

K2 ENERGY LIMITED

ABN 99 106 609 143

AND CONTROLLED ENTITIES

Appendix 4D and Half-Year Financial Report**31 December 2015**

This half-year report is for the six months ended 31 December 2015. The previous corresponding period is the half-year ended 31 December 2014.

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	Up 9.11%	7,586	to 90,872
Loss from ordinary activities after tax attributable to members	N/A	-	to (586,567)
Loss for the period attributable to members	N/A	-	to (586,567)
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 2015	30 June 2015	
Net tangible asset backing per share	1.59 cents	1.83 cents	

K2 Energy Limited

(ABN 99 106 609 143)

Half Year Report

31 December 2015

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

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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 2015. 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

K2 Energy had 3 major activities during the half year ended 31st December 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 substantial acreage of approximately 19,000 net acres, predominantly in Texas and Oklahoma.

Production generated from the assets at 31st December 2015 is approximately 580 BOEPD (Barrels of Oil Equivalent Per Day) gross and approximately 410 BOEPD net.

Oil and gas prices remained depressed, and consequently so as to comply with accounting standards, K2 has provided against the carrying value of this asset as at 31st December 2015.

MEARS TECHNOLOGIES INC.

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

MEARS entered into an engagement agreement with a West Coast USA based investment firm to prepare MEARS for an IPO, which is expected to occur in the first half of the 2016 calendar year. In November 2015 Mears appointed a highly experienced CEO, Scott Bibaud to lead the company and join its Board of Directors.

In preparation for the listing, Mears has converted many of its options on issue into shares, which has resulted in an increase in K2's shareholder interest to 10.3% (or 6.8% on a fully diluted basis). K2 also holds a USD1.3 million convertible note in Mears which converts into Mears shares at a discount to the listing price. MEARS is continuing to hire key personnel as well as the recently appointed CEO to take the company through to the IPO.

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™").

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.

DIRECTORS' REPORT

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.

FINANCIAL POSITION

The Company had cash funds on hand of \$135,651 at 31st December 2015 (30 June 2015: \$174,810).

PRINCIPAL ACTIVITY

K2 Energy had 3 major activities during the year ended 31st December 2015, being its oil and gas activities in the USA, its solar energy activities and its interest in Mears Technologies Inc.

Auditor's Independence Declaration

The auditor's independence declaration for the half year ended 31st December 2015 is set out on page 15 of these half yearly accounts.

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

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

Sam Gazal

Chairman

Dated this 26th February 2016

CONSOLIDATED INCOME STATEMENT **FOR THE HALF YEAR ENDED 31 DECEMBER 2015**

	Notes	2015 \$	2014 \$
Other revenue	2	90,872	83,286
Administration and corporate expenses		(38,546)	(25,942)
Directors' fees, salaries and employee benefits		(118,333)	-
Impairment of investment	4	(624,302)	-
Unrealised foreign exchange gains		103,742	218,525
Interest expense		-	(9)
(Loss)/profit before income tax expense		(586,567)	275,860
Income tax expense		-	-
(Loss)/profit for the period		(586,567)	275,860
Basic (loss)/earnings per share (cents per share)		(0.24)	0.11
Diluted (loss)/earnings per share (cents per share)		(0.24)	0.11

The accompanying notes form part of these financial statements

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF-YEAR ENDED 31 DECEMBER 2015**

	2015	2014
	\$	\$
(Loss)/profit for the period	(586,567)	275,860
Other comprehensive income:		
Total comprehensive income for the period	-	-
Total comprehensive income attributable to members of the parent entity	(586,567)	275,860

CONSOLIDATED STATEMENT OF FINANCIAL POSITION **AS AT 31 DECEMBER 2015**

	Notes	31 December 2015	30 June 2015
Assets		\$	\$
Current Assets			
Cash and cash equivalents		135,651	174,810
Trade and other receivables		81	14,179
Total Current Assets		135,732	188,989
Non-Current Assets			
Trade and other receivables		2,032,261	1,824,822
Other financial assets	4	2,076,844	2,701,146
Total Non-Current Assets		4,109,105	4,525,968
Total Assets		4,244,837	4,714,957
Liabilities			
Current Liabilities			
Trade and other payables		375,442	258,995
Total Current Liabilities		375,442	258,995
Total Liabilities		375,442	258,995
Net Assets		3,869,395	4,455,962
Equity			
Issued Capital	3	47,658,202	47,658,202
Reserves		2,621,100	2,621,100
Accumulated losses		(46,409,907)	(45,823,340)
Total Equity		3,869,395	4,455,962

The accompanying notes form part of these financial statements

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 DECEMBER 2015**

	Option Reserve	Issued Capital	Accumulated Losses	Total
	\$	\$	\$	\$
Balance at 1 July 2014	2,621,100	47,658,202	(46,024,924)	4,254,378
Profit attributable to members	-	-	275,860	275,860
Balance at 31 December 2014	2,621,100	47,658,202	(45,749,064)	4,530,238
Balance at 1 July 2015	2,621,100	47,658,202	(45,823,340)	4,455,962
Loss attributable to members	-	-	(586,567)	(586,567)
Balance at 31 December 2015	2,621,100	47,658,202	(46,409,907)	3,869,395

The accompanying notes form part of these financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS **FOR THE HALF YEAR ENDED 31 DECEMBER 2015**

	2015 \$	2014 \$
Cash flows from operating activities		
Payments for operations and employees	(40,433)	(36,153)
Interest received	1,194	1,485
Net cash used in operating activities	(39,239)	(34,668)
Cash flows from investing/financing activities	-	-
Net cash provided by investing/financing activities	-	-
Net decrease in cash and cash equivalents	(39,239)	(34,668)
Cash and cash equivalents at beginning of period	174,810	209,159
Net foreign exchange difference	80	8,379
Cash and cash equivalents at end of reporting period	135,651	182,870

The cash balances at 31 December 2014 and 31 December 2015 are represented by cash at bank and money market securities.

The accompanying notes form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2015

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 2015 annual financial report for the financial year ended 30 June 2015, 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.

Significant accounting policies

The accounting policies applied by the Consolidated Entity in this Consolidated Interim Financial Report are the same as those applied by the Consolidated Entity in the Consolidated Annual Financial Report as at and for the year ended 30 June 2015.

There are no new and revised accounting requirements significantly affecting the half year financial statements.

NOTE 2: PROFIT/(LOSS) BEFORE INCOME TAX EXPENSE

	31 December 2015 \$	31 December 2014 \$
The following revenue and expense items are relevant in explaining the financial performance for the half-year:		
Interest received/receivable	90,872	83,286

NOTE 3: ISSUED CAPITAL

	31 December 2015 #	30 June 2015 #
(a) Ordinary shares		
Issued and fully paid	244,057,151	244,057,151

No (2014: nil) shares were issued during the half year.

(b) Options

No options were issued during the half year (2014: nil). As at 31st December 2015 (2014: nil), there were no options on issue.

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2015

	31 December 2015	30 June 2015
	\$	\$
NOTE 4: OTHER FINANCIAL ASSETS		
Available for sale financial assets:		
Shares in unlisted company*	1,922,068	1,922,068
Investment in Limited Liability Company**	779,078	779,078
Less: provision for impairment	(624,302)	-
	2,076,844	2,701,146

*Shares in unlisted company relate to Mears Technologies Inc.

**Investment in Limited Liability Company relates to 10.68% interest in Trey Resources 1 LLC, an oil and gas exploration company.

Other than as set out below, as at 31 December 2015 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 dependent upon the successful commercialisation of the solar technology and successful exploration of oil and gas resources.

Trey Resources 1 LLC (Trey) continues to produce oil and gas, however, further exploration, higher commodity prices and increased production is required for the future viability of the operation. As a result of the decline in world oil and gas prices, Directors have reassessed the carrying value of the investment in Trey in the Company's accounts. In assessing the recoverable value, the Directors have taken into consideration the decline in world oil and gas prices since 2008 and the possibility of further reduction in commodity prices. From June 2008 to Dec 2015, oil prices have reduced by approximately 70%. Given the further declining trend in oil and gas prices, and so as to comply with the accounting standards in assessing the value of the Company's assets as at 31 December 2015, the Board has impaired the Company's investment in Trey by approximately 80% to reflect this reduction as at the balance date.

Valuation technique

Impairment of Trey investment results from a reduction in the world oil and gas prices as explained above.

Exploration assets held by Trey exist in markets which are not liquid. In such cases it is challenging to determine accurate fair values for these assets. Therefore the ultimate value which may be realised for such assets in future years could vary significantly from the amounts reflected in these accounts.

Fair value hierarchy

In order to arrive at the recoverable amount when impairing the non-financial assets the Director used level 3 inputs such as adjusted commodity prices as interpreted by the Directors. The valuation technique is as described above.

NOTE 5: 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.

The Company has three activities as outlined in the Directors' Report and whilst in the current year the profit and loss effect of these activities was minimal, activities are ongoing in each segment. In the current year the Company's result was not effected by as a result of its investment in Mears Technologies Inc. or Trey Resources 1, LLC. as the operations within these entities were funded without further investment by K2 Energy Limited. In relation to the solar segment, in previous years the Company has expended approximately US\$2.7 million in relation to its solar energy research and development. Following the completion of the research and development phase, the Company is now seeking commercialization collaboration partners.

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2015

NOTE 5: SEGMENT REPORTING (continued)

Information about reportable segments

Country:	Australia	USA	Total
2015	\$	\$	\$
External sales revenue	-	-	-
Segment loss before tax	-	-	-
Unallocated expense items			(781,181)
Unrealised foreign exchange gain			103,742
Interest received/receivable			90,872
Loss before tax			(586,567)
Income tax expense			-
Loss after tax			(586,567)

Country:	Australia	USA	Total
2014	\$	\$	\$
External sales revenue	-	-	-
Segment profit before tax	-	-	-
Unallocated expense items			(25,951)
Unrealised foreign exchange gain			218,525
Interest received/receivable			83,286
Profit before tax			275,860
Income tax expense			-
Profit after tax			275,860

Operating Segment	Mears Solar	Mears Technologies Inc. (CMOS)	Oil & Gas	Total
2015	\$	\$	\$	\$
Segment assets	-	3,954,329	154,776	4,109,105
External sales revenue	-	-	-	-
Segment loss before tax	-	-	(624,302)	(624,302)
Unallocated expense items				(156,879)
Unrealised foreign exchange gain				103,742
Interest received/receivable				90,872
Loss after tax				(586,567)
Income tax expense				-
Loss after tax				(586,567)

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2015

NOTE 5: SEGMENT REPORTING (continued)

Operating Segment	Mears Solar	Mears Technologies Inc. (CMOS)	Oil & Gas	Total
2014	\$	\$	\$	\$
Segment assets	-	3,487,790	779,078	4,266,868
External sales revenue	-	-	-	-
Segment profit before tax	-	-	-	-
Unallocated expense items				(25,951)
Unrealised foreign exchange gain				218,525
Interest received				83,286
Profit before tax				275,860
Income tax expense				-
Profit after tax				275,860

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.

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.

NOTE 8: DIVIDENDS

No dividends were paid during or subsequent to the half year ended 31st December 2015.

NOTE 9: ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND RESTRUCTURING

No subsidiaries were acquired or disposed of during the half year ended 31st December 2015.

NOTE 10: DISCONTINUING OPERATIONS

No operations were discontinued during the half-year ended 31st December 2015.

DIRECTORS' DECLARATION

The directors of the company declare that:

1. The financial statements and notes thereto, as set out on pages 3 to 11:
 - 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 2015 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 stylized flourish at the end.

Samuel Gazal
Chairman

Dated this 26th February 2016

**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 2015, 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 (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 2015 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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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 2015 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. and accrued interest at a book value of \$2,032,261. 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 4 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



Roger Williams

Partner

26th February 2016

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 2015 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



Roger Williams

Partner

26th February 2016

283-285 Clarence Street Sydney 2000