

**K2 ENERGY LIMITED**  
**ABN 99 106 609 143**  
**ASX Preliminary final report – 30 June 2015**

**Lodged with the ASX under Listing Rule 4.3A**

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**K2 Energy Limited**  
**Year ended 30 June 2015**  
**Results for Announcement to the Market**

|   |                       |                  |    | <b>2015</b> | <b>2014</b> |
|---|-----------------------|------------------|----|-------------|-------------|
| <b>Revenue</b> from ordinary activities                                   | Increase by \$63,030  | Increase by 58%  | to | \$172,259   | \$109,229   |
| <b>Profit</b> from ordinary activities before tax attributable to members | Decrease by \$144,697 | Decreased by 80% | to | \$35,691    | \$180,388   |
| <b>Profit</b> from ordinary activities after tax attributable to members  | Decrease by \$144,697 | Decreased by 80% | to | \$35,691    | \$180,388   |
| <b>Net Profit</b> for the period attributable to members                  | Decrease by \$144,697 | Decreased by 80% | to | \$35,691    | \$180,388   |

**Additional dividend/distribution information**

Details of dividends/distributions declared or paid during or subsequent to the year ended 30 June 2015 are as follows:

| <b>Dividends/distributions</b> | Amount per security | Franked amount per security |
|--------------------------------|---------------------|-----------------------------|
| Final dividend                 | Nil                 | Nil                         |
| Interim dividend               | Nil                 | Nil                         |

The Board has resolved that no dividend will be paid for the year ended 30 June 2015.

N/A

**K2 Energy Limited**  
**Preliminary consolidated financial statements**  
**For the year ended 30 June 2015**

**COMMENTARY**

K2 Energy had 3 major activities during the year ended 30<sup>th</sup> June 2015, being its oil and gas activities in the USA, its solar energy activities and its interest in Mears Technologies Inc.

**OIL AND GAS ACTIVITIES**

K2 Energy owns 10.68% of Trey Resources I, LLC, which is an oil and gas producer based in Texas, USA. Trey Resources has expanded substantially its operations and has increased its acreage by 190% from 6,700 net acres to approximately 19,000 net acres, predominantly in Texas and Oklahoma. This has been achieved by way of acquisition of additional areas with associated oil and gas production.

Production generated from the assets at 30<sup>th</sup> June 2015 has increased to approximately 600 BOEPD (Barrels of Oil Equivalent Per Day).

The recent drilling program, including horizontal wells has been completed, with two of these wells being quite promising. Trey Resources is seeking approval for a water disposal well, to enable the horizontal wells to produce optimally and this is expected to be completed by the end of 2015, potentially increasing production significantly. Oil and gas prices remained depressed, with oil price hedges being in place for much of the current production.

**MEARS TECHNOLOGIES, INC.**

K2 Energy has an investment in MEARS Technologies Inc. ("MEARS"), which has made good progress in relation to the commercialisation and adoption of its technology by firms in the semi-conductor industry.

MEARS has entered into an engagement agreement with a West Coast USA based investment firm to prepare MEARS for an IPO.

To bridge MEARS working capital requirement until IPO, the investment firm arranged a Convertible Note Issue during the March 2015 quarter, which was significantly oversubscribed, raising over US\$8 million. At the same time K2 exchanged its Convertible Note of \$1.3 million for the new series of Convertible Notes.

The strength of this capital raising was impressive and augurs well for the planned IPO. This was a major milestone for MEARS, as it provided the capital required for the commercialisation process.

MEARS is preparing for an IPO with the assistance of a West Coast, USA based investment firm, with timing dependent on stock market conditions, with the likely period being the March 2016 quarter.

## **MEARS TECHNOLOGIES, INC. (continued)**

During late 2014 MEARS signed a Memorandum of Understanding with a Multinational Semiconductor Manufacturer\* for a program leading to a Product Qualification that incorporates MST Technology. MEARS also continues to engage with a number of other major international firms on the commercialisation of its Mears Silicon Technology ("MST™").

MEARS also signed a joint Marketing Agreement Term Sheet with a leading Japanese OEM (Original Equipment Manufacturer) in late 2014. This will substantially enhance the sales and marketing process.

K2 has a direct shareholding of 5.339% in MEARS and a fully diluted shareholding of 12.092%, as well as a convertible note of \$1.3 million. The convertible note can be converted into further equity in MEARS at a 50% discount to the IPO price.

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 name of the Multinational Semiconductor Manufacturer cannot be disclosed because of confidentiality agreements in place.

## **MEARS SOLAR**

K2 Energy owns the exclusive worldwide rights to the Mears Silicon Technology ("MST™") for all solar energy applications.

K2 Energy funded a research and development solar program conducted by Mears with the aim being to develop more efficient silicon based cells utilising MST™. MEARS and K2 Energy have agreed that the solar activities have entered the commercialization/collaboration phase. K2 Energy, together with the assistance of MEARS, is actively seeking a major international solar group to joint venture or collaborate with in order to commercialise the MST technology.

**K2 ENERGY LIMITED**  
**PRELIMINARY CONSOLIDATED STATEMENT OF PROFIT OR LOSS**  
**FOR THE YEAR ENDED 30 JUNE 2015**

|   | Note | <u>2015</u><br>\$ | <u>2014</u><br>\$ |
|---|------|-------------------|-------------------|
| Other revenue                                   |      | 172,259           | 109,229           |
| Administration and corporate expenses           |      | (50,143)          | (4,414)           |
| Directors' fees, salaries and employee benefits |      | (236,665)         | -                 |
| Foreign exchange gains                          |      | 150,240           | 75,573            |
| <b>Profit before income tax expense</b>         |      | <b>35,691</b>     | <b>180,388</b>    |
| Income tax benefit/(expense)                    |      | -                 | -                 |
| <b>Profit for the year</b>                      |      | <b>35,691</b>     | <b>180,388</b>    |
|   |      |                   |                   |
| Basic profit/(loss) per share (cents)           | 10   | 0.01              | 0.07              |

**K2 ENERGY LIMITED**  
**PRELIMINARY CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 30 JUNE 2015**

|  | <u>2015</u><br>\$    | <u>2014</u><br>\$     |
|--|----------------------|-----------------------|
| Profit for the period  | 35,691               | 180,388               |
| Other comprehensive income:  |                      |                       |
| Total other comprehensive income for the year                                  | <u>-</u>             | <u>-</u>              |
| <b>Total comprehensive income attributable to members of the parent entity</b> | <u><b>35,691</b></u> | <u><b>180,388</b></u> |

**K2 ENERGY LIMITED**  
**PRELIMINARY CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 JUNE 2015**

|   | <u>2015</u><br>\$       | <u>2014</u><br>\$       |
|---|-------------------------|-------------------------|
| CURRENT ASSETS                                      |                         |                         |
| Cash and cash equivalents                           | 174,810                 | 209,159                 |
| Trade and other receivables                         | <u>14,179</u>           | <u>10,529</u>           |
| TOTAL CURRENT ASSETS                                | <u>188,989</u>          | <u>219,688</u>          |
| NON-CURRENT ASSETS                                  |                         |                         |
| Trade and other receivables                         | 1,658,929               | 1,355,654               |
| Other financial assets                              | <u>2,701,146</u>        | <u>2,701,146</u>        |
| TOTAL NON-CURRENT ASSETS                            | <u>4,360,075</u>        | <u>4,056,800</u>        |
| TOTAL ASSETS  | <u>4,549,064</u>        | <u>4,276,488</u>        |
| CURRENT LIABILITIES                                 |                         |                         |
| Trade and other payables                            | <u>258,995</u>          | <u>22,110</u>           |
| TOTAL CURRENT LIABILITIES                           | <u>258,995</u>          | <u>22,110</u>           |
| TOTAL LIABILITIES                                   | <u>258,995</u>          | <u>22,110</u>           |
| NET ASSETS  | <u><b>4,290,069</b></u> | <u><b>4,254,378</b></u> |
| EQUITY  |                         |                         |
| Equity attributable to equity holders of the parent |                         |                         |
| Issued capital                                      | 47,658,202              | 47,658,202              |
| Reserves  | 2,621,100               | 2,621,100               |
| Accumulated losses                                  | <u>(45,989,233)</u>     | <u>(46,024,924)</u>     |
| TOTAL EQUITY  | <u><b>4,290,069</b></u> | <u><b>4,254,378</b></u> |

**K2 ENERGY LIMITED**  
**PRELIMINARY STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 30 JUNE 2015**

|                                | <b>Option<br/>Reserve<br/>\$</b> | <b>Issued Capital<br/>\$</b> | <b>Accumulated<br/>Losses<br/>\$</b> | <b>Total<br/>\$</b> |
|--------------------------------|----------------------------------|------------------------------|--------------------------------------|---------------------|
| <b>Balance at 1 July 2013</b>  | <b>2,621,100</b>                 | <b>47,658,202</b>            | <b>(46,205,312)</b>                  | <b>4,073,990</b>    |
| Issue of shares (net)          | -                                | -                            | -                                    | -                   |
| Profit attributable to members | -                                | -                            | 180,388                              | 180,388             |
| <b>Balance at 30 June 2014</b> | <b>2,621,100</b>                 | <b>47,658,202</b>            | <b>(46,024,924)</b>                  | <b>4,254,378</b>    |
| Issue of shares (net)          | -                                | -                            | -                                    | -                   |
| Profit attributable to members | -                                | -                            | 35,691                               | 35,691              |
| <b>Balance at 30 June 2015</b> | <b>2,621,100</b>                 | <b>47,658,202</b>            | <b>(45,989,233)</b>                  | <b>4,290,069</b>    |



**K2 ENERGY LIMITED**  
**PRELIMINARY CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 30 JUNE 2015**

|   | <b>2015</b>           | <b>2014</b>           |
|---|-----------------------|-----------------------|
|   | <b>\$</b>             | <b>\$</b>             |
| Cash flows from operating activities                          |                       |                       |
| Payments for operations and employees                         | (49,924)              | (53,367)              |
| Interest received   | 2,697                 | 3,650                 |
| Net cash flows used in operating activities                   | <u>(47,227)</u>       | <u>(49,717)</u>       |
| Cash flows from investing/financing activities                |                       |                       |
| Proceeds issue of shares (net of expenses)                    | -                     | -                     |
| Net cash inflow/(outflow) from investing/financing activities | <u>-</u>              | <u>-</u>              |
| Net increase decrease in cash and cash equivalents            | (47,227)              | (49,717)              |
| Cash and cash equivalents at beginning of the year            | 209,159               | 260,680               |
| Net foreign exchange difference                               | <u>12,878</u>         | <u>(1,804)</u>        |
| Cash and cash equivalents at end of year                      | <u><b>174,810</b></u> | <u><b>209,159</b></u> |

The cash balances at 30 June 2014 and 30 June 2015 are represented by cash at bank and money market securities.

**RECONCILIATION OF OPERATING PROFIT AFTER INCOME TAX TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES**

|  |                 |                 |
|--|-----------------|-----------------|
| Net profit                                   | 35,691          | 180,388         |
| Non cash items                               |                 |                 |
| Unrealised foreign currency (gains)/losses   | (12,878)        | 1,804           |
| Changes in assets and liabilities            |                 |                 |
| Increase in receivables                      | (306,925)       | (105,169)       |
| Increase/(decrease) in payables and accruals | <u>236,885</u>  | <u>(49,363)</u> |
| Net cashflows used in operating activities   | <u>(47,227)</u> | <u>(49,717)</u> |

**K2 ENERGY LIMITED**  
**NOTES TO THE PRELIMINARY CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2015**

**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 2015 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 and has provided a bridge loan to 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 preliminary 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 preliminary 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. The preliminary financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report should be read with the latest annual report for the year ended 30 June 2014 and any public announcement made by the Consolidated Entity during the year in accordance with the continuous disclosure requirement of the Corporations Act 2001.

**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.

**K2 ENERGY LIMITED**  
**NOTES TO THE PRELIMINARY CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 30 JUNE 2015**

**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.

**K2 ENERGY LIMITED**  
**NOTES TO THE PRELIMINARY CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 30 JUNE 2015**

**g. Impairment (continued)**

**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 |
|-------------------|--------------|

**K2 ENERGY LIMITED**  
**NOTES TO THE PRELIMINARY CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 30 JUNE 2015**

**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 such costs are expected to be recouped through successful development and exploitation or from sale of the area; or 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 has granted options to certain directors and employees. The fair value of options and shares granted is recognised as an expense with a corresponding increase in equity. The fair value is measured at the date the options or shares are 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)).

**K2 ENERGY LIMITED**  
**NOTES TO THE PRELIMINARY CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 30 JUNE 2015**

**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**

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.

**K2 ENERGY LIMITED**  
**NOTES TO THE PRELIMINARY CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 30 JUNE 2015**

**t. New standards and interpretations not yet adopted**

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2015. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

**AASB 9 Financial Instruments**

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely principal and interest. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income ('OCI'). For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment will be measured under a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. The standard introduces additional new disclosures. The consolidated entity will adopt this standard from 1 July 2018 but the impact of its adoption is yet to be assessed by the consolidated entity.

**AASB 15 Revenue from Contracts with Customers**

This standard is applicable to annual reporting periods beginning on or after 1 January 2017. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgments made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer. The consolidated entity will adopt this standard from 1 July 2017 but the impact of its adoption is yet to be assessed by the consolidated entity.

**u. New, revised or amending Accounting Standards and Interpretations adopted**

The consolidated entity has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Any significant impact on the accounting policies of the consolidated entity from the adoption of these Accounting Standards and Interpretations are disclosed below. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the consolidated entity.

**K2 ENERGY LIMITED**  
**NOTES TO THE PRELIMINARY CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 30 JUNE 2015**

- u. **New, revised or amending Accounting Standards and Interpretations adopted (continued)**  
The following Accounting Standards and Interpretations are most relevant to the consolidated entity:

AASB 2012-3 Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities

The consolidated entity has applied AASB 2012-3 from 1 July 2014. The amendments add application guidance to address inconsistencies in the application of the offsetting criteria in AASB 132 'Financial Instruments: Presentation', by clarifying the meaning of 'currently has a legally enforceable right of set-off'; and clarifies that some gross settlement systems may be considered to be equivalent to net settlement.

AASB 2013-3 Amendments to AASB 136 - Recoverable Amount Disclosures for Non-Financial Assets

The consolidated entity has applied AASB 2013-3 from 1 July 2014. The disclosure requirements of AASB 136 'Impairment of Assets' have been enhanced to require additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposals. Additionally, if measured using a present value technique, the discount rate is required to be disclosed.

AASB 2014-1 Amendments to Australian Accounting Standards (Parts A to C)

The consolidated entity has applied Parts A to C of AASB 2014-1 from 1 July 2014. These amendments affect the following standards: AASB 2 'Share-based Payment': clarifies the definition of 'vesting condition' by separately defining a 'performance condition' and a 'service condition' and amends the definition of 'market condition'; AASB 3 'Business Combinations': clarifies that contingent consideration in a business combination is subsequently measured at fair value with changes in fair value recognised in profit or loss irrespective of whether the contingent consideration is within the scope of AASB 9; AASB 8 'Operating Segments': amended to require disclosures of judgements made in applying the aggregation criteria and clarifies that a reconciliation of the total reportable segment assets to the entity's assets is required only if segment assets are reported regularly to the chief operating decision maker; AASB 13 'Fair Value Measurement': clarifies that the portfolio exemption applies to the valuation of contracts within the scope of AASB 9 and AASB 139; AASB 116 'Property, Plant and Equipment' and AASB 138 'Intangible Assets': clarifies that on revaluation, restatement of accumulated depreciation will not necessarily be in the same proportion to the change in the gross carrying value of the asset; AASB 124 'Related Party Disclosures': extends the definition of 'related party' to include a management entity that provides KMP services to the entity or its parent and requires disclosure of the fees paid to the management entity; AASB 140 'Investment Property': clarifies that the acquisition of an investment property may constitute a business combination.

- v. **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.



**K2 ENERGY LIMITED**  
**NOTES TO THE PRELIMINARY CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 30 JUNE 2015**

**v. Other financial assets (continued)**

*(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.

**w. 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.

**K2 ENERGY LIMITED**  
**NOTES TO THE PRELIMINARY CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 30 JUNE 2015**

**4. FINANCIAL RISK MANAGEMENT (continued)**

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.

**K2 ENERGY LIMITED**  
**NOTES TO THE PRELIMINARY CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 30 JUNE 2015**

**4. FINANCIAL RISK MANAGEMENT (continued)**

*Currency Risk*

The Consolidated Entity undertakes its exploration and production transactions denominated in US currency and is exposed to currency risk on the value of its exploration assets and sales and purchases that are denominated in United States dollars (USD). The Company has an investment in a US unlisted company and has provided a convertible note to that company denominated in US dollars and is exposed to currency risk on these assets.

Interest is receivable in US dollars on a US dollar bridge loan. Interest receivable in US dollars was \$105,209 (2014- \$105,209) of the Consolidated Entity's revenues and none (2014-nil) of costs 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.

**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.

**K2 ENERGY LIMITED**  
**NOTES TO THE PRELIMINARY CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 30 JUNE 2015**

**5. SEGMENT REPORTING (continued)**

**Information about reportable segments**

| <b>Geographical location:</b>    | <b>Australia</b> | <b>USA</b> | <b>Total</b>  |
|----------------------------------|------------------|------------|---------------|
| <b>2015</b>                      | <b>\$</b>        | <b>\$</b>  | <b>\$</b>     |
| <b>External sales revenue</b>    | -                | -          | -             |
| <b>Segment loss before tax</b>   | -                | -          | -             |
| Unallocated expense items        |                  |            | (286,808)     |
| Unrealised foreign exchange gain |                  |            | 150,240       |
| Interest received/receivable     |                  |            | 172,259       |
| <b>Profit before tax</b>         |                  |            | <b>35,691</b> |
| Income tax expense               |                  |            | -             |
| <b>Profit after tax</b>          |                  |            | <b>35,691</b> |

| <b>Geographical location:</b>    | <b>Australia</b> | <b>USA</b> | <b>Total</b>   |
|----------------------------------|------------------|------------|----------------|
| <b>2014</b>                      | <b>\$</b>        | <b>\$</b>  | <b>\$</b>      |
| <b>External sales revenue</b>    | -                | -          | -              |
| <b>Segment loss before tax</b>   | -                | -          | -              |
| Unallocated expense items        |                  |            | (4,414)        |
| Unrealised foreign exchange gain |                  |            | 75,573         |
| Interest received/receivable     |                  |            | 109,229        |
| <b>Loss before tax</b>           |                  |            | <b>180,388</b> |
| Income tax expense               |                  |            | -              |
| <b>Loss after tax</b>            |                  |            | <b>180,338</b> |

| <b>Operating Segment</b>         | <b>Mears Solar</b> | <b>Mears Technologies Inc. (CMOS)</b> | <b>Oil &amp; Gas</b> | <b>Total</b>  |
|----------------------------------|--------------------|---------------------------------------|----------------------|---------------|
| <b>2015</b>                      | <b>\$</b>          | <b>\$</b>                             | <b>\$</b>            | <b>\$</b>     |
| <b>Segment assets</b>            |                    | 3,580,998                             | 779,078              | 4,360,076     |
| <b>External sales revenue</b>    | -                  | -                                     | -                    | -             |
| <b>Segment profit before tax</b> | -                  | -                                     | -                    | -             |
| Unallocated expense items        |                    |                                       |                      | (286,808)     |
| Unrealised foreign exchange gain |                    |                                       |                      | 150,240       |
| Interest received/receivable     |                    |                                       |                      | 172,259       |
| <b>Profit after tax</b>          |                    |                                       |                      | <b>35,691</b> |
| Income tax expense               |                    |                                       |                      | -             |
| <b>Profit after tax</b>          |                    |                                       |                      | <b>35,691</b> |

**K2 ENERGY LIMITED**  
**NOTES TO THE PRELIMINARY CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 30 JUNE 2015**

**5. SEGMENT REPORTING (continued)**

Information about reportable segments

| Operating Segment                | Mears<br>Solar | Mears<br>Technologies<br>Inc. (CMOS) | Oil & Gas | Total          |
|----------------------------------|----------------|--------------------------------------|-----------|----------------|
| 2014                             | \$             | \$                                   | \$        | \$             |
| <b>Segment assets</b>            |                | 3,200,221                            | 779,078   | 3,979,299      |
| <b>External sales revenue</b>    | -              | -                                    | -         | -              |
| <b>Segment profit before tax</b> | -              | -                                    | -         | -              |
| Unallocated expense items        |                |                                      |           | (4,414)        |
| Unrealised foreign exchange gain |                |                                      |           | 75,573         |
| Interest received/receivable     |                |                                      |           | 109,229        |
| <b>Profit after tax</b>          |                |                                      |           | <b>180,388</b> |
| Income tax expense               |                |                                      |           | -              |
| <b>Profit after tax</b>          |                |                                      |           | <b>180,388</b> |

**6. FOREIGN ACCOUNTING STANDARDS**

N/A

**7. CONTINGENT LIABILITIES AND COMMITMENTS**

At 30<sup>th</sup> June 2015 no contingent liabilities existed.

**8. NTA BACKING**

|   | 2015       | 2014       |
|---|------------|------------|
| Net tangible asset backing per ordinary share | 1.76 cents | 1.74 cents |

**9. OTHER SIGNIFICANT INFORMATION**

N/A

**10. PROFIT PER SHARE**

The following reflects the loss and share data used in the calculations of basic and diluted profit per share.

|   | 2015        | 2014        |
|---|-------------|-------------|
|   | \$          | \$          |
| Net profit used in calculating basic and diluted profit per share                             | 35,691      | 180,388     |
| Basic and diluted profit per share (cents per share)  | 0.01        | 0.07        |
| Weighted average number of shares used in the calculation of basic and diluted loss per share | 244,057,151 | 244,057,151 |
| Shares on issue at year end   | 244,057,151 | 244,057,151 |
| Number of options on issue at year end  | -           | 6,000,000   |

**Audit**

This report is based on accounts, which are in the process of being audited.

Description of likely dispute or qualification if the accounts have not yet been audited or subject to review or are in the process of being audited or subjected to review – Nil.

Description of dispute or qualification if the accounts have been audited or subjected to review – Nil.



Sign here: .....  
(Secretary)

Date: 28<sup>th</sup> August 2015

Print name: T. Flitcroft