serves as the principal in a chartered accounting firm specialising in audit and company secretarial services. She has 19 years' experience in the accounting profession and is a Director and company secretary for a number of junior oil and gas, mining and exploration companies listed on the ASX.

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## Corporate Directory

### Corporate Directory

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