

**K2 ENERGY LIMITED**

ABN 99 106 609 143

**AND CONTROLLED ENTITIES****Appendix 4D and Half-Year Financial Report****31 December 2011**

This half-year report is for the six months ended 31 December 2011. The previous corresponding period is the half-year ended 31 December 2010.

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<br>74.8%      | 90,573              | to | 30,418                      |
| Loss from ordinary activities after tax attributable to members – continued operations | Decreased<br>46.8% | 473,532             | to | 557,116                     |
| Loss for the period attributable to members*   | Decreased<br>46.8% | 473,532             | to | 557,116                     |
| <b>Dividends</b>   |                    | Amount per security |    | Franked amount per security |
| 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 2011    |    | 30 June 2011                |
| Net tangible asset backing per share   |                    | 2.0 cents           |    | 2.25 cents                  |

# **K2 Energy Limited**

(ABN 99 106 609 143)

## **Half Year Report**

**31 December 2011**

**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**

Boardroom 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 2011. 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 |
| Ken Gaunt    | Non executive Director |

### Review of Operations

During the half year, K2's solar research program progressed with a reviewed design being developed and the process of fabrication commenced.

The new horizontal design intends to overcome the recombination issues encountered in the earlier version. Solar cells are being developed with fabrication at the CNS facility at Harvard. Testing of the wafers is expected during the March 2012 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 Limited's interest in Mears Technologies Inc. is currently 8% with warrants which, if exercised, would increase K2's interest to 15% of Mears Technologies Inc.

Mears Technologies Inc. has developed MST™ CMOS technology for use by semiconductor chip producers. The technology addresses key issues that are being encountered by the semiconductor industry.

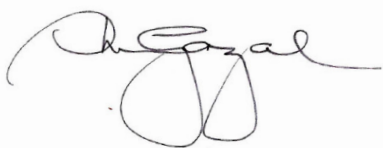
### Oil and Gas

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 2011 is set out on page 13 of these half yearly accounts.

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



Sam Gazal  
Chairman

Dated this 28<sup>th</sup> February 2012

**CONSOLIDATED INCOME STATEMENT  
FOR THE HALF YEAR ENDED 31 DECEMBER 2011**

|  | Notes | 2011<br>\$       | 2010<br>\$         |
|--|-------|------------------|--------------------|
| Other revenue  | 2     | 30,418           | 120,991            |
| Administration, land management and corporate expenses |       | (44,923)         | (284,469)          |
| Directors' fees, salaries and employee benefits        |       | (134,431)        | (53,482)           |
| Foreign exchange (losses)/gain                         |       | 42,515           | (158,097)          |
| Research and development expenses                      |       | (467,260)        | (607,591)          |
| Options expense  |       | -                | (66,000)           |
| Interest expense                                       |       | (1,435)          | -                  |
| <b>Loss before income tax expense</b>                  |       | <b>(575,116)</b> | <b>(1,048,648)</b> |
| Income tax expense                                     |       | -                | -                  |
| <b>Loss for the period</b>                             |       | <b>(575,116)</b> | <b>(1,048,648)</b> |
| Basic earnings per share (cents per share)             |       | <b>(0.27)</b>    | <b>(0.59)</b>      |
| Diluted earnings per share (cents per share)           |       | <b>(0.27)</b>    | <b>(0.59)</b>      |

The accompanying notes form part of these financial statements

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2011**

|  | <b>31.12.11</b>         | <b>31.12.10</b>           |
|--|-------------------------|---------------------------|
|  | <b>\$</b>               | <b>\$</b>                 |
| Loss for the period  | (575,116)               | (1,048,648)               |
| Other comprehensive income:  |                         |                           |
| Other comprehensive income for the period                                      | <u>-</u>                | <u>-</u>                  |
| <b>Total comprehensive income attributable to members of the parent entity</b> | <b><u>(575,116)</u></b> | <b><u>(1,048,648)</u></b> |

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2011**

|                                  | Notes | 31 December 2011 | 30 June 2011     |
|----------------------------------|-------|------------------|------------------|
| <b>Assets</b>                    |       | <b>\$</b>        | <b>\$</b>        |
| <b>Current Assets</b>            |       |                  |                  |
| Cash and cash equivalents        |       | 1,539,860        | 2,234,599        |
| Trade and other receivables      |       | 2,373            | 13,304           |
| <b>Total Current Assets</b>      |       | <b>1,542,233</b> | <b>2,247,903</b> |
| <b>Non-Current Assets</b>        |       |                  |                  |
| Other financial assets           | 4     | 2,701,146        | 2,701,146        |
| <b>Total Non-Current Assets</b>  |       | <b>2,701,146</b> | <b>2,701,146</b> |
| <b>Total Assets</b>              |       | <b>4,243,379</b> | <b>4,949,049</b> |
| <b>Liabilities</b>               |       |                  |                  |
| <b>Current Liabilities</b>       |       |                  |                  |
| Trade and other payables         |       | 114,289          | 244,843          |
| <b>Total Current Liabilities</b> |       | <b>114,289</b>   | <b>244,843</b>   |
| <b>Total Liabilities</b>         |       | <b>114,289</b>   | <b>244,843</b>   |
| <b>Net Assets</b>                |       | <b>4,129,090</b> | <b>4,704,206</b> |
| <b>Equity</b>                    |       |                  |                  |
| Issued Capital                   | 3     | 46,686,559       | 46,686,559       |
| Reserves                         |       | 2,621,100        | 2,621,100        |
| Accumulated losses               |       | (45,178,569)     | (44,603,453)     |
| <b>Total Equity</b>              |       | <b>4,129,090</b> | <b>4,704,206</b> |

The accompanying notes form part of these financial statements



**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE HALF YEAR ENDED 31 DECEMBER 2011**

|   | <b>Options<br/>Reserve</b> | <b>Issued Capital</b> | <b>Accumulated<br/>Losses</b> | <b>Total</b>     |
|---|----------------------------|-----------------------|-------------------------------|------------------|
|   | <b>\$</b>                  | <b>\$</b>             | <b>\$</b>                     | <b>\$</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<br>(net proceeds) | -                          | 3,751,791             | -                             | 3,751,791        |
| Share option expense                              | 66,000                     | -                     | -                             | 66,000           |
| <b>Balance at 31 December 2010</b>                | <b>2,555,100</b>           | <b>46,686,559</b>     | <b>(43,809,000)</b>           | <b>5,432,659</b> |
| <b>Balance at 1 July 2011</b>                     | <b>2,621,100</b>           | <b>46,686,559</b>     | <b>(44,603,453)</b>           | <b>4,704,206</b> |
| Loss attributable to members                      | -                          | -                     | (575,116)                     | (575,116)        |
| Share option expense                              | -                          | -                     | -                             | -                |
| <b>Balance at 31 December 2011</b>                | <b>2,621,100</b>           | <b>46,686,559</b>     | <b>(45,178,569)</b>           | <b>4,129,090</b> |

The accompanying notes form part of these financial statements

**CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE HALF YEAR ENDED 31 DECEMBER 2011**

|   | 2011<br>\$       | 2010<br>\$         |
|---|------------------|--------------------|
| <b>Cash flows from operating activities</b>                 |                  |                    |
| Receipts from customers                                     | -                | -                  |
| Payments to suppliers and employees                         | (688,878)        | (1,095,616)        |
| Interest received   | 30,418           | 22,136             |
| Net cash used in operating activities                       | <u>(658,460)</u> | <u>(1,073,480)</u> |
| <b>Cash flows from investing/financing activities</b>       |                  |                    |
| Proceeds issue of shares (net)                              | -                | 3,751,791          |
| Purchase of financial asset                                 | (85,172)         | (463,154)          |
| Net cash provided by investing/financing activities         | <u>(85,172)</u>  | <u>3,288,637</u>   |
| Net increase/(decrease) in cash and cash equivalents held   | (743,632)        | 2,215,157          |
| Cash and cash equivalents at beginning of period            | 2,234,599        | 947,502            |
| Effect of exchange rate changes                             | 48,893           | (158,096)          |
| <b>Cash and cash equivalents at end of reporting period</b> | <u>1,539,860</u> | <u>3,004,563</u>   |

The accompanying notes form part of these financial statements

## NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2011

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

These general purpose financial statements for the interim half-year reporting period ended 31 December 2011 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 2011, 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<br>2011 | 31 December<br>2010 |
|--|---------------------|---------------------|
|  | \$                  | \$                  |

The following revenue and expense items are relevant in explaining the financial performance for the half-year:

|                                      |        |        |
|--------------------------------------|--------|--------|
| Interest revenue – deposits          | 30,418 | 45,991 |
| Interest revenue – convertible bonds | -      | 75,000 |

### NOTE 3: ISSUED CAPITAL

|  | 31 December<br>2011 | 30 June<br>2011 |
|--|---------------------|-----------------|
|  | \$                  | \$              |

#### (a) Ordinary shares

|                       |             |             |
|-----------------------|-------------|-------------|
| Issued and fully paid | 209,048,067 | 209,048,067 |
|-----------------------|-------------|-------------|

No shares were issued during the half year. A total of 78,393,164 shares were issued during the previous half year at a price of 5 cents per share, pursuant to a non-renounceable entitlement issue.

#### (b) Options

No options were issued during the half year. A total of 6,000,000 options were issued during the previous half year. These options are exercisable upon payment of 20 cents per option, until 31<sup>st</sup> December 2014.

|  | 31 December 2011 | 30 June 2011 |
|--|------------------|--------------|
|  | \$               | \$           |

**NOTE 4: OTHER FINANCIAL ASSETS**

Available for sale financial assets:

|   |                  |                  |
|---|------------------|------------------|
| Investment in Limited Liability Company** | 779,078          | 779,078          |
| Shares in unlisted company*               | 1,922,068        | 1,922,068        |
|   | <b>2,701,146</b> | <b>2,701,146</b> |

\*Shares in unlisted company relate to Mears Technology Inc.

\*\*Investment in Limited Liability Company relates to 30% interest in Trey Resources 1 LLC, an oil and gas exploration company.

As at 31 December 2011 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 5: SEGMENT REPORTING**

**Segment Information**

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.

**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:

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

**NOTE 5: SEGMENT REPORTING (continued)****Information about reportable segments**

| <b>Industry:</b>                 | <b>Solar</b> | <b>Oil &amp; Gas</b> | <b>Total</b> |
|----------------------------------|--------------|----------------------|--------------|
| <b>2011</b>                      | <b>\$</b>    | <b>\$</b>            | <b>\$</b>    |
| <b>External sales revenue</b>    | -            | -                    | -            |
| <b>Segment loss before tax</b>   | (467,260)    | -                    | (467,260)    |
| Unallocated expense items        |              |                      | (179,354)    |
| Unrealised foreign exchange gain |              |                      | 42,515       |
| Interest received/(paid)         |              |                      | 28,983       |
| <b>Loss before tax</b>           |              |                      | (575,116)    |
| Income tax expense               |              |                      | -            |
| <b>Loss after tax</b>            |              |                      | (575,116)    |

| <b>Industry:</b>                 | <b>Solar</b> | <b>Oil &amp; Gas</b> | <b>Total</b> |
|----------------------------------|--------------|----------------------|--------------|
| <b>2010</b>                      | <b>\$</b>    | <b>\$</b>            | <b>\$</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/(paid)         |              |                      | 120,991      |
| <b>Loss before tax</b>           |              |                      | (1,048,648)  |
| Income tax expense               |              |                      | -            |
| <b>Loss after tax</b>            |              |                      | (1,048,648)  |

**NOTE 6: CONTINGENT LIABILITIES AND COMMITMENTS**

The Consolidated Entity is not aware of any contingent liabilities, which existed as at the end of this financial period 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.

**NOTE 7: 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.

In September 2011 Mears Technologies Inc. advised shareholders it would be conducting a further fundraising to enable it to fund working capital for its CMOS research and development program. The ongoing viability of Mears Technologies Inc. is dependent on successful completion of this capital raising, which is on-going.

**NOTE 8: DIVIDENDS**

No dividends were paid during or subsequent to the half year ended 31<sup>st</sup> December 2011.

**NOTE 9: ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND RESTRUCTURINGS**

No subsidiaries were acquired or disposed of during the half year ended 31<sup>st</sup> December 2011.

**NOTE 10: DISCONTINUING OPERATIONS**

No operations were discontinued during the half-year ended 31<sup>st</sup> December 2011.

## DIRECTORS' DECLARATION

The directors of the company declare that:

1. The financial statements and notes thereto, as set out on 2 to 9:
  - 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 2011 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 'S. Gazal', with a large, stylized flourish underneath.

Samuel Gazal  
Chairman

Dated this 28<sup>th</sup> February 2012



# 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 2011, 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 consolidated entity are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including Australian Accounting Interpretations) and the *Corporations Act 2001* and for such control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express a conclusion on the 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 2011 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*. We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of K2 Energy Limited and Controlled Entities would be in the same terms if provided to the directors as at the date of this auditor's review report

### *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 2011 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.

### Inherent Uncertainty Regarding Recoverability of Assets

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

- a) Included in non-current assets in Note 4 to the consolidated statement of financial position is an investment in an unlisted company, being Mears Technologies Inc, at book value of \$1,922,068. The ultimate recovery of the value of this asset is dependent upon the success of the commercialisation of the Mears Silicon Technology and the viability of the Mears Technology Inc business as a whole;
- b) As a result of the matter described in Note 7 to the financial statements, there is significant uncertainty whether Mears Technology Inc will be able to continue as a going concern and therefore whether K2 Energy Limited would realise the value of the non-current assets in Note 4 to the consolidated statement of financial position; and
- c) Included in non-current assets in Note 4 to the consolidated statement of financial position is an 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

29<sup>th</sup> February 2012

283-285 Clarence Street 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 2011 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**

Partner

28<sup>th</sup> February 2012

283-285 Clarence Street Sydney 2000