



ASX Announcement
22 July 2011

Agreement with Mega signed to acquire Uley Graphite Project

Highlights

- 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.

Strategic Energy Resources Ltd (**SER**, ASX: SER) is pleased to announce that it has entered into a merger implementation deed for the proposed acquisition by MEGA Graphite Inc (**MEGA Graphite**) of SER's wholly owned subsidiary, Tarcoola Gold Ltd (**Tarcoola**). Tarcoola holds all issued shares in Strategic Energy Graphite Pty Ltd (**SEG**), which in turn holds the rights to and assets of the Uley graphite project. MEGA Graphite is a company registered in Ontario, Canada, and it is not currently listed on a securities exchange.

Transaction Overview

Subject to shareholder approval, the proposed acquisition will be implemented by:

1. A scheme of arrangement between SER and its shareholders, that will result in SER shareholders acquiring 80% of the issued shares in Tarcoola (**Demerger Scheme**). SER will retain 20% of the shares on issue in Tarcoola after the Demerger Scheme has been implemented.
2. A scheme of arrangement between Tarcoola and its shareholders (who will, at that time, include both SER and the shareholders of SER and who together are referred to as **Participants**), that will result in Tarcoola becoming a wholly owned subsidiary of MEGA Graphite in exchange for the Participants being issued 33% of the shares in MEGA Graphite (or a higher percentage if required to reflect the value of Tarcoola as determined by the Canadian Expert, which value must be a minimum of CDN \$70 million) (**Transfer Scheme**).
3. SER retains a 1.5% royalty on all product sales revenues from material extracted from the Uley graphite mine.
4. MEGA Graphite has agreed to pay CDN\$1 million to SER, with CDN\$800,000 already received and the balance due on the Transfer Scheme becoming Effective.

It is a condition of the Transfer Scheme becoming Effective that MEGA Graphite either lists on the Toronto Stock Exchange or the New York Stock Exchange (or another securities exchange agreed by SER) (referred to as **TSX**) or merges with another listed entity by 30 October 2011. If this condition is not met, the Uley graphite project will be retained by SER shareholders.

Explanatory booklets with full details of both the Demerger Scheme and the Transfer Scheme will be sent to SER shareholders and Participants.

Conditions

There are a number of conditions that need to be fulfilled before the Transfer Scheme can become Effective. Some of the more important conditions include:

- The annexures to the Merger Implementation Deed (including the terms of the Schemes and the Timetable for implementing them) being agreed by SER, Tarcoola, SEG and MEGA Graphite.
- MEGA Graphite obtaining listing on the TSX or completing a merger with a Listed Merger Entity by 30 October 2011.

- Regulatory approvals in Australia and Canada, including ASX, TSX, FIRB and ASIC.
- No material adverse change in respect of MEGA, SER, or Tarcoola.
- SER Shareholder approval of the Demerger Scheme and Participant approval of the Transfer Scheme.
- Court approval of the Transfer Scheme and the Demerger Scheme.

MEGA Graphite must also provide SER with the required information on its listing on the TSX or the entity with which it intends to merge (as applicable) that will allow an Independent Expert's Report to be prepared for consideration by Participants.

Subject to the conditions being met and their normal fiduciary duties, SER directors have agreed to recommend both transactions to SER shareholders and Participants.

The Process

The transaction is subject to shareholder approval and shareholders will receive two explanatory booklets with the detailed information regarding the proposed Schemes. It will involve two shareholder meetings. A more detailed timetable is to be agreed by SER, Tarcoola, SEG and MEGA Graphite. An Independent Expert's Report will be presented to SER shareholders and Participants as part of the explanatory booklets.

The board of SER believes that shareholders may be able to obtain rollover relief for the Demerger Scheme and the Transfer Scheme. SER will, however, seek an independent expert opinion and/or an indicative opinion from the ATO in relation to this issue, and shareholders will need to obtain their own tax advice.

SER has agreed to a no-shop arrangement where SER will not seek competing proposals for the Uley graphite project, but SER directors are allowed (in line with normal fiduciary duties) to consider any unsolicited superior proposal. A break fee is payable to MEGA Graphite equal to CDN\$800,000 if a superior proposal is received before the Effective Date for the Schemes.

Value for SER shareholders

There are a number of benefits for SER shareholders including:

- SER receives the immediate benefit of the payment from MEGA Graphite of CDN\$800,000 and the further payment of CDN\$200,000 on the Transfer Scheme becoming Effective.
- The Transfer Scheme Scrip that the Participants will receive in exchange for their shares in Tarcoola under the Transfer Scheme will be valued at a minimum of CDN\$70 million at the time immediately before the merger or IPO involving MEGA Graphite.
- SER shareholders can continue to retain exposure to the graphite market and graphite-based technological advances through the Transfer Scheme Scrip they receive as consideration for their shares in Tarcoola.

- SER shareholders will be able to retain their SER shares, which (in addition to SER's oil and minerals exploration assets) gives them indirect exposure to the product sales revenue from the Uley graphite mine through the minerals royalty deed entered into between SER and SEG, and also through the SER shareholding in MEGA Graphite (or a listed merger entity) .

The board of SER has considered a range of alternative proposals and believes that MEGA Graphite's offer represents the best value to, and is in the best interests of, SER shareholders in the absence of a superior proposal. The board also believes that structuring the transaction in this way will allow SER shareholders to gain exposure to value-added opportunities in the graphite business.

Further Information

For further information, contact:

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