

4th APRIL 2012

MERGER NEGOTIATIONS WITH MEARS TECHNOLOGIES INC.

K2 Energy Limited (ASX:KTE) (“K2”) is very pleased to announce that it has executed a non-binding Memorandum of Understanding (“MOU”) with Mears Technologies Inc. (Mears”) to commence negotiations regarding a possible merger of the two companies.

Mears has recently begun exploring opportunities to list in Australia on the Australian Securities Exchange and given K2 is currently a major shareholder, holding 8% of Mears and having 15% on a fully diluted basis, both Companies view a merger transaction and listing via K2’s ASX listing as a transaction that could benefit the shareholders of both K2 and Mears.

Mears and K2 over the coming months intend to conduct negotiations regarding a possible merger of the two companies, on terms to be agreed between the parties. It is the present intent of the parties that the merged entity would be listed on the Australian Securities Exchange, retaining the listing currently held by K2 however under the name of Mears Technologies. Mears and K2 have agreed to use best endeavours to negotiate a successful merger of the two companies.

The discussions are non-binding and there can be no certainty that these negotiations will result in the merger occurring.

MEARS TECHNOLOGIES INC. BACKGROUND

Mears is a Company that is at the cutting edge of the \$300+ billion computer chip industry that has over the past four months positioned itself to commercialize 10 years of Research and Development in chip technology.

Mears has developed MST™ CMOS (“MST”) technology for use by semiconductor chip producers. The technology addresses key issues that are being encountered by the semiconductor industry.

MST has been demonstrated to reduce gate leakage and increase drive current (improving power and performance) in CMOS semiconductors. It also has the benefit of reducing variability in key parameters, addressing one of the most significant problems facing the industry as it continues to scale to smaller device geometries and works to improve yield, power and performance of leading products.

The Mears Board has recently implemented major changes to the Company's structure to assist in the commercialisation of the Company's chip technology with clear milestones set in place over the next 6-9 months. These changes include:

- **New Management Team:** In the last four months Mears engaged a new senior management team with significant semiconductor industry commercial track records and senior executive experience at Texas Instruments, KLA-Tencor, SyChip-Murata, Corning, and Sematech. The new team has rewritten the MST Business Plan and has started their work to move the MST technology from the development laboratory to a sound commercial track.
- **Multi-track Commercialisation Activities:** The new multi-track commercialisation program has been ongoing for only several months and is already showing significant promise and results, as an effective change from the previous single-track / Integrated Device Manufacturer only approach.
- **Burn Rate Reductions and Restructure:** The restructuring of Mears reduced the Company's cash burn but at the same time protected key skills and know-how within the Company critical to executing on the multi-track commercialisation activities. The organisation was streamlined and the reporting lines changed with engagement of a new CEO.

The revised commercialisation strategy involves a more aggressive, multi-track approach, engaging broader activity in the industry to cross-pollinate the various tracks, raise MST's profile, and promote MST demand in the marketplace.

MEARS CAPITAL RAISING

Mears is in the process of raising US\$2 million to fund the Company through its next stage of commercialisation of the Company's chip technology with clear milestones set in place over the next 6-9 months. K2 has agreed to commit US\$1 million to the fund raising, subject to certain conditions, including the commencement of negotiations on a possible merger of K2 and Mears.

Upon K2's investment, Sam Gazal, Chairman of K2, will join the Board of Mears.

MEARS SOLAR UPDATE

As previously announced a new design had been developed and fabrication of solar cells for testing had commenced.

The new design intends to overcome the recombination issues encountered in the earlier version. Testing is about to commence at the CNS facility at Harvard and results should be to hand by mid-May.