

**K2 ENERGY LIMITED**

ABN 99 106 609 143

AND CONTROLLED ENTITIES

**Appendix 4D and Half-Year Financial Report****31 December 2010**

This half-year report is for the six months ended 31 December 2010. The previous corresponding period is the half-year ended 31 December 2009.

The information in this report should be read in conjunction with the most recent annual financial report.

**Results for announcement to the market**

	\$	\$
Revenues from ordinary activities	Down 3,400 6.9%	to 45,991
Loss from ordinary activities after tax attributable to members – continued operations	Increased 822,098 363%	to 1,048,648
Loss for the period attributable to members*	Decreased 55,373 5%	to 1,048,648
<b>Dividends</b>	<b>Amount per security</b>	<b>Franked amount per security</b>
Final dividend	- ¢	- ¢
Interim dividend	- ¢	- ¢
Record date for determining entitlements to the dividend	Not applicable	
Brief explanation of any of the figures reported above:	Refer to comments in the attached Directors' Report.	
<b>NTA Backing</b>	31 December 2010	30 June 2010
Net tangible asset backing per share	2.6¢	5.5¢

# **K2 Energy Limited**

(ABN 99 106 609 143)

## **Half Year Report**

31 December 2010

**Company Directory**

**Directors**

Sam Gazal  
Robert Mears  
Ken Gaunt

**Company Secretary**

Terry Flitcroft

**Principal and Registered Office**

Level 2 Kyle House  
27 Macquarie Place  
Sydney NSW 2000  
Telephone: (02) 9251 3311  
Facsimile: (02) 9521 6550

**Auditors**

Stirling International

**Share Registrar**

Registries Limited  
Level 7, 207 Kent Street  
Sydney NSW 2000  
Telephone: (02) 9290 9600  
Facsimile: (02) 9279 0664

**Stock Exchange Listing**

Ordinary Shares: KTE

**Bankers**

Westpac Banking Corporation

**Website**

[www.K2energy.com.au](http://www.K2energy.com.au)

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## DIRECTORS' REPORT

Your directors submit the financial report of the consolidated entity for the half-year ended 31 December 2010. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

### Directors

The names of directors who held office during or since the end of the half year and until the date of this report are as below. Directors were in office for this entire period unless otherwise stated.

Sam Gazal	Chairman
Robert Mears	Non executive Director – appointed 3 July 2010
Ken Gaunt	Non executive Director
Mike Reed	Non executive Director – resigned 23 November 2010
Peter Moore	Managing Director – resigned 2 July 2010

### Review of Operations

K2's solar research and development progressed significantly during the half year. In early 2010, K2 Energy Limited, acquired the exclusive rights to the MST™ IP for all solar applications from Mears Technologies. K2 has provided the funding necessary for the R&D required to test and develop Mears' MST™ technology for use by large-scale solar panel manufacturers.

Solar cells are being fabricated for testing at a US based facility and Tei Solutions in Japan. This process is now nearing completion

Both sets of solar cells will be tested during the March 2011 quarter

The MST™ technology involves the production of an altered or “nano-doped” layer of silicon that can be used in the manufacturing of silicon solar PV cells; a process already proven in traditional semiconductor manufacturing. This layer is introduced to increase the efficiency parameter for Photovoltaic (PV) technology and solar power generation in silicon PV cells. By improving the efficiency parameter, the use of MST™ technology in the PV cell development process reduces the amount of silicon required, potentially making PV cells significantly more efficient and much less expensive and could greatly benefit solar manufacturers.

### Mears Technologies Inc.

K2 Energy increased its convertible note investment in Mears Technologies Inc. during the half year to December 2010 from USD\$1 million to USD\$1.45 million.

Mears Technologies is in the process of commercialisation evaluations of its technology with major silicon chip companies and the evaluation processes have gone well.

### Oil and Gas

KTE retains its shareholding in Trey Resources I LLC, a US based limited liability company. During the half year there was no expenditure incurred in relation to this investment.

**Auditor's Independence Declaration**

The auditor's independence declaration for the half year ended 31<sup>st</sup> December 2010 is set out on page 14 of these half yearly accounts.

Signed in accordance with a resolution of the Board of Directors.

A handwritten signature in black ink, appearing to read 'Sam Gazal', is centered on the page. The signature is fluid and cursive, with the first name 'Sam' and the last name 'Gazal' clearly distinguishable.

Sam Gazal

Chairman

Dated this 28<sup>th</sup> February 2011

**CONSOLIDATED INCOME STATEMENT  
FOR THE HALF YEAR ENDED 31 DECEMBER 2010**

		Consolidated	
	Notes	2010 \$	2009 \$
Other revenue	2	120,991	49,391
Administration, land management and corporate expenses		(284,469)	(132,589)
Directors' fees, salaries and employee benefits		(53,482)	(89,599)
Foreign exchange losses		(158,097)	(53,753)
Research and development expenses		(607,591)	-
Options expense		(66,000)	-
<b>Loss before income tax expense</b>		<b>(1,048,648)</b>	<b>(226,550)</b>
Income tax expense		-	-
<b>Loss for the period attributable to continuing operations</b>		<b>(1,048,648)</b>	<b>(226,550)</b>
Loss from discontinued operations after tax		-	(877,471)
<b>Loss for the period</b>		<b>(1,048,648)</b>	<b>(1,104,021)</b>
Basic earnings per share (cents per share)		<b>(0.59)</b>	<b>(0.8)</b>
Diluted earnings per share (cents per share)		<b>(0.59)</b>	<b>(0.8)</b>

The accompanying notes form part of these financial statements

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2010**

	Consolidated	
	<b>31.12.10</b>	<b>31.12.09</b>
	\$	\$
Loss for the period	(1,048,648)	(1,104,021)
Other comprehensive income:		
Foreign exchange translation difference for foreign operations	-	130,427
Other comprehensive income for the period	-	<b>130,427</b>
<b>Total comprehensive income attributable to members of the parent entity</b>	<b>(1,048,648)</b>	<b>(973,594)</b>



**CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2010**

	Notes	Consolidated	
		31 December 2010	30 June 2010
<b>Assets</b>		\$	\$
<b>Current Assets</b>			
Cash and cash equivalents		3,004,563	947,502
Trade and other receivables		111,879	14,459
<b>Total Current Assets</b>		<b>3,116,442</b>	<b>961,961</b>
<b>Non-Current Assets</b>			
Other financial assets	5	2,344,032	1,880,878
<b>Total Non-Current Assets</b>		<b>2,344,032</b>	<b>1,880,878</b>
<b>Total Assets</b>		<b>5,460,474</b>	<b>2,845,839</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Trade and other payables		27,815	179,323
<b>Total Current Liabilities</b>		<b>27,815</b>	<b>179,323</b>
<b>Total Liabilities</b>		<b>27,815</b>	<b>179,323</b>
<b>Net Assets</b>		<b>5,432,659</b>	<b>2,663,516</b>
<b>Equity</b>			
Issued Capital	3	46,686,559	42,934,768
Reserves	4	2,555,100	2,489,100
Accumulated losses		(43,809,000)	(42,760,352)
<b>Total Equity</b>		<b>5,432,659</b>	<b>2,663,516</b>

The accompanying notes form part of these financial statements

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE HALF YEAR ENDED 31 DECEMBER 2010**

	Consolidated				
	Foreign Currency Reserves	Options Reserve	Issued Capital	Accumulated Losses	Total
	\$	\$	\$	\$	\$
<b>Balance at 1 July 2009</b>	<b>1,678,053</b>	<b>2,489,100</b>	<b>42,934,768</b>	<b>(38,938,245)</b>	<b>8,163,676</b>
Loss attributable to members	-	-	-	(1,104,021)	(1,104,021)
Total other comprehensive income	130,427	-	-	-	130,427
<b>Balance at 31 December 2009</b>	<b>1,808,480</b>	<b>2,489,100</b>	<b>42,934,768</b>	<b>(40,042,266)</b>	<b>7,190,082</b>
<b>Balance at 1 July 2010</b>	-	<b>2,489,100</b>	<b>42,934,768</b>	<b>(42,760,352)</b>	<b>2,663,516</b>
Loss attributable to members	-	-	-	(1,048,648)	(1,048,648)
Shares issued during the period (net proceeds)	-	-	3,751,791	-	3,751,791
Share option expense	-	66,000	-	-	66,000
Total other comprehensive income	-	-	-	-	-
<b>Balance at 31 December 2010</b>	<b>-</b>	<b>2,555,100</b>	<b>46,686,559</b>	<b>(43,809,000)</b>	<b>5,432,659</b>

The accompanying notes form part of these financial statements

**CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE HALF YEAR ENDED 31 DECEMBER 2010**

	2010 \$	2009 \$
<b>Cash flows from operating activities</b>		
Receipts from customers	-	11,943
Payments to suppliers and employees	(1,095,616)	(347,942)
Interest received	22,136	49,391
Net cash used in operating activities	<u>(1,073,480)</u>	<u>(286,608)</u>
<b>Cash flows from investing/financing activities</b>		
Proceeds issue of shares (net)	3,751,791	-
Purchase of financial asset	(463,154)	-
Net cash provided by investing/financing activities	<u>3,288,637</u>	<u>-</u>
Net increase/(decrease) in cash and cash equivalents held	2,215,157	(286,608)
Cash and cash equivalents at beginning of period	947,502	3,503,179
Effect of exchange rate changes	(158,096)	(53,753)
<b>Cash and cash equivalents at end of reporting period</b>	<u><u>3,004,563</u></u>	<u><u>3,162,818</u></u>

The accompanying notes form part of these financial statements

## NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2010

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

These general purpose financial statements for the interim half-year reporting period ended 31 December 2010 have been prepared in accordance with requirements of the *Corporations Act 2001* and Australian Accounting Standards including AASB 134: Interim Financial Reporting. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards.

This interim financial report is intended to provide users with an update on the latest annual financial statements of K2 Energy Ltd and its controlled entities (the Consolidated Entity). As such, it does not contain information that represents relatively insignificant changes occurring during the half-year within the Consolidated Entity. It is therefore recommended that this financial report be read in conjunction with the annual financial statements of the Consolidated Entity for the year ended 30 June 2010, together with any public announcements made during the half-year.

The same accounting policies and methods of computation have been followed in this interim financial report as were applied in the most recent annual financial statements.

#### *Operating Segments*

Operating segments are identified and segment information disclosed on the basis of internal reports that are regularly provided to, or reviewed by, the group's chief operating decision maker which, for the Consolidated Entity, is the Board of Directors. In this regard, such information is provided using different measures to those used in preparing the Statement of Comprehensive Income and Statement of Financial Position. Reconciliations of such management information to the statutory information contained in the interim financial report have been included.

### NOTE 2: LOSS BEFORE INCOME TAX EXPENSE

	31 December 2010	31 December 2009
	\$	\$
The following revenue and expense items are relevant in explaining the financial performance for the half-year:		
Interest revenue – deposits	45,991	49,391
Interest revenue – convertible bonds	75,000	-

### NOTE 3: ISSUED CAPITAL

#### (a) Ordinary shares

Issued and fully paid	209,048,067	130,654,903
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A total of 78,393,164 shares were issued during the half year at a price of 5 cents per share, pursuant to a non-renounceable entitlement issue.

#### (b) Options

A total of 6,000,000 options were issued during the half year. These options are exercisable upon payment of 20 cents per option, until 31<sup>st</sup> December 2014.

**NOTE 4: RESERVES**

	31 December 2010	30 June 2010
	\$	\$
Option Reserves	2,555,100	2,489,100

**NOTE 5: OTHER FINANCIAL ASSETS**

a. Held to maturity financial assets:

Convertible notes in unlisted company*	1,564,954	1,101,800
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b. Available for sale financial assets:

Investment in Limited Liability Company**	779,078	779,078
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<b>2,344,032</b>	<b>1,880,878</b>
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\*Investment in the held to maturity convertible notes relates to exclusive worldwide rights to the Mears Silicon Technology.

\*\*Investment in the available for sale financial assets relates to acquisition of 30% interest in Trey Resources 1 LLC, an oil and gas exploration company.

As at 31 December 2010 the Board of Directors of K2 Energy Limited believes that there is no objective evidence indicating impairment of the above financial assets. However, the recoverability of the amounts invested is dependant upon the successful commercialisation of the solar technology and successful exploration of oil and gas resources.

**NOTE 6: SEGMENT REPORTING****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 of 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 17<sup>th</sup> June 2010, the Company announced it would acquire approximately 30% of Trey Resources I 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 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 operating 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*

Comparative information has been stated to conform to the requirements of the Standard and have been adjusted to reflect the discontinued operation resulting from the disposal of the subsidiary referred to above.

**NOTE 6: SEGMENT REPORTING (continued)****Information about reportable segments**

<b>Geographical location:</b>	<b>Australia</b>	<b>USA</b>	<b>Total</b>
<b>2010</b>	\$	\$	\$
<b>External sales revenue</b>			-
<b>Segment loss before tax</b>	(607,587)	-	(607,587)
Unallocated expense items			(403,955)
Unrealised foreign exchange loss			(158,097)
Interest received			120,991
<b>Loss before tax</b>			(1,048,648)
Income tax expense			-
<b>Loss after tax</b>			(1,048,648)

<b>Geographical location:</b>	<b>Australia</b>	<b>USA</b>	<b>Total</b>
<b>2009</b>	\$	\$	\$
<b>Revenue from discontinued operations</b>	-	11,943	11,943
<b>Loss from discontinued operations</b>	-	(877,471)	(877,471)
Unallocated expense items			(222,188)
Unrealised foreign exchange gain			(53,753)
Interest received			49,391
<b>Loss before tax</b>			(1,104,021)
Income tax expense			-
<b>Loss after tax</b>			(1,104,021)

**NOTE 7: CONTINGENT LIABILITIES AND COMMITMENTS**

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

**NOTE 8: EVENTS SUBSEQUENT TO REPORTING DATE**

Since the end of the half year, the directors are not aware of any matter that has significantly affected or may significantly affect the operations of the Company in subsequent financial periods.

**NOTE 9: DIVIDENDS**

No dividends were paid during or subsequent to the half year ended 31<sup>st</sup> December 2010.

**NOTE 10: ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND RESTRUCTURINGS**

No subsidiaries were acquired or disposed of during the half year ended 31<sup>st</sup> December 2010.

**NOTE 11: DISCONTINUING OPERATIONS**

No operations were discontinued during the half-year ended 31<sup>st</sup> December 2010.

**NOTE 12: COMMITMENTS**

At 31<sup>st</sup> December 2010 there were no material commitments for future expenditure, other than 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.

**DIRECTORS' DECLARATION**

The directors of the company declare that:

1. The financial statements and notes thereto, as set out on 3 to 10:
  - a. comply with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations; and
  - b. give a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the half-year then ended.
2. 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 signed in accordance with a resolution of the Board of Directors made pursuant to s.303(5) of the Corporations Act 2001.

A handwritten signature in black ink, appearing to read 'Samuel Gazal', with a stylized flourish at the end.

Samuel Gazal  
Chairman

Dated this 28<sup>th</sup> February 2011



**STIRLING INTERNATIONAL**  
CHARTERED ACCOUNTANTS

**INDEPENDENT AUDITOR'S REVIEW REPORT  
TO THE MEMBERS OF K2 ENERGY LIMITED**

We have reviewed the accompanying half-year financial report of K2 Energy Limited, which comprises the consolidated statement of financial position as at 31 December 2010, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows for the half-year ended on that date, a statement of accounting policies and other selected explanatory notes and the directors' declaration of the Consolidated Entity comprising the company and the entities it controlled at the half year's end or from time to time during the half year.

*Directors' Responsibility for the Half-Year Financial Report*

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including 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 half-year 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.

*Auditor's Responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410: *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity* in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and its performance for the half-year ended on that date and complying with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of K2 Energy Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

*Independence*

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.



*Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of K2 Energy Limited is not in accordance with the *Corporations Act 2001* including:

- giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and
- complying with AASB 134: Interim Financial Reporting and the Corporations Regulations 2001.

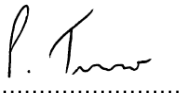
Emphasis of Matter - Recoverability of Assets

Without qualification to the opinion expressed above, attention is drawn to the following matters:

Included in non current assets in Note 5 to the consolidated statement of financial position is:

- a) convertible notes in unlisted company, being Mears Technologies Inc., at book value of \$1,564,954. The ultimate recovery of the value of this asset is dependent upon the success of the commercialisation of the Mears Silicon Technology.
- b) investment in a limited liability company, being Trey Resources 1 LLC, at book value of \$779,078. The ultimate recovery of the value of this asset is dependent upon the success of oil and gas exploration and extraction activities which is inherently uncertain.

Stirling International  
Chartered Accountants



**Peter Turner**

Partner

28<sup>th</sup> February 2011


St James Centre 111 Elizabeth St Sydney 2000

**LEAD 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 half-year ended 31 December 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



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**Peter Turner**

Partner

28<sup>th</sup> February 2011

St James Centre 111 Elizabeth St Sydney 2000