K2 ENERGY LIMITED

A.C.N. 106 609 143

Annual Report 2010

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CHAIRMAN'S LETTER TO SHAREHOLDERS

Dear Shareholder,

The 2010 financial year and the subsequent events have been an interesting and productive period for the Company.

As indicated in the 2009 Annual Report the Board decided to conserve cash, reduce overheads and seek alternative opportunities in the energy sector.

The above approach was necessitated by a disappointing evaluation of the wells drilled, the limited success of the workover programme on existing wells, the uneconomic gas price, the problems encountered with the operator Metro Energy and the resulting legal action.

In light of the above, the Company has changed the operator, entered into a joint venture with Trey Resources I LLC, retained a 30% participation and reduced expenditure on K2 oil and gas interests to virtually nil.

In March 2010 the Company entered into an exclusive agreement with Mears Technologies Inc. to license their solar technology IP on a worldwide basis. Details of this transaction are reported on page 3 of this annual report.

All of the milestones agreed between K2 Energy and Mears Technologies Inc. have been met to date, with side by side testing scheduled for December this year.

The 3:5 non-renounceable rights issue announced in July 2010 was successfully completed in September. I welcome the new shareholders to the Company and thank existing shareholders for their support.

In July 2010, Peter Moore retired as a Director and I thank him for his contribution as a Director of the Company.

Dr Robert Mears was appointed to the Board of the Company in July 2010. Dr Mears' achievements and qualifications as a founder of Mears Technologies Inc make him a very welcome addition of the Board of the Company.

I thank shareholders for their patience and support during what has been a very active and hopefully productive year for the company.

Yours faithfully,

SAMUEL GAZAL
Chairman

DIRECTORS' REPORT

The Directors submit their report for the financial year ended 30 June 2010.

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 the entire period unless otherwise stated.

Names, qualifications, experience and special responsibilities
Samuel Gazal, BEc,

Non-executive Chairman

Sam has more than 35 years experience as a director of public and private companies. He graduated from Sydney University with a Bachelor of Economics. He has been a director and significant shareholder in a number of successful companies including Gazal Industries Limited, Winthrop Investments Limited, Country Television Services Limited and Sunshine Broadcasting Network Limited. He is the major shareholder and chairman of the Roslyndale group of companies.

Peter Moore, BA LLB.

Managing Director (resigned 2nd July 2010)

Peter was formerly a commercial lawyer and is a director of Geoflite Inc. He has worked in the resource exploration industry since 1987, and has wide commercial experience in the oil and gas exploration industry in the United States.

Michael Reed, BSc, (Hons) CPG,AAPG
Non-executive Director

Michael is a 1982 honours graduate in geology from the University of Kentucky and a Certified Petroleum Geologist with the American Association of Petroleum Geologists. He has 25 years' experience in oil and gas exploration and investment, currently as President of Aspen Energy, Inc. and formerly as Vice President of Tenexco Inc. based in Louisville, Kentucky, USA. Mike has overseen in excess of 350 oil and gas drilling ventures, investing more than $50,000,000 over the past 10 years throughout the main oil and gas producing regions of the USA. He has highly specialized expertise in screening and evaluating drilling opportunities.

Robert Kenneth (Ken) Gaunt
Non-executive Director

Ken has enjoyed significant commercial success since founding Electronic Banking Solutions Pty Ltd in 1998. As Managing Director, Ken developed the business before merging with Cash Card Australia Limited in 2003. Ken has been director of Cash Card Australia Limited and is an investor in many successful businesses in Australia and elsewhere. Ken was a board member and Australia's representative of the ATM industry association and was a member of the customer advisory board of National Cash Register Company Limited.

Robert Mears, BA & MA Physics (Oxford); Ph.D. (University of Southampton)
Non-executive Director – (appointed 3rd July 2010)

Dr Robert Mears is recognised worldwide as one of the world's leading experts in photonics – the synthesis of electronics and optical communication.
In the 1980's Dr Mears addressed the challenge of increasing the capacity and speed of data transmission of fibre optic cables in the telecommunications industry by inventing an optical amplifier, known as the Erbium Doped Amplifier ("EDFA"). EDFA technology increased usable capacity of optical fibre by more than 1000 times. It was and remains a key enabling technology of the internet.

Company Secretary
Terence Flitcroft B Comm. CA SFIN
Mr Flitcroft is company secretary for a number of public and private companies.

CORPORATE INFORMATION

Corporate Structure
K2 Energy Limited is a public company listed on the Australian Stock Exchange (ASX Code: KTE).

Employees
K2 currently has no employees.

OPERATING AND FINANCIAL REVIEW

MEARS SOLAR

In March the company secured the exclusive worldwide rights to the Mears Silicon Technology ("MST^{TM}") for all solar energy applications from Mears Technologies Inc. ("MTI").

The Mears MST^{TM} technology potentially addresses one of the major limiting factors for Photovoltaic (PV) solar cell technology and solar power generation, being the efficiency limits of silicon PV cells. MTI believes that a key efficiency parameter can be lifted significantly using MST^{TM} technology and furthermore that the amount of silicon required can be significantly reduced over time, potentially making PV cells both significantly more efficient and much less expensive.

The MST^{TM} technology involves the production of altered or "nano-doped" layers of silicon that can be inserted into the manufacture of silicon solar PV wafers. The process lends itself to application in existing silicon wafer manufacturing processes.

K2's solar research and development continued during the June quarter. The highlights of the quarter were:

- The optical characterisation milestone has been achieved (optical characterisation is the analysis of the ability of materials to absorb light),

- Side by side testing of the MST^{TM} solar cell remains on track for December 2010,

- Commercialisation of the technology with PV solar cell manufacturers is still scheduled for 2011,

The head of Mears Technologies Inc., Dr Robert Mears, was appointed to the K2 Energy Limited Board of Directors in July 2010.

K2 expects that MST^{TM} solar cell will result in a PV solar cell, which is significantly more efficient and substantially less expensive to manufacture, than is currently available for mass market use.

OIL AND GAS

On 17th June 2010 KTE acquired approximately 30% of Trey Resources 1 LLC, a US-based limited liability company, in exchange for its oil and gas assets and 100% of the shares in K2 Energy USA Inc. which were transferred to Trey Inc as part of this transaction.

Oil and gas outgoings in the future have been substantially reduced. KTE has the opportunity to invest further in additional exploration, at its election, in proportion to its holding in Trey Resources 1 LLC.

FINANCIAL POSITION

The Company had cash funds on hand of approximately $0.95 million at year-end and as a result of the rights issue a further $3.92 million was raised subsequent to year-end.

PRINCIPAL ACTIVITY

K2 Energy owns the worldwide rights to all intellectual property covering solar energy applications developed by Mears Technologies Inc., has an investment in Mears Technologies Inc. and has oil and gas interests in the USA, via its shareholding in Trey Resources 1 LLC.

FINANCIAL RESULT

The operating result for the financial year ended 30 June 2010 for the Consolidated Entity was an after tax loss of $3,822,105 (2009: $1,977,303).

DIVIDENDS PAID OR RECOMMENDED

The directors do not recommend the payment of a dividend and no amount has been paid or declared by way of a dividend to the date of this report.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

There were no significant changes in the state of affairs of the Consolidated Entity during the financial year, other than as detailed in this directors' report and the Chairman's Letter accompanying this report.

AFTER BALANCE DATE EVENTS

The directors are not aware of any matter or circumstance that has arisen since the end of the period to the date of this report that has significantly affected or may affect:

(i) The operations of the company and the entities that it controls
(ii) The results of those operations
(iii) The state of affairs of the company in subsequent years, other than as set out below.

On the 23rd July 2010 the Company announced a non-renounceable entitlement issue of 3 new ordinary shares for every five ordinary shares held at an issue price of 5 cents per share. The issue closed on 25th August 2010, with acceptances received for 39,230,396 shares, representing a total of $1.962 million raised.

Subsequently the Directors placed a further 39,163,000 shares from the shortfall raising a further $1.958 million and bringing the total amount raised from the issue to $3.92 million.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The company will continue to fund research and development of the Mears Solar Technology. The Company also continues to hold its investment in Trey Resources I LLC. Future performance will depend on the results of future research and development and drilling.

ENVIRONMENTAL REGULATIONS AND PROCEEDINGS

K2 Energy is aware of its environmental obligations with regards to its exploration activities and ensured that it complied with all regulations when carrying out any exploration work in the USA.

REMUNERATION REPORT

Remuneration Policy

The remuneration policy of K2 Energy Limited has been designed to align director objectives with shareholder and business objectives by providing a fixed remuneration component, which is assessed on an annual basis in line with market rates. The Board of K2 Energy Limited, the majority of whom are non-executive directors, believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best directors to run and manage the company, as well as to create goal congruence between directors and shareholders. The Board will assess the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team.

The Board's policy for determining the nature and amount of remuneration for board members is as follows:

The remuneration policy, setting the terms and conditions for the executive director was developed and approved by the Board after seeking professional advice from independent external consultants.
In determining competitive remuneration rates, the Board seeks independent advice on local and international trends among comparative companies and industry generally. It examines terms and conditions for employee incentive schemes, benefit plans and share plans. Independent advice is obtained to confirm that executive remuneration is in line with market practice and is reasonable in the context of Australian executive reward practices.

The Managing Director received a base salary and superannuation during the year.

The Company engaged in exploration and emerging production during the year, and therefore during the year was speculative in terms of performance. Consistent with attracting and retaining talented executives, directors and the senior executive were paid market rates associated with individuals in similar positions within the same industry.

All remuneration paid to directors is valued at the cost to the company and expensed.

The Board policy is to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities. The Remuneration Committee determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. The Remuneration Committee consists of the entire Board. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders. Fees for non-executive directors are not linked to the performance of the Company. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the company. The Directors believe fees paid to Non-executive Directors in the past financial year are less than market rates.

(a) Directors' and Key Management Personnel Remuneration

(i) Directors

Samuel Gazal -Non-Executive Director
Peter Moore- Managing Director (resigned 2nd July 2010)
Ken Gaunt - Non-Executive Director
Mike Reed- Non-Executive Director
Robert Mears – Non-Executive Director (appointed 3rd July 2010)

(ii) Executives

During the year ended 30th June 2010 there were no executives other than Peter Moore.

Directors' remuneration and other terms of employment are reviewed annually by the Remuneration Committee having regard to performance against goals set at the start of the year, relative comparative information and independent expert advice.

Except as detailed in Notes (b) – (d) to the remuneration report, no director has received or become entitled to receive, during or since the financial year, a benefit because of a contract made by the Company or a related body corporate with a director, a firm of which a director is a member or an entity in which a director has a substantial financial interest. This statement excludes a benefit included in the aggregate amount of emoluments received or due and receivable by directors and shown in Notes (b) – (d) to the remuneration report, prepared in accordance with the Corporations regulations, or the fixed salary of a full time employee of the Company.

(b) Directors' and Key Management Personnel Remuneration

The following table discloses the remuneration of Directors of the company for the year ended 30 June 2010, as specified for disclosure by AASB 124. The information contained in this table is audited.

	Short Term		**Post-employment**	
Directors	**Base Salary and Fees $**	**Bonus and Non Monetary Benefits $**	**Superannuation Contributions $**	**TOTAL $**
Sam Gazal **				
30 June 2009	41,264	-	3,714	44,978
30 June 2010	27,528	-	2,478	30,006
Peter Moore *				
30 June 2009	137,615	-	12,385	150,000
30 June 2010	103,212	-	9,289	112,501
Ken Gaunt				
30 June 2009	26,674	-	2,401	29,075
30 June 2010	18,348	-	1,651	19,999
John Thompson (resigned 31.10.08)				
30 June 2009	11,667	-	1,050	12,717
30 June 2010	-	-	-	-
Total 2009	217,220	-	19,550	236,770
Total 2010	149,088	-	13,418	162,506

* Mr Moore's salary and superannuation contribution was paid by K2 Energy Investments Pty Limited. During the year fees were paid to Geoflite Inc. – a company associated with Peter Moore.

** During the year fees were paid to Winchester Associates Pty Limited – a company associated with Sam Gazal.
During the year fees were paid to Aspen Energy Inc. – a company associated with Mike Reed.
Refer note 25 of the accounts for further details of amounts payable to these entities.

(c) Directors' and Key Management Personnel Remuneration by Category

	30 June 2010 $	30 June 2009 $
Short-term	149,088	217,220
Other long-term	-	-
Post employment benefits	13,418	19,550
Share based payments	-	-
	162,506	236,770

(d) Compensation Options: Granted and vested during and since the financial year ended 30 June 2010

During and since the financial year ended 30 June 2010, no options relating to compensation were granted to directors and a total of nil (2009-2,500,000) options exercisable at between $0.40 and $0.70 lapsed. No shares were issued on exercise of compensation options during the financial year or previous financial year.

(e) Options issued as Part of Remuneration

Options are issued from time to time 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 executives, directors and shareholders.

(f) Employment Contracts of Directors and Senior Executives

Peter Moore was the only director who was a permanent employee of the Company. Mr Moore had an employment agreement with K2 Energy Investments Pty Limited.

MEETINGS OF DIRECTORS

The number of directors' meetings (including committees) held during the financial year and the number of meetings attended by each director are:

	DIRECTORS' MEETINGS		COMMITTEE MEETINGS AUDIT COMMITTEE		COMMITTEE MEETINGS REMUNERATION COMMITTEE	
	Number eligible to attend	Number Attended	Number eligible to attend	Number Attended	Number eligible to attend	Number Attended
Samuel Gazal	7	7	1	1	1	1
Peter Moore	7	7	-	-	1	1
Ken Gaunt	7	7	1	1	1	1
Mike Reed	7	6	-	-	1	1

OPTIONS

At the date of this report there were no options over ordinary shares in the Company on issue.

BOARD MEMBERS DIRECTORSHIPS

Listed below are details of listed public company directorships held by Board Members over the last three years.

Director	Directorship of	Date Appointed	Date Resigned
Samuel Gazal	K2 Energy Investments Pty Limited *	29th August 2005	-
Peter Moore	K2 Energy Investments Pty Limited *	29th August 2005	2 July 2010
Mike Reed	K2 Energy Investments Pty Limited *	18th October 2005	-
Robert Kenneth Gaunt	K2 Energy Investments Pty Limited *	18th October 2005	-
Robert Mears	Not a Director of any public listed company		

* K2 Energy Investments Pty Limited was previously known as K2 Energy Limited

DIRECTORS' INTERESTS IN SECURITIES

All equity dealings with directors have been entered into with terms and conditions no more favourable than those that the entity would have adopted if dealing at arm's length. The relevant interests of each director in share capital at the date of this report are as follows:-

	Number of Shares
Samuel Gazal *	7,600,000
Ken Gaunt *	10,499,260
Mike Reed *	2,000,000
Robert Mears	-
	20,099,260

* Held by an entity associated with the Director and in which he has a financial interest.

INDEMNIFYING OFFICERS OR AUDITOR

In accordance with the constitution, except as may be prohibited by the Corporations Act 2001, every officer, auditor or agent of the Company shall be indemnified out of the property of the Company against any liability incurred by him in his capacity as officer, auditor or agent of the Company or any related corporation in respect of any act or omission whatsoever and howsoever occurring or in defending any proceedings, whether civil or criminal. The Company currently has no insurance in respect of directors' and officers' liability.

PROCEEDINGS ON BEHALF OF COMPANY

No person has applied for leave of court to bring proceedings on behalf of the Company or intervene in any proceeding 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 such proceedings during the year.

AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration for the year ended 30 June 2010 has been received and can be found on page 41 of the annual report.

NON AUDIT SERVICES

The board of directors, in accordance with advice from the audit committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:
• all non-audit services are reviewed and approved by the audit committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
• the nature of the services provided do not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

The following fees for non-audit services were paid/payable to the external auditors during the year ended 30 June 2010:
- Taxation services $1,500

This report is made in accordance with a resolution of the directors.

Samuel Gazal
Chairman
30 September 2010

Corporate Governance Statement

Principle 1:

Lay solid foundations for management and oversight

The Board of Directors is responsible for the overall Corporate Governance of the company including its strategic direction, establishing goals for management and monitoring the achievement of these goals.

The primary responsibilities of the Board include responsibility for:

- oversight of the company, including its control and accountability systems,
- appointing and removing the chief executive officer (or equivalent),
- ratifying the appointment and, where appropriate, the removal of the chief financial officer (or equivalent) and the company secretary,
- input into and final approval of management's development of corporate strategy and performance objectives,
- reviewing and ratifying systems of risk management and internal compliance and control, codes of conduct, and legal compliance,
- monitoring senior management's performance and implementation of strategy, and ensuring appropriate resources are available,
- approving and monitoring the progress of major capital expenditure, capital management, and acquisitions and divestitures,
- approving and monitoring financial and other reporting.

Directors consider that the company's procedures comply with Principle 1 of the Principles of Good Corporate Governance.

Principle 2:

Structure the board to add value

2.1: A majority of the board should be independent directors.

The names of the Directors of the Company in office at the date of this Statement are set out in the Directors' Report. Directors are appointed based on their experience and on independence of their decision-making and judgement.

In considering the status of directors as independent directors the company has regard to the following

An independent director is a non-executive director (ie is not a member of management) and:

- is not a substantial shareholder of the company or an officer of, or otherwise associated directly with, a substantial shareholder of the company
- within the last three years has not been employed in an executive capacity by the company or another group member, or been a director after ceasing to hold any such employment
- within the last three years has not been a principal of a material professional adviser or a material consultant to the company or another group member, or an employee materially associated with the service provided
- is not a material supplier or customer of the company or other group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer
- has no material contractual relationship with the company or another group member other than as a director of the company
- has not served on the board for a period which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the company
- is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the company.

The majority of the directors are independent, therefore the company complies with principle 2.1.

2.2: The chairperson should be an independent director.

The Directors consider that the company complies with the principle 2.2.

2.3: The roles of chairperson and chief executive officer should not be exercised by the same individual.

The Directors consider the company complied during the financal year. The company currently has no Chief Executive Officer.

2.4: The board should establish a nomination committee

The company does not have a formal nomination committee due to the scale and nature of the company's activities. The whole board meet to consider additional appointments to the Board.

Directors consider that the company complies with the intentions of Principle 2.4 of the Principles of Good Corporate Governance.

2.5: Provide the information indicated in Guide to reporting on Principle 2
The skills, experience and expertise relevant to the position of director held by each director in office at the date of the Annual Report are disclosed in the Directors' Report included in the Annual Report.
All of the directors are considered by the board to constitute independent directors, except for Peter Moore. The company does not have fixed materiality thresholds.
Each Director has the right to seek independent professional advice at the Company's expense. However, prior approval of the Chair is required, which is not unreasonably withheld.
No directors have fixed terms of office.
The company does not have a nomination committee for the reasons outlined in 2.4 above.
Any departures from best practice recommendations 2.1, 2.2, 2.3, 2.4 or 2.5 are included in those sections.
The Board will review its composition on an annual basis to ensure that the Board has the appropriate mix of expertise and experience. Where a vacancy exists, for whatever reason, or where it is considered that the Board would benefit from the services of a new Director with particular skills, the Board will select appropriate candidates with relevant qualifications, skills and experience.
Directors consider that the company complies with Principle 2.5 of the Principles of Good Corporate Governance.

Principle 3:

Promote ethical and responsible decision-making
3.1: Establish a code of conduct to guide the directors, the chief executive officer (or equivalent), the chief financial officer (or equivalent) and any other key executives as to:
3.1.1 the practices necessary to maintain confidence in the company's integrity
3.1.2 the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.
The Board's policy for the Directors and management is to conduct themselves with the highest ethical standards. All Directors and employees will be expected to act with integrity and objectivity, striving at all times to enhance the reputation and performance of the Company.
The Company has not adopted a specific Code of Conduct due to the size of its operations and number of employees at this time.
The Directors consider the company complies.

3.2: Disclose the policy concerning trading in company securities by directors, officers and employees.
The policy is as follows:
Directors and senior executives (officers) must not buy or sell shares or securities in the company if they possess information which, if disclosed publicly, might have a material effect on the price or value of the company's shares.
Directors through the Company Secretary must notify the ASX of any change in their share holdings within 3 business days of the transaction taking place.
The Company maintains a policy that requires all directors to seek the chairman's approval prior to trading in the Company's securities.
No transaction should take place if the directors (or officers) are aware of any information which, if disclosed publicly, might have a material effect on the price or value of the company's shares.
Directors consider that the company complies with Principle 3.2 of the Principles of Good Corporate Governance.

3.3: Provide the information indicated in Guide to reporting on Principle 3.
This information is provided in this statement.
Directors consider that the company complies with Principle 3.3 of the Principles of Good Corporate Governance.

Principle 4:

Safeguard integrity in financial reporting
4.1: Require the chief executive officer (or equivalent) and the chief financial officer (or equivalent) to state in writing to the board that the company's financial reports present a true and fair view, in all material respects, of the company's financial condition and operational results and are in accordance with relevant accounting standards.
The Directors consider the company complies.

4.2: The board should establish an audit committee.
The Directors consider the company complies.

4.3: Structure the audit committee so that it consists of:
- **only non-executive directors**
- **a majority of independent directors**
- **an independent chairperson, who is not chairperson of the board**
- **at least three members.**

Directors consider that Principle 4.3 of the Principles of Good Corporate Governance is not applicable given the size of the Board and two members is appropriate.

4.4: The audit committee should have a formal charter.
Directors consider that Principle 4.4 of the Principles of Good Corporate Governance is not applicable.

4.5: Provide the information indicated in Guide to reporting on Principle 4.
Directors consider that the company complies with Principle 4.5 of the Principles of Good Corporate Governance to the extent applicable to the Company.

Principle 5:

Make timely and balanced disclosure

5.1: Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance.
All directors are required to have a general understanding of the matters that are to be, or not to be disclosed in accordance with the ASX Listing Rules.
All matters concerning compliance with the listing rules are to be reported to the chairman.
The Chairman has primary responsibility for ensuring that the company complies with its disclosure obligations and is primarily responsible for deciding what information will be disclosed.
The Chairman and the Company Secretary are responsible for promoting understanding of compliance and monitoring compliance.
Directors are required to maintain confidentiality of corporate information to avoid premature disclosure
The Chairman is responsible for media contact and comment, external communications such as analyst briefings and responses to shareholder questions.
Directors consider that the company complies with Principle 5.1 of the Principles of Good Corporate Governance.

5.2: Provide the information indicated in Guide to reporting on Principle 5.
This information is provided in this statement.
Directors consider that the company complies with Principle 5.2 of the Principles of Good Corporate Governance.

Principle 6:

Respect the rights of shareholders

6.1: Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings.
Information is communicated to shareholders as follows:

- notices of all meetings of shareholders;
- all documents that are released publicly are made available on the Company's website at www.K2energy.com.au

Directors consider that the company complies with Principle 6.1 of the Principles of Good Corporate Governance.

6.2: Request the external auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.
Directors anticipate that the company will comply with Principle 6.2 of the Principles of Good Corporate Governance.

Principle 7:

Recognise and manage risk

7.1: The board or appropriate board committee should establish policies on risk oversight and management.
The Board monitors and if necessary receives advice on areas of operational and financial risk, and considers strategies for appropriate risk management arrangements.
Specific areas of risk, which are identified, will be regularly considered at Board meetings include performance of activities, human resources, the environment and continuous disclosure obligations.

7.2: The chief executive officer (or equivalent) and the chief financial officer (or equivalent) should state to the board in writing that:

7.2.1 The statement given in accordance with best practice recommendation 4.1 (the integrity of financial statements) is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board.

7.2.2 The company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.
Matters of risk management and compliance are currently addressed by the board as a whole at this stage of the development of the company.
Directors consider that the company complies with the intentions of Principle 7.2 of the Principles of Good Corporate Governance.

7.3: Provide the information indicated in Guide to reporting on Principle 7.
This information is provided in this statement.
Directors consider that the company complies with Principle 7.3 of the Principles of Good Corporate Governance.

Principle 8:

Encourage enhanced performance

8.1: Disclose the process for performance evaluation of the board, its committees and individual directors, and key executives.

At this stage of the development of the company, the company does not have formal procedures in place for performance evaluation of the board, its committees and individual directors, and key executives.

Directors consider that the company does not comply with Principle 8.1 of the Principles of Good Corporate Governance although this non-compliance is not material.

Principle 9:

Remunerate fairly and responsibly

9.1: Provide disclosure in relation to the company's remuneration policies to enable investors to understand (i) the costs and benefits of those policies and (ii) the link between remuneration paid to directors and key executives and corporate performance.

At this stage of the development of the company, the company has formal remuneration policies in place.

9.2: The board should establish a remuneration committee.

The Directors consider the company complies.

9.3: Clearly distinguish the structure of non-executive directors' remuneration from that of executives.

The remuneration of each director is set out in the Directors' Report included in the Annual Report.

Directors consider that the company complies with Principle 9.3 of the Principles of Good Corporate Governance.

9.4: Ensure that payment of equity-based executive remuneration is made in accordance with thresholds set in plans approved by shareholders.

The company has equity-based executive remuneration that has been approved by shareholders on 29 December 2004. No equity based remuneration is currently on issue. Directors consider that Principle 9.4 of the Principles of Good Corporate Governance is not applicable.

9.5: Provide the information indicated in Guide to reporting on Principle 9.

This information is provided in this statement.

Directors consider that the company complies with Principle 9.5 of the Principles of Good Corporate Governance.

Principle 10:

Recognise the legitimate interests of stakeholders

10.1: Establish and disclose a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders.

The Directors consider the company complies.

CONSOLIDATED INCOME STATEMENT

For the year ended 30 June 2010

	Note	30 June 2010 $	30 June 2009 $
Other revenue	5	89,034	145,668
Amortisation & depreciation		(1,500)	-
Administration and corporate expenses		(276,664)	(322,933)
Directors' fees, salaries and employee benefits		(155,912)	(174,588)
Foreign exchange gains/(losses)	6	(63,386)	247,133
Interest paid		-	(4,573)
Research and development expenses		(518,655)	-
LOSS BEFORE INCOME TAX EXPENSE		**(927,083)**	**(109,293)**
Income Tax Benefit / (Expense)	7	-	-
NET LOSS ATTRIBUTABLE TO CONTINUING OPERATIONS		**(927,083)**	**(109,293)**
LOSS FROM DISCONTINUED OPERATIONS AFTER TAX	21	**(2,895,024)**	**(1,868,010)**
LOSS FOR THE YEAR		**(3,822,107)**	**(1,977,303)**
Basic loss per share (cents)	20	(2.93)	(1.51)

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 30 June 2010

	30 June 2010 $	30 June 2009 $
Loss for the period	(3,822,107)	(1,977,303)
Other comprehensive income:		-
Foreign exchange translation difference for foreign operations	(1,687,053)	153,587
Total other comprehensive income for the year	(1,678,053)	153,587
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO MEMBERS OF THE PARENT ENTITY	**(5,550,160)**	**(1,823,716)**

CONSOLIDATED BALANCE SHEET
As at 30 June 2010

	Note	30 June 2010 $	30 June 2009 $
CURRENT ASSETS			
Cash and cash equivalents	8	947,502	3,503,179
Trade and other receivables	9	14,459	26,857
TOTAL CURRENT ASSETS		961,961	3,530,036
NON-CURRENT ASSETS			
Property plant and equipment	10	-	22,234
Other financial assets	11	1,880,878	-
Deferred exploration, evaluation and development costs	12	-	4,812,024
TOTAL NON-CURRENT ASSETS		1,880,878	4,834,258
TOTAL ASSETS		2,845,839	8,364,294
CURRENT LIABILITIES			
Trade and other payables	13	179,323	200,618
TOTAL CURRENT LIABILITIES		179,323	200,618
TOTAL LIABILITIES		179,323	200,618
NET ASSETS		**2,663,516**	**8,163,676**
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	14	42,934,768	42,934,768
Reserves	15	2,489,100	4,167,153
Accumulated losses		(42,760,352)	(38,938,245)
TOTAL EQUITY		**2,663,516**	**8,163,676**

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2010

	Foreign Currency Translation Reserve	Option Reserve	Issued Capital	Accumulated Losses	Total
	$	$	$	$	$
Balance at 1 July 2008	**1,524,466**	**2,489,100**	**42,934,768**	**(36,960,942)**	**9,987,392**
Loss attributable to members	-	-	-	(1,977,303)	(1,977,303)
Foreign translation revenue	153,587	-	-	-	153,587
Balance at 30 June 2009	**1,678,053**	**2,489,100**	**42,934,768**	**(38,938,245)**	**8,163,676**
Loss attributable to members	-	-	-	(3,822,107)	(3,822,107)
Total other comprehensive income/(loss)	(1,678,053)	-	-	-	(1,678,053)
Balance at 30 June 2010	**-**	**2,489,100**	**42,934,768**	**(42,760,352)**	**2,663,516**

The accompanying notes form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT
For the year ended 30 June 2010

	Note	30 June 2010 $	30 June 2009 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		-	92,108
Payments for operations and employees		(1,356,790)	(1,188,675)
Interest received		81,466	145,668
NET CASH FLOWS FROM OPERATING ACTIVITIES	18	**(1,275,324)**	**(950,899)**
CASH FLOWS FROM INVESTING/FINANCING ACTIVITIES			
Payments for exploration expenditure		-	(822,296)
Purchase of convertible note		(1,101,800)	-
Disposal of subsidiary		(115,167)	-
Receipts from farm out of exploration property		-	306,414
NET CASH FLOWS USED IN INVESTING/FINANCING ACTIVITIES		**(1,216,967)**	**(515,882)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(2,492,291)**	**(1,466,781)**
Cash and cash equivalents at beginning of the year		3,503,179	4,722,827
Net foreign exchange difference		(63,386)	247,133
CASH AND CASH EQUIVALENTS AT END OF YEAR	19	**947,502**	**3,503,179**

The accompanying notes form part of these financial statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. REPORTING ENTITY

K2 Energy Limited is a company domiciled in Australia. The consolidated financial statements of the Company as at and for the year ended 30 June 2010 comprise the Company and its controlled entities (together referred to as the Consolidated Entity). The Consolidated Entity owns the worldwide rights to all intellectual property covering solar energy applications developed by Mears Technologies Inc., has an investment in Mears Technologies Inc. and has oil and gas interests in the USA, via its shareholding in Trey Resources 1 LLC.

2. BASIS OF PREPARATION

a. Statement of compliance

The financial report is a general purpose financial report, which has been prepared in accordance with Australian Accounting Standards (AASBs) (including Australian Interpretations) adopted by the Australian Accounting Standards Board and the Corporations Act 2001. The financial report of the Consolidated Entity and the financial report of the Company comply with International Financial Reporting Standards and Interpretations adopted by the International Accounting Standards Board.

b. Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis.

c. Functional and presentation currency

These consolidated financial statements are presented in Australian dollars, which is the Company's functional currency.

d . Use of judgments and estimates

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. 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 and in any future periods affected. In particular, information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is described in the following areas: Impairment and Financial instruments.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by all entities in the Consolidated Entity.

a. Basis of Consolidation

Controlled entities

Controlled entities are entities controlled by the Company. Control exists when the Company has power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of controlled entities are included in the consolidated financial statements from the date that control commences until the date that control ceases. Investments in controlled entities are carried at their cost of acquisition in the Company's financial statements.

Transactions eliminated on consolidation

Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

b. Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured.

The following specific recognition criteria must also be met before revenue is recognised:
Interest
Control of the right to receive the interest payment.

c. Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense. Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the relevant taxation authority is included as a current asset or liability in the balance sheet. Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities, which are recoverable from, or payable to, the relevant taxation authority are classified as operating cash flows.

d. Foreign Currency

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of controlled entities at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary transactions denominated in foreign currencies that are stated at historical cost are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the functional currency at the foreign exchange rates ruling at the date the fair value was determined. Foreign exchange differences arising on translation are recognised in the income statement.

Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, generally are translated to the functional currency at foreign exchange rates ruling at the reporting date. The revenues and expenses of foreign operations are translated to the functional currency at rates approximating the foreign exchange rates ruling at the dates of transactions. Foreign currency differences arising from translation of controlled entities with a different functional currency to that of the Consolidated Entity are recognised in the foreign currency translation reserve (FCTR). When a foreign operation is disposed of, in part or in full, the relevant amount of its FCTR is transferred to profit or loss.

Foreign exchange gains and losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised directly in equity in the FCTR..

e. Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less.

f. Provisions

A provision is recognised in the balance sheet when the Consolidated Entity has a present legal or constructive obligation as a result of a past event that can be measured reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

g. Impairment

The carrying amounts of the Consolidated Entity's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated (see below). An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement unless the asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through the income statement. Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash generating unit or a group of units and then, to reduce the carrying amount of the other assets in the unit or a group of units on a pro-rata basis.

Calculation of recoverable amount

Receivables

The recoverable amount of the Consolidated Entity's investments in receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted. Impairment of receivables is not recognised until objective evidence is available that a loss event has occurred. Significant receivables are individually assessed for impairment. Impairment testing of significant receivables that are not assessed as impaired individually is performed by placing them into portfolios of significant receivables with similar risk profiles and undertaking a collective assessment of impairment. Non-significant receivables are not individually assessed.

Instead, impairment testing is performed by placing non-significant receivables in portfolios of similar risk profiles, based on objective evidence from historical experience adjusted for any effects of conditions existing at each balance date. The allowance for impairment is calculated with reference to the profile of debtors in the Consolidated Entity's sales and marketing regions.

Other Assets

The recoverable amount of other assets is the greater of their fair value less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generate cash flows from continuing use that are largely independent of the cash flows of other assets or groups of assets (cash generating units). The goodwill acquired in a business combination, for the purpose of impairment testing is allocated to the cash generating units that are expected to benefit from the synergies of the combination. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Reversals of Impairment

An impairment loss in respect of a receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised. An impairment loss in respect of goodwill is not reversed. In respect of other assets, an impairment loss is reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

h. Property, Plant and Equipment

Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses (see accounting policy (g)). An asset's cost is determined as the consideration provided plus incidental costs directly attributable to the acquisition. Subsequent costs in relation to replacing a part of property, plant and equipment are recognised in the carrying amount of the item if it is probable that future economic benefits embodied within the part will flow to the Consolidated Entity and its cost can be measured reliably. All other costs are recognised in the income statement as incurred.

Leased assets - Operating leases

Payments made under operating leases are expensed on a straight-line basis over the term of the lease, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased property. Minimum lease payments include fixed rate increases.

Depreciation

Depreciation is recognised in the income statement on a straight-line basis. Items of property, plant and equipment, including leasehold assets, are depreciated using the straight-line method over their estimated useful lives, taking into account estimated residual values. Assets are depreciated from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and held ready for use. Depreciation rates and methods, useful lives and residual values are reviewed at each balance sheet date. When changes are made, adjustments are reflected prospectively in current and future financial periods only. The estimated useful lives in the current and comparative periods are as follows:

Plant & equipment	5 – 10 years

i. Exploration, evaluation and Development Expenditure

Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are carried forward only if they relate to an area of interest for which rights of tenure are current and in respect of which:

(i) such costs are expected to be recouped through successful development and exploitation or from sale of the area; or

(ii) exploration and evaluation activities in the area have not, at balance date, resulted in booking economically recoverable reserves, and active operations in, or relating to, this area are continuing.

Accumulated costs in respect of areas of interest which are abandoned are written off in full against profit in the year in which the decision to abandon the area is made.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

Amortisation is charged against individual wells currently based on a well life of 5 years as reserve estimates are not yet available. Amortisation is not charged on costs carried forward in respect of areas of interest in the development phase until production commences.

j. Restoration

Provisions for future environmental restoration are recognised where there is a present obligation as a result of exploration, development, production, transportation or storage activities having been undertaken, and it is probable that an outflow of economic benefits will be required to settle the obligation. The estimated future obligations include the costs of removing facilities, abandoning wells and restoring the affected areas.

The provision for future restoration costs is the best estimate of the present value of the expenditure required to settle the restoration obligation at the reporting date, based on current legal requirements and technology. Future restoration costs are reviewed annually and any changes in the estimate are reflected in the present value of the restoration provision at the end of the balance sheet date, with a corresponding change in the cost of the associated asset.

The amount of the provision for future restoration costs relating to exploration, development and production facilities is capitalized and depleted as a component of the cost of those activities.

The unwinding of the effect of discounting on the provision is recognised as a finance cost.

k. Goodwill

Goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets liabilities and contingent liabilities of the acquiree. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. All goodwill on acquisition of controlled entities has been impaired.

l. Employee Benefits

Wages, salaries and annual leave

Liabilities for employee benefits for wages, salaries and annual leave expected to settle within 12 months of the year end represent present obligations resulting from employees' services provided up to reporting date, calculated at undiscounted amounts based on remuneration wage and salary rates that the Consolidated Entity expects to pay as at reporting date including related on-costs, such as workers' compensation insurance and payroll tax.

Share based payments

The Company had granted options to certain directors and employees. The fair value of options and shares granted was recognised as an expense with a corresponding increase in equity. The fair value was measured at the date the options or shares were granted taking into account market based criteria and expensed over the vesting period after which the employees become unconditionally entitled to the options and shares. The fair value of the options granted is measured using the Black-Scholes method, taking into account the terms and conditions attached to the options. The fair value of the performance shares granted is measured using the weighted average share price of ordinary shares in the Company, taking into account the terms and conditions attached to the shares. The amount recognised as an expense is adjusted to reflect the actual number of options and shares that vest except where forfeiture is due to market related conditions.

m. Receivables

Trade and other receivables are stated at amortised cost less impairment losses (see accounting policy (g)).

n. Taxation

Income tax expense in the income statement for the periods presented comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is calculated using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for the initial recognition of goodwill and other assets or liabilities in a transaction that affects neither accounting nor taxable profit, or differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based upon the laws that have been enacted at reporting date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realised. Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity or on a different tax entity but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

o. Payables

Trade and other payables are stated at amortised cost.

p. Finance income and expense

Interest income is recognised as it accrues in the income statement using the effective interest method.

q. Earnings per share

The Consolidated Entity presents basic and diluted earnings per share (EPS) for its ordinary shares. Basic EPS is calculated by dividing the net loss attributable to equity holders of the parent for the financial period, after excluding any costs of servicing equity (other than ordinary shares) by the weighted average number of ordinary shares of the Company, adjusted for any bonus issue.

Diluted EPS is calculated using the basic EPS earnings as the numerator. The weighted average number of shares used as the denominator is adjusted by the after-tax effect of financing costs associated with the dilutive potential ordinary shares and the effect on revenues and expenses of conversion to ordinary shares associated with dilutive potential ordinary shares adjusted for any bonus issue.

r. Segment Reporting

As of 1 July 2009, The Consolidated Entity determines and presents operating segments based on the information that internally is provided to the Board of Directors, who are The Consolidated Entity's chief operating decision maker. This change in accounting policy is due to the adoption of IFRS 8 Operating Segments. Previously, operating segments were determined and presented in accordance with AASB 114 Segment Reporting. The new accounting policy in respect of segment operating disclosures is presented as follows:

Comparative segment information has been re-presented in conformity with the transitional requirements of IFRS 8. Since the change in accounting policy only impacts presentation and disclosure aspects, there is no impact on net profit or EPS.

An operating segment is a component of The Consolidated Entity that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of The Consolidated Entity's other components if separately reported and monitored. An operating segment's operating results are reviewed regularly by the Board of Directors to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. Segment results that are reported to the Board of Directors include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate head office results.

s. Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any income tax benefit.

t. New Standards ad Interpretations not yet adopted

The following standards, amendments to standards, and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2010, but have not been applied in preparing this Financial Report:

AASB 9 Financial Instruments;

AASB 124 Related Party Disclosures;

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

AASB 2009-8 Amendments to Australian Accounting Standards - Group Cash-settled Share-based Payment Transactions;

AASB 2009-10 Amendments to Australian Accounting Standards - Classification of Rights Issues;

AASB 2009-14 Amendments to Australian Interpretation - Prepayments of a Minimum Funding Requirement;

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments.

The impact of these standards and interpretations is not considered to be significant and will be applied by The Consolidated Entity on the relevant application date.

The impact of these standards is yet to be determined but they will be applied by the Consolidated Entity on the relevant application date.

u. Other financial assets

Financial assets in the scope of AASB 139 Financial Instruments: Recognition and Measurement are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transactions costs. The Group determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end.

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the marketplace.

(i) Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category ‘financial assets at fair value through profit or loss’. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in profit or loss.

(ii) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in profit or loss when investments are derecognised or impaired, as well as through amortisation process.

(iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

(iv) Available-for-sale investments

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as any of the three preceding categories. After initial recognition available-for sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments with no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models.

v. Research and Development

Expenditure during the research phase of a project is recognised as an expense when incurred. Development costs are capitalised only when technical feasibility studies identify that the project will deliver future economic benefits and these benefits can be measured reliably. Development costs have a finite life and are amortised on a systematic basis matched to the future economic benefits over the useful life of the project.

4. FINANCIAL RISK MANAGEMENT

Overview

The Company and Consolidated Entity have exposure to the following risks from the use of financial instruments:

• Credit risk

• Liquidity risk

• Market risk

This note presents information about the Company's and the Consolidated Entity's exposure to each of above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout these consolidated financial statements. The Board of directors has overall responsibility for the establishment and oversight of the risk management and monitors operational and financial risk management throughout the Consolidated Entity. Monitoring risk management includes ensuring appropriate policies and procedures are published and adhered to. The Management reports to the Audit Committee.

The Board aims to manage the impact of short-term fluctuations on the Company's and the Consolidated Entity's earnings. Over the longer term, permanent changes in market rates will have an impact on earnings.

The Company and the Consolidated Entity are exposed to risks from movements in exchange rates, commodity prices and interest rates that affect revenues, expenses, assets, liabilities and forecast transactions. Financial risk management aims to limit these market risks through ongoing operational and finance activities.

Exposure to credit, commodity prices, foreign exchange and interest rate risks arises in the normal course of the Company's and the Consolidated Entity's business. Derivative financial instruments are not used to hedge exposure to fluctuations in foreign exchange rates, interest rates or commodity prices.

The Audit Committee oversees adequacy of the company's risk management framework in relation to the risks faced by the Company and the Consolidated Entity.

Credit Risk

Credit risk is the risk of financial loss to the Company or the Consolidated Entity if a customer, controlled entity or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's and the Consolidated Entity's receivables from customers.

Trade and other receivables

The Company's and Consolidated Entity's exposure to credit risk is influenced mainly by the geographical location and characteristics of individual customers. The Consolidated Entity does not have a significant concentration of credit risk with a single customer.

Policies and procedures of credit management and administration of receivables are established and executed at a regional level.

In monitoring customer credit risk, the ageing profile of total receivables balances is reviewed by management by geographic region on a monthly basis.

The Company and the Consolidated Entity have established an allowance for impairment that represents their estimate of incurred losses in respect of trade and other receivables.

Liquidity Risk

Liquidity risk is the risk that the Consolidated Entity will not be able to meet its financial obligations as they fall due. The Consolidated Entity's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Consolidated Entity's reputation.

The Consolidated Entity monitors cash flow requirements and produces cash flow projections for the short and long term with a view to optimising return on investments. Typically, the Consolidated Entity ensures that it has sufficient cash on demand to meet expected operational net cash flows for a period of at least 30 days, including the servicing of financial obligations. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

Market Risk

Market risk is the risk that changes in market prices such as foreign exchange rates, commodity prices interest rates and equity prices will affect the Company's and the Consolidated Entity's net loss or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency Risk

The Consolidated Entity undertakes its exploration, production and investment transactions denominated in US currency and is exposed to currency risk on the value of it’s exploration and investments assets and sales and purchases that are denominated in United States dollars (USD).

100% (2009-100%) of the Consolidated Entity's revenues from continuing operations and approximately 60% (2009-100%) of costs from continuing operations are denominated in currencies other than AUD. Risk resulting from the translation of assets and liabilities of foreign operations into the Consolidated Entity's reporting currency is not hedged.

Interest Rate Risk

The Consolidated Entity is exposed to interest rate risks in relation to the return earned on its funds on deposit and invested. The Consolidated Entity does not have short or long term debt, and therefore risk is minimal.

Capital Management

The Consolidated Entity's objectives when managing capital are to safeguard its ability to continue as a going concern, to provide returns to shareholders, to provide benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Board aims to maintain and develop a capital base appropriate to the Consolidated Entity. In order to maintain or adjust the capital structure, the Consolidated Entity can issue new shares. The Board of directors undertakes periodic reviews of the Consolidated Entity's capital management position to assess whether the capital management structure is appropriate to meet the Consolidated Entity's medium and long-term strategic requirements. Neither the Company nor any of its subsidiaries is subject to externally imposed capital requirements. There were no significant changes in the Consolidated Entity's approach to capital management during the year.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

	30 June 2010 $	30 June 2009 $
5. REVENUE		
Oil and gas sales – discontinued operation	53,590	513,776
Other revenue		
Interest received	89,034	145,668

6. LOSS FOR THE YEAR

Loss before related income tax expense includes the following net gains and expenses :

Lease operating expenses - discontinued operations	-	418,490
Net foreign currency losses/(gains)	63,386	(247,133)

7. INCOME TAXES

(a) Tax expense/(income)

The prima facie income tax expense on pre-tax accounting profit/(loss) from operations reconciles to the income tax expense in the financial statements as follows:		
Net loss for the year	(3,822,106)	(1,977,303)
Income tax expense calculated at 30% (2009: 30%)	(1,146,632)	(593,191)
Add/(less) tax effect of:		
Amortisation of exploration assets	-	1,444
Other non-allowable items	-	385,503
Capitalised exploration expenditure	-	209,325
Unrealised foreign exchange gain/(loss)	19,016	(74,140)
Other temporary differences not recognised	9,804	(83,211)
Foreign tax losses not recognised as deferred tax assets	-	-
Unused tax losses not recognised as deferred tax assets	1,117,812	154,270
Income tax expense	-	-

7. INCOME TAXES (Continued)

The following deferred tax balances at 30% (2009: 30%) have not been recognised:

	30 June 2010 $	30 June 2009 $
(b) Deferred tax assets		
Recognised deferred tax assets and liabilities		
Revenue losses	1,791,806	971,675
Capital losses	355,961	-
Foreign losses	-	6,115,680
Capital raising costs	90,304	90,304
Unrealised exchange gain/(loss)	19,016	(74,140)
Provisions and accruals	9,804	(5,513)
Net deferred tax assets/(liabilities)	2,266,891	7,098,006

8. CASH AND CASH EQUIVALENTS

Cash at bank – A$ Accounts	892,640	2,966,850
Cash at bank – USD Accounts	54,862	536,329
	947,502	3,503,179

Cash at bank earns interest at floating rates based on daily bank deposit rate.

9. TRADE & OTHER RECEIVABLES

Current		
Oil sales receivable (a)	-	11,093
Other debtors (b)	14,459	15,764
	14,459	26,857

Terms and conditions relating to the above financial instruments:
(a) Oil sales receivable is non-interest bearing and generally on 60 day terms;
(b) Other debtors are non-interest bearing and generally on 30 day terms

10. PROPERTY, PLANT AND EQUIPMENT

Plant and equipment – at cost	-	40,482
Accumulated depreciation	-	(18,248)
	-	22,234
Movements in the carrying amounts of plant and equipment during the current financial year:		
Balance at the beginning of the year	22,234	25,269
Disposals	(20,734)	-
Depreciation expense	(1,500)	(6,987)
Foreign exchange adjustment	-	3,952
Carrying amount at the end of the year	-	22,234

11. OTHER FINANCIAL ASSETS

a. Held to maturity financial assets:		
Convertible note in unlisted company	1,101,800	-
b. Available for sale financial assets:		
Investment in Limited Liability Company	779,078	-
	1,880,878	-

12. DEFERRED EXPLORATION, EVALUATION AND DEVELOPMENT EXPENDITURE	**30 June 2010 $**	**30 June 2009 $**
Exploration and evaluation costs carried forward in respect of oil and gas exploration areas of interest	**-**	**4,812,024**
Movement in carrying amounts		
Opening balance	4,812,024	5,699,570
Expenditure incurred and acquired during the year	-	102,814
Foreign exchange translation adjustment	-	308,428
Amortisation of areas under production	-	(1,298,788)
Disposal of subsidiary	(4,812,024)	-
Closing balance	-	4,812,024

13. TRADE & OTHER PAYABLES

Current		
Accruals	179,323	200,618
	179,323	200,618

14. SHARE CAPITAL

Issued and paid up capital		
130,654,903 (2009: 130,654,903) Ordinary shares fully paid	42,934,768	42,934,768

(a) Movements in paid up capital

At the beginning of the reporting period	42,934,768	42,934,768
- Movement	-	-
At end of reporting period	42,934,768	42,934,768

(b) Movements in shares on issue

At the beginning of the reporting period	130,654,903	130,654,903
Shares issued during the period:		
- Movement	-	-
At end of reporting period	130,654,903	130,654,903

(c) Options

At the end of the reporting period, there were no options on issue, as on 30th September 2009 options over 29,997,500 unissued shares lapsed.

Terms and conditions of contributed equity

Ordinary shares
Holders of ordinary shares have the right to receive dividends as declared and, in the event of the winding up of the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held.

Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

Options over ordinary shares
There was no issue and exercise of options during the years ended 30 June 2010 and 30 June 2009.

15. RESERVES

	30 June 2010 $	30 June 2009 $
OPTION RESERVE		
Balance at beginning of the year	2,489,100	2,489,100
Balance at end of the year	2,489,100	2,489,100

Nature and purpose of reserve

The share based payment reserve is used to recognise the fair value of options issued.

FOREIGN CURRENCY TRANSLATION RESERVE		
Balance at beginning of the year	1,678,053	1,524,466
Currency translation differences arising during the year	-	153,587
Disposal of subsidiary	(1,678,053)	
Balance at end of the year	-	1,678,053

Nature and purpose of reserve

The foreign currency translation reserve is used to record exchange differences arising from the translations of the financial statements of foreign subsidiaries.

16. REMUNERATION OF AUDITORS

Remuneration of the Company's auditors for:		
Auditing or reviewing the financial report	24,000	30,000
Other services	2,000	2,000
Remuneration of the Company's other auditors for auditing or reviewing the financial reports of subsidiaries	16,995	27,686
Total auditors' remuneration included in operating result	42,995	59,686

17. SEGMENT INFORMATION

Segment Information

The Consolidated Entity has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

The Consolidated Entity is managed primarily on the basis geographical segments and the operating segments are therefore determined on the same basis.

The Consolidated Entity owns the worldwide rights to all intellectual property covering solar energy applications developed by Mears Technologies Inc., has an investment in Mears Technologies Inc. and has oil and gas interests in the USA, via its shareholding in Trey Resources I LLC. On 17th June 2010, the Company announced it would acquire approximately 30% of Trey Resources I LLC., a US based liabilities company in exchange for its oil and gas assets and 100% of the shares in K2 Energy USA Inc. which were transferred to Trey Resources Inc. as part of this transaction.

Basis of accounting for purposes of reporting by operating segments

Accounting policies adopted

Unless stated otherwise, all amounts reported to the Board of Directors as the chief decision maker with respect to operating segments are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Consolidated Entity.

Unallocated items

The following items of revenue and expenses are not allocated to operating segments as they are not considered part of the core operations of any segment:

- foreign exchange gains and losses; interest income; and income tax expense.

Comparative information

This is the first reporting period in which AASB 8: Operating Segments has been adopted. Comparative information has been stated to conform to the requirements of the Standard.

17. SEGMENT INFORMATION (continued)

Geographical location:	Australia	USA	Total
2010	$	$	$
External sales revenue	-	-	-
Revenue from discontinued operations	**-**	**53,590**	**53,590**
Segment loss before tax	(518,655)	-	(518,655)
Loss from discontinued operations	-	(2,895,022)	(2,895,022)
Unallocated expense items			(434,076)
Unrealised foreign exchange loss			(63,386)
Other revenue			89,034
Loss before tax			**(3,822,105)**
Income tax expense			-
Loss after tax			**(3,822,105)**

Geographical location:	Australia	USA	Total
2009	$	$	$
External sales revenue	-	-	-
Revenue from discontinued operations	**-**	**513,776**	**513,776**
Segment loss before tax	-	-	-
Loss from discontinuing operations		**(1,868,010)**	**(1,868,010)**
Unallocated expense items			(501,554)
Unrealised foreign exchange gain			247,133
Interest received			145,128
Loss before tax			**(1,977,303)**
Income tax expense			-
Loss after tax			**(1,977,303)**

18. RECONCILIATION OF OPERATING (LOSS) AFTER INCOME TAX TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	30 June 2010 $	30 June 2009 $
Net loss	(3,822,107)	(1,977,303)
Non cash items		
Unrealised foreign currency (gains)/losses	63,386	(247,133)
Loss on disposal and expiration of leases and discontinued operations	2,490,794	261,264
Amortisation	1,500	1,298,788
Changes in assets and liabilities		
(Increases)/decrease in receivables	12,398	(9,143)
(Increases)/decrease in payables and accruals	(21,295)	(277,372)
Net cashflows (used in)/ from operating activities	**(1,275,324)**	**(950,899)**

19. RECONCILIATIONS OF CASH

Cash balances comprises		
- Cash at bank	892,640	2,966,850
- US Dollar accounts	54,862	536,329
	947,502	**3,503,179**

20. LOSS PER SHARE

	30 June 2010	30 June 2009
Net loss used in calculating basic and diluted earnings per share	($3,822,107)	($1,977,303)
Basic and diluted (loss) per share (cents per share)	(2.93)	(1.51)
Weighted average number of shares used in the calculation of basic and diluted loss per share	130,654,903	130,654,903
Shares on issue at year end	130,654,903	130,654,903
Number of options on issue at year end – each option is exercisable at 20 cents per share and convert to one ordinary share	-	29,997,500

(i) Share options are not considered dilutive, as their impact would be to decrease the net loss per share. Accordingly, diluted loss per share has not been disclosed.

21. INTEREST IN SUBSIDIARIES AND ASSOCIATES

Interests are held in the following associated company

Name	Country of Incorporation	Ownership Interest 2010 %	Ownership Interest 2009 %
K2 Energy Investments Pty Limited	Australia	100	100
K2 Energy USA Inc.	United States of America	-	100

No subsidiary companies were acquired during the year. On 17th June 2010, the Company announced it would acquire approximately 30% of Trey Resources 1 LLC., a US based company in exchange for its oil and gas assets and 100% of the shares in K2 Energy USA Inc. which were transferred to Trey Resources Inc. as part of this transaction.

The 30% interest in Trey Resources does not have voting rights attached and is therefore not associated.

Financial information relating to the deconsolidation of K2 Energy USA Inc. to the date of disposal is set out below.

The financial performance of the discontinued operation to the date of sale which is included in loss from discontinued operations per the statement of comprehensive income is as follows:

	30 June 2010 $	30 June 2009 $
Revenue	53,590	513,776
Expenses	(2,948,612)	(2,381,786)
Loss before income tax	(2,895,022)	(1,868,010)
Income tax expense	-	-
Loss attributable to members of the parent entity	(2,895,022)	(1,868,010)

The net cash flows of the discontinuing division which have been incorporated into the statement of cash flows are as follows:

Net cash inflow/(outflow) from operating activities	(520,830)	(583,123)
Net cash inflow/(outflow) from investing activities	-	(515,882)
Net cash inflow/(outflow) from financing activities	-	-
Net increase/(decrease) in cash generated by the discontinuing division	(520,830)	(1,099,005)

22. SHARE BASED PAYMENTS

(a) Share and Option holdings

Details of options and shares held by key management personnel (including those holding entities associated with Directors) are set out below.

Shares held by Key Management Personnel

Year ended 30 June 2010

	Balance at beginning of year	Shares Issued	Bought & (Sold)	Balance at date of retirement/ appointment	Balance at end of year
Directors					
Mike Reed	1,800,000	-	-	-	1,800,000
Samuel Gazal	1,950,000	-	1,050,000	-	3,000,000
Peter Moore	9,100,000	-	(2,000,000)	-	7,100,000
Ken Gaunt	2,550,000	-	3,914,037	-	6,464,037
Total	15,400,000	-	2,964,037	-	18,364,037

Year ended 30 June 2009

	Balance at beginning of year	Shares Issued	Bought & (Sold)	Balance at date of retirement/ appointment	Balance at end of year
Directors					
Mike Reed	1,800,000	-	-	-	1,800,000
John Thompson (resigned 31.10.08)	750,000	-	-	(750,000)	-
Bob Rosenthal (resigned 15.12.08)	-	-	-	-	-
Samuel Gazal	1,950,000	-	-	-	1,950,000
Peter Moore	11,100,000	-	(2,000,000)	-	9,100,000
Ken Gaunt	2,550,000	-	-	-	2,550,000
Total	18,150,000	-	(2,000,000)	(750,000)	15,400,000

22. SHARE BASED PAYMENTS (continued)

Options held by Key Management Personnel

Year ended 30 June 2010

	Balance at 01.07.09	Lapse of Options	Bought & (Sold)	Balance at date of retirement/ appointment	Balance at 30.06.10	Total Vested	Total Exercisable
Directors							
Mike Reed	1,500,000	(1,500,000)	-	-	-	-	-
Samuel Gazal	1,125,000	(1,125,000)	-	-	-	-	-
Peter Moore	9,250,000	(9,250,000)	-	-	-	-	-
Ken Gaunt	1,187,500	(1,187,500)	-	-	-	-	-
Total	13,062,500	(13,062,500)	-	-	-	-	-

Year ended 30 June 2009

	Balance at 01.07.08	Lapse of Options	Bought & (Sold)	Balance at date of retirement/ appointment	Balance at 30.06.09	Total Vested	Total Exercisable
Directors							
John Thompson (resigned 31.10.08)	312,500	-	-	(312,500)	-	-	-
Mike Reed	1,500,000	-	-	-	1,500,000	1,500,000	1,500,000
Bob Rosenthal (resigned 15.12.08)	500,000	-	-	(500,000)	-	-	-
Samuel Gazal	1,125,000	-	-	-	1,125,000	1,125,000	1,125,000
Peter Moore	9,250,000	-	-	-	9,250,000	9,250,000	9,250,000
Ken Gaunt	1,187,500	-	-	-	1,187,500	1,187,500	1,187,500
Total	13,875,000	-	-	(812,500)	13,062,500	13,062,500	13,062,500

The following table illustrates the number and weighted average exercise prices (WAEP) of and movements in share options issued as share based payments during the year:

22. SHARE BASED PAYMENTS (continued)

2010	Number of Options	Weighted Average Exercise Price $
Outstanding at beginning of the year	2,000,000	0.34
Lapsed during the year	(2,000,000)	(0.34)
Outstanding at the end of the year	-	-
Exercisable at the end of the year	-	-

2009	Number of Options	Weighted Average Exercise Price $
Outstanding at beginning of the year	4,500,000	0.35
Lapsed during the year	(2,500,000)	0.40
Outstanding at the end of the year	2,000,000	0.34
Exercisable at the end of the year	2,000,000	0.34

(i) There is no employee benefits expense in the income statement (2009: nil), which relates, to equity-settled share-based payment transactions.
(ii) There is no administrative and corporate expenses in the income statement (2009: $nil), which relates to equity-settled share-based payment transactions.
(iii) No options were issued to employees in 2010.

The weighted average remaining contractual life for the share options outstanding as at 30 June 2010 N/A (2009- 3 months).

The fair value of the cash-settled options is measured at the grant date using the Black-Scholes options pricing model taking into account the terms and conditions upon which the instruments were granted. The services received and a liability to pay for those services are recognised over the expected vesting period. Until the liability is settled it is remeasured at each reporting date with changes in fair value recognised in profit or loss.

(b) Employee Benefits

At 30 June 2010, K2 Energy Limited had one employee (2009: 1).

Employee Incentive Option Plan
The Company has an Employee Incentive Scheme approved at the general meeting held on 29 December 2004. No options are on issue pursuant to this plan.

23. EVENTS SUBSEQUENT TO BALANCE DATE

The directors are not aware of any matter or circumstance that has arisen since the end of the period to the date of this report that has significantly affected or may affect:
(i) The operations of the company and the entities that it controls
(ii) The results of those operations
(iii) The state of affairs of the company in subsequent years, other than as discussed below.

On the 23rd July 2010 the Company announced a non-renounceable entitlement issue of 3 new ordinary shares for every five ordinary shares held at an issue price of 5cents per share. The issue closed on 25th August 2010 with acceptances received for 39,230,396 shares, representing a total of $1.962 million raised. In September the Directors placed the shortfall of 39,162,768 shares.

24. CONTINGENT LIABILITIES AND COMMITMENTS

The Consolidated Entity is not aware of any contingent liabilities, which existed as at the end of the financial year or have arisen as at the date of this report.

The company has agreed to fund solar research and development expenditure to be conducted by Mears Technologies Inc. at a rate of $US 1 million per calendar year until 2014.

	30 June 2010 $	30 June 2009 $
R&D COMMITMENTS		
Commitments not capitalised in the financial statements		
Payable		
— not later than 1 year	1,141,290	-
— later than 1 year but not later than 5 years	4,565,160	-
— later than 5 years	-	-
	5,706,450	-

25. RELATED PARTY DISCLOSURES

Ultimate Parent
K2 Energy Limited is the ultimate Australian parent company.

Other Related Party Transactions

(i) Amount of $133,333 (2009-$133,333) was paid to Winchester Associates Pty Limited (a company associated with Mr Gazal) for company secretarial services, full accounting and reporting functions and financial advisory services provided to K2 Energy Limited.

(ii) Amounts of $61,482 (2009-$59,330) for advisory services and nil (2009 - $9,493) for rent were paid to Aspen Energy Inc. (a company associated with Mr Reed) for services and rent provided to K2 Energy USA Inc.

(iii) Amount of $37,772 (2009-$184,582) was paid to Geoflite Inc. (a company associated with Mr Moore) for technical and advisory services provided to K2 Energy USA Inc.

All the above payments were made on normal commercial terms and conditions.

26. KEY MANAGEMENT PERSONNEL COMPENSATION

(a) Details of Key Management Personnel

(i) Directors as at 30 June 2010 were:
Samuel Gazal– Non-Executive Chairman
Ken Gaunt- Non-Executive Director
Mike Reed - Non-Executive Director
Peter Moore – Managing Director (resigned 2 July 2010)

(b) Compensation Practices and Key Management Personnel Compensation

Details of compensation practices and key management personnel compensation are disclosed in the Directors' Report, which accompanies these financial statements.

(c) Other Transactions and Balances with Key Management Personnel
Disclosures relating to other transactions and balances with key management personnel during the financial year are set out in note notes 22 and 25 and the Remuneration Report. There were no loans to key management personnel during the financial year.

27. FINANCIAL INSTRUMENTS

Credit Risk

Exposure to Credit Risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	30 June 2010	30 June 2009
	$	$
Cash and equivalents	947,502	3,503,179
Trade receivables	-	11,093
Other Receivables	14,459	15,764
Other financial assets (note 11a)	1,101,800	-
	2,063,761	3,530,036
The maximum exposure to credit risk for trade receivables and other financial assets at the reporting date by geographic region was:		
United States	1,101,800	11,093
Australia	-	-
	1,101,800	11,093

Impairment Losses

The aging of trade receivables and other financial assets at the reporting date was:

Gross receivables		
Not past due date	1,101,800	11,093
Past due 30- 90	-	-
Past due 90 days and over	-	-
	1,101,800	11,093
Impairment	-	-
Trade receivables and other financial assets net of impairment loss	1,101,800	11,093

There was no movement in the allowance for impairment in respect of trade receivables and other financial assets during the year.

No impairment losses have been recognised in the year.

Based upon past experience, the Consolidated Entity believes that no impairment allowance, other than as provided in these accounts is necessary in respect of trade and other receivables not past due.

The allowance accounts used in respect of trade and other receivables are used to record impairment losses unless the Consolidated Entity is satisfied that non -recovery of the amount owing is possible; at that point, the amount considered non-recoverable is written off against the financial asset directly.

27. FINANCIAL INSTRUMENTS (Continued)

Currency Risk

Consolidated Entity's exposure to foreign currency (USD) risk was as follows, based upon notional amounts:

Amounts local currency

	30 June 2010	30 June 2009
	$	$
Cash and equivalents	54,862	536,329
Investments (note 11)	1,880,878	-
Plant property and equipment	-	20,734
Deferred exploration expenditure	-	4,812,024
Trade receivables and other receivables	-	24,812
Trade Payables (note 13)	-	(176,245)
	1,935,740	5,217,654

The following significant exchange rates applied to the Company and the Consolidated Entity during the year:

	Average Rate		Reporting date spot rate	
AUD = 1	2010	2009	2010	2009
USD	0.8762	0.7585	0.8407	0.8064

Interest Rate Risk

Profile

At the reporting date, the interest rate profile of the Company's and the Consolidated Entity's interest bearing financial instruments was:

Carrying amount	30 June 2010	30 June 2009
	$	$
Variable rate instruments		
Financial assets	1,101,800	1,555,461
Financial liabilities	-	-

27. FINANCIAL INSTRUMENTS (Continued)

Liquidity Risk

The following are the contractual maturities of the Consolidated Entity's financial assets and liabilities including estimated interest payments.

2010	Effective interest rate p.a.	Carrying amount $	Less than 1 year	1-5 years	More than 5 years
Cash and cash equivalents	3.48%	947,502	947,502	-	-
Other receivables	-	14,459	14,459	-	-
Other financial assets	-	1,101,800	-	1,101,800	-
Payables	-	179,323	179,323	-	-
Total	-	2,243,084	1,141,284	1,101,800	-

2009	Effective interest rate p.a.	Carrying amount $	Less than 1 year	1-5 years	More than 5 years
Cash and cash equivalents	3.17%	3,503,179	3,503,179	-	-
Receivables		26,857	26,857	-	-
Payables		(200,618)	(200,618)	-	-
Total		3,329,418	3,329,418	-	-

Sensitivity Analysis

In managing interest rate and currency risks, the Consolidated Entity aims to reduce the impact of short-term fluctuations on the Consolidated Entity's earnings. Over the longer term however, permanent changes in foreign exchange and interest rates will have an impact on the result.

For the year ended 30 June 2010, it is estimated that a general increase of one percent in interest rates would have decreased the Consolidated Entity's loss after income tax and equity by approximately $15,000 (2009: $46,000). A one percent decrease in interest rates would have had the equal but opposite effect on the Consolidated Entity's loss and equity.

It is estimated that a general increase of ten percent in the value of the AUD against the USD would have decreased the Consolidated Entity's loss for the year ended 30 June 2010, and increase the Consolidated Entity's equity by approximately $60,000 (2009: increase $0.1 million). A ten percent decrease in the value of the AUD against the USD would have the equal but opposite effect on the Consolidated Entity's loss and equity.

Fair Values

The fair values of financial assets and liabilities, together with carrying amounts shown in the balance sheet are as follows:

	30 June 2010 $		**30 June 2009 $**	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and equivalents	947,502	947,502	3,503,179	3,503,179
Investments	1,880,878	1,880,878	-	-
Trade and other receivables – current	14,459	14,459	26,857	26,857
Trade and other payables	(179,323)	(179,323)	(200,618)	(200,618)
Total	2,663,516	2,663,516	3,329,418	3,329,418

27. FINANCIAL INSTRUMENTS (Continued)

Basis for determining fair values

The following summarises the significant methods and assumptions used in estimating the fair values of financial instruments reflected in the table above.

Non-derivative financial assets and liabilities

The fair value of cash, receivables, payables and short-term borrowings is considered to approximate their carrying amount because of their short maturity. Other assets are based on the assets carrying values as per the subsidiary company's accounts, which approximates fair value.

28. PARENT ENTITY DISCLOSURES

At and throughout the financial year ended 30 June 2010, the parent company of K2 Energy Limited was K2 Energy Limited.

Result of the parent entity	**30 June 2010**	**30 June 2009**
	$	**$**
Net profit/(loss)	(5,972,640)	(1,980,317)
Other comprehensive income/(loss)	-	-
Total comprehensive income	**(5,972,640)**	**(1,980,317)**
Financial position of the parent entity at year end		
Current assets	650,260	1,720,596
Total assets	2,063,756	8,814,288
Current liabilities	29,321	807,213
Total liabilities	29,321	807,213
Total equity of the parent entity comprising of:		
Issued capital	42,934,768	42,934,768
Share option reserve	2,489,100	2,489,100
Accumulated losses	(43,389,433)	(37,416,793)
Total Equity	**2,034,435**	**8,007,075**

Parent entity contingencies

The details of all contingent liabilities and future commitments in respect to K2 Energy Limited are disclosed in Note 24.

K2 ENERGY LIMITED A.C.N 106 609 143
DIRECTORS' DECLARATION

The directors of the Company declare that:

1. the financial statements and notes, as set out on pages 12 to 38, are in accordance with the Corporations Act 2001:

   (a) comply with Accounting Standards and the Corporations Regulations 2001; and

   (b) give a true and fair view of the financial position as at 30 June 2010 and of the performance for the year ended on that date of the Company and Consolidated Entity; and

2. the Chairman and Company Secretary have each declared that:

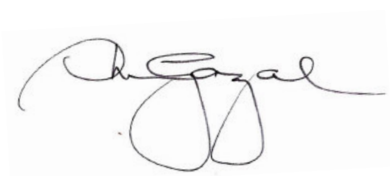
   (a) the financial records of the Company for the financial year have been properly maintained in accordance with section 286 of the *Corporations Act 2001*;

   (b) the financial statements and notes for the financial year comply with the Accounting Standards; and

   (c) the financial statements and notes for the financial year give a true and fair view.

3. 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.

This declaration is made in accordance with a resolution of the Board of Directors.



Mr Sam Gazal
Chairman

30 September 2010

STIRLING INTERNATIONAL

CHARTERED ACCOUNTANTS

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF K2 ENERGY LIMITED

Report on the Financial Report

We have audited the accompanying financial report of K2 Energy Limited (the company) and the consolidated entity, which comprises the balance sheet as at 30 June 2010, and the income statement, 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 and 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 control 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 2, 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 (IFRS) ensures that the financial report, comprising the financial statements and notes, complies with IFRS.

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 judgment, 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 opinion.

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*, provided to the directors of K2 Energy Limited, would be in the same terms if provided to the directors as at the date of this auditor's report.

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF K2 ENERGY LIMITED

Auditor's Opinion

In our opinion:

a. the financial report of K2 Energy Limited is in accordance with the *Corporations Act 2001*, including:

   i. giving a true and fair view of the company's and 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;

b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 2.

Inherent Uncertainty Regarding Recoverability of Assets

Without qualification to the opinion expressed above, attention is drawn to the following matter:
Included in non current assets in Note 11 to the consolidated balance sheet is a convertible note in unlisted company, being Mears Technologies Inc, at book value of $1,101,800. The ultimate recovery of the value of this asset is dependent upon the success of the commercialisation of the Mears Silicon Technology.

Report on the Remuneration Report

We have audited the Remuneration Report included in the report of the directors 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 s 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 the Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of K2 Energy Limited for the year ended 30 June 2010, complies with s 300A of the Corporations Act 2001.

Stirling International

Chartered Accountants

Peter Turner

St James Centre 111 Elizabeth St Sydney 2000

30 September 2010

AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001 TO THE DIRECTORS OF K2 ENERGY LIMITED

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2010 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

ii. no contraventions of any applicable code of professional conduct in relation to the audit.

Stirling International

Chartered Accountants

Peter Turner

30 September 2010

St James Centre 111 Elizabeth St Sydney 2000

ADDITIONAL SHAREHOLDER INFORMATION

Shareholding

The distribution of members and their holdings of equity securities in the company as at 20 September 2010 was as follows:

Number Held	Fully Paid Ordinary Shares	Holders
1-1,000	94,653	245
1,001 - 5,000	720,001	219
5,001 – 10,000	3,083,923	404
10,001 - 100,000	25,439,926	671
100,001 and over	101,316,400	184
TOTALS	**130,654,903**	**1,723**

Holders of less than a marketable parcel – fully paid shares: 663.

Substantial Shareholders

The names of the substantial shareholders listed in the Company's register as at 20 September 2010

Shareholder	Number
Golden Words Pty Limited	23,042,726
Asia Union Investments Pty Ltd	14,000,000

Voting Rights

Ordinary Shares

In accordance with the Company's Constitution, on a show of hands every member present in person or by proxy or attorney or duly authorised representative has one vote. On a poll every member present in person or by proxy or attorney or duly authorised representative has one vote for every fully paid ordinary share held.

ADDITIONAL SHAREHOLDER INFORMATION (CONT.)

Twenty Largest Shareholders

The names of the twenty largest shareholders as at 20 September 2010 are as follows:

Name	Number of Ordinary Shares Held	% Held of Class of Equities
ASIA UNION INVESTMENTS PTY LTD	14,000,000	6.697
GOLDEN WORDS PTY LIMITED	12,401,703	5.932
MR TREVOR KENNEDY & MRS CHRISTINA KENNEDY & MR DANIEL KENNEDY <GOLDEN EGGS SUPER FUND A/C>	10,641,023	5.090
EDWARDS MEADOWS PTY LIMITED <MOORE INVESTMENT A/C>	9,100,000	4.353
BALANDER PTY LIMITED <SUPER FUND A/C>	7,600,000	3.636
BLAZZED PTY LIMITED <THE GAUNT MANAGEMENT A/C>	6,240,000	2.985
IRREWANNA INVESTMENTS PTY LTD <EPT2 A/C>	6,000,000	2.870
MR ROBERT KENNETH GAUNT	4,259,260	2.037
MONTCLAIR PTY LIMITED <WASSIM GAZAL FAMILY A/C>	3,200,000	1.531
MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	3,100,000	1.483
UNITED AND PACIFIC SHIRT CO PTY LTD <ELIZABETH NO 2 A/C>	3,000,000	1.435
TIMBINA PTY LTD <SUPER FUND A/C>	2,959,120	1.416
ANZ NOMINEES LIMITED <CASH INCOME A/C>	2,435,550	1.165
BRYLET PTY LIMITED	2,400,000	1.148
TARA SHORE PTY LTD <JOHN TAYLOR FAMILY A/C>	2,189,138	1.047
BESABA PTY LTD	2,000,000	0.957
ASPEN ENERGY PTY LIMITED	2,000,000	0.957
LINK TRADERS (AUST) PTY LTD	2,000,000	0.957
MR GEOFFREY COUSINS	2,000,000	0.957
MR KEITH WILLIAMS SHEPPARD <SHEPPARD FAMILY A/C>	1,920,000	0.918
	99,455,794	47.57

CORPORATE DIRECTORY

DIRECTORS
Samuel Gazal
Peter Moore
Ken Gaunt
Mike Reed

COMPANY SECRETARY
Terence Flitcroft

REGISTERED OFFICE
Level 2 Kyle House
27 Macquarie Place
Sydney NSW 2000
Telephone: (02) 9251 2254
Facsimile: (02) 9251 6550

AUDITORS
Stirling International

SHARE REGISTRY
Registries Limited
Sydney NSW 2000
Telephone: (02) 9290 9600
Facsimile: (02) 9279 0664

STOCK EXCHANGE LISTING
Australian Securities Exchange
(Home Exchange: Sydney)
ASX Code:
Ordinary shares: KTE

BANKERS
Westpac Banking Corporation

WEBSITE
www.k2energy.com.au