STRATEGIC ENERGY RESOURCES LIMITED
ABN 14 051 212 429

Annual Financial Report
for the Financial Year ended 30June 2010

STRATEGIC ENERGY RESOURCES LIMITED
ABN 14 051 212 429

CORPORATE DIRECTORY

Board of Directors
Kim W McGrath (Chairman and Non-Executive Director)
Mark A Muzzin (Executive Director)
Glenister Lamont (Non-Executive Director)

Company Secretary
Melanie J Leydin

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Stock Exchange Listing
Home Exchange is Melbourne
ASX Code Shares: SER

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REVIEW OF OPERATIONS

ULEY GRAPHITE MINE, SOUTH AUSTRALIA

100 years of Uley

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

Located just 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. Mineralisation is near surface and the graphite produced from the former operation was regarded as high quality.

JORC compliant resource

SER achieved a significant milestone this year at Uley by gaining its first JORC compliant resource statement for the Main Road graphite deposit.

Coffey Mining Pty Ltd was engaged to ascertain the exploration potential at Uley as a whole, and the potential for a JORC compliant resource for the Main Road deposit in particular. As part of the assignment Coffey ranked the other known occurrences and commented on their potential and suggested further exploration in order to upgrade some of the occurrences.

Coffey conducted a site visit and reviewed historic drilling, grade and tonnage estimates and other relevant data of the Main Road deposit before defining an Inferred Resource of 3.2 million tonnes at 9% fixed carbon.

Resource Upgrade

Part of the Uley Main Road deposit was upgraded from Inferred Resources to Indicated Resources in January this year following a re-evaluation by Coffey Mining. This milestone has added considerable value to the project and providing more certainty for potential partners.

Uley Main Road Graphite Deposit - January, 2010 Resource Update

January, 2010 Classified Resource at 3.8% Total Carbon Cut-off

Classification	Lower Cutoff Grade (Total Carbon %)	Tonnage (Mt)	Average Grade (Graphitic carbon %)
Indicated	3.8	2.2	7.5
Inferred	3.8	1.8	8.9
	Total	**4.0**	**8.1**

Notes: Ordinary Kriged Estimate using a Parent Block of 10mY by 10mE and 4mRL. Material changes are in density modelled (from 2.0 to 2.56g/cm³) plus drill spacing classification are the main difference between this and the August, 2009 resource. Estimate of global grades only. Coarse graphite % estimated at 60% of total graphite.

Table 1: Uley Main Road Mineral Resources Upgrade Statement – January 2010

SER believes that the Main Road deposit potentially contains higher grade pods, however further investigation will need to be undertaken to confirm.

Exploration Potential

Coffee Mining also reviewed the exploration potential of other known graphite occurrences in the project area and ranked their potential. Based on results from a Sirotem geophysical survey and diamond drilling, Coffee Mining estimates that the leases have an exploration potential of 25 - 150 million tonnes at 6-9% total carbon.

REVIEW OF OPERATIONS

Prospect Name	Surface Area km²	Intersections	Target ranking
Homestead	0.25	18-60m, 42m @ 7.0% C 30-60m, 30m @ 8.6% C	1
Salt Lake	2.5	16-42, 26m @ 7.5% C	2
Casey	3.00	44.2-51.9m, 7.7m @ 9.2% C	3
Remnant Uley	2.0	40-46m, 6m @ 6.1% C	4
Fisheries	1.5	68.0-99.2m, 31m @ 7.1% C	5

Table 2: Significant Intersections and Target Ranking

Homestead was highlighted as the highest priority target. This deposit is close to surface and close to existing processing facilities.

Drilling Program

An infill diamond drilling program has been designed in order to upgrade further sections of the Main Road resource from Inferred to Indicated. Two phases of drilling are proposed. Phase 1 will involve drilling 10 diamond holes in the southern Uley Main Road TEM anomaly, which is three times larger than the northern anomaly (Uley Main Road). Phase 2 will consist of 10 diamond holes in the Uley 3 anomaly. The drilling programme is expected to add significant value to the project. Plans to undertake further resource modelling work at Casey, Fisheries, Salt Lake and Homestead are also under consideration.

Securing a Path to Production

A number of national and international companies are reviewing available data on the project. Interest has been driven by international recognition of the high quality of the graphite and potential size of the Uley deposit. Developments in the burgeoning lithium-ion battery market are also fuelling interest. Graphite is the favoured material for the anode of Li-ion batteries and is the second largest input material by volume. Each Li-ion car battery will use between three to seven kilograms of graphite. If the market for technology develops as forecasted, the demand for graphite will increase significantly.

SER is looking to develop the project with the right partner who can offer tangible value and a strong path to development and off-take agreements. Our goal continues to be to mine our world class deposit and get it back into production as soon as feasibly possible.

Monash University Alliance

SER has entered into a new strategic alliance with Monash University in May for the purpose of undertaking research and development of graphite utilisation in high tech applications for sectors such as energy.

The energy sector is a growing market for the use of graphite and SER is focused on becoming a participant. The company is also aware of the vast advances nanotechnology is making to utilise graphite based materials for electronic, energy, and environmental applications. The development of an intellectual knowledge-base is an important element of the business plan and one that will assist in maximising the potential of the Uley graphite project.

REVIEW OF OPERATIONS

The research project will be specifically aimed generating intellectual property for converting graphite 'fines' into high-value products for super-capacitor and battery applications.

While SER will make small cash and in-kind contributions to the research over three years, Monash is expected to receive over $200,000 from the Australian Research Council. SER and Monash are currently in consultation over entering into arrangements regarding intellectual property.

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

OTHER MINERAL PROJECTS

Falcon Bridge, Western Australia

The Falcon Bridge project area is on the southern ultra-mafic regional extension of the Olympia nickel discovery made by WMC on Falcon Minerals Limited (FCN) ground.

In late 2009, Ishine International Resources Ltd entered into a Joint Venture Agreement (JV) allowing Ishine to earn up to a 70% interest from SER in the tenements by funding up to $3 million on exploration expenditure. A minimum expenditure of $250,000 for the first year was agreed upon, with no interest earned until farmin spends $1.5 million on tenements. Ishine will earn a 50% interest in the Joint Venture once it meets the year one and year two expenditures, totalling $1.5 million.

The JV area covers approximately 17 kilometres of strike of ultramafic rich stratigraphy in the Duketon Greenstone Belt coincident with linear magnetic anomalism. This magnetic anomaly has only previously been drill tested with a line of shallow RAB/Aircore drilling, many holes of which were ineffective tests. One such hole recorded elevated nickel in a four metre composite sample returning a nickel assay of 0.76%.

During July 2010, our partner completed aircore drilling at the project. A total of 73 holes were drilled across six east-west traverses for a total of 3,462 metres. The traverses extended across the one kilometre wide ultramafic package over a magnetic anomaly. Ultramafic lithologies were intersected in most of the holes drilled with textural evidence of higher MgO components units within them. Samples were sent to Ultratrace Laboratory in Perth for analysis and results are anticipated in the third quarter. Once all interpretation has been completed a second round of drilling will be designed and executed.

Myall Creek, South Australia

The Myall Creek Copper Project (EL3538) covers an area of 855 square kilometres 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 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 licence area is located between the eastern Cultana Inlier and western Roopena highlands and has been explored using IP, aeromagnetic and gravity surveys and exploratory drilling. The exploration has been promoted by a recent deep seismic survey conducted by Geoscience Australia. Interpretation of the seismic data suggests that the west-dipping reverse faults (Delamerian Orogeny) were closely related to the Cu-Pb-Zn mineralisation in the Myall Creek area.

SER's exploration programme is focused on a deep prospect named Honeymoon Dam. The Honeymoon Dam Prospect drill programme is for three 150 metre holes. The drilling area is located at a dilation site of the intersection between the Northwest and West-northwest trending faults and close to the sites of gravity and magnetic anomalies. The drilling is also adjacent to a highly chargeable

REVIEW OF OPERATIONS

body in the IP survey line. The Honeymoon Dam Prospect is 2.5 kilometres south of the known Myall Creek mineralisation zone. Depths to the mineralisation zones in the area are in the range of 50-150 metres.

Cultana, South Australia

The Cultata Inlier is located in the eastern margin of the Gawler Craton. The Inlier comprises a fault-bounded block of Proterozoic rocks and geology that encompasses a similar stratigraphic and regional setting as the Olympic Dam deposit to the north and the Moonta-Wallaroo deposits to the south. Thus Cultana has been considered highly prospective for IOCG-style mineralization.
An airborne gravity survey (BHP Falcon system) in the Cultana area has delineated a large, and regionally extensive, gravity high, with seven gravity anomalies. All seven anomalies are interpreted to be IOCG (iron oxide, copper, gold) targets. The gravity high occurs within a zone of magnetic quiescence. The nature of source units causing this regional gravity feature is unknown as it has never been previously drill-tested.

The Cultana Lease EL3547 covers an area of 792 square kilometres within the Cultana Army Training Area south of Port Augusta in South Australia. Access to the Army Base for mineral exploration has only been granted on three prior occasions. Ten holes were drilled in the licence area and none of them penetrated crystalline basement.

SER has met with representatives from the Department of Finance in Canberra to discuss the proposed drilling program and access to the army training facility. Based on encouraging discussions, SER believes access permission should be granted for drilling in December 2010, subject to all approvals.

PACE Grant

This year SER was pleased to announce that South Australian Government has awarded the Company a PACE grant for collaborating drilling at our Cultana project (SER 75%). Funding to the level of A$60,000 has been approved as part of the South Australian Government's Plan for Accelerating Exploration (PACE). Only 23 projects from 63 proposals were successful.

The PACE support for the drilling of one 1000 metre hole is proposed at gravity anomaly C05 in order to ascertain the nature of the crystalline basement units, with the objective being, to intersect IOCG-style mineralisation in the Cultana Inlier.

The project still requires the standard regulatory approvals from the Department of Primary Industries and Resources of South Australia (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. SER is currently working through the approval process.

Drilling Programme

The drilling of one 1000 metre diamond hole is proposed at gravity anomaly C05 in order to ascertain the nature of crystalline basement units and hopefully, intersects significant IOCG-style mineralisation in the Cultana Inlier. The targeted area contains the highest density material and several isolated highs in the Falcon airborne gravity gradiometer survey database. The high density material is modelled at depths of 500-1000 metres.

The drillhole site is eight kilometres south of the Point Lowly Copper Mine. Pervasively Haematite-sericite-epidote alteration and occurrences of Cu-oxides in outcrops nearby provides sufficient encouragement to warrant an exploration of the IOCG style mineralisation in the area, which remains relatively unexplored.

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Casterton, Victoria

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

OIL AND GAS EXPLORATION

Onshore Petroleum Exploration

Cooper Basin, South Australia

In May 2010, SER was pleased to announce the sale of its unencumbered 37.6% interest in PEL182 to Innamincka Petroleum Limited ("INP") for a total cash consideration of $927,000. Payment has been received in full. This agreement removes expensive obligation costs and delivers substantial capital, thereby substantially improving SER's overall cash position going forward.

The sale for a 37.6% interest in PEL182 excludes SER's interest in joint venture assets. The parties expected to be registered with PIRSA in the block going forward are Victoria Oil Exploration (1977) Pty Ltd (49.9%), Innamincka Petroleum Limited (37.6%) and Strategic Energy Resources Limited (12.5% - holding subject to farm-out to Australian Oil Company No 2 Pty Limited).

SER is in discussions with joint venture participant Australian Oil Company No.2 Pty Ltd to retain a 5% working interest in the permit.

Offshore Gippsland Basin

Vic/P47 is located in the offshore Gippsland Basin, approximately five kilometres offshore, south of the Victorian town of Orbost. Water depths range from 20 to 80 metres and the permit covers an area of approximately 718 square kilometres.

The Vic/P47 joint venture has announced that the Joint Authority has formally granted a new five year renewal term for permit Vic/P47. The Vic/P47 joint venture has met or exceeded all permits commitments during the first six year permit term. The minimum work requirements for the renewal term are modest, with only seismic reprocessing and studies committed in the first three years.

The permit contains the Judith Gas Discovery, which was drilled by Shell in 1989, but not production tested or appraised. During June 2008, consultants Gaffney, Cline & Associates (GCA) completed an independent resource certification of the Judith Gas Discovery and associated prospects in Vic/P47. GCA reported that a gross gas column of 290 metres can be interpreted from Judith-1 electric log data and GCA's petrophysical analysis indicated 135.5 metres of net gas pay in the Judith-1 well. GCA's certification provides independent confirmation that, subject to successful appraisal, the Judith Gas Discovery has the resource volume potential to underpin a commercial development.

The Vic/P47 joint venture is currently seeking farmin parties to fund the forward exploration programme and has attracted interest. While no offers have been received to date, evaluation and assessment by third parties is continuing.

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

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

REVIEW OF OPERATIONS

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

The recent ExxonMobil/BHP Billiton discovery at SE Remora-1 provides new impetus to exploration of these trends and the nearby investment in the Kipper development is directly relevant to the Kipling and Benchley prospects in Vic/P41.

Offshore Gippsland Basin

To further define and ‘de-risk’ these opportunities two new technical studies were initiated during the year. The seismic inversion project (Vic/P41) will analyse both 2D and 3D seismic over Rosedale trend prospects and leads (i.e. Kipper analogues) for indications of hydrocarbon anomalies and other factors. A basin modelling project (jointly funded by Vic/P41 and Vic/P66) is aimed at defining the nature of hydrocarbon charge in to the east Gippsland area. (i.e. oil vs gas) as well as the timing and migration pathways of this charge.

The Vic/P66 permit covers an area of 2,160 square kilometres, approximately 50 kilometres offshore in the eastern Gippsland Basin. It spans water depth from 200 metres to over 2,000 metres all within established deepwater exploration technical limits.

The eastern area of the Gippsland containing Vic/P66 has been targeted for significant exploration in the past. Distance from established fields and infrastructure and increasing water depths are two factors that likely limited earlier exploration.

The Vic/P66 group believes that this new permit provides early-stage exploration exposure to the potential for extensions of proven Gippsland Basin plays and also for the development of new play concepts. Given the relative lack of modern seismic data and recent exploration studies in the area, the planned Vic/P66 exploration programme consists of data collection and studies in the first two years, in preparation for 2D seismic acquisition in the third permit year.

The Vic/P66 participants have interests in Vic/P41, where similar geological concepts are being pursued.

Permit Vic/P65 was suspended after a request was lodged with the Victorian Department of Primary Industry who advised issuance of an Instrument of Cancellation for Petroleum Exploration Permit Vic/P65.

DIRECTORS' REPORT

The Directors of Strategic Energy Resources Limited submit herewith the annual financial report of the Company for the financial year ended 30 June 2010. In order to comply with the provisions of the *Corporations Act 2001*, the Directors report as follows:

DIRECTORS

The names and details of the Company's Directors in office during the financial year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Name	Particulars
Mr Kim W McGrath	Non-Executive Chairman
Qualifications	BEc(Hons) LLB FAICD FTIA CPA
Experience	Mr McGrath is an internationally experienced resources finance and investment banking executive. He is the Managing Director of Delta Corporate Finance Pty Limited a specialist advisory group based in Sydney with active business interests in Australia and the UK. His prior positions in Australia have included legal roles with Comalco and ICL, General Counsel and Company Secretary of Bank of America Australia, General Counsel with Bell Resources responsible for negotiating international lines of finance and business acquisitions, and in strategy and development as General Manager, Strategy and Planning with Industrial Equity. During the 1990's Mr McGrath was based in London and worked on the restructure of companies in eastern Europe and particularly on major operations in CIS metals and oil trading, and associated financing in both London and Geneva. Since returning to Australia in 1998, Mr McGrath continued to hold full practising certificates as a Solicitor in both England and Wales and in Victoria, as well as holding Australian accounting qualifications as a CPA. He has also completed the Advanced Management Programme at Oxford University and is a Fellow of the Australian Institute of Company Directors where he has successfully completed their Company Directors Course Diploma.
Directorships in listed entities or their manager where a listed trust	Oil Basins Limited (Chairman and Director since 10 May 2006) Redbank Copper Limited (Retired 28 November 2008)
Relevant interests in shares and options	1,500,000 fully paid ordinary shares Options nil
Mr Mark M Muzzin	Managing Director
Qualifications	B.A.
Experience	Mr Muzzin has had over 20 years of commercial experience and holds a B.A. degree from Latrobe University, Melbourne. His career commenced in the mid eighties for a London stock broking firm and he has consulted for two of the major banks in Australia in the share custodian area. He has been involved in capital raising activities for resource companies in Australia and has consulted to various oil/gas and minerals companies. Mr Muzzin is a Director of U Energy Pty Ltd which is seeking access from the Commonwealth into the Cultana Training Area in South Australia to undertake minerals exploration. He is a Director of one US (OTCBB) quoted company and is a Director of a number of Australian public and private companies. Mr Muzzin is a Member of the Petroleum Exploration Society of Australia.
Directorships in listed entities	Ishine International Resources Ltd (Appointed 2 February 2010)
Relevant interests in shares and options	3,500,000 fully paid ordinary shares 10,000,000 Unlisted Options
Mr Glenister Lamont	Non-Executive Director
Qualifications	BEng Mining (Hons), MBA (IMD Switzerland) FAICD, FFin MAusIMM
Experience	Mr Lamont is a professional non-executive Director. Recent roles include Managing Director and consultant for a range of resource companies. Previously, as a GM with Ashton Mining, he led strategy and commercial implementation of business development initiatives and managed all aspects of investor and corporate affairs. Prior to that, as an Executive Director at the leading European investment bank UBS Warburg, he conducted financial, technical and strategic evaluation of mining companies and participated in a wide range of corporate

	transactions. He has international mining experience in base metals, gold, coal and other commodities that has included experience as a mining engineer with Preussag in Germany as well as a rock mechanics engineer and mining engineer in South Africa for Goldfields of South Africa.
Directorships in listed entities	Golden Rim Resources Limited Top End Uranium Limited (15 May 2007 to 20 November 2008) North Australian Diamonds Limited (24 May 2005 to 15 September 2008)
Relevant interests in shares and options	Shares nil Options nil

Information about the remuneration of Directors and senior management is set out in the remuneration report of this Directors' Report on pages 8 to 16.

SHARE OPTIONS ON ISSUE AT YEAR END OR EXERCISED DURING THE YEAR

Details of unissued ordinary shares of the Company under option at the date of this report are as follows:

Item	Number of Shares under option	Exercise Price of options	Grant Date of Options	Expiry Date of Options
Unlisted Options	2,000,000	10 cents	12 December 2007	12 December 2012
Unlisted Options	8,000,000	5 cents	9 May 2008	9 May 2013
Unlisted Options	3,000,000	4 cents	29 December 2009	30 June 2014
Unlisted Options	2,000,000	5 cents	29 December 2009	30 June 2014
Unlisted Options	2,500,000	6 cents	29 December 2009	30 June 2014
Unlisted Options	2,500,000	8 cents	29 December 2009	30 June 2014

During the year 3,250,000 options lapsed and 10,000,000 options were issued.

The holders of these options do not have the right, by virtue of the option, to participate in any share issue or interest issue of the Company.

COMPANY SECRETARY

Ms Melanie J Leydin	B.Bus CA Appointed 4 December 2008 Ms Leydin is a Chartered Accountant and principal in a chartered accounting firm specialising in audit and company secretarial services. Ms Leydin has 18 years experience in the accounting profession and is a Director and company secretary for a number of junior oil and gas, mining and exploration entities listed on the Australian Stock Exchange.

PRINCIPAL ACTIVITIES

The principal activities of the Group are exploration for oil and gas and minerals in Australia and continuing care and maintenance of the Uley graphite mine in South Australia while examining development opportunities.

OPERATING RESULTS

The Group's consolidated net loss for the year after applicable income tax was $1,458,053 (2009: $2,071,170 loss).

REVIEW OF OPERATIONS

The Company's Review of Operations is preceding this Directors' Report on page 3 to this Financial Report.

DIRECTORS' REPORT

REVIEW OF FINANCIAL POSITION

The net assets of the consolidated entity have decreased from $1,515,889 to $976,208 as at 30 June 2010. The major movements were due to exploration costs written off and expenses.

The consolidated entity's working capital, being current assets less current liabilities was $918,327 compared with $1,456,684 in 2009.

As a result of the above together with the events occurring after balance date, the Directors believe the Company is in a strong and stable position to review and rationalise its assets and take up any development opportunities.

FUTURE DEVELOPMENTS

Disclosure of further information regarding likely developments in the operations of the consolidated entity in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to consolidated entity. Accordingly, this information has not been disclosed in this report.

EVENTS SUBSEQUENT TO REPORTING DATE

There has not been any matter or circumstance that has arisen since the end of the financial year, that has significantly affected or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years, other than:

Ishine (ISH) completed their Aircore Drilling at the Falconbridge Project as part of Joint Venture Agreement which allows ISH to earn up to a 70% interest in the Project from the SER Group by spending a total of $3 million.

The sale of a 37.6% interest in PEL 182 to Innamincka Petroleum Limited was completed on 26 July 2010, with SER receiving $627,000 on 22 July 2010 and $300,000 from the funds held in escrow on 3 September 2010. The transfer of the title to the 37.6% was also completed. As a consequence of this sale SER has a 37.6% interest in the physical assets of the Joint Venture.

U Energy Pty Ltd has advised that on 10 August 2010 it completed the acquisition of Minotaur Exploration Limited's interests in EL3537 – Cultana (25%) and EL3538 – Myall Creek (50%). SER holds the balance of the interest.

The Victorian Department of Primary Resource have advised issuance of an Instrument of Cancellation for Petroleum Exploration Permit VIC/P65.

DIVIDENDS

No dividend has been declared or paid during the financial year and the Directors do not recommend the payment of any dividend in respect of the current or preceding financial years.

ENVIRONMENTAL REGULATIONS

The economic entity holds participating interests in a number of exploration tenements. The various authorities granting such tenements require the tenement holder to comply with the terms of the grant of the tenement and all directions given to it under those terms of the tenement. To the best of the Directors' knowledge, the Group has adequate systems in place to ensure compliance with the requirements of all environmental legislation described above and are not aware of any breach of those requirements during the financial year and up to the date of the Directors' report.

DIRECTORS' REPORT

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied for leave of the Court under Section 327 of the *Corporations Act 2001* to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not a party to any proceedings during the year other than subsequent to balance date an event has arisen per Events Subsequent to Balance Date above.

CHANGES IN STATE OF AFFAIRS

There were no significant changes in the State of Affairs during the financial year of the consolidated entity.

DIRECTORS' MEETINGS

The following table sets out the number of Directors' meetings held during the financial year and the number of meetings attended by each Director. During the financial year, 8 Board meetings and 1 audit committee meetings were held. There is no separate remuneration or nomination committee other than the Board.

	BOARD OF DIRECTORS		AUDIT COMMITTEE	
DIRECTORS	**HELD**	**ATTENDED**	**HELD**	**ATTENDED**
Mr K McGrath	8	8	2	2
Mr M Muzzin	8	8	2	2
Mr G Lamont	8	8	2	2

INDEMNIFICATION OF OFFICERS AND AUDITORS

During the financial year, the Company paid a premium in respect of a contract insuring the Directors of the Company (as named above), the Company Secretary, and all executive officers of the Company and of any related body corporate against a liability incurred as such as Director, secretary or executive officer to the extent permitted by the *Corporations Act 2001*. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium. The Company has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate against a liability incurred as such an officer or auditor.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration under s.307C of the *Corporations Act 2001* in relation to the audit of the full year is included on page 17.

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED)

The remuneration report, which forms part of the Directors' Report, sets out information about the remuneration of Strategic Energy Resources Limited's Directors and its senior management for the financial year ended 30 June 2010. The prescribed details for each person covered by this report are detailed below under the following headings:

- Director and senior management details
- remuneration policy
- relationship between the remuneration policy and company performance
- remuneration of Directors and senior management
- key terms of employment contracts.

Director and senior management details

The following persons acted as Directors of the Company during or since the end of the financial year:

Kim Warren McGrath
Mark Anthony Muzzin
Glenister Lamont

The term 'senior management' is used in this remuneration report to refer to the following persons. Except as noted, the named persons held their current position for the whole of the financial year and since the end of the financial year:

Melanie Jaye Leydin (Company Secretary)

This report outlines the remuneration arrangements in place for Directors and executives of Strategic Energy Resources Limited (the "Company").

The Board policy for determining the nature and amount of remuneration of Directors and executives is agreed by the Board of Directors as a whole. The Board obtains professional advice where necessary to ensure that the Company attracts and retains talented and motivated Directors and employees who can enhance Company performance through their contributions and leadership.

Executive Director Remuneration

In determining the level and make-up of executive remuneration, the Board negotiates a remuneration package to reflect the market salary for a position and individual of comparable responsibility and experience. Due to the limited size of the Company and of its operations and financial affairs, the use of a separate remuneration committee is not considered appropriate. Remuneration is regularly compared with the external market by participation in industry salary surveys and during recruitment activities generally. If required, the Board may engage an external consultant to provide independent advice in the form of a written report detailing market levels of remuneration for comparable executive roles.

Remuneration consists of a fixed remuneration and a long term incentive portion as appropriate.

Non-Executive Director Remuneration

Non-Executive Directors' fees are paid within an aggregate limit which is approved by the shareholders from time to time. The limit of Non-Executive Director fees was set at a maximum of $300,000 at a general meeting of shareholders held on 25 November 2009. Non-Executive Directors receive no retirement benefits apart from statutory superannuation and any related salary sacrifice. Non-Executive Directors' remuneration may include an

DIRECTORS' REPORT

incentive portion consisting of options, as considered appropriate by the Board, which is subject to shareholder approval in accordance with the ASX Listing Rules.

The amount of aggregate remuneration sought to be approved by Shareholders and the manner in which it is apportioned amongst Directors is reviewed annually. The Board considers the amount of Directors' fees being paid by comparable companies with similar responsibilities and the experience of the Non-Executive Directors when undertaking the annual review process.

The Company determines the maximum amount for remuneration, including thresholds for share-based remuneration, for Directors by resolution. Further details regarding components of Director and executive remuneration are provided below.

Company performance, shareholder wealth and Director and executive remuneration

The remuneration policy has been tailored to increase goal congruence between shareholders, Directors and executives. The achievement of this aim has been through the issue of options to Directors and executives to encourage the alignment of personal and shareholder interests.

Non-Executive Directors have been granted options over shares in previous periods. Other key management personnel and other senior employees have been granted options over ordinary shares in the current and previous periods. The recipients of options are responsible for growing the Company and increasing shareholder value. The options provide an incentive to the recipients to remain with the Company and to continue to work to enhance the Company's value.

Relationship between the remuneration policy and company performance

The tables below set out summary information about the consolidated entity's earnings and movements in shareholder wealth for the period to 30 June 2010:

	30/06/2010	30/06/2009	30/06/2008	30/06/2007	30/06/2006	30/06/2005
Revenue	57,498	119,753	616,802	1,250,346	312,020	282,655
Net profit/(loss) before tax	(1,458,053)	(2,071,170)	(3,221,315)	(1,520,680)	(2,601,202)	(2,567,227)
Net profit/(loss) after tax	(1,458,053)	(2,071,170)	(3,221,315)	(1,520,680)	(2,601,202)	(2,567,227)
Share price at start of year	$0.01	$0.03	$0.04	$0.05	$0.08	$0.04
Share price at end of year	$0.02	$0.01	$0.03	$0.04	$0.05	$0.08
Basic earnings per share	(0.47)	(0.72)	(0.83)	(0.61)	(1.14)	(1.43)
Diluted earning per share	(0.47)	(0.72)	(0.83)	(0.61)	(1.14)	(1.43)

No dividends have been paid for the past 7 years.

The remuneration of the Directors and executives are not linked to the performance, share price or earnings of the Company.

Remuneration of Directors and senior management

The compensation of each member of the key management personnel of the consolidated entity is set out below:

DIRECTORS' REPORT

Details of Remuneration for Year Ended 30 June 2010

The remuneration for each Director and each of the executive officers of the Company and Controlled Entities receiving the highest remuneration during the year was as follows:

	Short-term employment benefits		Post-employment	Termination Benefits	Share Based Payments		Total	Remuneration for the year consisting of options
	Salary, Fees and Commissions (1) $	Non-Monetary $	Superannuation Contribution $	$	Shares Received as Compensation $	Options Received as Compensation $	$	%
Mr K McGrath	66,000	-	5,940	-	-	-	71,940	-
Mr G Lamont	40,000	-	3,600	-	-	-	43,600	-
Mr M Muzzin	224,587	-	20,213	-	-	107,185	351,985	30
Ms M Leydin	-	-	-	-	-	-	-	-
	330,587	**-**	**29,753**	**-**	**-**	**107,185**	**467,525**	

(1) Including consulting fees

Details of Remuneration for Year Ended 30 June 2009

The remuneration for each Director and each of the executive officers of the Company and Controlled Entities receiving the highest remuneration during the year was as follows:

	Short-term employment benefits		Post-employment	Termination Benefits	Share Based Payments		Total	% of remuneration for the year consisting of options
	Salary, Fees and Commissions (1) $	Non-Monetary $	Superannuation Contribution $	$	Shares Received as Compensation $	Options Received as Compensation $	$	$
Mr J Craib	17,203	-	1,548	-	-	-	18,751	-
Mr J Roy	17,203	-	1,548	-	-	-	18,751	-
Mr J Salomon	181,205	-	1,548	-	-	-	182,753	-
Ms L Bell	111,916	-	10,072	32,110	-	-	154,098	-
Mr K McGrath	59,568	-	3,417	-	-	-	62,985	-
Mr G Lamont	22,258	-	2,003	-	-	-	24,261	-
Mr M Muzzin	110,092	-	9,908	-	-	-	120,000	-
Ms M Leydin	-	-	-	-	-	-	-	-
Mr I Barr	93,250	-	-	-	-	-	93,250	-
	612,695	**-**	**30,044**	**32,110**	**-**	**-**	**674,849**	

(1) Including consulting fees

DIRECTORS' REPORT

Options Issued as Part of Remuneration for the Year Ended 30 June 2010

Options are intended to be issued to Directors and executives as part of their remuneration. The options are not issued based on performance criteria, but are issued to increase goal congruence between Directors, executives and shareholders**.**

	Grant date	Vesting Date	Number of Options granted	Total value of options granted at grant date (1)	Fair value at grant date $	Exercise Price of Options $	Expiry Date of Options	Options Vested during the year No.	Vested but not exercisable No.	Vested and exercisable No.	% of options granted vested in the current year
Mr M Muzzin	24/12/2009	24/12/2009	3,000,000	45,000	0.0150	0.04	30/06/2014	3,000,000	-	3,000,000	100
Mr M Muzzin	24/12/2009	24/12/2009	2,000,000	28,000	0.0140	0.05	30/06/2014	2,000,000	-	2,000,000	100
Mr M Muzzin	24/12/2009	24/12/2010	2,500,000	30,000	0.0120	0.06	30/06/2014	-	-	-	-
Mr M Muzzin	24/12/2009	24/12/2010	2,500,000	27,500	0.0110	0.08	30/06/2014	-	-	-	-
Total			**10,000,000**	**130,500**				**5,000,000**		**5,000,000**	

The value of options granted during the financial year is recognised in compensation over the vesting period of the grant, in accordance with Australian Accounting Standards.

There are no service criteria or performance conditions for the granting of options.

Options Issued as Part of Remuneration for the Year Ended 30 June 2009

There were no options granted to Directors and executives as part of their remuneration for the year ended 30 June 2009

Shares Issued as Part of Remuneration for the Year Ended 30 June 2010

There were no shares issued as part of remuneration for the year ended 30 June 2010.

Shares Issued as Part of Remuneration for the Year Ended 30 June 2009

There were no shares issued as part of remuneration for the year ended 30 June 2009.

Employment contracts

The Managing Director, Mr Mark Muzzin was employed under a contract during the year. The employment contract commenced on 1 January 2010 for a period of 3 years and is then subject to an annual review by mutual agreement.

- Mr Muzzin may resign and thus terminate the contract by giving three (3) months notice.
- The Company may terminate the contract by giving six (6) months notice in writing or payment in lieu therof, or a combination of notice and payment in lieu.
- The Company can terminate the contract with cause in a number of circumstances, including where there is a serious breach of the employment agreement, serious misconduct, bankruptcy or conviction of any criminal offence.

During the financial year there were no other Directors employed under employment contracts.

End of remuneration report.

DIRECTORS' REPORT

Signed in accordance with a resolution of the Directors made pursuant to *section 298(2)* of the *Corporations Act 2001.*

On behalf of the Directors

Glenister Lamont
Non-Executive Director
MELBOURNE, 28 September 2010

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DECLARATION OF INDEPENDENCE BY NICHOLAS E. BURNE TO THE DIRECTORS OF SER NL

As lead auditor of Strategic Energy Resources Limited for the year ended 30 June 2010, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Strategic Energy Resources Limited and the entities it controlled during the period.

Nicholas E. Burne
Director

BDO Audit (NSW-VIC) Pty Ltd

Melbourne, 28 September 2010

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INDEPENDENT AUDITOR'S REPORT

To the members of Strategic Energy Resources Limited

Report on the Financial Report

We have audited the accompanying financial report of Strategic Energy Resources Limited, which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001* would be in the same terms if it had been given to the directors at the time that this auditor's report was made.

Auditor's Opinion

In our opinion:

(a) the financial report of Strategic Energy Resources Limited is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of consolidated entity's financial position as at 30 June 2010 and of their performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 6 to 10 of the directors' report for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion, the Remuneration Report of Strategic Energy Resources Limited for the year ended 30 June 2010, complies with section 300A of the *Corporations Act 2001*.

BDO

BDO Audit (NSW-VIC) Pty Ltd

N Burne

Nicholas E. Burne
Director

Melbourne, 28 September 2010

DIRECTORS' DECLARATION

The Directors declare that:

a) in the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;

b) the attached financial statements are in compliance with International Financial Reporting Standards, as stated in Note 3 to the financial statements;

c) in the Directors' opinion, that attached financial statements and the notes thereto, are in accordance with accounting standards and give a true and fair view of the financial position and performance of the consolidated entity; and

d) The Directors have been given the declarations required by s.295A of the *Corporations Act 2001.*

Signed in accordance with a resolution of the Directors made pursuant to s.295(5*)* of the *Corporations Act 2001.*

On behalf of the Directors

Glenister Lamont
Non-Executive Director

MELBOURNE, 28 September 2010

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2010

	Note	Consolidated 2010 $	Consolidated 2009 $
Continuing operations			
Revenue	5	57,498	119,753
Other income	5	25,125	-
Depreciation of plant & equipment		(15,996)	(28,323)
Exploration expenditure written off		(689,379)	(461,904)
Occupancy expenses		(71,484)	(124,527)
Profit/(loss) disposal of assets		-	(721)
Profit/(loss) on fair value adjustment to held for trading investment		16,543	(102,143)
Write back of rehabilitation provision		-	58,000
Employment costs		(278,799)	(487,173)
Consulting costs		(139,110)	(737,220)
Legal costs		(39,208)	(32,385)
Insurance costs		(27,083)	(16,647)
Corporate costs		(100,018)	(103,788)
Share based payments		(107,185)	-
Exchange gain/(loss)		142	(935)
Other expenses		(89,099)	(153,157)
Loss before income tax	6	(1,458,053)	(2,071,170)
Income tax expense	7	-	-
Loss for the period		**(1,458,053)**	**(2,071,170)**
Other comprehensive income			
Available for sale investment		(9,800)	8,000
Total comprehensive income for the period		**(1,467,853)**	**(2,063,170)**
		Cents per Share	**Cents per Share**
Loss per Share			
Basic loss per share	27	(0.47)	(0.72)
Diluted loss per share	27	(0.47)	(0.72)

This statement is to be read in conjunction with the notes to the financial statement

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2010

	Note	Consolidated 2010 $	Consolidated 2009 $
Current Assets			
Cash and cash equivalents	10	1,028,087	1,366,013
Trade and other receivables	11	25,734	23,671
Other current assets	12	613	56,679
Other financial assets	13	16,365	80,417
Total Current Assets		1,070,799	1,526,780
Non-Current Assets			
Plant and equipment	14	37,881	59,205
Other non-current assets	15	20,000	-
Total Non-Current Assets		57,881	59,205
Total Assets		1,128,680	1,585,985
Current Liabilities			
Trade and other payables	16	130,043	70,096
Provisions	17	22,429	-
Total Current Liabilities		152,472	70,096
Total Liabilities		152,472	70,096
Net Assets		976,208	1,515,889
Equity			
Issued capital	18	27,089,912	26,268,925
Reserves	19	351,472	343,787
Accumulated losses		(26,465,176)	(25,096,823)
Total Equity		976,208	1,515,889

This statement is to be read in conjunction with the notes to the financial statement

STRATEGIC ENERGY RESOURCES LIMITED
ABN 14 051 212 429

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2010

CONSOLIDATED	**Issued Capital** Note 18	**Retained Earnings**	**Reserves** Note 19	**Total**
Balance as at 1 July 2008	**26,268,925**	**(23,279,010)**	**589,144**	**3,579,059**
Change in value of investments	-	-	8,000	8,000
Profit/(Loss) for the year	-	(2,071,170)		(2,071,170)
Total comprehensive income for the period	**-**	**(2,071,170)**	**8,000**	**(2,063,170)**
Options cancelled/lapsed	-	253,357	(253,357)	-
Balance as at 30 June 2009	**26,268,925**	**(25,096,823)**	**343,787**	**1,515,889**
Balance as at 1 July 2009	**26,268,925**	**(25,096,823)**	**343,787**	**1,515,889**
Change in value of investments	-	-	(9,800)	(9,800)
Loss for the year	-	(1,458,053)	-	(1,458,053)
Total comprehensive income for the period	**-**	**(1,458,053)**	**(9,800)**	**(1,467,853)**
Issue of shares	825,000			825,000
Costs of share issue	(4,013)			(4,013)
Options expired	-	89,700	(89,700)	-
Share-based payments	-	-	107,185	107,185
Balance as at 30 June 2010	**27,089,912**	**(26,465,176)**	**351,472**	**976,208**

This statement is to be read in conjunction with the notes to the financial statement

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2010

	Consolidated 2010 $	Consolidated 2009 $
Cash flows from operating activities		
Management fees received	-	225,595
Interest received	63,823	117,903
Rental Income	12,125	-
Sales of Tenements	13,000	-
Bank Guarantee	-	(20,000)
Payments to suppliers and employees	(1,339,359)	(2,748,560)
Net cash used in operating activities	(1,250,411)	(2,425,062)
Cash flows from investing activities		
Proceeds from sale of plant	-	8,000
Payments for plant and equipment	-	(20,214)
Payments for investments in listed entities	-	(10,672)
Proceeds from sale of investments	65,849	-
Net cash used from investing activities	65,849	(22,886)
Cash flows from financing activities		
Proceeds from share issues	825,000	-
Costs of share issue	(4,013)	-
Refund of bank guarantee	25,649	-
Net cash used from financing activities	846,636	-
Net (Decrease)/Increase in cash and cash equivalents	(337,926)	(2,447,948)
Cash and cash equivalents at beginning of the financial year	1,366,013	3,813,961
Cash and cash equivalents at the end of the financial year	1,028,087	1,366,013

NOTES TO THE FINANCIAL STATEMENTS

1. General Information

Strategic Energy Resources Limited (the Company) is a limited company incorporated in Australia. The addresses of its registered office and principal place of business are disclosed in the introduction to the annual report. The principal activities of the Company and its subsidiaries (the Group) are described in the Review of Operations.

2. Adoption of new and revised Accounting Standards

2.1 Standards and Interpretations affecting amounts reported in the current period

The following new and revised Standards and Interpretations have been adopted in the current period and have affected the amounts reported in these financial statements. Details of other Standards and Interpretations adopted in these financial statements but that have had no effect on the amounts reported are set out in section 2.2.

<u>Standards affecting presentation and disclosure</u>

AASB 101 *Presentation of Financial Statements* (as revised in September 2007), AASB 2007-8 *Amendments to Australian Accounting Standards arising from AASB 101* and AASB 2007-10 *Further Amendments to Australian Accounting Standards arising from AASB 101*	AASB 101 (September 2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements
AASB 8 *Operating Segments*	AASB 8 is a disclosure Standard that has resulted in a redesignation of the Group's reportable segments (see note 21).
AASB 2009-2 *Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments*	The amendments to AASB 7 expand the disclosures required in respect of fair value measurements and liquidity risk. The Group has elected not to provide comparative information for these expanded disclosures in the current year in accordance with the transitional reliefs offered in these amendments.

<u>Standards and Interpretations affecting the reported results or financial position</u>

There have been no standards introduced during the year which have affected the reported results of financial position.

2.2 Standards and Interpretations adopted with no effect on the financial statements

The following new and revised Standards and Interpretations have also been adopted in these financial statements. Their adoption has not had any significant impact on the amounts reported in these financial statements but may affect the accounting for future transactions or arrangements.

AASB 2008-1 *Amendments to Australian Accounting Standard - Share-based Payments: Vesting Conditions and Cancellations*	The amendments clarify the definition of vesting conditions for the purposes of AASB 2, introduce the concept of 'non-vesting' conditions, and clarify the accounting treatment for cancellations.
AASB 2008-5 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project* and AASB 2008-6 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project*	In addition to the changes affecting amounts reported in the financial statements described at 2.1 above, the amendments have led to a number of changes in the detail of the Group's accounting policies – some of which are changes in terminology only, and some of which are substantive but have had no material effect on amounts reported.

NOTES TO THE FINANCIAL STATEMENTS

AASB 2009-4 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project* and AASB 2009-5 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project*

In addition to the amendments to AASB 5 and AASB 107 described earlier in this section, and the amendments to AASB 117 discussed in section 2.3 below, the amendments have led to a number of changes in the detail of the Group's accounting policies – some of which are changes in terminology only, and some of which are substantive but have had no material effect on amounts reported. Except as noted in 2.3 below, the changes in AASB 2009-5 have been adopted in advance of their effective dates of 1 January 2010.

2.3 Standards and Interpretations in issue not yet adopted

At the date of authorisation of the financial statements, the Standards and Interpretations listed below were in issue but not yet effective. None of these is expected to have a significant effect on the entity's financial statements in the period of initial application.

Standard/Interpretation	**Effective for annual reporting periods beginning on or after**	**Expected to be initially applied in the financial year ending**
AASB 2009-5 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project*	1 January 2010	30 June 2011
AASB 2009-8 Amendments to Australian Accounting Standards – Group Cash-Settled Share-based Payment Transactions	1 January 2010	30 June 2011
AASB 2009-10 Amendments to Australian Accounting Standards – Classification of Rights Issues	1 February 2010	30 June 2011
AASB 124 Related Party Disclosures (revised December 2009), AASB 2009-12 Amendments to Australian Accounting Standards	1 January 2011	30 June 2012
AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9	1 January 2013	30 June 2014
AASB 2009-14 Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement	1 January 2011	30 June 2012
Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments	1 July 2010	30 June 2011

NOTES TO THE FINANCIAL STATEMENTS

3. Significant accounting policies

3.1 Statement of compliance

These financial statements are general purpose financial statements which have been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and comply with other requirements of the law.

The financial statements comprise the consolidated financial statements of the Group. Separate financial statements for Strategic Energy Resources Limited as an individual entity are no longer presented as a consequence of changes to the Corporations Act 2001. However, limited financial information on the parent Company of the Group as an individual entity is included in Note 30.

Accounting Standards include International Financial Reporting Standards as adopted in Australia ('A-IFRS'). Compliance with A-IFRS ensures that the financial statements and notes of the company and the Group comply with International Financial Reporting Standards ('IFRS').

The financial statements were authorised for issue by the directors on 28 September 2010.

3.2 Basis of preparation

The financial report has been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

3.3 Going concern

The financial report has been prepared on the going concern basis, which contemplates continuity of normal business activities and realization of assets and settlement of liabilities in the ordinary course of business. The going concern of the Company is dependent upon it maintaining sufficient funds for its operations and commitments. The Directors continue to monitor the ongoing funding requirements of the Company. The Directors are confident that sufficient funds can be secured if required by a combination of capital raising, sale of assets or farm-outs to enable the Company to continue as a going concern and as such are of the opinion that the financial report has been appropriately prepared on a going concern basis.

3.4 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

3.5 Investments in joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control (i.e. when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control).

When a group entity undertakes its activities under joint venture arrangements directly, the Group's share of jointly controlled assets and any liabilities incurred jointly with other venturers are recognised in the financial statements of the relevant entity and classified according to their nature. Liabilities and expenses incurred directly in respect of interests in jointly controlled assets are accounted for on an accruals basis. Income from the sale or use of the Group's share of the output of jointly controlled assets, and its share of joint

NOTES TO THE FINANCIAL STATEMENTS

venture expenses, are recognised when it is probable that the economic benefits associated with the transactions will flow to/from the Group and their amount can be measured reliably.

The Group's interests in assets where the Group does not have joint control are accounted for in accordance with the substance of the Group's interest. Where such arrangements give rise to an undivided interest in the individual assets and liabilities of the joint venture, the Group recognises its undivided interest in each asset and liability and classifies and presents those items according to their nature

Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities. The Group reports its interests in jointly controlled entities using proportionate consolidation, except when the investment is classified as held for sale, in which case it is accounted for in accordance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations.* The Group's share of the assets, liabilities, income and expenses of jointly controlled entities is combined with the equivalent items in the consolidated financial statements on a line-by-line basis.

Any goodwill arising on the acquisition of the Group's interest in a jointly controlled entity is accounted for in accordance with the Group's accounting policy for goodwill arising in a business combination.

When a group entity transacts with a jointly controlled entity of the Group, unrealised profits and losses are eliminated to the extent of the Group's interest in the joint venture.

3.6 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

3.6.1 Interest Revenue

Interest revenue is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

3.7 Employee Benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave, and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of short-term employee benefits, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of long term employee benefits are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

Contributions to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

3.8 Share based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 29.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

NOTES TO THE FINANCIAL STATEMENTS

The policy described above is applied to all equity-settled share-based payments that were granted after 7 November 2002 and vested after 1 January 2005. No amounts have been recognised in the financial statements in respect of other equity-settled shared-based payments.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

For cash-settled share-based payments, a liability is recognised for the goods or services acquired, measured initially at the fair value of the liability. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognised in profit or loss for the year.

3.9 Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

3.9.1 Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated [statement of comprehensive income/income statement] because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

3.9.2 Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences.

Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

3.9.3 Current and deferred tax for the period

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items that are recognised outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognised outside profit or loss, or where they arise from the initial

NOTES TO THE FINANCIAL STATEMENTS

accounting for a business combination. In the case of a business combination, the tax effect is included in the accounting for the business combination.

Additional information on accounting policies shall be included where the entity has other material tax balances not covered by the above analysis, such as in relation to tax deductible share-based payments.

3.10 Plant and equipment

Plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognised so as to write off the cost or valuation of less their residual values over their useful lives, using the straightline method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

Depreciation rates and methods shall be reviewed at least annually and, where changed, shall be accounted for as a change in accounting estimate as illustrated in note 4.2.1. Where depreciation rates or methods are changed, the net written down value of the asset is depreciated from the date of the change in accordance with the new depreciation rate or method. Depreciation recognised in prior financial years shall not be changed, that is, the change in depreciation rate or method shall be accounted for on a 'prospective' basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

3.11 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

3.12 Financial Assets

All financial assets are recognised and derecognised on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

3.12.1 Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

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Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

3.12.2 Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line item in the statement of comprehensive income. Fair value is determined in the manner described in note 26.

3.12.3 AFS financial assets

Listed shares and listed redeemable notes held by the Group that are traded in an active market are classified as AFS and are stated at fair value. Fair value is determined in the manner described in note 26. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the investments revaluation reserve, with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognised in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

3.12.4 Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

3.12.5 Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the

NOTES TO THE FINANCIAL STATEMENTS

allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income.

3.12.6 Derecognition of financial assets
The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

3.13 Financial liabilities and equity instruments issued by the Group

3.13.1 Classification as debt or equity
Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

3.13.2 Equity instruments
An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

3.13.3 Financial guarantee contract liabilities
Financial guarantee contract liabilities are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies set out at 3.6 above.

3.13.4 Financial liabilities
Financial liabilities are classified as either financial liabilities ‘at FVTPL’ or ‘other financial liabilities’.

3.13.5 Financial liabilities at FVTPL
Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the ‘other gains and losses’ line item in the statement of comprehensive income. Fair value is determined in the manner described in note 26.

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3.13.6 Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

3.13.7 Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

3.14 Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

i. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
ii. for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified within operating cash flows.

3.15 Exploration and evaluation

Exploration and evaluation expenditures in relation to each separate area of interest are accumulated and expensed at the end of each reporting period.

Exploration and evaluation expenditure are initially measured at cost and include acquisition of rights to explore, studies, exploratory drilling, trenching and sampling and associated activities and an allocation of depreciation and amortisation of assets used in exploration and evaluation activities. General and administrative costs are only included in the measurement of exploration and evaluation costs where they are related directly to operational activities in a particular area of interest.

3.16 Mine properties

Mine properties represent the accumulation of all exploration, evaluation, and development expenditure incurred by or on behalf of the entity in relation to areas of interest in which a decision to commence mining of a mineral resource has been taken.

Where further development expenditure is incurred in respect of a mine property after the commencement of production, such expenditure is carried forward as part of the cost of that mine property, only when substantial economic benefits are thereby established, otherwise such expenditure is classified as part of the cost of production.

The net carrying value of each mine property is reviewed regularly and, to the extent to which this value exceeds its recoverable amount, that excess is fully provided against in the financial year in which this is determined. The expected net cash flows included in determining recoverable amount are discounted to their present value.

3.17 Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the entity, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus shares issued during the year.

NOTES TO THE FINANCIAL STATEMENTS

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

3.18 Cash and cash equivalents

For the purposes of the cashflow statement, cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amount of cash, which are subject to an insignificant risk of changes in value and have a maturity of three months or less at date of acquisition.

3.19 Foreign currency translation

Both the functional and presentation currency of Strategic Energy Resources Limited and its Australian subsidiaries is Australian dollars (A$).

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 3, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

4.1 Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see 4.2 below), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

4.1.1 Recognition of Deferred Tax Assets

Judgement is required in determining whether deferred tax assets should be recognized on the balance sheet. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilized.

4.2 Key sources of estimation uncertainty

4.2.1 Estimation of useful lives of property, plant and equipment

The estimation of useful lives of property, plant and equipment has been based on historical experience as well as manufacturers' warranties (for plant and equipment). Adjustments to useful lives are made when considered necessary and reviewed at each balance date.

The following useful lives are used in the calculation of depreciation:

Plant and equipment 5 – 15 years

NOTES TO THE FINANCIAL STATEMENTS

5. REVENUE AND OTHER INCOME

	Consolidated 2010 $	Consolidated 2009 $
Continuing operations		
Revenue		
Interest revenue	57,498	119,753
Total Revenue	**57,498**	**119,753**
Other income		
Sales of tenements	13,000	-
Rental fees recharge	12,125	-
Total other income	**25,125**	**-**

6. LOSS FOR THE YEAR

	Consolidated 2010 $	Consolidated 2009 $
Depreciation of non-current assets		
- Plant and equipment	(15,996)	(28,323)
Loss on sale of plant and equipment	-	(721)
Exploration expenditure written off	(689,379)	(461,904)
Legal Fees	(39,208)	(32,385)
Gain/(Loss) on fair value adjustment to held for trading investments	16,543	(102,143)
Operating lease payments	51,374	120,162

NOTES TO THE FINANCIAL STATEMENTS

	Consolidated	
	2010	2009
	$	$
7. INCOME TAX EXPENSE		
7.1 The components of tax expense comprise:		
Current tax		-
Deferred tax		-
	-	-
7.2 The prima facie tax from ordinary acivities before income tax is reconciled to the income tax expense as follows:		
Profit/(Loss) from contuinued operations	**(1,458,053)**	**(2,071,170)**
Income tax expense/(benefit) calculated at 30%	(437,416)	(621,351)
Add: Tax effect of non-deductible differences		
- Share based payments	32,156	-
- Other non-deductible differences	-	582
	(405,260)	(620,769)
Temporary differences not taken up as a benefit	(1,245)	(62,944)
Income tax losses not taken up as benefit	406,505	683,713
Tax expense	-	-
Deferred tax assets not brought to account as assets:		
- Tax losses	9,564,435	9,157,929
- Temporary differences	(99,633)	(98,387)
	9,464,802	9,059,542

The taxation benefits of tax losses and temporary differences not brought to account will only be obtained if:

i) The consolidated entity derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realized.

ii) The consolidated entity continues to comply with the conditions for deductibility imposed by law, and

iii) No change in tax legislation adversely affects the consolidated entity in realising the benefits from deductions for the losses.

NOTES TO THE FINANCIAL STATEMENTS

8. KEY MANAGEMENT PERSONNEL COMPENSATION

The key management personnel of Strategic Energy Resources Limited during the year were:

Mr K McGrath	Non-executive Chairman
Mr M Muzzin	Executive Director
Mr G Lamont	Non-executive Director
Ms M Leydin	Company Secretary

8.1 Compensation practices

Refer to Remuneration Report contained within the Directors' Report.

8.2 Key Management Personnel Compensation

The aggregate compensation of the Directors and senior management of the Group is set out below:

	Consolidated	
	2010 $	2009 $
Short-term employment benefits	330,587	612,695
Post employment benefits	29,753	30,044
Other long-term benefits	-	-
Termination benefits	-	32,110
Share based payments	107,185	-
	467,525	**674,849**

Refer to Remuneration Report contained within the Directors' Report for details on remuneration per individual Director.

8.3 Option holdings by Key Management Personnel or their nominees

2010	Balance 1.7.2009	Granted as Compensation	Net Change Other	Notes	Balance 30.6.2010
Mr K McGrath	-	-	-		-
Mr M Muzzin	-	10,000,000	-		10,000,000
Mr G Lamont	-	-	-		-
Ms M Leydin	-	-	-		-
	-	**10,000,000**	**-**		**10,000,000**

NOTES TO THE FINANCIAL STATEMENTS

2009	Balance 1.7.2008	Granted as Compensation	Net Change Other	Notes	Balance 30.6.2009
Mr K McGrath	-	-	-		-
Mr M Muzzin	-	-	-		-
Mr G Lamont	-	-	-		-
Ms M Leydin	-	-	-		-
Mr J Craib	3,167,867	-	(3,167,867)	(1)	-
Mr J Roy	3,250,000	-	(3,250,000)	(1)	-
Ms L Bell	2,250,000	-	(2,250,000)	(1)	-
Mr J Salomon	9,000,000	-	(9,000,000)	(2)	-
Mr I Barr	4,000,000	-	(4,000,000)	(1)	-
	21,667,867	**-**	**(21,667,867)**		**-**

(1) Retired or resigned during the period
(2) Options cancelled on retirement at 28 November 2008

8.4 Shareholdings by Key Management Personnel or their nominees

2010	Balance 1.7.2009	Received as Compensation	Options Exercised	Net Change Other	Notes	Balance 30.6.2010
Mr K McGrath	1,500,000	-	-	-		1,500,000
Mr M Muzzin	2,000,000	-	-	1,000,000	(1)	3,000,000
Mr G Lamont	-	-	-	-		-
Ms M Leydin	-	-	-	-		-
	3,500,000	**-**	**-**	**1,000,000**		**4,500,000**

(1) Shares purchased in on market trades

2009	Balance 1.7.2008	Received as Compensation	Options Exercised	Net Change Other	Notes	Balance 30.6.2009
Mr K McGrath	-	-	-	1,500,000	(1)	1,500,000
Mr M Muzzin	-	-	-	2,000,000	(1)	2,000,000
Mr G Lamont	-	-	-	-		-
Ms M Leydin	-	-	-	-		-
Mr J Craib	-	-	-	-		-
Mr J Roy	1,342,934	-	-	(1,342,934)	(2)	-
Ms L Bell	3,250,000	-	-	(3,250,000)	(2)	-
Mr J Salomon	19,500	-	-	(19,500)	(2)	-
Mr I Barr	2,500,000	-	-	(2,500,000)	(2)	-
	7,112,434	**-**	**-**	**(3,612,434)**		**3,500,000**

(1) Shares purchased in on market trades
(2) Retired or resigned during the period

NOTES TO THE FINANCIAL STATEMENTS

9. AUDITORS REMUNERATION

	Consolidated 2010 $	Consolidated 2009 $
Auditor - BDO Audit (2009 - BDO Audit, 2008 - Stantons International)		
Auditing or reviewing the financial report		
- Stantons International	-	17,664
- BDO Audit	35,547	25,560
Other		
- Stantons International	-	2,889
	35,547	**46,113**

10. CASH AND CASH EQUIVALENTS

	Consolidated 2010 $	Consolidated 2009 $
Cash at bank and in hand	208,087	54,869
Short term bank deposits	820,000	1,311,144
	1,028,087	**1,366,013**

11. TRADE AND OTHER RECEIVABLES

	Consolidated 2010 $	Consolidated 2009 $
Current		
Trade receivables	6,118	-
Goods and services tax recoverable	10,487	11,968
Other receivables	9,129	11,703
	25,734	**23,671**

12. OTHER CURRENT ASSETS

	Consolidated 2010 $	Consolidated 2009 $
Prepayments	613	11,030
Bank guarantee - leased pemises	-	25,649
	613	**36,679**

NOTES TO THE FINANCIAL STATEMENTS

13. OTHER FINANCIAL ASSETS

	Consolidated 2010 $	Consolidated 2009 $
Current		
Available-for-sale financial assets carried at fair value		
Investments in listed entities	-	50,000
Financial assets carried at fair value through profit or loss (FVTPL)		
Investments in listed entities	16,365	30,417
	16,365	**80,417**

Reconciliation of other financial assets:

	Consolidated 2010 $	Consolidated 2009 $
Balance at beginning of the year	80,417	163,888
Payments for investment in listed entity	-	10,672
Sales of investment in listed entities	(75,649)	-
Unrealised gain on available for sale investment in listed entities	-	8,000
Loss on sale of investment in listed entities	(4,946)	-
Fair value adjustments for investment in listed entities	16,543	(102,143)
Balance at end of the year	**16,365**	**80,417**

14. PLANT AND EQUIPMENT

	Consolidated 2010 $	Consolidated 2009 $
Plant and equipment - at cost	196,257	229,415
Less: Accumulated depreciation	(158,376)	(170,210)
	37,881	**59,205**
Mine properties - at cost	3,567,448	3,567,448
Capital works	1,336,322	1,336,322
	4,903,770	4,903,770
Less: Provision for diminution	(4,903,770)	(4,903,770)
	-	-
Total property, plant and equipment	**37,881**	**59,205**

Reconciliation of carrying value of plant and equipment	Consolidated 2010 $	Consolidated 2009 $
Carrying amount at beginning of the year	59,205	76,034
Additions	-	20,215
Disposals	-	(8,721)
Depreciation expense	(21,324)	(28,323)
Carrying amount at end of the year	**37,881**	**59,205**

Depreciation expense of $5,328 has been included in exploration expense written off in the Statement of Comprehensive Income as it relates to exploration assets at the Uley Graphite Mine and depreciation expense for other assets is therefore shown as $15,996.

15. OTHER NON-CURRENT ASSETS

	Consolidated 2010 $	Consolidated 2009 $
Bank guarantee	20,000	-

16. TRADE AND OTHER PAYABLES

	Consolidated 2010 $	Consolidated 2009 $
Current		
Trade Payables (1)	67,319	54,200
Sundry payables and accrued expenses	62,724	15,896
	130,043	**70,096**

NOTES TO THE FINANCIAL STATEMENTS

[1] The average credit period on purchases is 30 days. No interest is charged on the trade payables. The consolidated entity has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

	Consolidated	
	2010	2009
	$	$
17. PROVISIONS		
Current		
Mine rehabilitation - Uley Graphite Mine	-	-
	-	-

Reconciliation of carrying value of provisions	Consolidated 2010 $	Consolidated 2009 $
Carrying amount at beginning of the year	-	58,000
Write back of provision	-	(58,000)
Carrying amount at end of the year	**-**	**-**

The provision for mine rehabilitation represented the present value of the Director's best estimate for the costs to re-instate the Uley Graphite Mine back to its original state. The Directors have determined in 2009 that the provision would not be needed.

	Consolidated	
	2010	2009
	$	$
Current		
Employee entitlements	22,429	-
	22,429	-

NOTES TO THE FINANCIAL STATEMENTS

	2010		2009	
	No.	$	No.	$

18. ISSUED CAPITAL

Fully paid ordinary shares	**321,222,501**	**27,089,912**	**288,222,501**	**26,268,925**

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

	2010		2009	
	No.	$	No.	$
18.1 Fully paid ordinary shares				
Balance at beginning of financial year	288,222,501	26,268,925	288,222,501	26,268,925
Issue of shares to sophisticated and professionsal investors	33,000,000	825,000	-	-
Less: Costs of capital raising	-	(4,013)	-	-
Balance at end of financial year	**321,222,501**	**27,089,912**	**288,222,501**	**26,268,925**

18.2 Terms and Conditions of Issued Capital

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held. At shareholder's meeting each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

NOTES TO THE FINANCIAL STATEMENTS

18.3 Options

	2010 No.	2009 No.
Balance at beginning of the financial year	13,250,000	111,182,843
Granted during the financial year	10,000,000	-
Exercised during the financial year	-	-
Lapsed during the financial year	(3,250,000)	(88,932,843)
Cancelled during the financial year	-	(9,000,000)
Balance at end of the financial year	**20,000,000**	**13,250,000**
Vested and exercisable at the end of the financial year	15,000,000	13,250,000

Options on issue at the end on the financial year are:

Expiry date	Exercise price $	No.
12 December 2012	0.10	2,000,000
9 May 2013	0.05	8,000,000
30-June-2014	0.04	3,000,000
30-June-2014	0.05	2,000,000
30-June-2014	0.06	2,500,000
30-June-2014	0.80	2,500,000
		20,000,000

18.4 Directors Options

Options granted to Directors or their nominees are disclosed in the Remuneration Report.

NOTES TO THE FINANCIAL STATEMENTS

	Consolidated 2010 $	Consolidated 2009 $
19. RESERVES		
Share-based payments reserve		
Balance at beginning of financial year	333,987	587,344
Options expired	-	(79,357)
Options lapsed	(89,700)	(174,000)
Share-based payments	107,185	-
Balance at end of financial year	**351,472**	**333,987**
Available for sale investment revaluation reserve		
Balance at beginning of financial year	9,800	1,800
Net unrealised gains	(9,800)	8,000
Balance at end of financial year	**-**	**9,800**
	351,472	**343,787**

The share based payments reserve relates to share options granted to Directors and employees. Further information on share based payments is set out in Note 29.

The available for sale investment revaluation reserve represents accumulated gains and losses arising on the revaluation of available for sale assets that have been recognised in other comprehensive income, net of amounts reclassified to profit and loss when those assets have been disposed of or are deemed to be impaired.

20. DIVIDENDS

There have been no dividends paid or proposed in the 2010 or 2009 financial years.

21 COMMITMENTS FOR EXPENDITURE

21.1 Operating Lease Commitments

The parent company had a lease on premises in Perth which expired in December 2009 and has not been renewed.

Expenditure commitments due under this agreement are summarised below:

	Consolidated 2010 $	Consolidated 2009 $
Not longer than 1 year	-	56,181
Longer than 1 year and not longer than 5 years	-	-
Longer than 5 years	-	-
	-	**56,181**

NOTES TO THE FINANCIAL STATEMENTS

21.2 Exploration Commitments

In order to maintain current rights to tenure to exploration and mining tenements, the consolidated entity has the following exploration expenditure requirements up until expiry of leases. These obligations, which may be varied from time to time and which are subject to renegotiation upon expiry of the lease are not provided for in the financial report and are payable:

	Consolidated	
	2010	**2009**
	$	**$**
Not longer than 1 year	347,000	1,960,000
Longer than 1 year and not longer than 2 years	-	6,695,000
Longer than 2 years and not longer than 5 years	561,000	3,569,000
Longer than 5 years	8,450,000	8,450,000
	9,358,000	**20,674,000**

Within the oil and gas and minerals industries it is common practice for companies to farm-out, transfer or sell a portion of their exploration rights to third parties or to relinquish some exploration and mining tenements altogether, and as a result obligations will be significantly reduced or extinguished altogether. During prior years the Company concluded a number of farm-out agreements which resulted in the Company only being responsible for a share of the work programs. The farm-in partners also expended funds on the permits during the year which resulted in work programs for certain years being met.

22. SEGMENT INFORMATION

The Group has adopted AASB 8 *Operating Segments* with effect from 1 July 2009. Operating segments have been identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and assess their performance. The chief operating decision maker is the Board. In contrast AASB 114 *Segment Reporting* required the group to identify 2 sets of segments (business and geographical), using a risks and returns approach. The Group's reportable segments under AASB 8 *Operating Segments* have been identified as:

Exploration for Metals and Minerals
Exploration for Oil and Gas

Information on the Group's reportable segments is shown below. Amounts reported for the prior year have been restated to comply with the requirements of AASB 8.

NOTES TO THE FINANCIAL STATEMENTS

22.1 REPORTABLE SEGMENTS

	Exploration for Metals and Minerals		Exploration for Oil and Gas		Unallocated		Consolidated	
	2010	2009	2010	2009	2010	2009	2010	2009
	$	$	$	$	$	$	$	$
Segment revenue								
Revenue	-	381	-	119,372	57,498	-	57,498	119,753
Other Income	13,000	-	-	-	12,125	-	25,125	-
Total segment revenue	**13,000**	**381**	-	119,372	57,498	-	82,623	119,753
Intersegment elimination							-	-
Consolidated revenue							**82,623**	**119,753**
Segment result								
Exploration expense write off	(460,364)	(191,488)	(229,015)	(438,903)	-	-	(689,379)	(630,391)
Other net costs	(86,243)	(458,370)	(15,965)	(194,801)	(666,466)	(787,608)	(768,674)	(1,440,779)
Segment result	(546,607)	(649,858)	(244,980)	(633,704)	(666,466)	(787,608)	(1,458,053)	(2,071,170)
Intersegment elimination							-	-
Loss before income tax							(1,458,053)	(2,071,170)
Income tax expense							-	-
Loss for the year							(1,458,053)	(2,071,170)
Segment assets and liabilities								
Segment assets	40,328	25,540	13,521	37,635	1,074,831	1,522,810	1,128,680	1,585,985
Intersegment elimination							-	-
Total assets							1,128,680	1,585,985
Segment liabilities	-	3,802	67,319	66,294	85,153	-	152,472	70,096
Intersegment elimination							-	-
Total liabilities							152,472	70,096
Other segment information								
Additions to non-current assets	-	20,215	-	-	-	-	-	20,215
Depreciation expense	5,328	5,323	-	-	15,996	23,000	15,996	28,323

All non-current assets are held in Australia

23. RELATED PARTY DISCLOSURES

23.1 Key Management Personnel Compensation

Details of key management personnel compensation is disclosed in the Remuneration Report and Note 8.

NOTES TO THE FINANCIAL STATEMENTS

23.2 Transactions with Key Management Personnel

There were no transactions with Key Management Personnel

23.3 Wholly-owned Group Transactions

Strategic Energy Resources Limited provides working capital to all its wholly-owned subsidiaries aggregating $384,761 (2009: $120,065) which has been provided against during the financial year. Transactions between the parent entity and the wholly-owned subsidiaries consist of interest free unsecured loans which have no fixed repayment terms. The balances outstanding at the end of the financial year were:

Amounts owing:

	Consolidated	
	2010	2009
	$	$
Strategic Energy Graphite Pty Ltd	2,115,664	1,730,903
Tarcoola Gold Limited	3,319,450	3,319,450
Provision for non-recovery	(5,435,114)	(5,050,353)
	-	-

23.4 Transactions with Director or Director related entities

23.4.1 Mr M Muzzin became a Non-Exective Director of Ishine International Resources Ltd (ISH) on 2 February 2010 and subsequent to their farm in on the Falcon Bridge Nickel Project. ISH can earn up to 70% interest in the Joint Venture by spending $3 million.

23.4.2 Mr K McGrath is the Non-executive Chairman and a shareholder in Oil Basins Limited (OBL). During the reporting period SER sold shares and options in OBL at market prices on the ASX. SER still holds some OBL shares.

24. INVESTMENTS IN CONTROLLED ENTITIES

Name of Entity	Place of Incorporation	Equity Holding		Cost of Parent Entity's Investment	
		2010	2009	2010	2009
Parent Entity		%	%	$	$
Strategic Energy Resources	Australia			-	-
Controlled Entities					
Tarcoola Gold Limited	Australia	100	100	3,228,050	3,228,050
Strategic Energy Graphite Pt	Australia	100	100	-	-
Strategic Nickel Pty Ltd	Australia	100	100	15	15
				3,228,065	3,228,065

NOTES TO THE FINANCIAL STATEMENTS

25. CASH FLOW INFORMATION

25.1 Financing Facilities

The Company has no financing facilities in place at 30 June 2010

25.2 Reconciliation of Net Loss from ordinary activities after income tax to net cash flows from operating activities

	Consolidated 2010 $	Consolidated 2009 $
Loss after related income tax	(1,458,053)	(2,071,170)
Depreciation	21,324	28,323
Disposal of assets	-	721
Fair value adjustments on investments	(16,543)	102,143
Exploration costs written off	(9,868)	-
Loss on sale of investments	4,946	-
Share based payments	107,185	-
Provision for rehabilitation	-	(58,000)
Changes in net assets and liabilities:		
(Increase)/Decrease in assets:		
Trade and other receivables	7,806	278,783
Prepayments	10,416	
Increase/(Decrease) in liabilities:		
Trade and other payables	59,947	(705,862)
Provisions	22,429	-
Net cash used in operating activities	**(1,250,411)**	**(2,425,062)**

26. FINANCIAL INSTRUMENTS

The consolidated entity's principal financial instruments comprise cash and cash equivalents.

The main purpose of these financial instruments is to finance the consolidated entity's operations. The consolidated entity has various other financial assets and liabilities such as receivables and trade payables, which arise directly from its operations. It is, and has been throughout the entire period, the consolidated entity's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the consolidated entity's financial instruments are cash flow interest rate risk. Other minor risks are summarised below. The Board reviews and agrees policies for managing each of these risks.

26.1 Cash flow interest rate risk

The consolidated entity's exposure to the risks of changes in market interest rates relates primarily to the consolidated entity's short-term deposits with a floating interest rate. These financial assets with variable rates expose the consolidated entity to cash flow interest rate risk. All other financial assets and liabilities in the form of receivables and payables are non-interest bearing. The consolidated entity does not engage in any hedging or derivative transactions to manage interest rate risk.

NOTES TO THE FINANCIAL STATEMENTS

The following tables set out the carrying amount by maturity of the consolidated entity's exposure to interest rate risk and the effective weighted average interest rate for each class of these financial instruments. Also included is the effect on profit and equity after tax if interest rates at that date had been 10% higher or lower with all other variables held constant as a sensitivity analysis.
The consolidated entity has not entered into any hedging activities to cover interest rate risk. In regard to its interest rate risk, the consolidated entity continuously analyses its exposure. Within this analysis consideration is given to potential renewals of existing positions, alternative investments and the mix of fixed and variable interest rates.

Consolidated Entity

	Note	Float Interest Rate		Non-Interest Bearing		Total Carrying Amount		Interest Rate Risk Sensitivity			
								-40%	-10%	+40%	+10%
		2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
		$	$	$	$	$	$	$	$	$	$
Financial Assets											
Cash at bank (Loans and receivables)	10	1,028,087	1,366,013		-	1,028,087	1,366,013	(15,051)	(23,168)	15,051	23,168
Trade & other receivables (Loans and receivables)	11	-	-	25,734	69,320	25,734	69,320				
Financial assets - available for sale	13	-	-	-	50,000	-	50,000				
Financial assets - fair value through profit and loss	13	-	-	16,365	30,417	16,365	30,417				
Total		**1,028,087**	**1,366,013**	**42,099**	**149,737**	**1,070,186**	**1,515,750**				
Weighted average interest rate		3.66%	4.24%								
Financial Liabilities											
Trade and other payables (Amortised cost)	16	-	-	130,043	70,096	130,043	70,096				
Total		**-**	**-**	**130,043**	**70,096**	**130,043**	**70,096**				
Net Financial assets (liabilities)		**1,028,087**	**1,366,013**	**(87,944)**	**79,641**	**940,143**	**1,445,654**				

NOTES TO THE FINANCIAL STATEMENTS

A sensitivity of 40% has been selected as this is considered reasonable given the current level of both short term and long term Australian dollar interest rates. A 40% sensitivity would move short term interest rates at 30 June 2010 from 3.66% to 5.12% representing a 146 basis points shift. This would represent two to three increases which is reasonably possible in the current environment with the bias coming from the Reserve Bank of Australia and confirmed by market expectations that interest rates in Australia are more likely to move up than down in the coming period.

Based on the sensitivity analysis only interest revenue from variable rate deposits and cash balances is impacted resulting in a decrease or increase in overall income.

26.2 Liquidity risk

The consolidated entity manages liquidity risk by maintaining sufficient cash reserves and through the continuous monitoring of budgeted and actual cash flows.

26.2.1 Financial Assets

The following table details the Groups expected maturity for its non-derivative financial assets.

	Consolidated	
	2010	2009
	$	$
Expected maturities of financial assets		
- less than 6 months	1,053,820	1,389,684
- 6 to 12 months	-	23,671
- 1 to 5 years	20,000	45,649
- later than 5 years	-	-
Total	**1,073,820**	**1,459,004**

26.2.2 Financial Liabilities

The following table details the Groups remaining contractual maturity for its non-derivative financial liabilities.

	Consolidated	
	2010	2009
	$	$
Contracted maturities of financial liabilities		
- less than 6 months	152,472	70,096
- 6 to 12 months	-	-
- 1 to 5 years	-	-
- later than 5 years	-	-
Total	**152,472**	**70,096**

26.3 Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for asset or liability that are not based on observable market data (unobservable inputs).

NOTES TO THE FINANCIAL STATEMENTS

	2010 $ Level 1	2010 $ Level 2	2010 $ Level 3
Financial assets carried at fair value through profit and loss			
Shares in listed entities	16,365	-	-
Total	**16,365**	**-**	**-**

There were no transfers between Level 1 and 2 in the period.

26.4 Foreign Exchange Risk

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. The consolidated entity's foreign transactions are immaterial and it is not exposed to foreign currency risk.

26.5 Net Fair Values

For financial assets and liabilities, the net fair value approximates their carrying value. No financial assets and financial liabilities are readily traded on organised markets in standardised form. The consolidated entity has no financial assets where carrying amount exceeds net fair values at balance date.

The credit risk on financial assets of the economic entity which have been recognised on the Balance Sheet is generally the carrying amount.

26.6 Capital Risk Management

When managing capital, management's objectives is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also maintain a capital structure that ensures the lowest cost of capital available to the entity.

In order to maintain or adjust the capital structure, the entity may adjust the amount of dividends paid to shareholders, return capital to shareholder, issue new shares, enter into joint ventures or sell shares.

The entity does not have a defined share buy-back plan.

No dividends were paid in 2010 and no dividends are expected to be paid in 2011.

There is no current intention to incur debt funding on behalf of the Company as on-going exploration expenditure will be funded via equity or joint ventures with other companies.

The consolidated entity is not subject to any externally imposed capital requirements.

Management reviews management accounts on a monthly basis and reviews actual expenditure against budget on a quarterly basis.

26.7 Price Risk

The Company is exposed to equity securities price risk. This arises from investments held and classified on the balance sheet at fair value through profit and loss. The following table sets out the carrying amount of the Company's exposure to equity securities price risk on fair value through profit and loss investments. Also included is the effect on profit and equity before tax if these prices at that date had been 50% higher or lower with all other variables held constant as a sensitivity analysis.

A sensitivity of 50% has been selected as this is considered reasonable given the current and recent trending and volatilities of both Australian and International stock markets and the trading history of the investment held by the Company.

NOTES TO THE FINANCIAL STATEMENTS

	Consolidated	
	2010	2009
	$	$
Listed Securities - Equities	16,365	80,417
Market Price +50%		
- Profit/(Loss)	8,182	40,209
- Equity	8,182	40,209
Market Price -50%		
- Profit/(Loss)	(8,182)	(40,209)
- Equity	(8,182)	(40,209)

26.8 Credit Risk

The economic entity does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The carrying amount of financial assets recorded in the financial statements, net of any provisions for losses, represents the economic entity's maximum exposure to credit risk.

The Company's maximum exposure to credit risk at the reporting date was as detailed below:

	Consolidated	
	2010	2009
Financial Assets		
Cash and cash equivalents	1,028,087	1,366,013
Trade and other receivables	25,734	23,671
Security deposits	20,000	45,649
Total financial assets	1,073,821	1,435,333

As the Group has a low level of debtors and no other credit risk, a formal credit risk management policy is not maintained.

NOTES TO THE FINANCIAL STATEMENTS

27. EARNINGS PER SHARE

	2010 Cents Per Share	2009 Cents Per Share
Basic earnings (loss) per share	(0.47)	0.72
Diluted earnings (loss) per share	(0.47)	0.72

The earnings and weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share are as follows

Earnings (i)	(1,458,053)	(2,071,170)

	2010 No	2009 No
Weighted average number of ordinary shares used in the calculation of basic EPS	308,926,611	288,222,501
Weighted average number of ordinary shares used in the calculation of diluted EPS	308,926,611	288,222,501

(i) Earnings are the same as loss after tax in the income statement.

(ii) In addition, the following potential weighted average ordinary shares are not dilutive and are therefore excluded from the weighted average number of shares, used in the calculation of diluted earnings per share.	18,400,685	17,437,671

Diluted Earnings Per Share

The rights of options held by option holders have not been included in the weighted average number of ordinary shares for the purposes of calculating diluted EPS as they do not meet the requirements for inclusion in AASB 133 “Earnings per Share”. The rights of options are non-dilutive as the exercise price was significantly higher than the Company’s share price as at 30 June 2010.

28. EVENTS AFTER THE REPORTING DATE

There has not been any matter or circumstance that has arisen since the end of the financial year, that has significantly affected or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years, other than:

Ishine (ISH) completed their Aircore Drilling at the Falconbridge Project as part of Joint Venture Agreement which allows ISH to earn up to a 70% interest in the Project from the SER Group by spending a total of $3 million.

The sale of a 37.6% interest in PEL 182 to Innamincka Petroleum Limited was completed on 26 July 2010, with SER receiving $627,000 on 22 July 2010 and $300,000 from the funds held in escrow on 3 September 2010. The transfer of the title to the 37.6% was also completed. As a consequence of this sale SER has a 37.6% interest in the physical assets of the Joint Venture.

NOTES TO THE FINANCIAL STATEMENTS

U Energy Pty Ltd has advised that on 10 August 2010 it completed the acquisition of Minotaur Exploration Limited's interests in EL3537 – Cultana (25%) and EL3538 – Myall Creek (50%). SER holds the balance of the interest.

The Victorian Department of Primary Resources have advised issuance of an Instrument of Cancellation for Petroleum Exploration Permit VIC/P65.

29. SHARE BASED PAYMENTS

Options

	2010 No.	2010 Weighted average exercise price $	2009 No.	2009 Weighted average exercise price $
Balance at beginning of the financial year	13,250,000		111,182,843	
Granted during the financial year	10,000,000	0.057	-	-
Exercised during the financial year	-	-	-	-
Lapsed during the financial year	(3,250,000)	(0.150)	(88,932,843)	(0.150)
Cancelled during the financial year	-	-	(9,000,000)	(0.075)
Balance at end of the financial year	**20,000,000**		**13,250,000**	

The following share based payments were made during the current financial year:

- 3,000,000 options expiring 12 December 2014 exercisable at 4 cents.
- 2,000,000 options expiring 12 December 2014 exercisable at 5 cents
- 2,500,000 options expiring 12 December 2014 exercisable at 6 cents.
- 2,500,000 options expiring 12 December 2014 exercisable at 8 cents.

There were no share based payments made in the previous financial year.

The expense recognised in the statement of comprehensive income in relation to share-based payments is $107,185. The option pricing models used are the Binomial and Black-Scholes. Share price volatility was determined at grant date by assessing movements in the share price.

The following share-based payments arrangements were in existence during the current and comparative reporting periods:

Options Series	Number	Grant date	Expiry date		Exercise Price $	Fair value at grant date $
EBROA	88,932,843	01/01/2008	30/06/2009	(1)	0.150	0.02880
EBROB	2,000,000	12/12/2007	12/12/2012		0.100	0.06053
EBROC	8,000,000	09/05/2008	09/05/2013		0.050	0.02205
EBROD1	3,000,000	09/05/2008	09/05/2013	(2)	0.050	0.02205
EBROD2	3,000,000	09/05/2008	09/05/2014	(2)	0.075	0.02050
EBROD3	3,000,000	09/05/2008	09/05/2015	(2)	0.100	0.02085
EBRODE	3,250,000	01/01/2008	30/06/2010	(3)	0.150	0.02760
MM1	3,000,000	24/12/2009	30/06/2014		0.040	0.01500
MM2	2,000,000	24/12/2009	30/06/2014		0.050	0.01400
MM3	2,500,000	24/12/2009	30/06/2014		0.060	0.01200
MM4	2,500,000	24/12/2009	30/06/2014		0.080	0.01100

(1) Expired at 30/06/09
(2) Cancelled at 28 November 2008
(3) Expired at 30/06/10

NOTES TO THE FINANCIAL STATEMENTS

The weighted average remaining contractual life for the share options outstanding as at 30 June 2010 is 3.39 years (2009: 3 years).

The weighted average exercise price for options outstanding at the end of the year is $0.0585 (2009: $0.082).

The weighted average fair value of options granted during the year was $0.0099 cents (2009: nil cents).
The following table lists the inputs to the model used for the year ended 30 June 2010:

	MM1	**MM2**	**MM3**	**MM4**
Dividend yield (%)	0	0	0	0
Expected volatility (%)	75	75	75	75
Risk-free interest rate (%)	5.23	5.23	5.23	5.23
Expected life of options (years)	4.6	4.6	4.6	4.6
Option exercise price ($)	0.04	0.05	0.06	0.08
Weighted average share price at grant date ($)	0.027	0.027	0.027	0.027
Option pricing model	Binomial	Binomial	Binomial	Binomial

The following table lists the inputs to the model used for options in existence for the year ended 30 June 2009:

	EBROB	**EBROC**	**EBROD1**	**EBROD2**	**EBROD3**	**EBRODE**
Dividend yield (%)	0	0	0	0	0	0
Expected volatility (%)	150	150	150	150	150	75
Risk-free interest rate (%)	6.5	6.5	6.5	6.5	6.5	5.255
Expected life of options (years)	5	5	5	6	7	4.25
Option exercise price ($)	0.10	0.05	0.05	0.075	0.10	0.15
Weighted average share price at grant date ($)	0.09	0.03	0.03	0.03	0.03	0.03
Option pricing model	Black-Scholes	Binomial	Binomial	Binomial	Binomial	Black-Scholes

NOTES TO THE FINANCIAL STATEMENTS

30. PARENT ENTITY

30.1 Financial Position

Current assets	1,042,738	1,523,688
Non-current assets	57,126	36,757
Total assets	**1,099,863**	**1,560,445**
Current liabilities	152,472	70,096
Total liabilities	**152,472**	**70,096**
Net Assets	**947,391**	**1,490,349**
Issued capital	27,089,912	26,268,925
Options reserve	351,472	343,787
Retained earnings	(26,493,993)	(25,122,363)
Total Shareholders' equity	**947,391**	**1,490,349**

30.2 Financial Performance

Loss for the year from continuing operations	(1,461,331)	(2,022,749)
Total comprehensive income for the year	(1,471,131)	(2,014,749)

30.3 Financial Information

There are no contingent liabilities or contractual committments in the parent entity.

SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 1 September 2010

1. Distribution of Shareholders

1.1 Analysis of number of shareholders by size of holding.			
Category of holding	Holders	Number of Shares	% of Capital
1 - 1,000	1,023	217,562	0.07%
1,001 - 5,000	461	1,329,130	0.41%
5,001 - 10,000	402	3,238,994	1.01%
10,001 - 100,000	1,242	49,574,408	15.43%
100,001 and over	395	266,862,407	83.08%
Total	**3,523**	**321,222,501**	100.00%
1.2 Less than marketable parcels	**2,343**	**12,152,865**	3.78%
Basis price $0.022			

2. Twenty Largest Shareholders

The names of the twenty largest holders by account holding of ordinary shares are listed below:

SHAREHOLDER	HOLDING	%
E E R C Australasia Pty Ltd <Super Fund A/C>	31,525,880	9.81%
Avatar Equities Pty Ltd <Avatar Share Trading A/C>	23,632,119	7.36%
Reef Securities Limited	11,268,879	3.51%
HSBC Custody Nominees (Australia) Limited	6,079,104	1.89%
ANZ Nominees Limited <Cash Income A/C>	5,615,723	1.75%
Jestar Pty Limited <Vagg Family Super Fund A/C>	5,521,333	1.72%
Mr A J Forsyth	5,213,334	1.62%
Mr A H Hasslinger	4,600,000	1.43%
Mr R G Luke & Mrs F L Luke <The Luke Super Fund A/C>	3,555,000	1.11%
Mr M A Muzzin	3,500,000	1.09%
Success Oil Company Limited	3,500,000	1.09%
Mrs C M Whitesman	3,350,000	1.04%
Tarmel Pty Limited	2,763,074	0.86%
Mr T A Wilson & Mrs J L Wilson	2,700,000	0.84%
Illawong Investments Pty Ltd <The Cocks S/Fund No 1 A/C>	2,500,000	0.78%
Custom AV Pty Ltd	2,296,424	0.71%
Tradcorp Pty Ltd	2,200,000	0.68%
F Terranova Investments Pty Ltd <Terranova Super Fund A/C>	2,118,000	0.66%
Mr J A Hellier & Mrs D M Hellier	2,027,500	0.63%
Key International Pty Ltd	2,000,000	0.62%
TOTAL	**125,966,370**	39.21%

SHAREHOLDER INFORMATION (CONT'D)

3. Restricted Securities

As at 1 September 2010, the Company had no securities subject to escrow arrangement:

4. Substantial Shareholders

As at 1 September 2010, the substantial shareholders were as follows:

E E R C Australasia Pty Ltd <Super Fund A/C>	31,525,880	9.81%
Avatar Equities Pty Ltd <Avatar Share Trading A/C>	23,632,119	7.36%

5. Voting Rights

At a general meeting of shareholders:
(a) On a show of hands, each person who is a member or sole proxy has one vote.
(b) On a poll, each shareholder is entitled to one vote for each fully paid share.

CORPORATE GOVERNANCE STATEMENT

The Directors of Strategic Energy Resources Limited believe firmly that benefits will flow from the maintenance of the highest possible standards of corporate governance. A description of the Company's main corporate governance practices is set out below. The Company has adopted the 2nd Edition of the "Corporate Governance Principles and Recommendations of the ASX Governance Council" issued by the ASX in August 2007.

Principal No	Best Practice Recommendation	Compliance	Reason for Non-compliance
1.1	Establish the functions reserved to the Board and those delegated to senior executives and disclose those functions.	The Board has adopted a formal charter setting out the responsibilities of the Board. This charter can be accessed at www.strategicenergy.com.au. Any functions not reserved for the Board and not expressly reserved for members by the Corporations Act and ASX Listing Rules are reserved for senior executives.	Not applicable
1.2	Disclose the process for evaluating the performance of senior executives.	The Board meets annually to review the performance of executives. The senior executives' performance is assessed against the performance of the Company as a whole.	Not applicable
1.3	Provide the information indicated in the Guide to reporting on Principal 1.	A performance evaluation has been completed during the reporting period in accordance with the process detailed in 1.2 above.	Not applicable
2.1	A majority of the Board should be independent of Directors.	A definition of Director independence can be accessed at www.strategenergy.com.au. Currently Strategic Energy Resources Limited has two independent Directors and one non independent Director.	Not applicable
2.2	The chair should be an independent Director.	The Chairman, Mr Kim McGrath, is independent.	Not applicable
2.3	The roles of chair and chief executive officer should not be exercised by the same individual	The role of Managing Director is held by Mr Mark Muzzin and the role of Chairman is held by our independent Director Mr Kim McGrath.	Not applicable

CORPORATE GOVERNANCE STATEMENT (CONT'D)

2.4	The Board should establish a nomination committee.	The Board does not have a nomination committee.	It is not a Company policy to have a nomination committee, given the size and scale of Strategic Energy Resources Limited. The role of a nomination committee is carried out by the full Board. The full Board considers the appointment of new Directors, on an informal basis. The Board's policy for the appointment of new Directors to the Board can be accessed at www.strategicenergy.com.au.
2.5	Disclose the process for evaluating the performance of the Board, its committee and individual Directors.	The performance evaluation of Board members occurs by way of an informal review by the full Board (in the absence of the relevant Board member)	Not applicable.
2.6	Provide the information indicated in the Guide to reporting on Principle 2.	The skills, experience and expertise relevant to the position held by each Director is disclosed in the Directors' Report which forms part of the Annual Report. The name of the Independent Directors are disclosed above. The Directors are entitled to take independent professional advice at the expense of the Company. The period of office held by each Director is disclosed in the Directors' Report which forms part of this Annual Report.	Not applicable
3.1	Establish a code of conduct and disclose the code for a summary of the code as to: • the practice necessary to maintain confidence in the Company's integrity; • the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders; • the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.	The Company has adopted a Board Code of Conduct and a Company Code of Conduct, both of which can be accessed at www.strategicenergy.com.au.	Not applicable

CORPORATE GOVERNANCE STATEMENT (CONT'D)

3.2	Establish a policy concerning trading in Company securities by Directors, senior executives and employees, and disclose the policy or a summary of that policy.	The Company has adopted a Trading Policy which can be accessed at www.strategicenergy.com.au.	Not applicable.
3.3	Provide the information indicated in the Guide to reporting on Principle 3.	The information has been disclosed in the Annual Report.	Not applicable.
4.1	The Board should establish an audit committee.	The Company has an established an Audit Committee.	Not applicable.
4.2	The audit committee should be structured so that it: consists only of non-executive Directors; • consists of a majority of independent Directors; • is chaired by an independent chair, who is not chair of the Board; • has at lease three members	The Audit Committee has two members, consisting of the independent Directors, Glenister Lamont and Mr Kim McGrath. The Audit Committee is chaired by Mr Glenister Lamont.	The Audit Committee only has two members as these are the only non-executive Directors out of a Board of three.
4.3	The audit committee should have a formal charter.	The formal charter can be accessed at www.strategicenergy.com.au.	Not applicable.
4.4	Provide the information in the Guide to reporting on Principle 4.	The names of the members of the Audit Committee are disclosed above. The qualifications of the members of the Audit Committee are disclosed in the Directors' Report which forms part of this Annual Report. The audit committee will meet twice in each year, before sign off of the annual and half year financial statements. The external auditor, BDO Audit, has a rotation policy such that lead partners are rotated every 5 years and review partners are rotated every 5 years.	Not applicable.
5.1	Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.	The Company has adopted a Disclosure Policy which can be accessed at www.strategicenergy.com.au.	Not applicable.
5.2	Provide the information indicated in the Guide to reporting on Principle 5.	The information has been disclosed in the Annual Report.	Not applicable.

CORPORATE GOVERNANCE STATEMENT (CONT'D)

6.1	Design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose that policy or a summary of that policy	The Company has adopted a Shareholder Communications Policy which can be accessed at www.strategicenergy.com.au.	Not applicable.
6.2	Provide the information indicated in the Guide to reporting on Principle 6.	The information has been disclosed in the Annual Report	Not applicable.
7.1	Establish policies for the oversight and management of material business risk and disclose a summary of those policies.	The Company has adopted Risk Management Policy which can be accessed at www.strategicenergy.com.au.This policy outlines the material risks face by the Company as identified by the Board. Given the size and scale of Strategic Energy Resources Limited it does not have a Risk sub-committee or Internal Audit function.	Not applicable.
7.2	The Board should require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks.	The Board believes the risk management and internal control systems designed and implemented by the Directors and the Financial Officer are adequate given the size and nature of the Company's activities. The Board informally reviews and requests management to report on risk management and internal control.	Management has not formally reported to the Board as to the effectiveness of the Company's management of its material business risks. Given the nature and size of the Company and the Board's ultimate responsibility to manage the risks of the Company this is not considered critical. The Company intends to develop the risk reporting framework into a detailed policy as its operations continue to grow.
7.3	The Board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial office (or equivalent) that the declaration provided in accordance with section 295A is the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	The Board receives assurance from Mr Mark Muzzin and the chief financial officer in the form of a declaration, prior to approving financial statement.	Not applicable.
7.4	Companies should provide the information indicated in the Guide to reporting on Principle 7.	The information has been disclosed in the Annual Report.	Not applicable.

CORPORATE GOVERNANCE STATEMENT (CONT'D)

8.1	The Board should establish a remuneration committee.	The Company does not have an established remuneration committee.	It is not a Company policy to have a remuneration committee, given the size and scale of Strategic Energy Resources Limited. The role of a remuneration committee is carried out by the full Board.
8.2	Companies should clearly distinguish the structure of non-executive Directors' remuneration from that of executive Directors and senior executives.	The structure of non-executive Directors' remuneration is clearly distinguished from that of executive Directors and senior executives, as described in the Directors' Report which forms part of this Annual Report.	Not applicable.
8.3	Companies should provide the information indicated in the guide to reporting on Principle 8.	The information has been disclosed in the Annual Report.	Not applicable.