K2 ENERGY LIMITED

A.C.N. 106 609 143

Annual Report
2015

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CHAIRMAN'S LETTER TO SHAREHOLDERS

Dear Shareholder,

The Company has during the year conserved its cash resources and kept expenses to an absolute minimum so as to be in a position to capitalise on its three major activities in oil, chip technology and photovoltaic solar cells.

All are described in detail on page 3 of this report.

Briefly, K2 has 10.68% interest in Trey Resources which is currently producing approximately 600 BOEPD. K2's ongoing monetary commitment at this stage is nil. Trey is continuing to increase production.

Mears Technologies, in which we have a significant investment, is aiming to proceed to an IPO in the first half of 2016.

In time, the above activities should significantly improve K2's underlying value. For Trey an increase in the oil price to be US$60 and continuing exploration success would be beneficial. In the case of Mears, commercialisation of its silicon technology and a successful IPO would significantly increase value.

K2 is seeking a joint venture partner to progress its solar technology research.

Yours faithfully,

Sam Gazal
Chairman
30 September 2015

DIRECTORS' REPORT

The Directors submit their report for the financial year ended 30 June 2015.

DIRECTORS

The names and details of the Company's directors in office during the financial year and until the date of this report are as follows. Directors were in office for the entire period unless otherwise stated.

NAMES, QUALIFICATIONS, EXPERIENCE AND SPECIAL RESPONSIBILITIES

Samuel Gazal, BEc,

Non-executive Chairman

Sam has more than 35 years' experience as a director of public and private companies. He graduated from Sydney University with a Bachelor of Economics. He has been a director and significant shareholder in a number of successful companies including Gazal Industries Limited, Winthrop Investments Limited, Country Television Services Limited and Sunshine Broadcasting Network Limited. He is the major shareholder and chairman of the Roslyndale group of companies.

Robert Kenneth (Ken) Gaunt

Non-executive Director

Ken has enjoyed significant commercial success since founding Electronic Banking Solutions Pty Ltd in 1998. As Managing Director, Ken developed the business before merging with Cash Card Australia Limited in 2003. Ken is currently Chief Executive Officer of Mobilarm Limited. Ken has been director of Cash Card Australia Limited and is an investor in many successful businesses in Australia and elsewhere. Ken was a board member and Australia's representative of the ATM industry association and was a member of the customer advisory board of National Cash Register Company Limited.

Robert Mears, BA & MA Physics (Oxford); Ph.D. (University of Southampton)

Non-executive Director

Dr Robert Mears is recognised worldwide as one of the world's leading experts in photonics – the synthesis of electronics and optical communication.

In the 1980's Dr Mears addressed the challenge of increasing the capacity and speed of data transmission of fibre optic cables in the telecommunications industry by inventing an optical amplifier, known as the Erbium Doped Amplifier ("EDFA"). EDFA technology increased usable capacity of optical fibre by more than 1000 times. It was and remains a key enabling technology of the internet.

Company Secretary

Terence Flitcroft B Comm. CA SF FIN

Mr Flitcroft is company secretary for a number of public and private companies.

CORPORATE INFORMATION

Corporate Structure

K2 Energy Limited is a public company listed on the Australian Stock Exchange (ASX Code: KTE).

Employees

K2 currently has no employees.

OPERATING AND FINANCIAL REVIEW

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

<u>Oil and Gas Activities</u>

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 30th 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.

<u>MEARS Technologies, Inc.</u>

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 US$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 first half of 2016.

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.

FINANCIAL POSITION

The Company had cash funds on hand of $174,810 at year-end.

PRINCIPAL ACTIVITY

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

FINANCIAL RESULT

The operating result for the financial year ended 30 June 2015 for the Consolidated Entity was an after tax profit of $201,584 (2014: $180,388).

DIVIDENDS PAID OR RECOMMENDED

The directors do not recommend the payment of a dividend and no amount has been paid or declared by way of a dividend to the date of this report.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

There were no significant changes in the state of affairs of the Consolidated Entity during the financial year, other than as detailed in this directors' report and the Chairman's Letter accompanying this report.

AFTER BALANCE DATE EVENTS

The directors are not aware of any matter or circumstance that has arisen since the end of the period to the date of this report that has significantly affected or may affect:

(i) The operations of the company and the entities that it controls

(ii) The results of those operations

(iii) The state of affairs of the company in subsequent years

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

It is expected that a water disposal well will be drilled to increase oil production from one of the existing oil and gas wells in the USA. K2 has a 10.6% economic interest in an oil and gas acreage in Texas and Oklahoma via Trey Resources I, LLC.

K2 expects that MEARS Technologies Inc., in which K2 has a strategic shareholding, will proceed to IPO in the USA during the 2015/16 financial year. K2 will continue to seek a partner to collaborate with on its solar energy technology.

ENVIRONMENTAL REGULATIONS AND PROCEEDINGS

K2 Energy is aware of its environmental obligations with regards to its exploration activities and ensured that it complied with all regulations when carrying out any exploration work in the USA.

REMUNERATION REPORT

Remuneration Policy

The remuneration policy of K2 Energy Limited has been designed to align director objectives with shareholder and business objectives by providing a fixed remuneration component, which is assessed on an annual basis in line with market rates. The Board of K2 Energy Limited, all of whom are non-executive directors, believe the remuneration policy to be appropriate and effective in its ability to attract and retain the best directors to run and manage the company, as well as to create goal congruence between directors and shareholders. The Board will assess the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team.

Given the current financial position of the Company, no Director or Officer of the Company received any cash remuneration during the year, so as to conserve the Company's cash resources. Remuneration for the Directors has been accrued and will only be paid should the financial position of the Company improve in the future.

The Board's policy for determining the nature and amount of remuneration for board members is as follows:

The remuneration policy for any executives is developed and approved by the Board after seeking professional advice from independent external consultants.

In determining competitive remuneration rates, the Board would normally seek independent advice on local and international trends among comparative companies and industry generally. It examines terms and conditions for employee incentive schemes, benefit plans and share plans. Independent advice is obtained to confirm that executive remuneration is in line with market practice and is reasonable in the context of Australian executive reward practices.

The Board's normal policy is to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities. As advised in the previous year Director's fees ceased being paid so as to conserve the Company's funds. The Remuneration Committee determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. The Remuneration Committee consists of the entire Board. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders. Fees for non-executive directors are not linked to the performance of the Company. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the company.

(a) Directors' and Key Management Personnel Remuneration

(i) Directors

Samuel Gazal	– Non-Executive Director
Ken Gaunt	– Non-Executive Director
Robert Mears	– Non-Executive Director

(ii) Executives

During the year ended 30th June 2015 there were no executives.

Except as detailed in Notes (b) – (d) to the remuneration report, no director has received or become entitled to receive, during or since the financial year, a benefit because of a contract made by the Company or a related body corporate with a director, a firm of which a director is a member or an entity in which a director has a substantial financial interest. This statement excludes a benefit included in the aggregate amount of emoluments received or due and receivable by directors and shown in Notes (b) – (d) to the remuneration report, prepared in accordance with the Corporations regulations, or the fixed salary of a full time employee of the Company.

REMUNERATION REPORT (continued)

(b) Directors' and Key Management Personnel Remuneration

The following table discloses the remuneration of Directors of the company for the year ended 30 June 2015, as specified for disclosure by AASB 124. The information contained in this table is audited.

	Short Term		Post-employment	
Directors	**Base Salary and Fees $**	**Share Option Expense $**	**Superannuation Contributions $**	**TOTAL $**
Sam Gazal				
30 June 2014	-	-	-	-
30 June 2015	55,000*	-	-	55,000*
Ken Gaunt				
30 June 2014	-	-	-	-
30 June 2015	35,000*	-	-	35,000*
Robert Mears				
30 June 2014	-	-	-	-
30 June 2015	-	-	-	-
Total 2014	-	-	-	-
Total 2015	90,000*	-	-	90,000*

* Given the current financial position of the Company, no Director or Officer of the Company received any cash remuneration during the year, so as to conserve the Company's cash resources. The above-mentioned remuneration for the Directors has been accrued and will only be paid should the financial position of the Company improve in the future.

Share and Option holdings

Details of options and shares held by key management personnel (including those holding entities associated with Directors) are set out below.

Shares held by Key Management Personnel

Year ended 30 June 2015

	Balance at beginning of year	**Shares Issued**	**Bought & (Sold)**	**Balance at end of year**
Directors				
Samuel Gazal	9,100,000	-	2,366,667	11,466,667
Ken Gaunt	10,499,260	-	-	10,499,260
Robert Mears	-	-	-	-
Total	19,599,260	-	2,366,667	21,965,927

Year ended 30 June 2014

	Balance at beginning of year	**Shares Issued**	**Bought & (Sold)**	**Balance at end of year**
Directors				
Samuel Gazal	9,100,000	-	-	9,100,000
Ken Gaunt	10,499,260	-	-	10,499,260
Robert Mears	-	-	-	-
Total	19,599,260	-	-	19,599,260

Options held by Key Management Personnel

Year ended 30 June 2015

	Balance at 01.07.14	Received as Remuneration	Lapse of Options	Bought & (Sold)	Balance at 30.06.15	Total Vested	Total Exercisable
Directors							
Samuel Gazal	4,000,000	-	(4,000,000)	-	-	-	-
Ken Gaunt	2,000,000	-	(2,000,000)	-	-	-	-
Robert Mears	-	-	-	-	-	-	-
Total	6,000,000	-	(6,000,000)	-	-	-	-

Year ended 30 June 2014

	Balance at 01.07.13	Received as Remuneration	Lapse of Options	Bought & (Sold)	Balance at 30.06.14	Total Vested	Total Exercisable
Directors							
Samuel Gazal	4,000,000	-	-	-	4,000,000	4,000,000	4,000,000
Ken Gaunt	2,000,000	-	-	-	2,000,000	2,000,000	2,000,000
Robert Mears	-	-	-	-	-	-	-
Total	6,000,000	-	-	-	6,000,000	6,000,000	6,000,000

(c) Compensation Options: Granted and vested during and since the financial year ended 30 June 2015

No shares were issued on exercise of compensation options during the financial year or previous financial year.

(d) Options issued as Part of Remuneration

No options were issued as part of remuneration during the financial year or previous financial year.

(e) Employment Contracts of Directors and Senior Executives

There are no contracts with directors.

(f) Transactions with Key Management Personnel and Related Entities

(i) Amount of Nil (2014: Nil) was paid to Winchester Associates Pty Limited (a company associated with Mr Gazal) for company secretarial services, accounting and reporting functions and financial advisory services provided to K2 Energy Limited. In the current year accounts no amount was paid to Winchester Associates for management services provided to the Company during the 2015 financial year. However, an accrual was made for $73,333 (2014: Nil) and this amount will only be paid should the financial position of the Company improve in the future.

(ii) Amount of Nil (2014: Nil) was advanced to Mears Technologies Inc. (a company associated with Dr Robert Mears) during the financial year by way of a bridge loan and interest of $169,562 (2014 - $105,579) was accrued as income on the bridge loan.

MEETINGS OF DIRECTORS

The number of directors' meetings (including committees) held during the financial year and the number of meetings attended by each director are:

	DIRECTORS' MEETINGS		COMMITTEE MEETINGS			
			AUDIT COMMITTEE		REMUNERATION COMMITTEE	
	Number eligible to attend	Number Attended	Number eligible to attend	Number Attended	Number eligible to attend	Number Attended
Samuel Gazal	4	4	2	2	-	-
Robert Mears	4	4	-	-	-	-
Ken Gaunt	4	4	2	2	-	-

OPTIONS

At the date of this report there were no options over ordinary shares in the Company on issue.

BOARD MEMBERS DIRECTORSHIPS

No listed public company directorships have been held by Board Members over the last three years other than Mr Gaunt was appointed as director of Mobilarm Limited on 31st August 2011 and is still a director of that company.

DIRECTORS' INTERESTS IN SECURITIES

All equity dealings with directors have been entered into with terms and conditions no more favourable than those that the entity would have adopted if dealing at arm's length. The relevant interests of each director in share capital at the date of this report are as follows:-

	Number of Shares	Number of Options
Samuel Gazal *	11,466,667	-
Ken Gaunt *	10,499,260	-
Robert Mears	-	-
	21,965,927	-

* Held by an entity associated with the Director and in which he has a financial interest.

INDEMNIFYING OFFICERS OR AUDITOR

In accordance with the constitution, except as may be prohibited by the Corporations Act 2001, every officer, auditor or agent of the Company shall be indemnified out of the property of the Company against any liability incurred by him in his capacity as officer, auditor or agent of the Company or any related corporation in respect of any act or omission whatsoever and howsoever occurring or in defending any proceedings, whether civil or criminal. The Company currently has no insurance in respect of directors' and officers' liability.

PROCEEDINGS ON BEHALF OF COMPANY

No person has applied for leave of court to bring proceedings on behalf of the Company or intervene in any proceeding to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the year.

CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the directors of K2 Energy Limited support and have adhered to key principles of corporate governance.

Please refer to the Corporate Governance Statement of K2 Energy Limited on our website for more information http://www.k2energy.com.au/index.php/corporate/corporate-governance.

AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration for the year ended 30 June 2015 has been received and can be found on page 40 of the annual report.

NON AUDIT SERVICES

The board of directors, in accordance with advice from the audit committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the audit committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided do not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

The following fees for non-audit services were paid/payable to the external auditors during the year ended 30 June 2015:

- Taxation services $1,500

This report is made in accordance with a resolution of the directors.

Samuel Gazal
Chairman
30 September 2015

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

	Note	2015 $	2014 $
Other revenue	5	172,259	109,229
Administration and corporate expenses		(196,808)	(4,414)
Directors' fees, salaries and employee benefits		(90,000)	-
Foreign exchange gains		316,133	75,573
Profit before income tax expense		**201,584**	**180,388**
Income tax benefit/(expense)	7	-	-
Profit for the year		**201,584**	**180,388**
Basic profit per share (cents)	18	0.08	0.07

The accompanying notes form part of these financial statements.

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

	2015 $	2014 $
Profit for the period	201,584	180,388
Other comprehensive income:		
Total other comprehensive income for the year	-	-
Total comprehensive income attributable to members of the parent entity	**201,584**	**180,388**

The accompanying notes form part of these financial statements.

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

	Note	2015 $	2014 $
CURRENT ASSETS			
Cash and cash equivalents	8	174,810	209,159
Trade and other receivables	9	14,179	10,529
TOTAL CURRENT ASSETS		188,989	219,688
NON-CURRENT ASSETS			
Trade and other receivables	9	1,824,822	1,355,654
Other financial assets	10	2,701,146	2,701,146
TOTAL NON-CURRENT ASSETS		4,525,968	4,056,800
TOTAL ASSETS		4,714,957	4,276,488
CURRENT LIABILITIES			
Trade and other payables	11	258,995	22,110
TOTAL CURRENT LIABILITIES		258,995	22,110
TOTAL LIABILITIES		258,995	22,110
NET ASSETS		**4,455,962**	**4,254,378**
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	12	47,658,202	47,658,202
Reserves	13	2,621,100	2,621,100
Accumulated losses		(45,823,340)	(46,024,924)
TOTAL EQUITY		**4,455,962**	**4,254,378**

The accompanying notes form part of these financial statements.

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

	Option Reserve $	Issued Capital $	Accumulated Losses $	Total $
Balance at 1 July 2013	**2,621,100**	**47,658,202**	**(46,205,312)**	**4,073,990**
Issue of shares (net)	-	-	-	-
Profit attributable to members	-	-	180,388	180,388
Balance at 30 June 2014	**2,621,100**	**47,658,202**	**(46,024,924)**	**4,254,378**
Issue of shares (net)	-	-	-	-
Profit attributable to members	-	-	201,584	201,584
Balance at 30 June 2015	**2,621,100**	**47,658,202**	**(45,823,340)**	**4,455,962**

The accompanying notes form part of these financial statements.

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

	Note	2015 $	2014 $
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	16	(47,227)	(49,717)
Cash flows from investing/financing activities			
Proceeds issue of shares (net of expenses)		-	-
Net cash inflow/(outflow) from investing/financing activities		-	-
Net 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		12,878	(1,804)
Cash and cash equivalents at end of year	17	**174,810**	**209,159**

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

The accompanying notes form part of these financial statements.

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 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 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.

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 unrealized 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 are as follows:

Plant & equipment	5 – 10 years

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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:

(i) such costs are expected to be recouped through successful development and exploitation or from sale of the area; or

(ii) 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 based on a well life of 5 years where 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 had granted options to certain directors and employees. The fair value of options and shares granted was recognised as an expense with a corresponding increase in equity. The fair value was measured at the date the options or shares were 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

m. Receivables

Trade and other receivables are stated at amortised cost less impairment losses (see accounting policy (g)).

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

The following Accounting Standards and Interpretations are most relevant to the consolidated entity:

<u>AASB 2012-3 Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities</u>

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.

<u>AASB 2013-3 Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets</u>

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.

<u>AASB 2014-1 Amendments to Australian Accounting Standards (Parts A to C)</u>

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

v. Other financial assets (continued)

(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.

(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.

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.

4. FINANCIAL RISK MANAGEMENT

Overview (continued)

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.

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 is exploration assets and sales and purchases that are denominated in United States dollars (USD).

98% (2014- 96%) of the Consolidated Entity's revenues and nil (2014-0%) 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.

	30 June 2015 $	30 June 2014 $
5. REVENUE		
Other revenue		
Interest received/receivable	172,259	109,229

6. PROFIT/(LOSS) FOR THE YEAR

Profit/(loss) before related income tax expense includes the following net gains and expenses :

Net foreign currency (losses)/gains	316,133	75,573

7. INCOME TAXES

(a) Tax expense/(income)

The prima facie income tax expense on pre-tax accounting profit/(loss) from operations reconciles to the income tax expense in the financial statements as follows:		
Net profit/(loss) for the year	201,584	180,388
Income tax expense/(benefit) calculated at 30% (2014: 30%)	60,475	54,116
Add/(less) tax effect of:		
Unrealised foreign exchange loss/(gain)	(94,840)	(22,672)
Other temporary differences not recognised	71,127	(15,454)
Recoupment of prior year losses	(20,740)	-
Unused tax losses not recognised as deferred tax assets	-	33
Other allowable items	(16,023)	(16,023)
Income tax expense	-	-

(b) Deferred tax assets

The following deferred tax balances at 30% (2014: 30%) have not been recognised:

Revenue losses	2,310,725	2,331,465
Capital losses	2,661,852	2,661,852
Capital raising costs	32,046	48,069
Unrealised exchange movement	(193,938)	(99,098)
Provisions and accruals	71,127	(15,454)
Net deferred tax assets/(liabilities)	4,881,812	4,926,834

8. CASH AND CASH EQUIVALENTS

Cash at bank – A$ Accounts	173,156	154,465
Cash at bank – USD Accounts	1,654	54,694
	174,810	209,159

Cash at bank earns interest at floating rates based on daily bank deposit rate.

9. TRADE & OTHER RECEIVABLES

	30 June 2015	30 June 2014
	$	$
Current		
Other debtors	14,179	10,529
	14,179	10,529
Non-current		
Bridge loan	1,824,822	1,355,654
	1,824,822	1,355,654

- The other debtors amount refers to interest receivable in relation to the bridge loan provided to Mears Technologies Inc. In July 2014, K2 Energy and the majority of bridge loan holders rolled their bridge loans into a convertible note, which is repayable on 31st May 2016. Recoverability of the interest on the bridge loan/convertible note is dependent on the successful commercialisation by Mears Technologies Inc. of its MST technology.
- The bridge loan to Mears Technologies Inc. bears interest at 8% pa. The term of bridge loan was extended during the financial year and as at 30 June 2014 the loan was repayable in July 2014. In July 2014, K2 Energy and the majority of bridge loan holders rolled their bridge loans into a convertible note, which at the election of the convertible note holders, can be converted into Mears Technologies Inc. stock at a 50% discount to the future IPO price of Mears Technologies Inc. This IPO is likely to proceed in the first half of 2016. This convertible note is repayable on 31st May 2016. Recoverability of the bridge loan/convertible note is dependent on the successful commercialisation by Mears Technologies Inc. of its MST technology.

10. 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
	2,701,146	2,701,146

*recoverability of this investment is dependent on the successful commercialisation by Mears Technologies Inc. of its MST technology

11. TRADE & OTHER PAYABLES

Current		
Accruals	258,995	22,110
	258,995	22,110

12. SHARE CAPITAL

Issued and paid up capital		
244,057,151 (2014: 244,057,151) Ordinary shares fully paid	47,658,202	47,658,202

(a) Movements in paid up capital

At the beginning of the reporting period	47,658,202	47,658,202
Issue of shares net of expenses	-	-
At end of reporting period	47,658,202	47,658,202

12. SHARE CAPITAL (continued)

(b) Movements in shares on issue	2015 # shares	2014 # shares
At the beginning of the reporting period	244,057,151	244,057,151
Shares issued during the period	-	-
At end of reporting period	244,057,151	244,057,151

(c) Options

At the end of the reporting period, there were no options on issue (2014: 6,000,000). 6,000,000 options expired during the year on 31st December 2014.

Terms and conditions of contributed equity

Ordinary shares

Holders of ordinary shares have the right to receive dividends as declared and, in the event of the winding up of the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held.

Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

Options over ordinary shares

No options were exercised during the year (2014: nil).

13. RESERVES

	30 June 2015 $	30 June 2014 $
OPTION RESERVE		
Balance at beginning of the year	2,621,100	2,621,100
Share and option expense	-	-
Balance at end of the year	2,621,100	2,621,100

Nature and purpose of reserve

The share based payment reserve is used to recognise the fair value of options issued.

14. REMUNERATION OF AUDITORS

Remuneration of the Company's auditors for:		
Auditing or reviewing the financial report	10,000	12,000
Other services	1,500	1,500
Total auditors' remuneration included in operating result	11,500	13,500

15. 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.

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.

Information about reportable segments

Geographical location:	**Australia**	**USA**	**Total**
2015	$	$	$
External sales revenue	-	-	-
Segment loss before tax	-	-	-
Unallocated expense items			(286,808)
Unrealised foreign exchange gain			316,133
Interest received/receivable			172,259
Profit before tax			**201,584**
Income tax expense			-
Profit after tax			**201,584**

Geographical location:	**Australia**	**USA**	**Total**
2014	$	$	$
External sales revenue	-	-	-
Segment profit before tax	-	-	-
Unallocated expense items			(4,414)
Unrealised foreign exchange gain			75,573
Interest received/receivable			109,229
Profit before tax			**180,388**
Income tax expense			-
Profit after tax			**180,388**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015

15. SEGMENT INFORMATION (continued)

Information about reportable segments

Operating Segment	Mears Solar	Mears Technologies Inc. (CMOS)	Oil & Gas	Total
2015	$	$	$	$
Segment assets	-	3,580,998	779,078	4,360,076
External sales revenue	-	-	-	-
Segment profit before tax	-	-	-	-
Unallocated expense items				(286,808)
Unrealised foreign exchange gain				316,133
Interest received/receivable				172,259
Profit after tax				**201,584**
Income tax expense				-
Profit after tax				**201,584**

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

16. RECONCILIATION OF OPERATING PROFIT/(LOSS) AFTER INCOME TAX TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2015	2014
	$	$
Net profit	201,584	180,388
Non-cash items		
Unrealised foreign currency (gains)/losses	(12,878)	(75,573)
Changes in assets and liabilities		
Increase in receivables	(472,818)	(105,169)
Increase/(decrease) in payables and accruals	236,885	(49,363)
Net cashflows used in operating activities	(47,227)	(49,717)

17. RECONCILIATION OF CASH

Cash balances comprises		
- Cash at bank	173,156	154,465
- US Dollar accounts	1,654	54,694
	174,810	209,159

18. EARNINGS PER SHARE

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

Net profit used in calculating basic and diluted loss per share	201,584	180,388
Basic and diluted profit per share (cents per share)	0.08	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

19. INTEREST IN SUBSIDIARIES AND ASSOCIATES

Interests are held in the following subsidiaries

Name	Country of Incorporation	Ownership Interest	
		2015	2014
		%	%
K2 Energy Investments Pty Limited	Australia	100	100
K2 Merger Subsidiary Inc.	USA	100	100

20. SHARE BASED PAYMENTS

(a) The following table illustrates the number and weighted average exercise prices (WAEP) of and movements in share options issued as share based payments during the year:

2015	Number of Options	Weighted Average Exercise Price $
Outstanding at beginning of the year	6,000,000	0.20
Lapsed during the year	(6,000,000)	0.20
Outstanding at the end of the year	-	-
Exercisable at the end of the year	-	-

2014	Number of Options	Weighted Average Exercise Price $
Outstanding at beginning of the year	6,000,000	0.20
Issued during the year	-	-
Outstanding at the end of the year	6,000,000	0.20
Exercisable at the end of the year	6,000,000	0.20

(i) There are no administrative and corporate expenses in the income statement (2014: $nil), which relate to equity-settled share-based payment transactions.

The weighted average remaining contractual life for the share options outstanding as at 30 June 2015: N/A (2014: 0.5 years).

The fair value of the cash-settled options is measured at the grant date using the Black-Scholes options pricing model taking into account the terms and conditions upon which the instruments were granted. The services received and a liability to pay for those services are recognised over the expected vesting period. Until the liability is settled it is remeasured at each reporting date with changes in fair value recognised in profit or loss.

(b) Employee Benefits

At 30 June 2015, K2 Energy Limited had no employees (2014: nil).

21. EVENTS SUBSEQUENT TO BALANCE DATE

Other than as noted below, the directors are not aware of any matter or circumstance that has arisen since the end of the period to the date of this report that has significantly affected or may affect:

(i) The operations of the company and the entities that it controls

(ii) The results of those operations

(iii) The state of affairs of the company in subsequent years.

22. CONTINGENT LIABILITIES AND COMMITMENTS

The Consolidated Entity is not aware of any contingent liabilities, which existed as at the end of the financial year or have arisen as at the date of this report.

23. RELATED PARTY DISCLOSURES

Ultimate Parent

K2 Energy Limited is the ultimate Australian parent company.

Other Related Party Transactions

(i) Amount of Nil (2014: Nil) was paid to Winchester Associates Pty Limited (a company associated with Mr Gazal) for company secretarial services, accounting and reporting functions and financial advisory services provided to K2 Energy Limited. In the current year accounts no amount was paid to Winchester Associates for management services provided to the Company during the 2015 financial year. However, an accrual was made for $73,333 (2014: Nil) and this amount will only be paid should the financial position of the Company improve in the future.

(ii) Amount of Nil (2014: Nil) was advanced to Mears Technologies Inc. (a company associated with Dr Robert Mears) during the financial year by way of a bridge loan and interest of $169,562 (2014 - $105,579) was accrued as income on the bridge loan.

All the above payments were made on normal commercial terms and conditions.

24. KEY MANAGEMENT PERSONNEL COMPENSATION

(a) Details of Key Management Personnel

Directors during the year ended 30 June 2015 were:

Samuel Gazal	- Non-Executive Chairman
Robert Mears	- Non-Executive Director
Ken Gaunt	- Non-Executive Director

(b) Compensation Practices and Key Management Personnel Compensation

Details of compensation practices and key management personnel compensation are disclosed in the Directors' Report, which accompanies these financial statements.

(c) Other Transactions and Balances with Key Management Personnel

Disclosures relating to other transactions and balances with key management personnel during the financial year are set out in Note 23 and the Remuneration Report. There were no loans to key management personnel during the financial year.

25. FINANCIAL INSTRUMENTS

Credit Risk

Exposure to Credit Risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	30 June 2015	30 June 2014
	$	$
Cash and equivalents	174,810	209,159
Other Receivables	1,838,999	1,366,183
	2,013,809	1,575,342

The maximum exposure to credit risk for trade receivables and other financial assets at the reporting date by geographic region was:

United States	1,838,999	1,366,183
Australia	-	-
	1,838,999	1,366,183

Impairment Losses

The aging of trade receivables and other financial assets at the reporting date was:

Gross receivables		
Not past due date	1,838,999	1,366,183
Past due 30- 90	-	-
Past due 90 days and over	-	-
	1,838,999	1,366,183
Impairment	-	-
Trade receivables and other financial assets net of impairment loss	1,838,999	1,366,183

There was no movement in the allowance for impairment in respect of trade receivables and other financial assets during the year.

No impairment losses have been recognised in the year.

Based upon past experience, the Consolidated Entity believes that no impairment allowance, other than as provided in these accounts is necessary in respect of trade and other receivables not past due.

The allowance accounts used in respect of trade and other receivables are used to record impairment losses unless the Consolidated Entity is satisfied that non-recovery of the amount owing is possible; at that point, the amount considered non-recoverable is written off against the financial asset directly.

25. FINANCIAL INSTRUMENTS (continued)

Currency Risk

Consolidated Entity's exposure to foreign currency (USD) risk was as follows, based upon notional amounts:

	30 June 2015	30 June 2014
	$	$
Amounts local currency		
Cash and equivalents	1,654	54,694
Receivables (note 9)	1,838,999	1,366,183
Investments (note 10)	2,701,146	2,701,146
	4,541,799	4,122,023

The following significant exchange rates applied to the Company and the Consolidated Entity during the year:

	Average Rate		Reporting date spot rate	
AUD = 1	2015	2014	2015	2014
USD	-	-	0.7707	0.9432

Interest Rate Risk

Profile

At the reporting date, the interest rate profile of the Company's and the Consolidated Entity's interest bearing financial instruments was:

Variable rate instruments		
Financial assets	1,838,999	1,366,183
Financial liabilities	-	-

Liquidity Risk

The following are the contractual maturities of the Consolidated Entity's financial assets and liabilities including estimated interest payments.

2015	Effective interest rate p.a.	Carrying amount $	Less than 1 year	1-5 years	More than 5 years
Cash and cash equivalents	2.45%	174,810	174,810	-	-
Other receivables	8%	1,838,999	-	1,838,999	-
Payables	-	(258,995)	(258,995)	-	-
Total		1,754,814	(84,185)	1,838,999	-

2014	Effective interest rate p.a.	Carrying amount $	Less than 1 year	1-5 years	More than 5 years
Cash and cash equivalents	2.65%	209,159	209,159	-	-
Other receivables	8%	1,366,183	-	1,366,183	-
Payables	-	(22,110)	(22,110)	-	-
Total		1,553,232	187,049	1,366,183	-

25. FINANCIAL INSTRUMENTS (continued)

Sensitivity Analysis

In managing interest rate and currency risks, the Consolidated Entity aims to reduce the impact of short-term fluctuations on the Consolidated Entity's earnings. Over the longer term however, permanent changes in foreign exchange and interest rates will have an impact on the result.

For the year ended 30 June 2015, it is estimated that a general increase of one percent in interest rates would have increased the Consolidated Entity's profit after income tax and equity by approximately $500 (2014: $1,800). A one percent decrease in interest rates would have had the equal but opposite effect on the Consolidated Entity's loss and equity.

It is estimated that a general increase of ten percent in the value of the AUD against the USD would have decreased the Consolidated Entity's loss for the year ended 30 June 2014, and increase the Consolidated Entity's equity by approximately $17,000 (2014: $11,000). A ten percent decrease in the value of the AUD against the USD would have the equal but opposite effect on the Consolidated Entity's loss and equity.

Fair Values

The fair values of financial assets and liabilities, together with carrying amounts shown in the balance sheet are as follows:

	30 June 2015 $		30 June 2014 $	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and equivalents	174,810	174,810	209,159	209,159
Investments – Available-for-sale				
- unlisted investment (at cost)	2,701,146	2,701,146	2,701,146	2,701,146
Trade and other receivables – current	14,179	14,179	10,529	10,529
Trade and other receivables – non-current	1,824,822	1,658,929	1,355,654	1,355,654
Trade and other payables	(258,995)	(258,995)	(22,110)	(22,110)
Total	**4,455,962**	**4,455,962**	**4,254,378**	**4,254,378**

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.

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.

The directors have determined that the fair values of the available-for-sale financial assets carried at cost cannot be reliably measured as variability in the range of reasonable fair value estimates is significant. Consequently, such assets are recognised at cost and their fair values have also been stated at cost in the table above. However, the directors estimate that such investments could have fair values that approximate cost at the end of the reporting period. There is no active market for these investments, and there is no present intention to dispose of such investments.

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).

26. PARENT ENTITY DISCLOSURES

At and throughout the financial year ended 30 June 2015, the parent company was K2 Energy Limited.

Result of the parent entity	30 June 2015 $	30 June 2014 $
Net profit/(loss)	192,197	184,852
Other comprehensive income/(loss)	-	-
Total comprehensive income	**192,197**	**184,852**

Financial position of the parent entity at year end		
Current assets	98,119	219,688
Total assets	6,499,913	6,163,704
Current liabilities	258,130	22,110
Total liabilities	258,130	22,110
Total equity of the parent entity comprising of:		
Issued capital	47,658,202	47,658,202
Share option reserve	2,621,100	2,621,100
Accumulated losses	(44,037,520)	(43,918,020)
Total Equity	**6,241,782**	**6,361,282**

Parent entity contingencies

The details of all contingent liabilities and future commitments in respect to K2 Energy Limited are disclosed in Note 22.

DIRECTORS' DECLARATION

The directors of the Company declare that:

1. the financial statements and notes, as set out on pages 10 to 36, are in accordance with the Corporations Act 2001:

    (a) comply with Accounting Standards and the Corporations Regulations 2001; and

    (b) give a true and fair view of the financial position as at 30 June 2015 and of the performance for the year ended on that date of the Company and Consolidated Entity; and

2. the Chairman and Company Secretary have each declared that:

    (a) the financial records of the Company for the financial year have been properly maintained in accordance with section 286 of the *Corporations Act 2001*;

    (b) the financial statements and notes for the financial year comply with the Accounting Standards; and

    (c) the financial statements and notes for the financial year give a true and fair view.

3. 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 made in accordance with a resolution of the Board of Directors.

Mr Sam Gazal
Chairman
30 September 2015

STIRLING INTERNATIONAL

CHARTERED ACCOUNTANTS

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF K2 ENERGY LIMITED

Report on the Financial Report

We have audited the accompanying financial report of K2 Energy Limited (the company) and the consolidated entity, which comprises the consolidated statement of financial position as at 30 June 2015, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 2a, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, 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, would be in the same terms if provided to the directors as at the date of this auditor's report.

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF K2 ENERGY LIMITED

Auditor's Opinion

In our opinion:

a. the financial report of K2 Energy Limited is in accordance with the *Corporations Act 2001*, including:

   i. giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2015 and of their performance for the year ended on that date; and

   ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 2a.

Inherent Uncertainty Regarding Recoverability of Assets

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

Included in non-current assets in Note 10 to the financial statements is an investment in an unlisted company, being Mears Technologies Inc, at book value of $1,922,068 and included in Note 9 is a convertible note to Mears Technologies Inc. at a book value of $1,824,822 and other debtors of $14,179 which is accrued interest on the convertible note. 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.

Report on the Remuneration Report

We have audited the Remuneration Report included at pages 5 to 7 of the report of the directors for the year ended 30 June 2015. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with s 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with the Australian Auditing Standards. We note that the Company has not paid accrued Directors remuneration or management fees, as noted in the Remuneration Report and Note 23.

Auditor's Opinion

In our opinion the Remuneration Report of K2 Energy Limited for the year ended 30 June 2015, complies with s 300A of the Corporations Act 2001.

Stirling International

Chartered Accountants

Roger Williams

285 Clarence St Sydney 2000

30 September 2015

Liability limited by a scheme approved under Professional Standards Legislation

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 year ended 30 June 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
30 September 2015
285 Clarence St Sydney 2000

ADDITIONAL SHAREHOLDER INFORMATION

Shareholding

The distribution of members and their holdings of equity securities in the company as at 16 September 2015 were as follows:

Number Held	Fully Paid Ordinary Shares	Holders
1-1,000	75,306	235
1,001 - 5,000	447,377	143
5,001 – 10,000	1,993,858	256
10,001 - 100,000	19,604,824	496
100,001 and over	221,935,786	228
TOTALS	**244,057,151**	**1,358**

Holders of less than a marketable parcel – fully paid shares: 777.

Substantial Shareholders

The names of the substantial shareholders listed in the Company's register as at 16 September 2015

Shareholder	Number	%
Golden Words Pty Limited and Mr Trevor Kennedy & Mrs Christina Kennedy & Mr Daniel Kennedy <Golden Eggs Super Fund A/C>	23,042,726	9.442
Asia Union Investments Pty Ltd	19,000,000	7.785

Voting Rights

Ordinary Shares

In accordance with the Company's Constitution, on a show of hands every member present in person or by proxy or attorney or duly authorised representative has one vote. On a poll every member present in person or by proxy or attorney or duly authorised representative has one vote for every fully paid ordinary share held.

Twenty Largest Shareholders

The names of the twenty largest shareholders as at 16 September 2015 are as follows:

	Name	Number of Ordinary Shares Held	% Held of Class of Equities
1.	Asia Union Investments Pty Ltd	19,000,000	7.785
2.	Golden Words Pty Limited	12,401,703	5.081
3.	Mr Trevor Kennedy & Mrs Christina Kennedy & Mr Daniel Kennedy <Golden Eggs Super Fund A/C>	10,641,023	4.360
4.	Mr Gabriel Hewitt	10,400,000	4.261
5.	Balander Pty Limited <Super Fund A/C>	9,541,667	3.910
6.	Adajac Pty Ltd	8,333,333	3.415
7.	Edwards Meadows Pty Limited <Moore Investment A/C>	8,100,000	3.319
8.	Mr Robert Gregory Looby <Family Account>	7,970,000	3.266
9.	Blazzed Pty Ltd <Gaunt Management A/C>	6,240,000	2.557
10.	Montclair Pty Limited <Wassim Gazal Family A/C>	6,000,000	2.458
11.	Mr Jeffrey Robert Moulds	5,441,794	2.230
12.	Timbina Pty Limited <Timbina Super Fund A/C>	4,438,575	1.819
13.	Mr Robert Kenneth Gaunt	4,259,260	1.745
14.	United & Pacific Shirt Co Pty Ltd <The Elizabeth No 2 A/C>	4,240,528	1.738
15.	Link Traders (Aust) Pty Ltd	4,026,675	1.650
16.	Gravie Pty Ltd <David Greatorex Super A/C>	3,500,000	1.434
17.	N & M Sewell Holdings Pty Ltd <NTMLS Super Fund A/C>	3,000,000	1.229
18.	Citicorp Nominees Pty Limited	2,847,098	1.167
19.	Tara Shore Pty Ltd <John Taylor Family A/C>	2,136,638	0.875
20.	Jesinta Pty Limited	2,102,888	0.862
		134,621,182	**55.160**

CORPORATE DIRECTORY

Registered Office and Principal Place of Business
Level 2 Kyle House
27 Macquarie Place
Sydney NSW 2000
Telephone: (02) 9251 3311
Facsimile: (02) 9251 6550

Directors
Samuel Gazal
Robert Mears
Ken Gaunt

Company Secretary
Terence Flitcroft

Auditors
Stirling International

Share Registry
Boardroom Pty Limited
Sydney NSW 2000
(GPO Box 3993, Sydney NSW 2001)
Telephone: (02) 9290 9600
Facsimile: (02) 9279 0664
www.boardroomlimited.com.au

Stock Exchange Listing
Australian Securities Exchange
(Home Exchange: Sydney)
ASX Code: KTE

Banker
Westpac Banking Corporation

Company Website
www.k2energy.com.au