

SHAREHOLDER UPDATE

MERGER NEGOTIATIONS WITH MEARS TECHNOLOGIES INC.

On 4th April 2012, K2 Energy Limited (“K2”) (ASX: KTE) announced that it has executed a 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 that K2 is currently a major shareholder, holding 8% of Mears and having 15% on a fully diluted basis, both companies view a merger and listing via K2’s ASX listing as a transaction that could benefit the shareholders of both companies.

Mears and K2 over the coming months will conduct negotiations regarding a 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 but there can be no certainty that these negotiations will result in the merger occurring.

Sam Gazal (K2 Chairman) will be joining the Board of Mears.

INSTITUTIONAL SHARE PLACEMENT

K2’s recent share placement to institutional and sophisticated investors of Foster Stockbroking to raise \$940,000 (before costs) will be applied towards a US\$1m investment in Mears and to provide for working capital. This investment, along with our 15% (fully diluted) shareholding in Mears, demonstrates the commitment of both K2 and Mears to the next stage of merger negotiations.

INVESTMENT HIGHLIGHTS OF MEARS

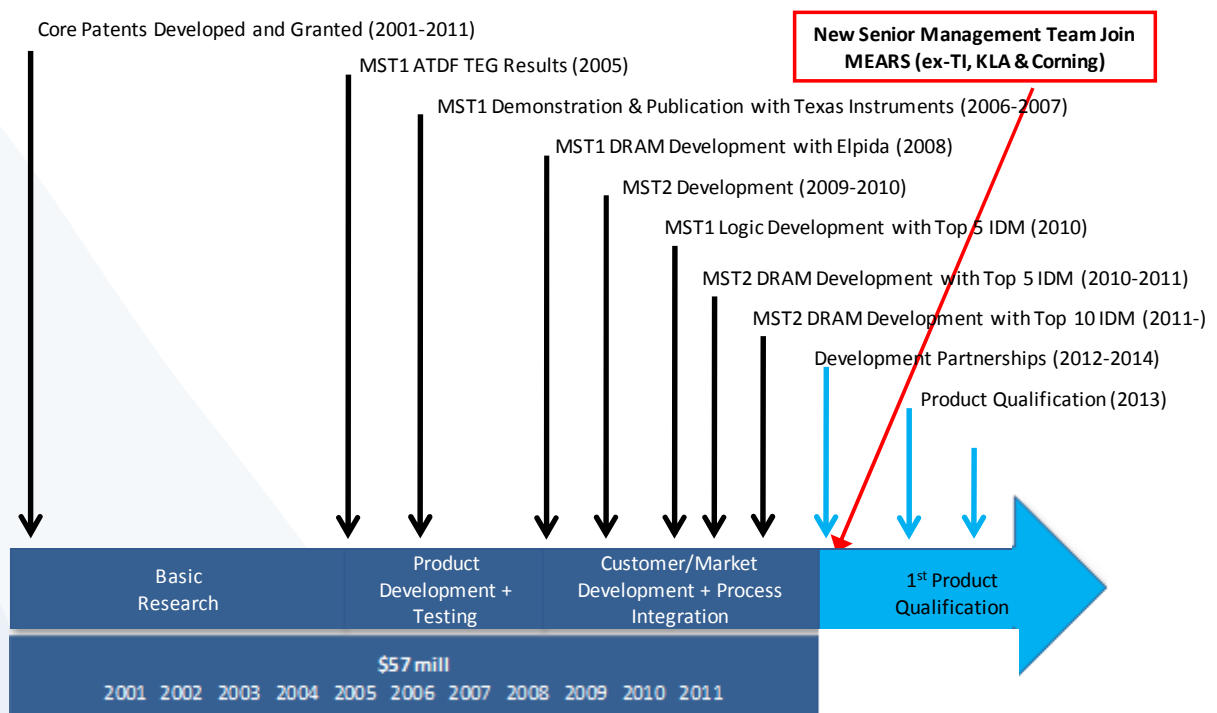
1. Cutting edge of the US\$300b computer chip industry:

- Mears is at the cutting edge of the +US\$300b computer semiconductor chip industry and has positioned itself to commercialise 10yrs of R&D in chip technology, including US\$57m of investment to date.
- Mears has developed MST™CMOS technology (“MST™”) which is ultra-thin reengineered silicon that improves the conductive “channel” in a transistor
- MST™ is for use by semiconductor technologies and manufacturing solutions for integrated circuits that:
 - Significantly reduce power consumption
 - Improve performance
 - Reduce manufacturing costs
 - Reduce customers’ need to invest huge \$’s in capex

- a proven breakthrough of engineered silicon materials that reduce power consumption, improve performance and reduce manufacturing costs of silicon chips.
- MST™ has already demonstrated reduced gate leakage and increased drive current in CMOS semiconductors. Such a breakthrough is critical as the industry faces these issues as it scales down to smaller devices. (CMOS semiconductors are a technology used for constructing integrated circuits in microprocessors and memory chips)

2. Targeting commercialisation of chip technology next 6-9 months:

- New senior management team has been employed over the past 6 months with significant semiconductor industry commercialisation track records, including: Texas Instruments, KLA-Tencor, SyChip-Murata, Corning and Sematech.
- New MST™ business plan has also been developed to move the technology from R&D to commercialisation and develop a multi-billion dollar company within the next 10 years.
- Aggressive multi-track commercialisation program is now underway with multiple global device manufacturers engaged.
- Cost reductions and restructures in place to limit cash burn rate to core activities of R&D and commercialisation streams.
- The following graphic outlines the significant work and investment completed to date to position Mears for commercialisation.



3. Industry leaders on board to deliver leadership and commercialisation milestones:

John Gerber, Director, Chairman, (BSE Princeton, MA Harvard):

Mr. Gerber is President of Quantum Capital and Managing Partner for Four Points. Over the last 10 years, Mr. Gerber and his partners have closed more than 40 capital transactions with an aggregate value of more than \$1.8 billion. Mr. Gerber is CEO of two early stage technology companies: Nephromics, LLC, an IP licensing biotech company, working in partnership with Harvard University, Techne/R&D Systems, and Merck, that has licensed its preeclampsia diagnostic technology to Siemens, Roche, J&J, and Beckman Coulter (the first diagnostic test came out in Europe in 2011). Aggamin Pharmaceuticals, LLC, a therapy device company, working in partnership with Harvard University, that is developing the first therapy capable of treating preeclampsia, a currently untreatable pregnancy disease in a multi-billion dollar per annum market. The proof-of-concept is complete, and the first in-human trial is expected in 2013.

Dr. Robert Mears, Chief Technology Officer, Board Director, Founder:

Dr. Mears is a recognized pioneer and leading expert in nano-scale material science and engineering. In the mid-1980's, Dr. Mears re-engineered silica optical fiber by adding atoms of erbium (rare earth element) to silica to invent the Erbium Doped Fiber Amplifier (EDFA), a transformative technology for long-distance optical networks. A decade ago, Dr. Mears shifted his focus to the semiconductor industry, where he identified a similar scaling problem on the horizon. Dr. Mears founded MEARS Technologies in 2001 to leverage his unique insights in the engineering of new materials. As CTO, and supported by a talented R&D team, Dr. Mears developed the MEARS MST™ Platform and MST™ CMOS, its first commercial application. Dr. Mears has authored or co-authored approximately 250 publications and patents and is an Emeritus Fellow of Pembroke College, Cambridge, England

Erwin Trautmann, Chief Executive Officer, Board Director:

Mr. Trautmann has over 30 years of experience in the semiconductor industry. He has held various executive positions at Fortune 500 companies and possesses extensive experience in project management, product development and business leadership. Mr. Trautmann formerly served as Senior Vice President at KLA-Tencor and as Vice President at Texas Instruments with global responsibilities.

Ron Cope, Chief Operating Officer:

Mr. Cope brings to MEARS Technologies more than 35 years of experience in various technical and operational positions with a proven record of success at both large Fortune 500 companies and venture capital backed technology start-ups. Mr. Cope formerly served as VP of Operations & General Manager for SyChip-Murata. Prior to SyChip-Murata, Mr. Cope held Executive and Sr. Management positions at Texas Instruments, National Semiconductor, VLSI Technology, Hitachi Semiconductor and other high-tech companies.

Dr. Rinn Cleavelin, Board Director, Chair Technical Advisory Board:

Dr. Cleavelin has more than 34 years of experience in the areas of Semiconductor Processing, Development, and Management. He held the position as Chief Operating Officer for International SEMATECH in Austin, TX until returning to Texas Instruments Inc. in Silicon Technology Development in June of 2002. During his career, he had the opportunity to lead several significant programs at Texas Instruments including the startup of three Wafer Fabs and the leadership role in the process development of several DRAM, EPROM, and Flash EEPROM products. He has also had the leadership role in the development of several new process technologies and tools in the areas of Ion Implantation, Thermal Processing, Surface Preparation, Defect Detection, and Metrology working with equipment suppliers worldwide.

21st May 2012