

Strategic Energy Resources Limited

ABN 14 051 212 429

Half-year Financial Report - 31 December 2014

Strategic Energy Resources Limited

Contents

31 December 2014

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Strategic Energy Resources Limited
Corporate directory
31 December 2014

| | |
|-----------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Directors & Executives | Glenister Lamont (Non-Executive Chairman) Anthony Rechner (Technical Director) Peter Armitage (Non-Executive Director) Mr Stuart Rechner (Alternate Director) Mr Mark Muzzin (CEO) |
| Company secretary | Melanie Leydin |
| Registered office | Level 4 100 Albert Road South Melbourne VIC 3205 Ph: 03 9692 7222 Fax: 03 9077 9233 |
| Principal place of business | Level 4 100 Albert Road South Melbourne VIC 3205 Ph: 03 9692 7222 Fax: 03 9077 9233 |
| Share register | Link Market Services Limited Level 1, 333 Collins Street Melbourne, VIC 3000 Ph: 1300 554 474 |
| Auditor | Grant Thornton Audit Pty Ltd The Rialto Level 30, 525 Collins Street MELBOURNE VIC 3000 |
| Stock exchange listing | Strategic Energy Resources Limited shares are listed on the Australian Securities Exchange (ASX code: SER) |
| Website | www.strategicenergy.com.au |

GRAPHENE RESEARCH WITH MONASH UNIVERSITY

Ionic Industries – our New Graphene Brand

As previously reported and presented at our 2014 AGM, SER's subsidiary Ionic Industries Pty Ltd ('Ionic') and Monash University are involved in a ground breaking collaboration on graphene research & commercialisation. Ionic will shortly have its company status changed to Ionic Industries Ltd in preparation for the expected demerger.



Ionic holds, under the Collaboration Agreement with Monash University, commercialisation agreements with patent/IP holder Monash University, who licences that commercialisation to Ionic in accordance with its patent/IP rights.

With a view to understanding the processes involved, graphite (as mined) can be reduced to a single atomic layer which is then termed graphene. With the oxidation of graphite, water soluble graphene oxide ('GO'), can be produced for coatings etc. The reduction of soluble GO to reduced graphene oxide ('RGO') will return it to an insoluble, high surface area state, with carbon layers still containing some oxygen/hydrogen atoms/molecules, but essentially behaving as graphene.

Ionic's Graphene for Water Purification and Energy Storage

Ionic Industries is focused on two critically important issues for human sustainability and advancement, namely water and energy. SER partnered with Monash University 5 years ago on graphene research and development. The relationship has benefited from being the recipients of two Australian Research Council Linkage grants on graphene based technologies, namely on our super capacitors and our graphene membrane technologies.

Water Purification

Water purification is a huge market and graphene will potentially contribute greatly to the advancement in technologies for water processing. Ionic Industries' SuperSand and membrane technologies are expected to benefit the water purification industry.

Energy Storage

Energy storage is the other key focus for Ionic Industries. We have been working on super capacitors with Dr Majumder's team from Monash University, who have been researching and developing our focussed ion beam super capacitor technology for some 5 years. This research is now at Technology Readiness Level 3, meaning it is at the analytical and experimental critical function, and characteristic proof of concept. With the proposed demerger and ASX listing of Ionic Industries we are aiming to have a working prototype of a basic planar super capacitor within six months of the listing.

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Super capacitors and nanocapacitors are the next step in the evolution of energy storage. Research and development of these energy storage devices are advancing quickly and have many advantages over current battery technology.

In almost every case, desired performance is limited by the capability envelope of the energy storage systems currently available. The size (both by volume and by weight), limits the range, endurance and payload of the application as well as being a significant cost factor.

But there are several other relevant drivers of performance to consider:

How long does it take to recharge? This can be critical in some circumstances.

At what rate is it able to discharge its energy? This limits the power that can be extracted.

How efficient is it? How much energy gets wasted as heat that might require additional cooling? How long will it keep working and how many times can it be discharged and recharged? This affects the overall lifetime cost as well as the environmental aspect of disposal.

Does it maintain its rated voltage and power as it discharges? Chemical batteries do not because of their internal resistance and chemical processes, and so additional power conditioning is often required.

What is its shelf life when not in use? What range of environmental conditions is it able to be stored and operated in? Chemical batteries operate best in a very narrow temperature range, while some high performance batteries require very high temperatures, posing additional safety issues e.g. liquid sodium sulphur batteries (NAS).

A huge amount of R&D is currently in place, much of it targeting improvements in chemical batteries e.g. the many recently announced initiatives in lithium based systems. These will no doubt produce some improvements but the potential for improved performance is limited by the basic physics of the devices. Chemical batteries rely on moving ions between electrodes and so the theoretical limit for the energy density of all reversible chemical batteries is the energy density in ionic bonds, $\sim 1\text{GJ/m}^3$. Current chemical battery technology is already close to that limit so there is not a lot of scope for improvement.

In the bigger picture, one can say that chemical batteries are a fairly mature technology which has limited scope for further improvement, and which will eventually be overtaken by radically different novel energy storage systems based on different physics, which have the potential to greatly exceed the performance limits of chemical batteries.

One such novel system is based on nanotechnology and the unique properties of graphene; arrays of nanocapacitors in which self-discharge is suppressed by quantum effects, and which can theoretically achieve energy densities up to 3 orders of magnitude greater than chemical batteries.

Nanocapacitors also have several other advantages. Since it is electrons rather than ions that move, the speed at which they can be charged and discharged is limited by the speed of electrons moving, which can be 10% of the speed of light. For practical purposes, this is close enough to instantaneous, and so can deliver very high power and be recharged very fast. In principle they also maintain fixed output performance with no drop off or heating, and they can be configured to provide any desired voltage and power.

Such technologies are likely to eventually overtake the existing chemical battery energy storage systems in many applications but there is still a lot of R&D required before this happens. We are fortunate to be in on the ground floor of this potential technology revolution and to be able to be part of its development.

The Importance of Graphene in the Future of Energy Storage Solutions

There is no argument that at the rate that civilisation is consuming fossil fuels, it is only a matter of time before economic extraction becomes difficult. The question is how long do we have. Some of the more pessimistic scenarios indicate that it is only 30 to 40 years or just less than two generations. So how will we feed, clothe and supply energy to a projected 10 to 12 billion people?

Clearly we will need to find an alternative source of energy. In the electricity sector, renewables, in particular wind and solar, provide a solution. These sources are already a significant part of the energy mix in a number of countries and are expected to account for an increasing share of the world's electricity output in

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the future. But these renewables are intermittent in that solar photovoltaics (PV) do not generate electricity at night or when there is cloud cover; when the wind does not blow no windmill electricity is produced.

So for these renewable sources to supply us with reliable and continuous power, electricity that is generated when there is a surplus has to be stored and released when renewables are not generating. With the transformation of electricity grids from centrally supplied legacy grids to smarter grids this storage in the form of in home battery banks and grid banks can now be deployed and activated in the networks.

Distributed storage overcomes the intermittency limitations of renewables, smoothing out the peaks and troughs of the load profiles, thus creating an efficient and reliable integrated energy system that displaces fossil fired base load plant.

Storage also improves the distribution grids' stability, where the potential for regional balancing can be limited when storage is unavailable. Given this fundamental role that distributed storage will play in the emerging smarter grids, global demand is expected to soar over the next two decades, as renewables become increasingly cost competitive, and a large component of the generating plant mix.

Much progress is being made in storage technologies but currently they are still developing. Greatest progress has however been made with solar PV paired with battery storage.

At the grass roots level, solar PV paired with battery storage has already reached the viability threshold in a number of countries. For some consumers it is now less expensive to self-generate electricity using solar PV paired with storage and supplemented with embedded generation than it is to use electricity from the grid.

The economics are compelling for decentralised, stand alone, residential applications, where retail energy prices are high, compensation for electricity fed into the grid is low or government support for solar PV paired with battery storage is available.

This is improving the economics of distributed storage to the point where cost reductions are beginning to track the profile of solar PVs experienced in the last five years, making off grid storage the preferred option for many consumers and consequently reducing our reliance on fossil fuels.

Scoping Study and Marketing Study Underway

The Company has commissioned a scoping study on the production of GO in a pilot plant with SuperSand as an optional process stream. A marketing study has also been commissioned and relates the commercialisation of super sand.

The key deliverables will include:

- Preliminary sizing of the pilot plant facility
- Scaling up the existing laboratory process to provide an overall description of the pilot plant CAPEX and OPEX. The CAPEX and OPEX will be based on a single stand-alone R&D facility.

Pilot Plant Benefits All Our Technologies

One of the key issues with GO has been its cost of production and the upscaling of production for commercial uses. The scoping study has transformed into being more about the commercial production of GO with SuperSand as an optional process stream. The business model for Ionic Industries will be outlined further with the release of the scoping study results.

Our pilot plant will build further on work planned for our bench-scale production facility for the modular synthesis of graphene through our modular reactor technology. It will produce tailored GO for application across all aspects of our research program (scheduled for commissioning in Q1 2015). Our pilot plant will be setup to stream our GO towards whatever product we choose, either to SuperSand or membranes, both of whose final application utilises RGO.

Bench Scale Facility

As previously reported, we have signed a jointly funded Research Agreement with Monash University to develop a bench-scale facility for the production of GO.

The facility, under the supervision of Dr Mainak Majumder, will move manufacturing out of the laboratory, allowing the supply of much larger quantities of GO for our specific commercial goals, namely:

- ***Super-capacitors***

We are developing planar super capacitors with massive energy and power density which could by-pass lithium ion batteries.

- ***SuperSand***

SuperSand has multiple uses and we are concentrating on developing the SuperSand specifically targeting contaminants that are larger in size and not easily removed by other absorption technologies.

- ***Membranes***

We will produce large area nano-filtration RGO membranes, for the mining and food processing industries and potentially for Super capacitors.

The bench scale facility is jointly funded by Monash University and Ionic. Monash is contributing \$100,000 towards the project with the balance paid by Ionic. Ionic will retain ownership of the facility, with Monash responsible for the maintenance and upkeep of the facility.

The building of the bench scale facility is a vital step towards our goal of commercialising our technologies. Initial batches of GO production will be in the range of 1kg to 2kg per day. The GO bench scale facility is of major importance as our researchers will be able to manufacture and tailor GO products for use in our applications.

Bench Scale Facility Engineering

Another critical development has been the input from independent engineers assigned to our pilot plant scoping study. Their input has had a marked influence over the bench scale facility and set up. More specifically over the choice of the reactor and some of the other components and material used in the construction. When the bench scale facility is completed the next phase of testing will concentrate on optimising the process of making the GO and RGO. This will no doubt lead to improving the efficiency in production and reducing the cost in making commercial quantities of GO and RGO.

Dr Akshat Tanksale, co-investigator on this project said "large scale GO production from graphite is a significant challenge which we will overcome by using robust reaction engineering approaches. The scale of our reactor is several times what has been demonstrated to date and the reactor technology, we are developing is highly modular."

ARC Linkage Grant and Membrane Casting Facility

As previously reported SER/Ionic and Dr Mainak Majumder's team at Monash University for the second time have been awarded an ARC Linkage (Australian Research Council) grant on our graphene based research. The proposed research is titled – "Green Manufacturing of Graphene from Indigenous Natural Graphite and Graphene-based Nano-filtration Membranes".

There are many potential uses for our graphene membrane technology, including purification of salt water, mine waste water and extraction of heavy metals to name just a few. Dr Majumder said "the graphene membrane technology we are currently investigating could also be used for generating energy from osmotic

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gradients or scavenging waste heat to run electric motors without batteries. Recent experiments in China and the US have shown the potential of such application".

The team involved is:

Dr. Mainak Majumder (Nanoscale Science and Engineering Laboratory (NSEL), Mechanical and Aerospace Engineering, Monash University, Clayton, Victoria),

Prof. Huanting Wang (Chemical Engineering, Monash University, Clayton, Victoria),

Dr. Zhe Liu (Mechanical and Aerospace Engineering, Monash University, Clayton, Victoria),

Prof. Dibakar Bhattacharyya (Chemical Engineering, University of Kentucky, USA),

Dr. Anita Hill (CSIRO, Clayton, Australia), and

Mr Mark Muzzin from Ionic.

The contributions for the successful application are as follows:

ARC has approved \$255,000 over three years, while Ionic will contribute \$120,000 over three years giving a total budget of \$375,000.

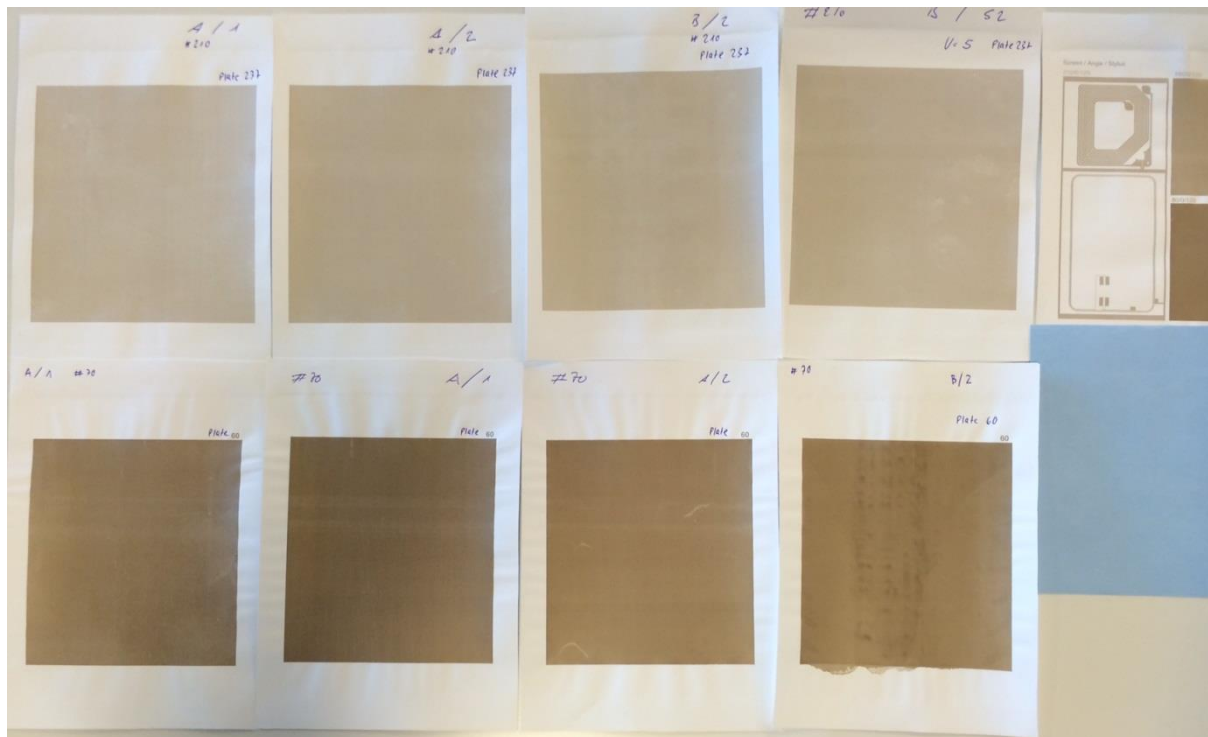
Utilizing fluid phase dispersed GO, we will develop scalable and industrially-adaptable methods to manufacture thin yet mechanically robust, inert, fouling-resistant, highly-permeable graphene-based asymmetric membranes. These advanced membranes will find wide application in reducing discharge of mining effluents and recovery of precious metals and used in electronics, ie, super capacitors etc. This research is already underway by our team and has led to very encouraging results for water purification.

Membrane Casting Facility

In preparation for the new program under the ARC Grant, a membrane casting facility has been ordered. This is a very important step in our development of a scalable RGO membrane, which will have multiple uses in the mining and food processing industries. RGO samples produced by our proprietary method were rigorously tested with the membrane casting equipment manufacturer and we are very pleased with the results obtained and thus have decided to purchase the equipment.

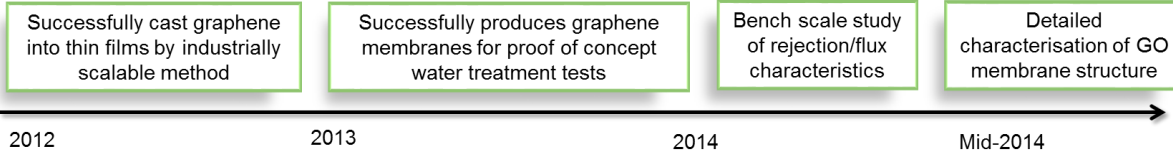
The new acquisition will enable our researchers to tailor the number of sheets of RGO that can be applied to the membrane substrate for specific purposes. The chemistry of the RGO can also be altered to target whatever impurity or precious metals we seek to filter.

The other key benefit is being able to maintain consistency between the batches of membranes produced. This will allow us to substantiate the results from the various tests.



Above are samples of our RGO thin film membranes. Darker shades indicate thicker number of layers of RGO.

Our research team has hit a series of milestones in the development of RGO membranes for use in water treatment and mining applications. The technology is now at Technology Readiness Level 4: *Component and/or breadboard validation in laboratory environment*



Our ARC Linkage grant will commence in early 2015 but as you can see above, the team has been working on this technology for some time and are well advanced.

Patent Filed

Another patent filed by Monash researchers Provisional patent application 2014904644, entitled Graphene oxide membranes and methods related thereto, has been filed.

Exclusive Worldwide Licence to Commercialise Graphene IP Signed

SER/Ionic has previously reported that we have entered into an exclusive worldwide licence to commercialise the Intellectual Property (IP) generated by the Monash University project titled 'Nanotechnology enabled electrochemical energy storage materials from indigenous natural graphite'. This project was the subject of our first Australian Research Council grant between SER/Ionic and Monash University, and relates to our super capacitor technology.

The licence has been granted on the following material terms:

- Ionic has full rights to exploit and commercialise the IP, including by direct sale or by sub-licensing, within the field of energy storage and capacitor materials, and devices from indigenous natural graphite

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- The licence is transferable by Ionic, subject to the consent of Monash (which is not to be unreasonably withheld)
- If Ionic is successful in commercializing the IP and generates direct revenue or sub-licensing revenue, it will pay Monash a royalty of 3% of gross revenue (in the case of direct sales) and 15% of sub-licensing income.

The IP generated by this project has been the subject of a provisional patent application and is patent pending.

Ionic will have the first right to fund graphene research undertaken by Dr Mainak Majumder's team at Monash and then licence any IP generated by that research with a view to commercialisation.

The material terms of the licence described above will apply to any future IP licences generated under the Collaboration Agreement.

Ionic Industries Team and Facilities Being Expanded

Pre demerger we will be announcing the key Director appointments to Ionic shortly.

After the proposed demerger, and possible seed capital raising, we will begin interviewing research staff to be employed directly by Ionic who will be focussed on fabrication and product development.

This is a fundamental shift in our business and future growth. We will be utilising the facilities of Monash University when required under our Collaboration Agreement with Monash University under the leadership of Dr Mainak Majumder, but we will also establish our own facilities, where Ionic research staff will be undertaking product development, product evaluation and benchmarking, in particular on making our working super capacitor prototype and expanding and optimising our GO making process amongst other things.

MINERAL EXPLORATION

SPENCER JOINT VENTURE (SER 75%) EL 5010

SOUTH AUSTRALIA

The Spencer area comprises 321 km² and is located on the west coast of Spencer Gulf on the Olympic Dam trend. This same trend is the home to some exceptional discoveries including Olympic Dam, Carrapateena, Prominent Hill, Mount Gunson, Wallaroo, Moonta and Hillside.

SER as operator of EL 5010 is pleased to report that a new Deed of Access has been approved. Access is granted till 12 September 2016 and can be further extended in line with future permit extensions.

MYALL CREEK (SER 50%) EL 5011

SOUTH AUSTRALIA

The Myall Creek Copper Project (EL5011) covers an area of 381 km² 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. The Myall Creek Project includes a 15 kilometre zone with anomalous copper shown in historic drilling.

Previous work indicates that mineralization is controlled by a lithological/chemical redox contrast which exists between the base of the Tapley Hill formation and an underlying unconformable contact between the two sedimentary/volcanic units. This unconformity continues to have a strong potential for high grade prospects.

The licence area is immediately west of the Torrens Hinge Zone.

Technical assessment of the prospectively of the Myall Creek project for both Zambian style copper mineralization and the potential of Olympic Dam style IOCG mineralization at depth is ongoing.

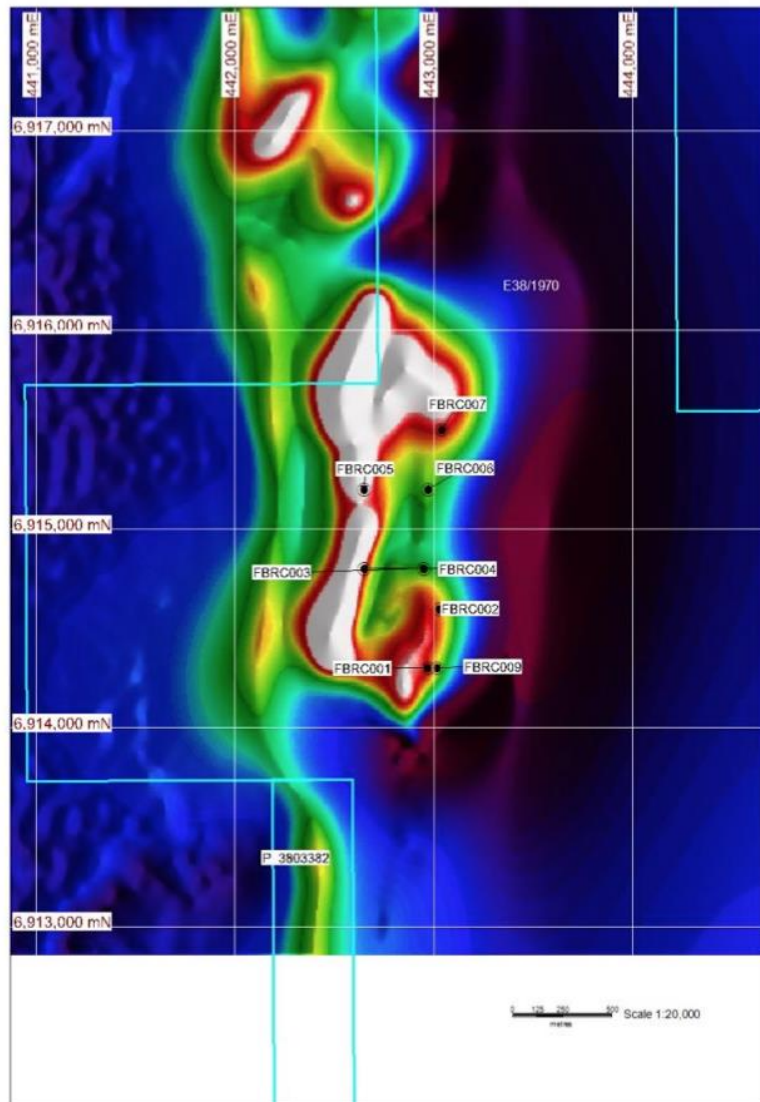
With the recent \$2m target development to the north of Myall Creek by the Department of State Development for the Deep Targets Task Force, SER is awaiting the findings from this work and will be looking to gauge the impact the work has on regional exploration and targeting and specifically the Myall Creek project.

FALCON BRIDGE (SER 95%) E38/1970

WESTERN AUSTRALIA

The Falcon Bridge tenement EL 38/1970 covers an area of 138.1 km² in the north eastern corner of Western Australia's Archaean Yilgarn Craton. The Falconbridge Ni sulphide project has undergone a significant review from geological, geochemical and geophysical perspective.

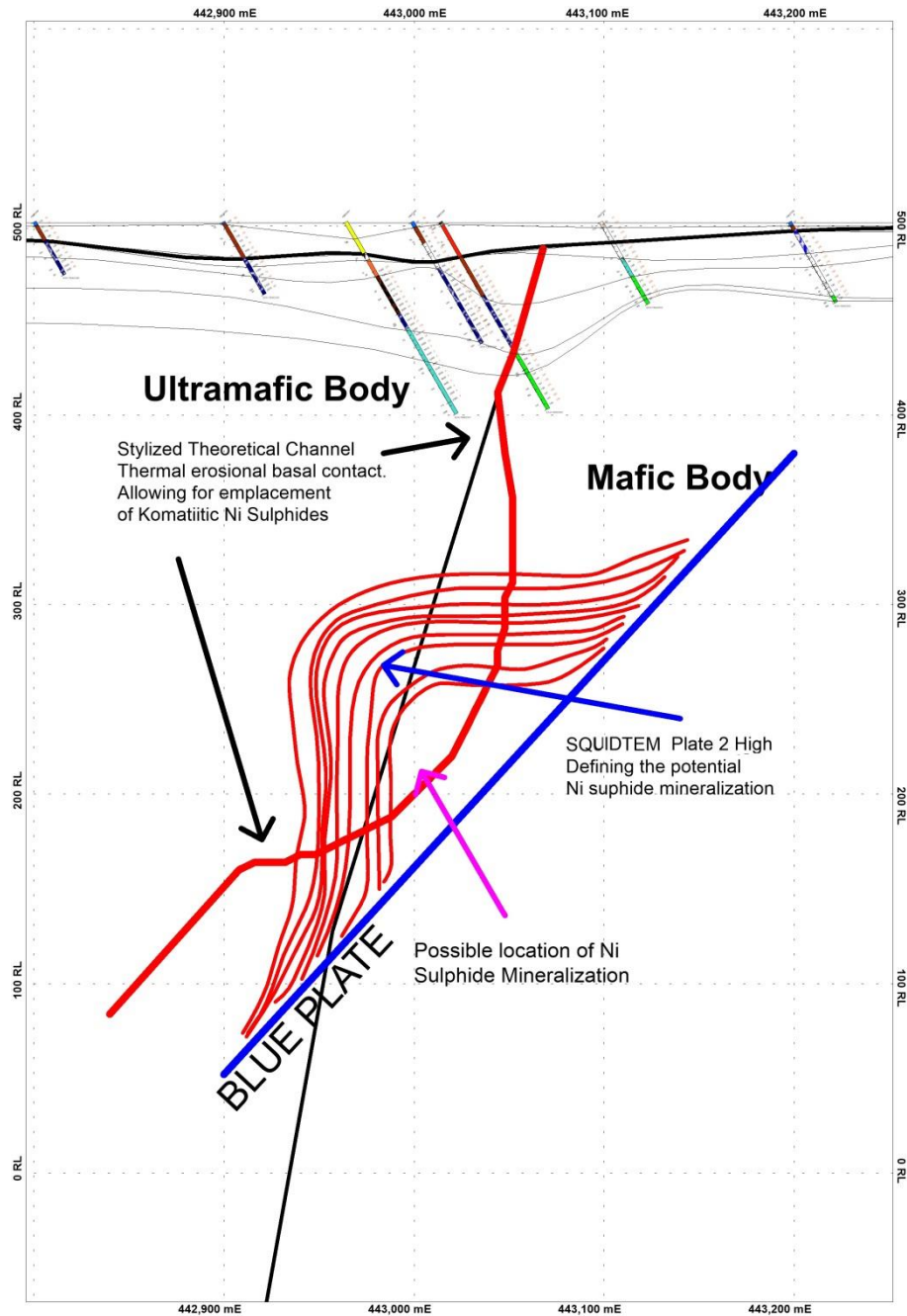
Located some 48km along/en echelon to an ultra-mafic bulge where recent drilling by others has encountered nickel sulphides. SER holds a 95% interest in E38-1970 on which is located a bulge in the ultramafic rock units (the TORO GRANDE anomaly) and shown on the below transient electromagnetic image (TEM).



Magnetics with RC Collar Map

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As a result of data reviews by independent consulting geologists/geophysicists the following model of the Toro Grande mineralisation was published in SERs June 2014 quarterly (see map below) and shows, current drilling, the Squid TEM contours in red, the blue target plate defined by modelling the Squid contours and a stylized theoretical channel thermally eroded into underlying basalts by the overlying ultramafic sequence. This erosional channel allows for emplacement of Komatiitic nickel sulphides elsewhere in Western Australia, however the presence of massive nickel sulphides at Toro Grande is unproven and remains an exploration target. Previous drilling at Toro Grande included published results for 7 holes with intersected down hole widths of 12-39m with grades between .41 to .69% Ni which are clearly not massive sulphides.



CASTERON (SER 5%) EL 5040

VICTORIA

As reported on 29 October 2009, SER entered into a sale and operating agreement with Encounter Minerals Pty Ltd. SER sold a 95% interest in the exploration licence for a 5% free carried interest for the first 5 years of the permit or the first \$600,000 of expenditure on the work program, whichever occurs first.

Encounter Minerals has completed a 5 hole drilling program. SER has been advised that the results have been encouraging, and further geophysics and geochemistry is planned. EL 5040 comprises 486 graticular sections and is located some 350 kilometres west of Melbourne, Victoria.

CORPORATE UPDATE

SER's preparation for the demerger of our graphene subsidiary are well advanced. In keeping with our strategy of spinning out single focus companies, we believe this strategy will give our shareholders substantial upside and will help underpin the value in SER. During the December quarter a tax consultant was engaged to review the tax position and has confirmed over \$23 million of operating tax losses, which could be utilised on profits from the sale of any of our investments.

Our plan is to demerge 100% of our graphene entity, with SER retaining a 20% shareholding in the merged entity. We are currently holding discussions with various funders and brokers and subject to further accounting and other advice the demerged. 80% of the entity is intended to be distributed pro-rata to SER shareholders at a record date, to be determined. Following this important first step our graphene technology company (Ionic Industries) will, subject to funding agreements, apply for listing in an IPO process.

The Company is well placed to receive substantial financial benefit from the demerger of the Uley Graphite project, with its successful capital raising and listing of Valence Industries. SER is the major shareholder with 21,788,907 shares, escrowed till January 2016.

SER will also benefit from a 1.5% royalty from any graphite sales of Uley graphite by Valence Industries.

INTERESTS IN MINING TENEMENTS

| Mining Tenement | Location | Beneficial Percentage held |
|------------------------|-------------------|-----------------------------------|
| EL 5010 | South Australia | 75% |
| EL 5011 | South Australia | 50% |
| E38/1970 | Western Australia | 95% |
| EL 5040 | Victoria | 5% |

Strategic Energy Resources Limited
Directors' report
31 December 2014

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of Strategic Energy Resources Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the half-year ended 31 December 2014.

Directors

The following persons were directors of Strategic Energy Resources Limited during the whole of the financial half-year and up to the date of this report, unless otherwise stated:

Mr Glenister Lamont
Mr Peter Armitage
Mr Anthony Rechner
Mr Stuart Rechner (Alternate director appointed 12 September 2014)
Mr Mark Muzzin (resigned as Managing Director 17 August 2014)

Principal activities

During the financial half-year the principal continuing activities of the consolidated entity consisted of:

- Exploration for minerals in Australia
- Continuing the group's relationship with Monash University on Graphene Research

Review of operations

The loss for the consolidated entity after providing for income tax amounted to \$610,315 (31 December 2013: profit of \$1,831,737).

During the six months to 31 December 2014 the consolidated entity focused its efforts on its existing tenements as well as its Monash University Graphene Research. The Company's Review of Operations precedes this Directors' Report.

The net assets of the consolidated entity increased by \$2,331,187 to \$15,273,687 as at 31 December 2014 (30 June 2014: \$12,942,500). The major movement during the period was largely due to the increase in the carrying value of the company's investment in Valence Industries Limited (ASX: VXL) of approximately \$2.94 million. Working capital, being current assets less current liabilities, decreased by \$804,877 to \$1,529,750 (30 June 2014: \$2,334,627). The consolidated entity had a negative cash flow for the period of \$874,350 compared to the prior period's positive cash flow (31 December 2013: \$790,727) The prior period included the sale of the company's interest in PEL 182 and the repayment of the loan provided to Valence Industries (ASX:VXL) (formerly Strategic Graphite Limited).

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the consolidated entity during the financial half-year.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on the following page.

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors



Glenister Lamont
Non-Executive Chairman

5 March 2015
Melbourne

Grant Thornton Audit Pty Ltd
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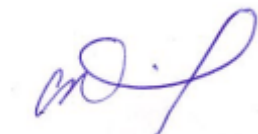
**Auditor's Independence Declaration
To The Directors of Strategic Energy Resources Limited**

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the review of Strategic Energy Resources Limited for the half-year ended 31 December 2014, I declare that, to the best of my knowledge and belief, there have been:

- a No contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- b No contraventions of any applicable code of professional conduct in relation to the review.



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



Adrian Nathanielsz
Partner - Audit & Assurance

Melbourne, 5 March 2015

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Strategic Energy Resources Limited
Statement of profit or loss and other comprehensive income
For the half-year ended 31 December 2014

| | | Consolidated | |
|----------------------------------------------------------------------------------------------------------------------------------|-------------|---------------------|--------------------|
| | | 31 December | 31 December |
| | Note | 2014 | 2013 |
| | | \$ | \$ |
| Revenue | 4 | 31,279 | 128,376 |
| Other income | 5 | 2,200 | 2,504,850 |
| Expenses | | | |
| Research & Development | 6 | (157,928) | - |
| Loss on AFS financial assets | | (148,000) | - |
| Employee benefits expense | | (46,828) | (111,076) |
| Depreciation | | (264) | (1,547) |
| Corporate expenses | | (199,924) | (170,077) |
| Exploration expenditure written off | | (40,321) | (31,488) |
| Other expenses | | (49,551) | (51,126) |
| Occupancy expenses | | (978) | (21,017) |
| Share based payments | | - | (438,698) |
| Profit/(loss) before income tax benefit | | (610,315) | 1,808,197 |
| Income tax benefit | | - | 23,540 |
| Profit/(loss) after income tax benefit for the half-year attributable to the owners of Strategic Energy Resources Limited | | (610,315) | 1,831,737 |
| Other comprehensive income | | | |
| <i>Items that may be reclassified subsequently to profit or loss</i> | | | |
| Gain on the revaluation of available-for-sale financial assets, net of tax | | 2,941,502 | - |
| Loss on the revaluation of available-for-sale financial assets, net of tax | | - | (7,000) |
| Other comprehensive income for the half-year, net of tax | | 2,941,502 | (7,000) |
| Total comprehensive income for the half-year attributable to the owners of Strategic Energy Resources Limited | | 2,331,187 | 1,824,737 |
| | | Cents | Cents |
| Basic earnings per share | 15 | (0.18) | 0.53 |
| Diluted earnings per share | 15 | (0.18) | 0.53 |

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

Strategic Energy Resources Limited
Statement of financial position
As at 31 December 2014

| | | Consolidated | |
|--------------------------------------|-------------|---------------------|---------------------|
| | Note | 31 December | 30 June 2014 |
| | | 2014 | 2014 |
| | | \$ | \$ |
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | | 1,566,637 | 2,440,987 |
| Trade and other receivables | | 20,240 | 15,712 |
| Other | | 20,474 | 32,770 |
| Total current assets | | <u>1,607,351</u> | <u>2,489,469</u> |
| Non-current assets | | | |
| Available-for-sale financial assets | 7 | 11,996,954 | 9,003,452 |
| Property, plant and equipment | | 25,000 | 4,064 |
| Exploration and evaluation | 8 | 1,710,686 | 1,607,722 |
| Other | | 21,717 | 21,717 |
| Total non-current assets | | <u>13,754,357</u> | <u>10,636,955</u> |
| Total assets | | <u>15,361,708</u> | <u>13,126,424</u> |
| Liabilities | | | |
| Current liabilities | | | |
| Trade and other payables | | 73,800 | 88,264 |
| Employee benefits | | 3,801 | 66,578 |
| Total current liabilities | | <u>77,601</u> | <u>154,842</u> |
| Non-current liabilities | | | |
| Employee benefits | | 10,420 | 29,082 |
| Total non-current liabilities | | <u>10,420</u> | <u>29,082</u> |
| Total liabilities | | <u>88,021</u> | <u>183,924</u> |
| Net assets | | <u>15,273,687</u> | <u>12,942,500</u> |
| Equity | | | |
| Issued capital | | 28,833,224 | 28,833,224 |
| Reserves | 9 | (15,898,908) | (18,824,410) |
| Retained profits | | 2,339,371 | 2,933,686 |
| Total equity | | <u>15,273,687</u> | <u>12,942,500</u> |

The above statement of financial position should be read in conjunction with the accompanying notes

Strategic Energy Resources Limited
Statement of changes in equity
For the half-year ended 31 December 2014

| Consolidated | Contributed equity \$ | Retained profits \$ | Reserves \$ | Total equity \$ |
|--------------------------------------------------------------|--------------------------------------|------------------------------------|------------------------|--------------------------------|
| Balance at 1 July 2013 | 28,833,224 | 1,658,527 | (23,848,081) | 6,643,670 |
| Profit after income tax benefit for the half-year | - | 1,831,737 | - | 1,831,737 |
| Other comprehensive income for the half-year, net of tax | - | - | (7,000) | (7,000) |
| Total comprehensive income for the half-year | - | 1,831,737 | (7,000) | 1,824,737 |
| <i>Transactions with owners in their capacity as owners:</i> | | | | |
| Share-based payments | - | - | 438,698 | 438,698 |
| Balance at 31 December 2013 | <u>28,833,224</u> | <u>3,490,264</u> | <u>(23,416,383)</u> | <u>8,907,105</u> |
| Consolidated | Contributed equity \$ | Retained profits \$ | Reserves \$ | Total equity \$ |
| Balance at 1 July 2014 | 28,833,224 | 2,933,686 | (18,824,410) | 12,942,500 |
| Loss after income tax benefit for the half-year | - | (610,315) | - | (610,315) |
| Other comprehensive income for the half-year, net of tax | - | - | 2,941,502 | 2,941,502 |
| Total comprehensive income for the half-year | - | (610,315) | 2,941,502 | 2,331,187 |
| <i>Transactions with owners in their capacity as owners:</i> | | | | |
| Lapse of options | - | 16,000 | (16,000) | - |
| Balance at 31 December 2014 | <u>28,833,224</u> | <u>2,339,371</u> | <u>(15,898,908)</u> | <u>15,273,687</u> |

The above statement of changes in equity should be read in conjunction with the accompanying notes

Strategic Energy Resources Limited
Statement of cash flows
For the half-year ended 31 December 2014

| | Consolidated | |
|-----------------------------------------------------------------------|-------------------------|-------------------------|
| | 31 December | 31 December |
| | 2014 | 2013 |
| | \$ | \$ |
| Cash flows from operating activities | | |
| Payments to suppliers and employees (inclusive of GST) | (398,375) | (276,920) |
| Monash research & development costs | (157,928) | - |
| | <u>(556,303)</u> | <u>(276,920)</u> |
| Interest received | 44,238 | 31,431 |
| | <u>(512,065)</u> | <u>(245,489)</u> |
| Cash flows from investing activities | | |
| Payments for equity investments | (200,000) | - |
| Payments for property, plant and equipment | (25,000) | (5,019) |
| Payments for exploration and evaluation | (143,285) | (1,418,215) |
| Loans advanced | - | (53,100) |
| Proceeds from repayment of borrowings | - | 352,550 |
| Proceeds from sale of property, plant and equipment | 6,000 | - |
| Proceeds from sale of tenement assets | - | 2,160,000 |
| | <u>(362,285)</u> | <u>1,036,216</u> |
| Cash flows from financing activities | | |
| Net cash from financing activities | - | - |
| Net increase/(decrease) in cash and cash equivalents | (874,350) | 790,727 |
| Cash and cash equivalents at the beginning of the financial half-year | 2,440,987 | 2,114,610 |
| Cash and cash equivalents at the end of the financial half-year | <u><u>1,566,637</u></u> | <u><u>2,905,337</u></u> |

The above statement of cash flows should be read in conjunction with the accompanying notes

Strategic Energy Resources Limited
Notes to the financial statements
31 December 2014

Note 1. General information

The financial statements cover Strategic Energy Resources Limited as a consolidated entity consisting of Strategic Energy Resources Limited and its subsidiaries. The financial statements are presented in Australian dollars, which is Strategic Energy Resources Limited's functional and presentation currency.

Strategic Energy Resources Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business are:

Registered office

Level 4, 100 Albert Road
South Melbourne, VIC 3205

A description of the nature of the consolidated entity's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 5 March 2015. The directors have the power to amend and reissue the financial statements.

Note 2. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 31 December 2014 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2014 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

New, revised or amending Accounting Standards and Interpretations adopted

The consolidated entity has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Any significant impact on the accounting policies of the consolidated entity from the adoption of these Accounting Standards and Interpretations are disclosed below. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the consolidated entity.

The following Accounting Standards and Interpretations are most relevant to the consolidated entity:

AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13

The consolidated entity has applied AASB 13 and its consequential amendments from 1 January 2013. The standard provides a single robust measurement framework, with clear measurement objectives, for measuring fair value using the 'exit price' and provides guidance on measuring fair value when a market becomes less active. The 'highest and best use' approach is used to measure non-financial assets whereas liabilities are based on transfer value. The standard requires increased disclosures where fair value is used.

Strategic Energy Resources Limited
Notes to the financial statements
31 December 2014

Note 2. Significant accounting policies (continued)

Research and development

Expenditure during the research phase of a project is recognised as an expense when incurred.

Development costs are capitalised only when technical feasibility studies identify that the project will develop an intangible asset that will be completed and available for use or sale, that there are adequate technical, financial and other resources to complete the development, that it will deliver future economic benefits and these benefits can be measured reliably.

Development costs have a finite life and are amortised on a systematic basis matched to the future economic benefits over the useful life of the project. The useful life has been determined to be twelve years and amortisation is over that period on a straight line basis.

Note 3. Operating segments

Identification of reportable operating segments

The consolidated entity operated in two segments, the first as an explorer for base precious metals, with the emphasis on copper, gold and uranium mineralisation within Australia. The second been graphene research and development, where it conducted a scoping study for the production of graphene oxide with SuperSand. In previous years the consolidated entity operated in oil and gas exploration in addition to base metals, however, it disposed of all assets in relation to oil and gas exploration in prior periods in order to focus operations on base metals.

AASB 8 requires operating segments to be identified on the basis of internal reports about the components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. The board reviews the consolidated entity as two operating segments, been mineral exploration within Australia and graphene research and development.

The consolidated entity's graphene research and development held assets at reporting date to the value of \$25,000 in property plant & equipment. The company also spent \$157,928 in relation to its research and development on graphene during the period.

At reporting date the consolidated entity held assets in relation to its exploration expenditure activities in the amount of \$1,710,686 (30 June 2014: \$1,607,722). A total of \$40,321 in exploration expenditure was impaired during the period (31 December 2013: \$31,488).

Revenue by geographical area

All assets and liabilities and operations are based in Australia.

Note 4. Revenue

| | Consolidated | |
|--------------------------------------------|---------------------|--------------------|
| | 31 December | 31 December |
| | 2014 | 2013 |
| | \$ | \$ |
| Fees earned as operator of joint operators | 801 | 73,926 |
| Interest | 30,478 | 54,450 |
| | <hr/> | <hr/> |
| Revenue | 31,279 | 128,376 |
| | <hr/> <hr/> | <hr/> <hr/> |

Strategic Energy Resources Limited
Notes to the financial statements
31 December 2014

Note 5. Other income

| | Consolidated | |
|-------------------------------------------------------|---------------------|--------------------|
| | 31 December | 31 December |
| | 2014 | 2013 |
| | \$ | \$ |
| Net gain on disposal of property, plant and equipment | 2,200 | - |
| Net gain on disposal of exploration licences | - | 2,504,850 |
| | <u>2,200</u> | <u>2,504,850</u> |
| Other income | <u>2,200</u> | <u>2,504,850</u> |

Note 6. Research & Development

| | Consolidated | |
|------------------------|---------------------|--------------------|
| | 31 December | 31 December |
| | 2014 | 2013 |
| | \$ | \$ |
| Research & Development | 157,928 | - |
| | <u>157,928</u> | <u>-</u> |

Note 7. Non-current assets - available-for-sale financial assets

| | Consolidated | |
|------------------------------------------|---------------------|---------------------|
| | 31 December | 30 June 2014 |
| | 2014 | 2014 |
| | \$ | \$ |
| Investment in Oil Basins Limited | 42,000 | 70,000 |
| Investment in Valence Industries Limited | 11,874,954 | 8,933,452 |
| Investment in Magnum Gas & Power Limited | 80,000 | - |
| | <u>11,996,954</u> | <u>9,003,452</u> |

The investment in Oil Basins Limited resulted from the disposal of the consolidated entity's interest in exploration licence VIC P/41, through the sale of Shelf Oil Pty Ltd to Oil Basins Limited (ASX Code: OBL) on 18 November 2013. The consideration received was 7,000,000 fully paid OBL ordinary shares, issued at \$0.02 (2 cents) per share. At the date of disposal the asset and the consideration paid was valued at \$140,000.

The consolidated entity currently holds 20,000,000 fully paid ordinary shares in Magnum Gas & Power Limited (ASX Code: MPE) which were acquired during the period.

On 20 December 2013, it was announced that Valence Industries Limited had successfully completed its Placement and Rights Issue capital raising, raising \$6.73 million. Subsequent to 31 December 2013, the fully paid ordinary shares of VXL were listed on the ASX. As a result of the completion of the Placement and Rights Issue, the consolidated entity's holding in VXL has been significantly diluted. Consequently the consolidated entity is no longer in a position to significantly influence over the operations of VXL, and the investment has been reclassified to available-for-sale financial assets.

All financial assets held by the consolidated entity at fair value are valued in accordance AASB 13, using Level 1 of the fair value hierarchy - quoted prices (unadjusted) in active markets for identical assets or liabilities. The fair values of the financial assets held have been determined by reference to the quoted price on the ASX at 31 December 2014.

Strategic Energy Resources Limited
Notes to the financial statements
31 December 2014

Note 8. Non-current assets - exploration and evaluation

| | Consolidated | |
|--------------------------------------|---------------------|---------------------|
| | 31 December | |
| | 2014 | 30 June 2014 |
| | \$ | \$ |
| Exploration and evaluation - at cost | <u>1,710,686</u> | <u>1,607,722</u> |

Reconciliations

Reconciliations of the written down values at the beginning and end of the current financial half-year are set out below:

| Consolidated | Exploration \$ | Total \$ |
|----------------------------------|-------------------|------------------|
| Balance at 1 July 2014 | 1,607,722 | 1,607,722 |
| Expenditure during the half-year | 143,285 | 143,285 |
| Impairment of assets | <u>(40,321)</u> | <u>(40,321)</u> |
| Balance at 31 December 2014 | <u>1,710,686</u> | <u>1,710,686</u> |

Note 9. Equity - reserves

| | Consolidated | |
|----------------------------|---------------------|---------------------|
| | 31 December | |
| | 2014 | 30 June 2014 |
| | \$ | \$ |
| Demerger reserve | (23,848,081) | (23,848,081) |
| Available-for-sale reserve | 7,517,173 | 4,575,671 |
| Options reserve | <u>432,000</u> | <u>448,000</u> |
| | <u>(15,898,908)</u> | <u>(18,824,410)</u> |

Demerger reserve

The reserve is used to recognise the in-specie distribution to shareholders as a result of the demerger of Valence Industries Limited (previously Strategic Graphite Limited and Tarcoola Gold Limited) on 27 April 2012.

Available-for-sale reserve

The reserve is used to recognise increments and decrements in the fair value of available-for-sale financial assets.

Options reserve

The reserve is used to recognise the value of equity benefits provided to employees and directors as part of their remuneration, and other parties as part of their compensation for services. During the period 1,000,000 options lapsed to the value of \$16,000.

Movements in reserves

Movements in each class of reserve during the current financial half-year are set out below:

| Consolidated | Demerger \$ | Revaluation reserve surplus \$ | Option \$ | Total \$ |
|--------------------------------------------------------|---------------------|-----------------------------------------|----------------|---------------------|
| Balance at 1 July 2014 | (23,848,081) | 4,575,671 | 448,000 | (18,824,410) |
| Lapse of options | - | - | (16,000) | (16,000) |
| Fair value gain on available-for-sale financial assets | <u>-</u> | <u>2,941,502</u> | <u>-</u> | <u>2,941,502</u> |
| Balance at 31 December 2014 | <u>(23,848,081)</u> | <u>7,517,173</u> | <u>432,000</u> | <u>(15,898,908)</u> |

Strategic Energy Resources Limited
Notes to the financial statements
31 December 2014

Note 10. Equity - dividends

There were no dividends paid, recommended or declared during the current or previous financial half-year.

Note 11. Contingent liabilities

The consolidated entity had no contingent liabilities at 31 December 2014 and 30 June 2014.

Note 12. Commitments

| Consolidated | |
|---------------------|---------------------|
| 31 December | |
| 2014 | 30 June 2014 |
| \$ | \$ |

Exploration Commitments

Committed at the reporting date but not recognised as liabilities, payable:

Within one year

| | |
|---|----------------|
| - | <u>173,000</u> |
|---|----------------|

During the prior financial year, the company sold both of its oil and gas exploration permits VIC/P41 and VIC/P47 to Oil Basins Limited (ASX:OBL) and as such extinguishing the company's exploration commitment. The company received 13 million shares in OBL shares as consideration for these permits. The company currently has no future expenditure commitments as all commitment amounts have been met.

Note 13. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 2:

| Name | Principal place of business / Country of incorporation | Ownership interest | |
|----------------------------------------------------------|-------------------------------------------------------------------|---------------------------|---------------------|
| | | 31 December | |
| | | 2014 | 30 June 2014 |
| | | % | % |
| Strategic Nickel Pty Ltd | Australia | 100.00% | 100.00% |
| Ionic Industries Pty Ltd (Formerly Graphitech Pty Ltd) * | Australia | 100.00% | 100.00% |

* Incorporated on 19 February 2014 and changed its name on the 27 January 2015

Strategic Energy Resources Limited
Notes to the financial statements
31 December 2014

Note 14. Events after the reporting period

As announced during the financial period the consolidated entity plans to demerge and spin off its 100% wholly owned subsidiary Ionic Industries. The company will provide further information once all statutory reporting obligations have been finalised.

As previously announced, the Company has been commissioned a scoping study for the production of graphene oxide with SuperSand as an additional optional process stream, and a marketing study on SuperSand. We have received a draft of the marketing study which was undertaken to ascertain demand and the market potential. A summary of the report will be released to ASX once our internal review is complete.

The scoping study is currently in the review stage and is progressing well. Process flow diagrams have been produced and reviewed by members of the research team at Monash University. Estimated capital and operating costs numbers are currently being reviewed against industry metrics.

Ionic holds, under the Collaboration Agreement with Monash University, commercialisation agreements with patent/IP holder Monash University, who licences that commercialisation to Ionic in accordance with its patent/IP rights.

Subsequent to the end of the period, the Company's investment in Valence Industries Limited (ASX: VXL) decreased by \$4,684,615 to \$7,190,339, as at the date of this report, following a decline in VXL's share price. The Company will continue to value its investment in line with its accounting policies for future reporting periods.

No other matter or circumstance has arisen since 31 December 2014 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Note 15. Earnings per share

| | Consolidated | |
|-------------------------------------------------------------------------------------------------|-------------------------|-------------------------|
| | 31 December 2014 | 31 December 2013 |
| | \$ | \$ |
| Profit/(loss) after income tax attributable to the owners of Strategic Energy Resources Limited | <u>(610,315)</u> | <u>1,831,737</u> |
| | Number | Number |
| Weighted average number of ordinary shares used in calculating basic earnings per share | <u>348,622,501</u> | <u>348,622,501</u> |
| Weighted average number of ordinary shares used in calculating diluted earnings per share | <u>348,622,501</u> | <u>348,622,501</u> |
| | Cents | Cents |
| Basic earnings per share | (0.18) | 0.53 |
| Diluted earnings per share | (0.18) | 0.53 |

Strategic Energy Resources Limited
Directors' declaration
31 December 2014

In the directors' opinion:

- the attached financial statements and notes thereto comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes thereto give a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the financial half-year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors



Glenister Lamont
Non-Executive Chairman

5 March 2015
Melbourne

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Independent Auditor's Review Report To the Members of Strategic Energy Resources Limited

We have reviewed the accompanying half-year financial report of Strategic Energy Resources Limited ("Company"), which comprises the consolidated financial statements being the statement of financial position as at 31 December 2014, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a statement or description of accounting policies, other explanatory information and the directors' declaration of the consolidated entity, comprising both the Company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' responsibility for the half-year financial report

The directors of Strategic Energy Resources Limited are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such controls as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the consolidated half-year financial report based on our review. We conducted our review in accordance with the Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the Strategic Energy Resources Limited consolidated entity's financial position as at 31 December 2014 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of Strategic Energy Resources Limited,

Grant Thornton Audit Pty Ltd ACN 130 913 594
a subsidiary or related entity of Grant Thornton Australia Ltd ABN 41 127 556 389

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Liability limited by a scheme approved under Professional Standards Legislation. Liability is limited in those States where a current scheme applies.

ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we complied with the independence requirements of the Corporations Act 2001.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Strategic Energy Resources Limited is not in accordance with the Corporations Act 2001, including:

- a giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the half-year ended on that date; and
- b complying with Accounting Standard AASB 134 Interim Financial Reporting and Corporations Regulations 2001.



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



Adrian Nathanielsz
Partner - Audit & Assurance

Melbourne, 5 March 2015