

**K2 ENERGY LIMITED**

ABN 99 106 609 143

AND CONTROLLED ENTITIES

**Appendix 4D and Half-Year Financial Report****31 December 2016**

This half-year report is for the six months ended 31 December 2016. The previous corresponding period is the half-year ended 31 December 2015.

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

**Results for announcement to the market**

|   |  | \$                  |    | \$                          |
|---|--|---------------------|----|-----------------------------|
| Revenues from ordinary activities                               | Down<br>78.95%                                       | 71,740              | to | 19,132                      |
| Loss from ordinary activities after tax attributable to members | Down<br>64.99%                                       | (381,234)           | to | (205,333)                   |
| Loss for the period attributable to members                     | Down<br>64.99%                                       | (381,234)           | to | (205,333)                   |
| <b>Dividends</b>  |  | Amount per security |    | Franked amount per security |
| Final dividend  |  | - ¢                 |    | - ¢                         |
| Interim dividend  |  | - ¢                 |    | - ¢                         |
| Record date for determining entitlements to the dividend        | Not applicable                                       |                     |    |                             |
| Brief explanation of any of the figures reported above:         | Refer to comments in the attached Directors' Report. |                     |    |                             |
| <b>NTA Backing</b>  |  | 31 December 2016    |    | 30 June 2016                |
| Net tangible asset backing per share                            |  | 1.58 cents          |    | 1.48 cents                  |

# **K2 Energy Limited**

(ABN 99 106 609 143)

## **Half Year Report**

**31 December 2016**

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**Company Directory**

**Directors**

Sam Gazal  
Robert Mears  
Ken Gaunt

**Company Secretary**

Terry Flitcroft

**Principal and Registered Office**

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

**Auditors**

Stirling International

**Share Registrar**

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

**Stock Exchange Listing**

Ordinary Shares: KTE

**Bankers**

Westpac Banking Corporation

**Website**

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

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## DIRECTORS' REPORT

Your directors submit the financial report of the consolidated entity for the half-year ended 31 December 2016. 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 31<sup>st</sup> December 2016, being its oil and gas activities in the USA, its solar energy activities and its interest in Atomera, Inc.

### OIL AND GAS ACTIVITIES

K2 Energy owns 10.68% of Trey Resources I, LLC ("Trey Resources") which is an oil and gas producer that has been adversely impacted by the collapse in the oil price. As previously advised, the investment in Trey Resources has a nil carrying value, and its Oklahoma assets remain in receivership. As a shareholder K2 Energy has no financial exposure to Trey Resources.

### ATOMERA INC.

K2 Energy has an investment in Atomera, Inc. ("Atomera"), which listed on NASDAQ on 5<sup>th</sup> August 2016, with its stock code being ATOM with K2 owning 583,846 shares of common stock in Atomera, representing 4.864% of the company.

### MEARS SOLAR

K2 Energy owns the exclusive worldwide rights to the MST<sup>TM</sup> Technology for all solar energy applications.

K2 Energy funded a research and development solar program conducted by Atomera with the aim being to develop more efficient silicon based cells utilising MST<sup>TM</sup>. Atomera and K2 Energy agreed that the solar activities have entered the commercialisation/collaboration phase. K2 Energy, together with the assistance of Atomera, is 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 \$81,435 at 31<sup>st</sup> December 2016 (30 June 2016: \$120,381).

### PRINCIPAL ACTIVITIES

K2 Energy had 3 major activities during the half-year ended 31<sup>st</sup> December 2016, being its oil and gas activities in the USA, its solar energy activities and its interest in Atomera, Inc.

## DIRECTORS' REPORT

### Auditor's Independence Declaration

The auditor's independence declaration for the half year ended 31<sup>st</sup> December 2016 is set out on page 16 of these half yearly accounts.

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

A handwritten signature in black ink, appearing to read 'Sam Gazal', is written over a light grey rectangular background.

Sam Gazal

Chairman

Dated this 17<sup>th</sup> February 2017

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**CONSOLIDATED INCOME STATEMENT  
FOR THE HALF YEAR ENDED 31 DECEMBER 2016**

|   | Notes | 2016<br>\$       | 2015<br>\$       |
|---|-------|------------------|------------------|
| Other revenue                                   | 2     | 19,132           | 90,872           |
| Administration and corporate expenses           |       | (36,043)         | (38,546)         |
| Directors' fees, salaries and employee benefits |       | (118,333)        | (118,333)        |
| Impairment of investment                        |       | -                | (624,302)        |
| Unrealised foreign exchange (loss)/gain         |       | (70,089)         | 103,742          |
| <b>Loss before income tax expense</b>           |       | <b>(205,333)</b> | <b>(586,567)</b> |
| Income tax expense                              |       | -                | -                |
| <b>Loss for the period</b>                      |       | <b>(205,333)</b> | <b>(586,567)</b> |
| Basic loss per share (cents per share)          |       | <b>(0.08)</b>    | <b>(0.24)</b>    |
| Diluted loss per share (cents per share)        |       | <b>(0.08)</b>    | <b>(0.24)</b>    |

The accompanying notes form part of these financial statements

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2016**

|  | <b>2016</b>    | <b>2015</b>      |
|--|----------------|------------------|
|  | <b>\$</b>      | <b>\$</b>        |
| Loss for the period  | (205,333)      | (586,567)        |
| <b>Other comprehensive income:</b>   |                |                  |
| Items that will be reclassified subsequently to profit or loss when specific conditions are met: |                |                  |
| Fair value gain on available-for-sale financial assets   | 432,755        | -                |
| Total comprehensive income for the period  | <u>227,422</u> | <u>-</u>         |
| <b>Total comprehensive income attributable to members of the parent entity</b>                   | <u>227,422</u> | <u>(586,567)</u> |



**CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2016**

|                                  | Notes | 31 December 2016 | 30 June 2016     |
|----------------------------------|-------|------------------|------------------|
| <b>Assets</b>                    |       | \$               | \$               |
| <b>Current Assets</b>            |       |                  |                  |
| Cash and cash equivalents        |       | 81,435           | 120,381          |
| Trade and other receivables      |       | 1,388            | 520              |
| <b>Total Current Assets</b>      |       | <b>82,823</b>    | <b>120,901</b>   |
| <b>Non-Current Assets</b>        |       |                  |                  |
| Trade and other receivables      |       | -                | 2,073,793        |
| Other financial assets           | 4     | 4,377,143        | 1,922,069        |
| <b>Total Non-Current Assets</b>  |       | <b>4,377,143</b> | <b>3,995,862</b> |
| <b>Total Assets</b>              |       | <b>4,459,966</b> | <b>4,116,763</b> |
| <b>Liabilities</b>               |       |                  |                  |
| <b>Current Liabilities</b>       |       |                  |                  |
| Trade and other payables         |       | 612,087          | 496,306          |
| <b>Total Current Liabilities</b> |       | <b>612,087</b>   | <b>496,306</b>   |
| <b>Total Liabilities</b>         |       | <b>612,087</b>   | <b>496,306</b>   |
| <b>Net Assets</b>                |       | <b>3,847,879</b> | <b>3,620,457</b> |
| <b>Equity</b>                    |       |                  |                  |
| Issued Capital                   | 3     | 47,658,202       | 47,658,202       |
| Reserves                         |       | 3,053,855        | 2,621,100        |
| Accumulated losses               |       | (46,864,178)     | (46,658,845)     |
| <b>Total Equity</b>              |       | <b>3,847,879</b> | <b>3,620,457</b> |

The accompanying notes form part of these financial statements

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE HALF YEAR ENDED 31 DECEMBER 2016**

|                                    | Option<br>Reserve | Asset<br>Revaluation<br>Reserve | Issued<br>Capital | Accumulated<br>Losses | Total            |
|------------------------------------|-------------------|---------------------------------|-------------------|-----------------------|------------------|
|                                    | \$                |                                 | \$                | \$                    | \$               |
| <b>Balance at 1 July 2015</b>      | <b>2,621,100</b>  | -                               | <b>47,658,202</b> | <b>(45,823,340)</b>   | <b>4,455,962</b> |
| Loss attributable to members       | -                 | -                               | -                 | (586,567)             | (586,567)        |
| <b>Balance at 31 December 2015</b> | <b>2,621,100</b>  | -                               | <b>47,658,202</b> | <b>(46,409,907)</b>   | <b>3,869,395</b> |
| <b>Balance at 1 July 2016</b>      | <b>2,621,100</b>  | -                               | <b>47,658,202</b> | <b>(46,658,845)</b>   | <b>3,620,457</b> |
| Other comprehensive income:        |                   |                                 |                   |                       |                  |
| Fair value increment               | -                 | 432,755                         | -                 | -                     | 432,755          |
| Loss attributable to members       | -                 | -                               | -                 | (205,333)             | (205,333)        |
| <b>Balance at 31 December 2016</b> | <b>2,621,100</b>  | <b>432,755</b>                  | <b>47,658,202</b> | <b>(46,864,178)</b>   | <b>3,847,879</b> |

The accompanying notes form part of these financial statements

**CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE HALF YEAR ENDED 31 DECEMBER 2016**

|   | 2016<br>\$           | 2015<br>\$            |
|---|----------------------|-----------------------|
| <b>Cash flows from operating activities</b>                 |                      |                       |
| Payments for operations and employees                       | (39,410)             | (40,433)              |
| Interest received   | 468                  | 1,194                 |
| Net cash used in operating activities                       | <u>(38,942)</u>      | <u>(39,239)</u>       |
| <b>Cash flows from investing/financing activities</b>       | -                    | -                     |
| Net cash provided by investing/financing activities         | <u>-</u>             | <u>-</u>              |
| Net decrease in cash and cash equivalents                   | (38,942)             | (39,239)              |
| Cash and cash equivalents at beginning of period            | 120,381              | 174,810               |
| Net foreign exchange difference                             | (4)                  | 80                    |
| <b>Cash and cash equivalents at end of reporting period</b> | <u><b>81,435</b></u> | <u><b>135,651</b></u> |

The cash balances at 31 December 2015 and 31 December 2016 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 2016

### 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 2016 annual financial report for the financial year ended 30 June 2016, 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 2016.

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<br>2016<br>\$ | 31 December<br>2015<br>\$ |
|---|---------------------------|---------------------------|
| The following revenue and expense items are relevant in explaining the financial performance for the half-year: |                           |                           |
| Interest received/receivable  | 19,132                    | 90,872                    |

### NOTE 3: ISSUED CAPITAL

|                       | 31 December<br>2016<br># | 30 June<br>2016<br># |
|-----------------------|--------------------------|----------------------|
| (a) Ordinary shares   |                          |                      |
| Issued and fully paid | 244,057,151              | 244,057,151          |

No (2015: nil) shares were issued during the half year.

#### (b) Options

No options were issued during the half year (2015: nil). As at 31<sup>st</sup> December 2016 (2015: nil), there were no options on issue.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2016

31 December 2016    30 June 2016  
\$                            \$

### NOTE 4: OTHER FINANCIAL ASSETS

Available for sale financial assets:

|                             |                  |                  |
|-----------------------------|------------------|------------------|
| Shares in unlisted company* | -                | 1,922,069        |
| Shares in listed company**  | 4,377,143        | -                |
|                             | <b>4,377,143</b> | <b>1,922,069</b> |

\*Shares in unlisted company relate to shares in Atomera, Inc. prior to listing on 5 August 2016.

\*\* Atomera, Inc. listed on NASDAQ on 5<sup>th</sup> August 2016, with its stock code being ATOM. Upon completion of Atomera, Inc.'s listing K2's convertible note (and accrued interest thereon) in Atomera, Inc. were converted to 415,951 shares of common stock in Atomera, Inc. Following this conversion K2 now owns 583,846 shares of common stock in Atomera, representing 4.864% of that company.

All of the above Atomera shares held by K2 are subject to the 180-day lockup from the date of listing, which expires at the rate of 15% per month after the 180 days until fully released one year after the IPO.

As at 31 December 2016 the Board of Directors of K2 Energy Limited believe that there is no objective evidence indicating impairment of the above financial assets.

### 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. K2 Energy's investment in Trey Resources I, LLC. was fully impaired during the 2016 financial year. K2 Energy's investment in Atomera, Inc. listed on NASDAQ on 5 August 2016 and interest receivable in respect of its convertible note was converted into Atomera, Inc. shares in August 2016.

Other than as detailed above the profit and loss effect of these activities was minimal during the financial year and activities are ongoing in each segment. In relation to the solar segment, K2 is now seeking commercialisation collaboration partners but no funds were expended during the current financial year in this segment.

#### Information about reportable segments

| Country:                         | Australia | USA | Total            |
|----------------------------------|-----------|-----|------------------|
| <b>2016</b>                      | \$        | \$  | \$               |
| <b>External sales revenue</b>    | -         | -   | -                |
| <b>Segment loss before tax</b>   | -         | -   | -                |
| Unallocated expense items        |           |     | (154,376)        |
| Unrealised foreign exchange loss |           |     | (70,089)         |
| Interest received/receivable     |           |     | 19,132           |
| <b>Loss before tax</b>           |           |     | <b>(205,333)</b> |
| Income tax expense               |           |     | -                |
| <b>Loss after tax</b>            |           |     | <b>(205,333)</b> |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2016

### NOTE 5: SEGMENT REPORTING (continued)

| 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) |

| Operating Segment                | Mears Solar | Atomera, Inc. (CMOS) | Oil & Gas | Total     |
|----------------------------------|-------------|----------------------|-----------|-----------|
| 2016                             | \$          | \$                   | \$        | \$        |
| Segment assets                   | -           | 4,377,143            | -         | 4,377,143 |
| External sales revenue           | -           | -                    | -         | -         |
| Segment loss before tax          | -           | -                    | -         | -         |
| Unallocated expense items        |             |                      |           | (154,376) |
| Unrealised foreign exchange loss |             |                      |           | (70,089)  |
| Interest received/receivable     |             |                      |           | 19,132    |
| Loss after tax                   |             |                      |           | (205,333) |
| Income tax expense               |             |                      |           | -         |
| Loss after tax                   |             |                      |           | (205,333) |

| Operating Segment                | Mears Solar | Atomera, 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) |

**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 31<sup>st</sup> December 2016.

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

No subsidiaries were acquired or disposed of during the half year ended 31<sup>st</sup> December 2016.

**NOTE 10: DISCONTINUING OPERATIONS**

No operations were discontinued during the half-year ended 31<sup>st</sup> December 2016.

**NOTE 11: FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS**

This note provides an update on the judgements and estimates made by the Company in determining the fair values of the financial instruments.

**(a) Fair value hierarchy**

To provide an indication about the reliability of the inputs used in determining fair value, the Company classifies its financial instruments into three levels prescribed under the accounting standards. An explanation of these levels is provided underneath the table.

**At 31 December 2016**

|                                  | Level 1  | Level 2          | Level 3  | Total            |
|----------------------------------|----------|------------------|----------|------------------|
|                                  | \$       | \$               | \$       |                  |
| Investments – Available-for-sale |          |                  |          |                  |
| - listed investment              | -        | 4,377,143        | -        | 4,377,143        |
| <b>Total</b>                     | <b>-</b> | <b>4,377,143</b> | <b>-</b> | <b>4,377,143</b> |

**At 30 June 2016**

|                                  | Level 1  | Level 2  | Level 3          | Total            |
|----------------------------------|----------|----------|------------------|------------------|
|                                  | \$       | \$       | \$               |                  |
| Investments – Available-for-sale |          |          |                  |                  |
| - unlisted investment (at cost)  | -        | -        | 1,922,069        | 1,922,069        |
| <b>Total</b>                     | <b>-</b> | <b>-</b> | <b>1,922,069</b> | <b>1,922,069</b> |

**Basis for determining fair values**

The following summarises the significant methods and assumptions used in estimating the fair values of financial instruments reflected in the table above.

**NOTE 11: FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)****Non-derivative financial assets and liabilities**

The fair value of cash, receivables, payables and short-term borrowings is considered to approximate their carrying amount because of their short maturity. Other assets are based on the assets carrying values, which approximates fair value.

As the Atomera shares held by K2 are subject to the 180-day lockup from the date of listing (being 5<sup>th</sup> August 2016), which expires at the rate of 15% per month after the 180 days until fully released one year after the IPO the market value has been reduced by 20%, reflecting the director's assessment of an adjustment to the market value for this restriction. A revaluation to fair value of \$432,755 has been recorded in the Company's asset revaluation reserve as at 31<sup>st</sup> December 2016 (2015: nil). The market value at 31<sup>st</sup> December 2016 for Atomera, Inc. shares on the NASDAQ exchange was US\$6.75 and the AUD/USD exchange rate used was 1 AUD = 0.72028 USD.

As at 30<sup>th</sup> June 2016 there was no active market for these investments, and there is no present intention to dispose of such investments. Consequently, such assets at 30<sup>th</sup> June 2016 were recognised at cost and their fair values are stated at cost in the table above.

**Fair value hierarchy**

There are no other financial instruments carried at fair value or valued using the following:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); or
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

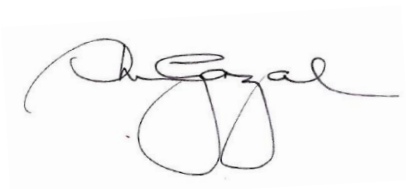


### DIRECTORS' DECLARATION

The directors of the company declare that:

1. The financial statements and notes thereto, as set out on pages 3 to 12:
  - 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 2016 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.



Samuel Gazal  
Chairman

Dated this 17<sup>th</sup> February 2017

**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 2016, 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 2016 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 2016 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.

Stirling International  
Chartered Accountants



**Peter Turner**

Partner

17<sup>th</sup> February 2017

283-285 Clarence Street Sydney 2000

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**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 2016 there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.

Stirling International  
Chartered Accountants



.....  
**Peter Turner**

Partner

17<sup>th</sup> February 2017

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