



STRATEGIC ENERGY RESOURCES LIMITED  
ACN 051 212 429

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30 July 2012

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## Quarterly Report to 30 June 2012

### HIGHLIGHTS FOR THE QUARTER:

- **Significantly improved deal agreed with MEGA Graphite**
- **Significant progress at Uley mine:**
  - **testing and upgrading of electrical equipment**
  - **on site water supply completed**
  - **float cell water tested**
  - **general site preparation**
- **Monash University has completed preliminary characterization analysis on Uley graphite samples**
- **Transfer of interest in Vic/P41 to Oil Basins, relieving company of a potentially significant contractual liability**

*Strategic Energy Resources Limited (ASX Code: SER) holds a number of interests in oil and mineral exploration assets and the Uley graphite mine at Port Lincoln, South Australia (presently under care and maintenance). These include significant interests in three offshore petroleum exploration permits in the Gippsland Basin, Victoria, and an interest in one onshore petroleum exploration block in the Cooper Basin, South Australia. It holds mineral exploration licences in South Australia, Western Australia and Victoria.*

# **1. MINERAL EXPLORATION**

## **1.1 ULEY GRAPHITE MINE – 20% interest through Tarcoola Gold PORT LINCOLN, SA**

### **Uley Graphite Project**

Located only 23 kilometres from Port Lincoln, the regional centre for the Lower Eyre Peninsula in South Australia, Uley is recognised as a substantive and significant area of graphite mineralisation. The graphite deposit is one of the largest coarse flake graphite deposits in the world, containing disseminated, high-grade flake graphite.

The mineralisation is near surface and the graphite produced from the former operation was accepted by traders for its high quality.

### **Demerger Scheme**

## **MEGA Graphite Deal Update – Merger and Implementation Deed (MID)**

The MID envisaged a potential:

1. Demerger of 80% of Tarcoola (which in turn holds 100% of the shares in SEG which owns the Uley graphite deposit) pursuant to a Scheme of Arrangement (Demerger Scheme); which has now been completed and
2. Transfer of Tarcoola shares (once demerged) to MEGA Australia (a wholly owned subsidiary of MEGA Graphite) in return for listed shares in MEGA Graphite (or other acceptable Company) pursuant to a second Scheme of Arrangement (Transfer Scheme).

Due to the continued strength of the graphite market and its impact on the value of the Uley Operations there is a revised basis for the scheme. The MID originally contemplated a transfer of Tarcoola shares to MEGA Graphite for which the shareholders of Tarcoola would receive 33% (or to the value of CAD\$70M) and it now provides for the receipt of 50% of MEGA Graphite pursuant to the second Scheme of Arrangement (Transfer Scheme). The shares in MEGA Graphite under the Transfer Scheme will be issued by MEGA Graphite and placed in escrow pending completion of the share exchange.

The Uley Graphite 43-101 technical report has been completed as have the 43-101 technical reports on the MEGA Graphite properties.

Most of the work for the listing has been completed but has taken most of July to attempt to finalize all of the related details. This effort will now be followed by the normal TSX review and receipt of approval for listing. The combination of these factors will likely move the public listing out with the exact timing still to be advised by MEGA Graphite. In conjunction with this listing there will also be a cash payment of to SER of CAD\$3.2 million by MEGA Graphite of which CAD \$500,000 has been received by SER.

MEGA Graphite is in negotiations with a Canadian institution to provide additional interim funding. These funds will allow for the continued conduct of operations and upgrades by MEGA Graphite to the current graphite processing facility at Uley, South Australia to build on the substantive work performed at site to date.

The Board of SER is also pleased to note that Macquarie Capital, Canada has been engaged by MEGA Graphite as a financial advisor through this process and to assist with MEGA's listing. With these revised terms and elements in place it is our assessment that this transaction reflects significant value for the shareholders of SER and the recently demerged Tarcoola.

The MID provides for MEGA Graphite (or another acceptable Company with which it may have merged) to have listed by 31 March 2012, with the completion of the Transfer Scheme to occur soon afterwards. While the listing requirement was not met, both companies have proceeded with discussions on amending the MID. MEGA Graphite has had technical experts visit the Uley plant and draw up detailed engineering and refurbishment plans. It has also undertaken extensive site clean-up activities and moved forward with permitting and related work to ensure OH&S and environmental compliance. Based on test work and evaluation of material on site, and the modest quantities of graphite produced to date, MEGA Graphite has advised that they expect to be able to meet anticipated customer requirements once the plant is in production.

SER continues to believe in both the potential of Uley and that MEGA Graphite brings value adding opportunities and technology is the best outcome for SER shareholders.

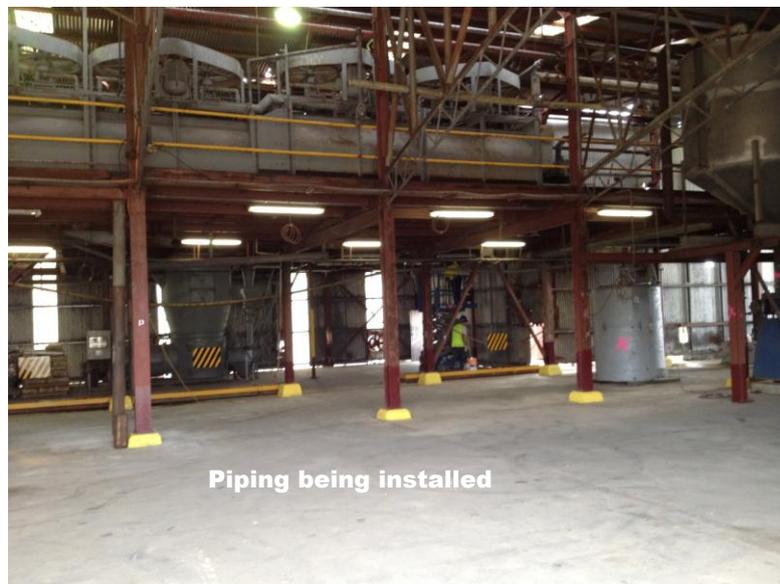
## **PROGRESS REPORT AT ULEY**

We are pleased to report that substantial progress has been made at the plant. Within the processing plant the following work has been carried out:

- Substantially completed the significant removal of redundant plant and equipment from the building to meet the requirements for the revised restart of the process circuit. This plant and equipment is being stored and will be disposed of as progress is made;
- Water supply to the plant from onsite storage has been completed and testing of the integrity of the flotation circuit has been finalised; (see pic on following page);
- Completed the required repairs for the column footings for the structure;
- Commenced the process of re-roofing, water-proofing and security of the building with the installation of walls and compliant entry and egress for personnel and equipment;
- Conducted full electrical testing and cleaning of the Motor Control Centre in preparation for reconnection of plant and equipment and restart of processing;
- Performed installation of resistance temperature detectors (RTDs) to most electrical distribution boards (e.g. workshop, crib camp, laboratory, administration building and drill core sheds. During installation of RTDs and associated testing some serious electrical safety issues were detected and rectified.

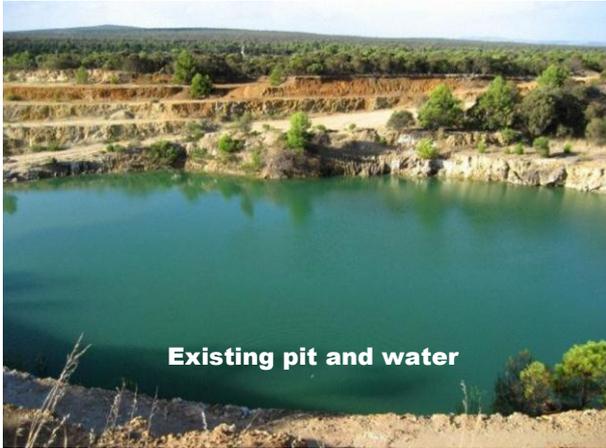


- Internal lighting has been inspected and upgraded to meet current standards and the itemised inspection, testing and replacement (as required) of all general power outlets is underway.



Other work completed or underway:

- The reroofing of the test-processing circuit building and of the laboratory is underway in anticipation of the restart of those systems to test and check material at site.
- Commenced the full design and sourcing of equipment to repair and reinstate the external processing circuit with the system for removal of redundant plant and equipment being developed to re-use material in other areas of the facility.
- Completed surveys of the raw material stockpiles and the volume of water contained in the old open pit. Those surveys have verified the quantities of raw material and water required for processing this year.
- Continued the process of foliage management for reduction in fuel load identified by the CFS as creating risk for contractors and personnel at site. Commenced the process of developing a fuel management plan to continue these occupational health and safety requirements. This includes continued weed management and regrowth restrictions to prevent the build up of fuel load for the upcoming summer.



## Monash University Research Update

During the quarter three different natural graphite samples were supplied by SER to the researchers at Monash. The chemical nature and morphology of these powders were analysed with inductively coupled plasma-atomic emission spectroscopy (ICP-AES), Scanning electron microscopy (SEM), energy dispersive X-ray diffraction (XRD). The density of the graphite powder was determined using helium pycnometer.

The Monash Researchers are now planning the following work:

- Preparation of graphite oxide from these powders
- Development of reduced grapheme oxide electrodes
- Measurement of the capacitance (energy storage capability) of the resultant electrodes

## 1.2 MYALL CREEK (SER 50%) EL 3538 SOUTH AUSTRALIA

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 preliminary assays of the cores for the two completed holes are presented below:

SampleNo	HoleID	Depth from	DepthTo	Cu (ppm)
SER11MC001	MC02	115.7	116.7	2600
SER11MC002	MC02	116.8	117.8	1780

These results are an average grade for the region and are encouraging for further exploration efforts.

A further drilling program is being devised with the goal of coordinating with the drill program devised for Cultana. Analysis is continuing of the prior geochemical and drill data.

### **1.3 CULTANA (SER 75%) EL 3547 SOUTH AUSTRALIA**

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.

The Joint Venture has formally submitted all documentation to the Department of Defence and Department of Finance for access approval. SER believes access permission should be granted for drilling, subject to all approvals shortly.

### **1.4 FALCON BRIDGE (SER 95%) E38/1970, P38/3382, P38-3383-4 WESTERN AUSTRALIA**

The Falcon Bridge area covers approximately 17km of strike of ultramafic rich stratigraphy in the Duketon Greenstone Belt coincident with linear magnetic anomalism.

All previous drill results obtained from the previous Joint Venture partner are being reviewed.

## **2. OIL AND GAS EXPLORATION**

### **2.1 PEL-182 - (SER 5%) ONSHORE PETROLEUM EXPLORATION – COOPER BASIN, SA**

The licence is currently under suspension. A further six month suspension and extension has been granted.

## **2.2 VIC/P47 – (SER 25%) OFFSHORE GIPPSLAND BASIN**

Permit Vic/P47 is located in the offshore Gippsland Basin, approximately 10 kilometres offshore, south of the Victorian town of Orbost. Water depths range up to 80 metres. The permit contains the Judith and Moby gas discoveries. The Judith gas resource has been certified by Gaffney Cline & Associates (GCA) to hold 194 BCF (2C) and 934 BCF (3C) of recoverable Contingent Resources. Both Judith and Moby are in close proximity to existing or planned infrastructure in adjacent licences.

During the quarter, the operator completed the interpretation of the simultaneous seismic inversions undertaken on the reprocessed Moby 3D seismic volume and 200 square kilometres of the Northern Fields 3D seismic survey. The work covered the Moby and Judith fields and assisted in delineating the field boundaries of the fields.

The Vic/P47 joint venture is actively seeking farmin partners to fund and operate appraisal and development operations. The opportunity has attracted credible interest and while no offers have been received to date, evaluation and assessment is continuing.

## **2.3 VIC/P41 – (SER 17.5%) EASTERN OFFSHORE GIPPSLAND BASIN**

As announced on the ASX on 15 June 2012 SER transferred a 7.5% interest to Oil Basin Limited. This was considered prudent as contractual liabilities associated with the original farm-in document had become more onerous as the holding period reached various milestones.

Permit Vic/P41 (539 square kilometres) is located in the east of the offshore Gippsland Basin, approximately 40 kilometres south of the Victorian coast. BAS maps extensions of the Kipper and BMG producing trends in its East Gippsland permits.

During the quarter work continued on preparing to acquire the Stanton 3D seismic survey (to be acquired jointly with the Vic/P66 Joint Venture). Tenders have been received and are currently being evaluated. An Environmental Plan is being prepared ready for submission to the necessary authorities. This work is aimed at acquiring the survey when a seismic vessel becomes available.

The Vic/P41 joint venture is actively seeking farmin partners to fund and operate future exploration. The opportunity has attracted credible interest and while no offers have been received to date, evaluation and assessment is continuing.

## **2.4 VIC/P66 – (SER 23%) EASTERN OFFSHORE GIPPSLAND BASIN**

Permit Vic/P66 (2160 square kilometres) is located adjacent to Vic/P66 in the east of the offshore Gippsland Basin, approximately 40 kilometres south of the Victorian coast. BAS maps extensions of the Kipper and BMG producing trends in its East Gippsland permits.

During the quarter work continued on preparing to acquire the Stanton 3D seismic survey (to be acquired jointly with the Vic/P41 Joint Venture). Tenders have been received and are currently being evaluated. An Environmental Plan is being

prepared ready for submission to the necessary authorities. This work is aimed at acquiring the survey when a seismic vessel becomes available.

Vic/P66 is also the subject of farmin reviews and has attracted credible interest. While no offers have been received to date, evaluation and assessment is continuing.



**Mark Muzzin**  
**Managing Director**

### **Competent Person Statement**

The Myall Creek information is based on information compiled by SER's geological consultant, Dr Wenlong Zang. Dr Zang is a member of the Australasian Institute of Mining & Metallurgy. Dr Zang 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 and has consented in writing to the inclusion of the information.

### **Risk Factors**

*Various statements in this release constitute statements relating to intentions, future acts and events. Such statements are generally classified as forward looking statements and involve known and unknown risks, expectations, uncertainties and other important factors that could cause those future acts, events and circumstances to differ from the way or manner in which they are expressly or impliedly portrayed herein. Furthermore, exploration for oil, gas and minerals is speculative, expensive and subject to a wide range of risks. Individual investors should consider these matters in light of their personal circumstances (including financial and taxation affairs) and seek professional advice from their accountant, lawyer or other professional advisor as to the suitability for them of an investment in the Company.*

# Appendix 5B

## Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001, 01/06/10.

Name of entity

STRATEGIC ENERGY RESOURCES LIMITED

ABN

14 051 212 429

Quarter ended ("current quarter")

30 JUNE 2012

### Consolidated statement of cash flows

	Current quarter \$A'000	Year to date (12 months) \$A'000
<b>Cash flows related to operating activities</b>		
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for		
(a) exploration and evaluation	(22)	(556)
(b) development	-	-
(c) production	-	-
(d) administration	(649)	(1,708)
(e) bank guarantee	-	-
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	13	65
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Demerger Implementation Fees	494	1,281
<b>Net Operating Cash Flows</b>	<b>(164)</b>	<b>(918)</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of:		
(a)prospects	-	-
(b)equity investments	-	-
(c)other fixed assets	-	(7)
1.9 Proceeds from sale of:		
(a)prospects	-	51
(b)equity investments	-	37
(c)other fixed assets	-	8
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Research and Development – Monash University	(33)	(33)
<b>Net investing cash flows</b>	<b>(33)</b>	<b>56</b>
1.13 Total operating and investing cash flows (carried forward)	(197)	(862)

+ See chapter 19 for defined terms.

Appendix 5B  
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(197)	(862)
	<b>Cash flows related to financing activities</b>		
1.14	Proceeds from issues of shares, options, etc.	-	825
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other (provide details if material)	-	-
	<b>Net financing cash flows</b>	-	<b>825</b>
	<b>Net increase (decrease) in cash held</b>	<b>(197)</b>	<b>(37)</b>
1.20	Cash at beginning of quarter/year to date	1,294	1,134
1.21	Demerger of Tarcoola Gold Limited	(5)	(5)
1.22	Exchange rate adjustments to item 1.20	-	-
1.23	<b>Cash at end of quarter</b>	<b>1,092</b>	<b>1,092</b>

**Payments to directors of the entity and associates of the directors**

**Payments to related entities of the entity and associates of the related entities**

		Current quarter \$A'000
1.24	Aggregate amount of payments to the parties included in item 1.2	104
1.25	Aggregate amount of loans to the parties included in item 1.10	-

1.26 Explanation necessary for an understanding of the transactions

Director's fees paid during the June 2012 quarter.

**Non-cash financing and investing activities**

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

Nil

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

Nil

+ See chapter 19 for defined terms.

### Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	-	-
3.2 Credit standby arrangements	-	-

### Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	50
4.2 Development	-
4.3 Production	-
4.4 Administration	420
<b>Total</b>	<b>470</b>

### Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	284	497
5.2 Deposits at call	808	797
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
<b>Total: cash at end of quarter</b> (item 1.22)	<b>1,092</b>	<b>1,294</b>

### Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1 Interests in mining tenements relinquished, reduced or lapsed	EL4778	Held by Tarcoola Gold	100%	20%
	RL66	Limited – 80%	100%	20%
	RL67	demerged on 27 April	100%	20%
	ML5561	2012	100%	20%
	ML5562		100%	20%
	VIC/P41	Joint Venture	25%	17.5%

+ See chapter 19 for defined terms.

Appendix 5B  
Mining exploration entity quarterly report

6.2 Interests in mining tenements acquired or increased

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**Issued and quoted securities at end of current quarter**

*Description includes rate of interest and any redemption or conversion rights together with prices and dates.*

	Number issued	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 <b>Preference +securities</b> <i>(description)</i>				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 <b>+Ordinary securities</b>	348,622,501	348,622,501		Fully paid
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.5 <b>+Convertible debt securities</b> <i>(description)</i>				
7.6 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.7 <b>Options</b> <i>(description and conversion factor)</i>				
7.8 Issued during quarter				
7.9 Exercised during quarter	-	-		

+ See chapter 19 for defined terms.

7.10	Cancelled during quarter		-		
7.11	<b>Debentures</b> <i>(totals only)</i>				
7.12	<b>Unsecured notes</b> <i>(totals only)</i>				

## Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Law or other standards acceptable to ASX (see note 4).
- 2 This statement does give a true and fair view of the matters disclosed.



Sign here:

Date: 30 July 2012

Print name: MELANIE LEYDIN

## Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities.** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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