

Strategic Energy Resources Limited

ABN 14 051 212 429

Half-year Financial Report - 31 December 2013

Strategic Energy Resources Limited

Contents

31 December 2013

Corporate directory	2
Review of operations	3
Directors' report	5
Auditor's independence declaration	6
Statement of profit or loss and other comprehensive income	7
Statement of financial position	8
Statement of changes in equity	9
Statement of cash flows	10
Notes to the financial statements	11
Directors' declaration	18
Independent auditor's review report to the members of Strategic Energy Resources Limited	19

Strategic Energy Resources Limited

Corporate directory

31 December 2013

Directors	Glenister Lamont (Non-Executive Chairman) Mark Muzzin (Managing Director) Peter Armitage (Non-Executive Director) Anthony Rechner (Technical Director)
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	Suite 905, 530 Little Collins Street Melbourne, VIC 3000 Ph: 03 9909 7078 Fax: 03 9909 7080
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

MINERAL EXPLORATION

Spencer Joint Venture (SER 75%) EL 5010 **South Australia**

Strategic Energy Resources Limited (ASX:SER) as Operator of the ‘Spencer Joint Venture’ (SER 75% and Kingston Resources Ltd (ASX:KSN) 25%) completed the first round drilling campaign.

The exploration programme commenced in August 2013 with the rigs demobilized from site on the 30th of September 2013. A total of 10 holes were drilled.

The Spencer area comprises 321 km² and is located on the west coast of Spencer’s Gulf. It had remained one of the few undrilled areas along the Olympic Dam trend that has now been the subject of significant modern exploration techniques including gravity, magnetics, HeliTEM, geological mapping and geochemistry. This same trend is the home to some exceptional discoveries including Olympic Dam, Carrapateena, Prominent Hill, Mount Gunson, Wallaroo, Moonta and Hillside.

Intensive analysis combining all current data including assays from the drilling, HeliTEM, geological logging of RC chips and Field Portable XRF (FPXRF) data is now focused on evaluating the EM conductive lineament joining known outcropping expressions of copper mineralization. These areas of copper outcrop have been historically mapped as having been strongly altered with the Muzzo outcrop showing argillic alteration.

The next phase of exploration will aim to evaluate the economic potential of the newly discovered Kijani trend. This will involve follow up mapping of alteration zones throughout the trend and initial plans for a geochemical program with the aim to validate historical geochemical sampling programs and to delineate further buried occurrences of mineralization of similar style to the outcropping mineralization throughout the Kijani Trend.

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 some mineralization is controlled by a redox contrast which exists between the base of the Tapley Hill formation and an underlying unconformable contact between the two sedimentary 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 prospectivity of the Myall Creek project for both Zambian style copper mineralization and the potential of Olympic Dam style IOCG mineralization at depth is ongoing. The drilling results from our Spencer project will be beneficial in determining the next exploration program in this licence area.

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. Open File mapping obtained from the Department of Mines and Petroleum has delineated two strike aligned ultra-mafic units. The northern unit is approximately 5.8km in length striking north south of which the southern 3.8km lies with in EL 38/1970. The southern ultra-mafic unit is approximately 9.15 km in strike length. Both the ultramafic units are prospective for komatiite hosted nickel sulphide mineralization.

Previous work completed by Ishine International Resources Ltd in 2010 defined a number of drill targets defined by a SQUID Moving Loop TEM Survey over what is known as the Toro-Grande Magnetic Anomaly. The targets are defined as weak conductor observed in the channel 25 and a later time conductor defined in the channel 40 image. Both these conductive units remain untested with previous drill programs failing to penetrate to the depth required to test the target.

Strategic Energy Resources Limited
Review of Operations
31 December 2013

Casteron (SER 5%) EL 5040

Victoria

In 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 is planning a drilling program during the second quarter of 2014. EL 5040 comprises 486 graticular sections and is located some 350 kilometres west of Melbourne, Victoria.

OIL AND GAS EXPLORATION

Vic/P41

Eastern Offshore Gippsland Basin

During the reporting period our subsidiary company Shelf Oil Pty Ltd which held a 17.5% interest in Vic/P41 was sold to Oil Basins Limited (ASX:OBL) for 7 million shares in OBL.

Vic/P47 – (SER 25%)

Offshore Gippsland Basin

A variation to the 2014 exploration program was submitted by the new operator, after the decision by Bass Strait Oil Company Ltd to withdraw from the permit. SER granted OBL a conditional exclusive option over SER's 25% interest in the permit for 6 million shares in OBL, subject to the offshore regulator NOPTA approving a new variation and extension to the 2014 Vic/P47 Work Program as submitted by the new operator. On the 20th of February 2014 OBL exercised their option.

Vic/P66 – (SER 23%)

Eastern Offshore Gippsland Basin

The Vic/P66 Joint Venture partners have applied to surrender the permit. The joint venture partners agreed that exploration in the permit was unlikely to create value as it is in deep-water, which significantly increases the exploration costs, but also because the leads identified have a very high geological risk. The permit will be cancelled in due course.

CORPORATE UPDATE

A review of the current assets of the Company commenced and further opportunities are being assessed.

The Company is now well placed to receive substantial financial benefit from the demerger of the Uley Graphite project, with the 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.

SER holds 7 million shares in OBL from the sale of Vic/P41. This sale has relieved the company of a substantial financial liability, and has opened the possibility of potential upside from any transaction or progress within the permit.

MONASH UNIVERSITY GRAPHENE STUDIES

Monash University researchers have been developing novel composites of graphene with highly porous structures that provides massive surface areas of ~1200 m²/gm and high electrical conductivity suitable for energy storage applications. In this quarter, different compositions were synthesized and their energy storage capacities evaluated.

A further joint collaboration between SER and Monash for an ARC Linkage (Australian Research Council) grant has been submitted for review. The proposed research is titled - Functionally and Structurally Engineered Sorbent and Membrane Materials from Indigenous Natural Graphite by Exfoliation and Designed Reconstitution.

Strategic Energy Resources Limited
Directors' report
31 December 2013

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 for the half-year ended 31 December 2013.

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 Mark A Muzzin
Mr Glenister Lamont
Mr Peter Armitage
Mr Anthony Rechner

Principal activities

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

- Exploration for minerals in Australia and divestment of its non-core oil exploration assets

Review of operations

The profit for the consolidated entity after providing for income tax amounted to \$1,831,737 (31 December 2012: loss of \$860,490).

During the six months to 31 December 2013 the consolidated entity focussed its efforts on its existing tenements. The Company's Review of Operations precedes this Directors' Report.

The completion of the sale of Petroleum Exploration Licence PEL182 and the disposal of Petroleum Exploration Permit Vic/P41 were the main contributing factors to the profit for the period. The resultant increase in cash and financial assets contributed to the net assets of the consolidated entity increasing by \$2,263,435 during the period to \$8,907,105 (30 June 2013: \$6,643,670). Working capital, being current assets less current liabilities, increased by \$916,172 to \$2,861,609 (30 June 2013: \$1,945,437).

During the period the Company spent \$1,282,501 on its exploration assets, focussing on the Spencer project. As a result, exploration and evaluation assets amounted to \$1,550,128 at 31 December 2013 (30 June 2013: \$334,265).

The Directors believe the consolidated entity is in a strong position to continue its exploration and evaluation activities and exploit the asset in the future.

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

12 March 2014
Melbourne

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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 2013, 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



Nick Burne
Partner - Audit & Assurance

Melbourne, 12 March 2014

Grant Thornton Audit Pty Ltd ACN 130 913 594
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Strategic Energy Resources Limited
Statement of profit or loss and other comprehensive income
For the half-year ended 31 December 2013

		Consolidated	
	Note	31 December 2013	31 December 2012
		\$	\$
Revenue	4	128,376	18,448
Other income	5	2,504,850	-
Expenses			
Employee benefits expense		(111,076)	(175,789)
Consultant expense		(86,351)	(191,601)
Depreciation		(1,547)	(951)
Corporate expenses		(79,181)	(122,095)
Occupancy expenses		(21,017)	(34,124)
Legal expenses	6	(4,545)	(188,903)
Exploration expenditure written off		(31,488)	(82,598)
Other expenses		(51,126)	(82,877)
Share based payments		(438,698)	-
Profit/(loss) before income tax benefit		1,808,197	(860,490)
Income tax benefit		23,540	-
Profit/(loss) after income tax benefit for the half-year attributable to the owners of Strategic Energy Resources Limited		1,831,737	(860,490)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
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		(7,000)	-
Total comprehensive income for the half-year attributable to the owners of Strategic Energy Resources Limited		1,824,737	(860,490)
		Cents	Cents
Basic earnings per share		0.53	(0.25)
Diluted earnings per share		0.53	(0.25)

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 2013

		Consolidated	
	Note	31 December	30 June 2013
		\$	\$
Assets			
Current assets			
Cash and cash equivalents		2,905,337	2,114,610
Trade and other receivables		17,864	350,787
Other		68,793	46,510
Total current assets		<u>2,991,994</u>	<u>2,511,907</u>
Non-current assets			
Investments accounted for using the equity method	7	-	4,357,781
Available-for-sale financial assets	8	4,490,781	-
Property, plant and equipment		9,081	5,609
Exploration and evaluation	9	1,550,128	334,265
Other		20,586	20,586
Total non-current assets		<u>6,070,576</u>	<u>4,718,241</u>
Total assets		<u>9,062,570</u>	<u>7,230,148</u>
Liabilities			
Current liabilities			
Trade and other payables		61,294	234,970
Employee benefits		69,091	63,345
Other		-	268,155
Total current liabilities		<u>130,385</u>	<u>566,470</u>
Non-current liabilities			
Employee benefits		25,080	20,008
Total non-current liabilities		<u>25,080</u>	<u>20,008</u>
Total liabilities		<u>155,465</u>	<u>586,478</u>
Net assets		<u>8,907,105</u>	<u>6,643,670</u>
Equity			
Issued capital		28,833,224	28,833,224
Reserves	10	(23,416,383)	(23,848,081)
Retained profits		3,490,264	1,658,527
Total equity		<u>8,907,105</u>	<u>6,643,670</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
As at 31 December 2013

Consolidated	Contributed equity \$	Accumulated losses \$	Reserves \$	Total equity \$
Balance at 1 July 2012	28,833,224	1,924,580	(23,848,081)	6,909,723
Loss after income tax benefit for the half-year	-	(860,490)	-	(860,490)
Other comprehensive income for the half-year, net of tax	-	-	-	-
Total comprehensive income for the half-year	-	(860,490)	-	(860,490)
Balance at 31 December 2012	<u>28,833,224</u>	<u>1,064,090</u>	<u>(23,848,081)</u>	<u>6,049,233</u>
Consolidated	Contributed equity \$	Accumulated losses \$	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 (note 16)	-	-	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>

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 2013

	Consolidated	
	31 December	31 December
	2013	2012
	\$	\$
Cash flows from operating activities		
Payments to suppliers and employees (inclusive of GST)	(276,920)	(840,410)
Interest received	31,431	22,104
	<u>(245,489)</u>	<u>(818,306)</u>
Cash flows from investing activities		
Payments for property, plant and equipment	(5,019)	(3,431)
Payments for exploration and evaluation	(1,418,215)	-
Loans advanced	(53,100)	(33,650)
Proceeds from repayment of borrowings	352,550	-
Proceeds from sale of tenement assets	2,160,000	740,000
	<u>1,036,216</u>	<u>702,919</u>
Net cash from investing activities		
	790,727	(115,387)
Net increase/(decrease) in cash and cash equivalents	2,114,610	1,071,606
Cash and cash equivalents at the beginning of the financial half-year		
	<u>2,905,337</u>	<u>956,219</u>
Cash and cash equivalents at the end of the financial half-year		

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 2013

Note 1. General information

The financial report covers Strategic Energy Resources Limited as a consolidated entity consisting of Strategic Energy Resources Limited and the entities it controlled. The financial report is presented in Australian dollars, which is Strategic Energy Resources Limited's functional and presentation currency.

The financial report consists of the financial statements, notes to the financial statements and the directors' declaration.

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

Principal place of business

Suite 905, 530 Little Collins Street
MELBOURNE VIC 3000

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 report.

The financial report was authorised for issue, in accordance with a resolution of directors, on 12 March 2014. The directors have the power to amend and reissue the financial report.

Note 2. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 31 December 2013 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 2013 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.

Investments and other financial assets

Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. They are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on the purpose of their acquisition and subsequent reclassification to other categories is restricted. The fair values of quoted investments are based on current prices. For unlisted investments, the consolidated entity establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the consolidated entity has transferred substantially all the risks and rewards of ownership.

Impairment of financial assets

The consolidated entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. Objective evidence includes the disappearance of an active market for the financial asset or observable data indicating that there is a measurable decrease in estimated future cash flows.

Available-for-sale financial assets are considered impaired when there has been a significant or prolonged decline in value below initial cost. Subsequent increments are recognised in other comprehensive income through the available-for-sale reserve.

Note 2. Significant accounting policies (continued)

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 10 Consolidated Financial Statements

AASB 10 supersedes AASB 127 Consolidated and Separate Financial Statements and Interpretation 112 Consolidation – Special Purpose Entities. AASB 10 revises the definition of control and provides extensive new guidance on its application. These new requirements have the potential to affect which of the Group's investees are considered to be subsidiaries and therefore change the scope of consolidation. The requirements on consolidation procedures, accounting for changes in non-controlling interests and accounting for loss of control of a subsidiary are unchanged.

Management has reviewed its control assessments in accordance with AASB 10 and has concluded that there is no effect on the classification (as subsidiaries or otherwise) of any of the Group's investees held during the period or comparative periods covered by these financial statements.

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 does not prescribe when to use fair value. Instead it provides a single robust measurement framework, with clear measurement objectives, for measuring fair value using the 'exit price' and it provides guidance on measuring fair value when a market becomes less active. The 'highest and best use' approach would be used to measure assets whereas liabilities would be based on transfer value.

Note 3. Operating segments

Identification of reportable operating segments

The consolidated entity is organised into 2 operating segments: Exploration for Metals and Minerals and Exploration for Oil and Gas. These operating segments are based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources. There is no aggregation of operating segments.

The information reported to the CODM is on at least a monthly basis.

Strategic Energy Resources Limited
Notes to the financial statements
31 December 2013

Note 3. Operating segments (continued)

Operating segment information

	Exploration for Metals and Minerals \$	Exploration for Oil and Gas \$	Intersegment eliminations/ unallocated \$	Total \$
Consolidated - 31 December 2013				
Revenue				
Fees earned as operator of joint operations	73,926	-	-	73,926
Interest	-	-	54,450	54,450
Total revenue	<u>73,926</u>	<u>-</u>	<u>54,450</u>	<u>128,376</u>
Segment result				
Profit/(loss) before income tax benefit	<u>44,054</u>	<u>2,503,221</u>	<u>(739,078)</u>	<u>1,808,197</u>
Income tax benefit	44,054	2,503,221	(739,078)	1,808,197
Profit/(loss) after income tax benefit				<u>23,540</u>
				<u>1,831,737</u>
Assets				
Segment assets	5,907,909	133,000	3,021,661	9,062,570
Total assets				<u>9,062,570</u>
<i>Total assets includes:</i>				
Acquisition of non-current assets	1,282,501	-	-	1,282,501
Consolidated - 31 December 2012				
Revenue				
Other revenue	-	-	18,448	18,448
Total revenue	<u>-</u>	<u>-</u>	<u>18,448</u>	<u>18,448</u>
Segment result				
Loss before income tax expense	<u>(188,903)</u>	<u>(81,855)</u>	<u>(589,732)</u>	<u>(860,490)</u>
Income tax expense	(188,903)	(81,855)	(589,732)	(860,490)
Loss after income tax expense				<u>-</u>
				<u>(860,490)</u>
Assets				
Segment assets	5,007,799	-	2,222,349	7,230,148
Total assets				<u>7,230,148</u>

Note 4. Revenue

	Consolidated	
	31 December 2013	31 December 2012
	\$	\$
Fees earned as operator of joint operators	73,926	-
Interest	54,450	18,448
Revenue	<u>128,376</u>	<u>18,448</u>

Strategic Energy Resources Limited
Notes to the financial statements
31 December 2013

Note 5. Other income

	Consolidated	
	31 December	31 December
	2013	2012
	\$	\$
Net gain on disposal of exploration licences	2,504,850	-

Note 6. Legal Fees

During the half year ended 31 December 2012, the consolidated entity incurred legal fees in relation to the demerger of its subsidiary, Tarcoola Gold Limited. These fees amounted to \$188,903 for the six months ending 31 December 2012.

Note 7. Non-current assets - investments accounted for using the equity method

	Consolidated	
	31 December	30 June 2013
	2013	2013
	\$	\$
Investment in associate	-	4,357,781

The investment in associate relates to the consolidated entity's interest in Valence Industries Limited, a public unlisted company at the balance date, (previously Strategic Graphite Limited and Tarcoola Gold Limited). On 20 December 2013, it was announced that Valence Industries Limited (ASX Code: VXL) had successfully completed its Placement and Rights Issue capital raising, in the amount of \$6.73 million. Subsequent to 31 December 2013, the fully paid ordinary shares of Valence Industries Limited have been listed on the ASX. As a result of the completion of the Placement and Rights Issue, the consolidated entity's holding in Valence Industries Limited has been significantly diluted. Consequently the consolidated entity is no longer in a position to significantly influence the operations of Valence Industries, and the investment has been reclassified to available-for-sale financial assets.

Note 8. Non-current assets - available-for-sale financial assets

	Consolidated	
	31 December	30 June 2013
	2013	2013
	\$	\$
Investment in Oil Basins Limited	133,000	-
Investment in Valence Industries Limited	4,357,781	-
	<u>4,490,781</u>	<u>-</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.

For details of the investment in Valence Industries Limited, refer to note 7.

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 2013 or, in the case of Valence Industries Limited, subsequent to the balance date.

Strategic Energy Resources Limited
Notes to the financial statements
31 December 2013

Note 9. Non-current assets - exploration and evaluation

	Consolidated	
	31 December	30 June 2013
	2013	2013
	\$	\$
Exploration and evaluation - at cost	<u>1,550,128</u>	<u>334,265</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 2013	334,265	334,265
Expenditure during the half-year	1,282,501	1,282,501
Disposals	(35,150)	(35,150)
Write off of assets	<u>(31,488)</u>	<u>(31,488)</u>
Balance at 31 December 2013	<u>1,550,128</u>	<u>1,550,128</u>

During the period, the Company disposed of its wholly owned subsidiary, Shelf Oil Pty Ltd, which held a 25% interest in Petroleum Exploration Permit Vic /P41.

Note 10. Equity - reserves

	Consolidated	
	31 December	30 June 2013
	2013	2013
	\$	\$
Demerger reserve	(23,848,081)	(23,848,081)
Available-for-sale reserve	(7,000)	-
Options reserve	<u>438,698</u>	<u>-</u>
	<u>(23,416,383)</u>	<u>(23,848,081)</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.

Strategic Energy Resources Limited
Notes to the financial statements
31 December 2013

Note 10. Equity - reserves (continued)

Movements in reserves

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

Consolidated	Demerger \$	Available- for-sale \$	Option \$	Total \$
Balance at 1 July 2013	(23,848,081)	-	-	(23,848,081)
Revaluation - gross	-	(7,000)	-	(7,000)
Share based payments	-	-	438,698	438,698
	<u>(23,848,081)</u>	<u>(7,000)</u>	<u>438,698</u>	<u>(23,416,383)</u>
Balance at 31 December 2013	<u>(23,848,081)</u>	<u>(7,000)</u>	<u>438,698</u>	<u>(23,416,383)</u>

Note 11. Equity - dividends

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

Note 12. Contingent liabilities

The consolidated entity had no contingent liabilities at 31 December 2013 and 30 June 2013.

Note 13. Commitments

	Consolidated	
	31 December	30 June 2013
	2013	2013
	\$	\$
<i>Exploration Commitments</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	173,000	574,000
One to five years	-	19,181,000
	<u>173,000</u>	<u>19,755,000</u>

Exploration commitments at 30 June 2013 included expenditure requirements relating to oil and gas exploration permits VIC/P41, Vic/P66 and Vic/P47. The consolidated entity has since disposed of its interests in VIC/P41 and VIC /P47 and the joint venture operator has lodged a notice of intention to surrender VIC/P66. Accordingly the committed expenditure has been significantly reduced as at 31 December 2013.

At the date of this report, the regulator NOPTA has approved a work programme variation in relation to VIC/P47 and all conditions precedent on this permit in relation to its disposal to Oil Basins Limited have now been met. The Company is currently awaiting approval from NOPTA in relation to the transfer of this permit interest to Oil Basins Limited.

Strategic Energy Resources Limited
Notes to the financial statements
31 December 2013

Note 14. Interests in subsidiaries

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

Name	Country of incorporation	Ownership interest	
		31 December 2013 %	30 June 2013 %
Strategic Nickel Pty Ltd	Australia	100.00%	100.00%
Shelf Oil Pty Ltd *	Australia	-%	100.00%

* Shelf Oil Pty Ltd was sold 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.

Note 15. Events after the reporting period

On the 20 February 2014 Oil Basins Limited (ASX: OBL) exercised their option to acquire SER's 25% interest in Gippsland permit Vic/P47 in consideration for 6,000,000 new OBL shares at \$0.02 per share. The issuance of these shares is subject to the offshore regulator, NOPTA, approving the transfer by all stakeholders to OBL.

Note 16. Share-based payments

During the half year share options were granted to the Directors and employees of the Company as a performance incentive for the future and to give recognition to the value that will be derived from their contribution to the Company.

The grant of the share options was approved by shareholders at the Annual General Meeting held on 24 October 2013.

Set out below are summaries of options granted under the plan:

31 December
2013

Grant date	Expiry date	Exercise price	Balance at the start of the half-year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the half-year
24/10/2013	25/12/2016	\$0.05	-	28,000,000	-	-	28,000,000
			-	28,000,000	-	-	28,000,000

For the options granted during the current financial year, the valuation model inputs used to determine the fair value at the grant date, are as follows:

Grant date	Expiry date	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
24/10/2013	25/12/2016	\$0.03	\$0.05	100.00%	-%	0.03%	\$0.016

28,000,000 share options were granted to Directors and employees during the Half-year. 26,000,000 share options vested immediately, with the remaining 2,000,000 vesting on 25 January 2014. The total expense recorded as a share based payment in the period was \$438,698, with \$9,302 deferred until post balance sheet.

Strategic Energy Resources Limited
Directors' declaration
31 December 2013

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 2013 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

12 March 2014
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 2013, 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 2013 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, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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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 2013 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



Nick Burne
Partner - Audit & Assurance

Melbourne, 12 March 2014