

K2 ENERGY LIMITED

ABN 99 106 609 143

AND CONTROLLED ENTITIES

Appendix 4D and Half-Year Financial Report**31 December 2012**

This half-year report is for the six months ended 31 December 2012. The previous corresponding period is the half-year ended 31 December 2011.

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 53.26%	16,188	to	14,230
Loss from ordinary activities after tax attributable to members – continued operations	Decreased 4.63%	26,625	to	548,491
Loss for the period attributable to members	Decreased 4.63%	26,625	to	548,491
Dividends		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.			
NTA Backing		31 December 2012		30 June 2012
Net tangible asset backing per share		1.64 cents		1.88 cents

K2 Energy Limited

(ABN 99 106 609 143)

Half Year Report

31 December 2012

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

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DIRECTORS' REPORT

Your directors submit the financial report of the consolidated entity for the half-year ended 31 December 2012. 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

As announced during the half year, K2 entered into an Agreement and Plan of Merger with MEARS Technologies, Inc. ("MEARS") for the purpose of its proposed merger with MEARS.

Subsequent to year end, in mid-January 2013 a Notice of General Meeting, Explanatory Memorandum and Prospectus was dispatched to shareholders, containing information in relation to MEARS and the various Resolutions to approve the transaction.

Completion of the transaction is subject to a number of conditions precedent as set out in the Memorandum of Agreement and Merger Agreement.

MEARS TECHNOLOGIES INC.

Mears Silicon Technology ("MST™") has been demonstrated to reduce gate leakage and increase drive current (performance) in CMOS semiconductors. It also has the benefit of reducing the increasing variability in key parameters, that is now one of the most significant problems facing the industry and which is limiting the yield, power and performance of leading products.

The company's core competency combines materials engineering and quantum mechanics with semiconductor process technology, to optimise the power efficiency and performance of integrated circuits manufactured on deep sub-micron processes. With a licensing model and strong patent position covering new silicon structures, methods and processes, Mears Technologies enhances the fundamental electronic properties of silicon, without requiring new manufacturing equipment or the use of exotic materials.

MEARS SOLAR

During the quarter, MEARS approached and had discussions with major international Solar groups to collaborate in its future development and commercialisation.

OIL AND GAS

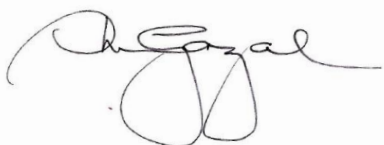
K2 holds approximately 17% of the now expanded Trey Resources 1, LLC.

During the half year there was no expenditure incurred by K2 in relation to this investment.

Auditor's Independence Declaration

The auditor's independence declaration for the half year ended 31st December 2012 is set out on page 14 of these half yearly accounts.

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



Sam Gazal

Chairman

Dated this 27th February 2013

**CONSOLIDATED INCOME STATEMENT
FOR THE HALF YEAR ENDED 31 DECEMBER 2012**

	Notes	2012 \$	2011 \$
Other revenue	2	14,230	30,418
Administration and corporate expenses		(282,305)	(44,923)
Directors' fees, salaries and employee benefits		(73,899)	(134,431)
Foreign exchange (losses)/gain		(3,409)	42,515
Research and development expenses		(180,297)	(467,260)
Interest expense		(22,811)	(1,435)
Loss before income tax expense		(548,491)	(575,116)
Income tax expense		-	-
Loss for the period		(548,491)	(575,116)
Basic earnings per share (cents per share)		(0.22)	(0.27)
Diluted earnings per share (cents per share)		(0.22)	(0.27)

The accompanying notes form part of these financial statements

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF-YEAR ENDED 31 DECEMBER 2012**

	31.12.12	31.12.11
	\$	\$
Loss for the period	(548,491)	(575,116)
Other comprehensive income:		
Other comprehensive income for the period	<u>-</u>	<u>-</u>
Total comprehensive income attributable to members of the parent entity	<u>(548,491)</u>	<u>(575,116)</u>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2012**

	Notes	31 December 2012	30 June 2012
Assets		\$	\$
Current Assets			
Cash and cash equivalents		549,963	967,272
Trade and other receivables		1,008,642	1,030,897
Total Current Assets		1,558,605	1,998,169
Non-Current Assets			
Other financial assets	4	2,701,146	2,701,146
Total Non-Current Assets		2,701,146	2,701,146
Total Assets		4,259,751	4,699,315
Liabilities			
Current Liabilities			
Trade and other payables		184,643	184,764
Total Current Liabilities		184,643	184,764
Total Liabilities		184,643	184,764
Net Assets		4,075,108	4,514,551
Equity			
Issued Capital	3	47,658,202	47,549,154
Reserves		2,621,100	2,621,100
Accumulated losses		(46,204,194)	(45,655,703)
Total Equity		4,075,108	4,514,551

The accompanying notes form part of these financial statements

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 DECEMBER 2012**

	Option Reserve	Issued Capital	Accumulated Losses	Total
	\$	\$	\$	\$
Balance at 1 July 2011	2,621,100	46,686,559	(44,603,453)	4,704,206
Loss attributable to members	-	-	(575,116)	(575,116)
Share option expense	-	-	-	-
Balance at 31 December 2011	2,621,100	46,686,559	(45,178,569)	4,129,090
Balance at 1 July 2012	2,621,100	47,549,154	(45,655,703)	4,514,551
Loss attributable to members	-	-	(548,491)	(548,491)
Issue of shares	-	109,048	-	109,048
Share option expense	-	-	-	-
Balance at 31 December 2012	2,621,100	47,658,202	(46,204,194)	4,075,108

The accompanying notes form part of these financial statements

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF YEAR ENDED 31 DECEMBER 2012**

	2012	2011
	\$	\$
Cash flows from operating activities		
Receipts from customers	-	-
Payments for operations and employees	(471,843)	(688,878)
Interest received/(paid)	13,671	30,418
Net cash used in operating activities	<u>(458,172)</u>	<u>(658,460)</u>
Cash flows from investing/financing activities		
Proceeds issue of shares (net of expenses)	44,272	-
Purchase of financial asset	-	(85,172)
Net cash provided by investing/financing activities	<u>44,272</u>	<u>(85,172)</u>
Net increase/(decrease) in cash and cash equivalents	(413,900)	(743,632)
Cash and cash equivalents at beginning of period	967,272	2,234,599
Net foreign exchange difference	(3,409)	48,893
Cash and cash equivalents at end of reporting period	<u>549,963</u>	<u>1,539,860</u>

The accompanying notes form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2012

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The half-year financial report is a general purpose financial report prepared in accordance with the *Corporations Act 2001* and AASB 134 'Interim Financial Reporting'. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'. The half-year report does not include notes of the type normally included in an annual financial report and shall be read in conjunction with the most recent annual financial report.

Basis of preparation

The consolidated financial statements have been prepared on the basis of historical cost, except for the revaluation of financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the company's 2012 annual financial report for the financial year ended 30 June 2012, except for the impact of the Standards and Interpretations described below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

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.

Presentation of transactions recognised in other comprehensive income

From 1 July 2012 the Consolidated Entity applied amendments to AASB 134 Interim Financial Reporting outlined in AASB 2011-9 Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income. The change in accounting policy only relates to disclosures and has had no impact on consolidated earnings per share or net income. The changes have been applied retrospectively and require the Consolidated Entity to separately present those items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss.

NOTE 2: LOSS BEFORE INCOME TAX EXPENSE

	31 December 2012	31 December 2011
	\$	\$

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

Interest revenue – deposits	14,230	30,418
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NOTE 3: ISSUED CAPITAL

	31 December 2012	30 June 2012
	#	#

(a) Ordinary shares

Issued and fully paid	244,057,151	240,381,401
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3,675,750 (2011: nil) shares were issued during the half year.

(b) Options

No options were issued during the half year (2011: nil). A total of 6,000,000 options were issued prior to 30 June 2011. These options are exercisable upon payment of 20 cents per option, until 31st December 2014.

	31 December 2012	30 June 2012
	\$	\$

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
	2,701,146	2,701,146

*Shares in unlisted company relate to Mears Technologies Inc.

**Investment in Limited Liability Company relates to 17% interest in Trey Resources 1 LLC, an oil and gas exploration company.

As at 31 December 2012 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**

Industry:	Solar	Oil & Gas	Total
2012	\$	\$	\$
External sales revenue			
Segment loss before tax	(180,297)	-	(180,297)
Unallocated expense items			(356,204)
Unrealised foreign exchange gain/(loss)			(3,409)
Interest received/(paid)			(8,581)
Loss before tax			(548,491)
Income tax expense			-
Loss after tax			(548,491)

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

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.

In 2010 the company 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. The arrangements have altered to actual cost basis. Mears Technologies Inc. has ended its research and development phase.

The solar research program is transitioning to a collaboration and potential commercialisation phase and therefore future expenditure requirements are currently being re-evaluated.

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.

Subsequent to 31 December 2012, significant progress has been made in relation to the proposed merger with Mears Technologies Inc. Mears Technologies Inc. has advised K2 Energy it has received the necessary shareholder consent vote for the proposed merger to proceed.

Foster Stockbroking is conducting investor presentations and completion of the Merger Transaction and issue of the Shares under the Acquisition and Placement is anticipated to be prior to the end of March 2013.

NOTE 8: DIVIDENDS

No dividends were paid during or subsequent to the half year ended 31st December 2012.

NOTE 9: ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND RESTRUCTURINGS

No subsidiaries were acquired or disposed of during the half year ended 31st December 2012.

NOTE 10: DISCONTINUING OPERATIONS

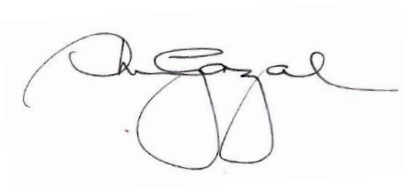
No operations were discontinued during the half-year ended 31st December 2012.

DIRECTORS' DECLARATION

The directors of the company declare that:

1. The financial statements and notes thereto, as set out on pages 2 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 2012 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 at the end.

Samuel Gazal
Chairman

Dated this 27th February 2013



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 and Controlled Entities (the consolidated entity) which comprises the consolidated statement of financial position as at 31 December 2012, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies, other selected explanatory notes and the directors' declaration.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such 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 2012 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 and Controlled Entities, 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 other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we 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

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Liability limited by a scheme approved under Professional Standards Legislation

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 2012 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 and included in trade and other receivables is a bridge loan to Mears Technologies Inc. at a book value of \$1,008,084. The ultimate recovery of the value of these assets 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 bridge loan and shares in unlisted company.

Stirling International
Chartered Accountants



Peter Turner

Partner

27th February 2013

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 2012 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

27th February 2013

283-285 Clarence Street Sydney 2000