

MEARS TECHNOLOGIES INC. AND K2 MERGER TERMS AGREEMENT

Mears Technologies Inc. (Mears) and K2 Energy Limited (**K2**) are pleased to announce that they have reached agreement on merger terms between the companies.

The merger will be implemented by K2 issuing Mears equity holders with 800,000,000 K2 shares for all of the issued capital of Mears including all common stock, warrants and options (subject to adjustment as set out below). The terms agreed are that Mears shareholders are expected to be entitled to approximately 77% of the merged entity and K2 shareholders approximately 23%.

The merged entity is intended to be listed on ASX, retaining the listing of K2 under a new name expected to be Mears Technologies Limited, owning 100% of the Solar Technology and 100% of the Mears CMOS technology. K2 will be seeking the approval of its shareholders to the proposed transaction and will shortly apply to ASX for a determination as to whether ASX will require K2 to meet the requirements of Chapters 1 and 2 of the ASX Listing Rules as though K2 were applying for admission to the official list.

For some time now Mears has indicated its intention to list in Australia on ASX and the merger with K2 enables it to do so in an efficient and cost effective manner.

Mears has a significant shareholder base in Australia and K2 is a major shareholder of Mears Technologies Inc.

The listing on ASX is regarded as a stepping stone to a dual listing on NASDAQ in time.

There are a number of conditions precedent to completion of the merger including shareholder approval of both entities and regulatory issues to do with ASX.

K2 will undertake a capital raising of at least A\$7.5 million in new capital to be issued simultaneous with the completion of the merger. Completion of this capital raising is a condition of the merger. That capital raising is to be led by Foster Stockbroking.

The funds raised by this capital raising will be used by K2 and Mears to further develop the business of Mears.

Mears

Mears believes its patented MEARS Silicon Technology™ (MST™) is applicable across most segments of the US\$300 billion + semiconductor industry (silicon based computer chips). Mears is now in the process of commercialising over ten years and over US\$60 million of research and development through an intellectual property licensing model, leveraged from a portfolio of over 100 granted patents.

Following the appointment one year ago of a new and industry experienced management team, MST™ is now gaining traction and attention in the mainstream Digital and leading edge Analog sectors of the semiconductor industry.

The company has a full pipeline of commercialisation opportunities through its product evaluation engagements and prospective strategic partnership discussions with a number of significant semiconductor manufacturers and original equipment manufacturers.

External evaluations have confirmed that MST™, a nano-precision reengineered silicon material, delivers a range of potential benefits to chip manufacturers targeting improved performance, reduced power consumption, reduced transistor variability, improved manufacturing yields and the opportunity to delay major capex commitments.

Based on the information currently available to K2, the likely effect of the proposed merger on K2's total assets, total equity interests, annual revenue and annual loss before tax and extraordinary items will be as follows:

- total assets will increase from \$4,699,315 to approximately \$12,000,000;
- total equity interests will increase from \$4,514,551 by approximately \$37 million;
- annual revenue will continue to be insignificant until the merged entity commercialises its projects; and
- annual loss before tax and extraordinary items will most likely increase in line with an expansion of operational activities until the merged entity commercialises its projects.

The estimates above are based on the financial position of K2 as at 30 June 2012, MEARS as at 30 June 2012, the terms of the proposed merger and current exchange rates.

Additional detailed information on the financial position of K2 and MEARS will be provided in the Explanatory Memorandum which is being prepared for consideration by shareholders to accompany the Notice of General Meeting. Shareholders should carefully consider this information in full in considering the proposed merger.

It is the intention of K2 that additional persons who are currently directors of Mears will be appointed to be directors of K2. No senior management changes are currently contemplated.

The Merger Transaction

The merger is subject to various conditions including the following (see also the attached terms):

- Shareholder approval of K2 and Mears
- A fundraising of A\$7.5m as outlined above being completed
- Official quotation of the merger shares on ASX
- Any other regulatory approvals

A summary of the key terms of the proposed merger is attached below.

The rewards of a successful commercialisation of Mears in would in the opinion of the Board result in significant benefits to K2 shareholders.

Timetable

K2 is seeking to dispatch a Notice of Meeting and Explanatory Memorandum to its shareholders in November 2012. This Explanatory Memorandum will include full details of Mears, the proposed merger transaction and the capital raisings outlined above. Shareholder approval will be sought for the proposed merger transaction, together with an approval to undertake the capital raisings outlined above and for a change to the name from K2 to "Mears Technologies Limited" ("Resolutions").

The General meeting to consider the Resolutions is expected to be held in December 2012.

1.	PARTIES:	<p>K2 Energy Ltd. ("K2")</p> <p>Mears Technologies Inc. ("MTI")</p>
2.	MERGER:	<p>Subject to the terms and conditions contained herein, K2 and MTI hereby agree to merge into one entity (the "Merged Entity") utilizing K2's current listing on the Australian Securities Exchange ("ASX"), whereby K2 will issue as merger consideration a total of 800,000,000 new ordinary shares ("Merger Shares") to acquire all of the issued and outstanding common shares, warrants and options over common shares in MTI.</p> <p>Upon completion of the transaction, the name of the Merged Entity will be changed to "Mears Technologies Limited" or such other name as agreed between the parties as being appropriate for the purposes of developing and commercializing MTI's technologies under the Merged Entity, especially as they relate to the semiconductor industry.</p> <p>The transaction is subject to all requisite approvals from MTI and K2 shareholders, the raising of new capital, official quotation on the ASX of the Merger Shares within one (1) business day of their issue, MTI being reasonably satisfied that K2 has no material liabilities other than those disclosed in K2's financial statements for FY12, any other regulatory approvals and certain other terms and conditions referred to below.</p>
3.	FUND RAISING:	<p>The Parties agree that completion of the Merger is subject to the completion of a fund raising by K2 in the minimum amount of AUD7.5 million in new capital (before all reasonable merger costs including brokerage, legal, etc. estimated to be AUD560,000 to AUD660,000), via the issue of ordinary shares subscribed in the Merged Entity simultaneous with the Closing of the Merger, at a minimum "pre-money" value of at least AUD30 million for the Merged Entity ("Fund Raising"). MTI and K2 may by mutual agreement accept a lower "pre-money" value for the Merged Entity.</p> <p>K2 has engaged Foster Stockbroking Pty. Ltd. ("FS") to represent K2 in the Fund Raising and Stuart Foster, the Chief Executive Officer of FS, will be actively involved in leading the Fund Raising.</p>
4.	CLOSING AND TIMING:	<p>The Parties and FS will use best efforts to complete the Fund Raising and conclude the Merger (the "Closing") no later than December 31, 2012 but in no case later than March 1, 2013 (the "Merger Deadline"). The Merger Deadline may be extended by mutual agreement of the Boards of K2 and MTI respectively.</p>
5.	PRO-FORMA MERGER OFFER	<p>On the assumption that completion of the full MTI Bridge Fund Raising (referred to in Section 12) occurs prior to the merger transaction, thereby resulting in an adjustment to the number of Merger Shares (referred to in Section 11), the K2 consideration of 850,378,611 Merger Shares will be</p>

		offered to holders of each class and series of common shares, warrants and options over common shares in MTI. The offer document must be in a form approved by the Board of Directors of MTI.
6.	K2 PRE-MERGER CAPITAL STRUCTURE:	<p>Ordinary Shares 244,057,151</p> <p>31/12/14 Options exercisable at 20 cents 6,000,000</p>
7.	K2 SHARE CONSOLIDATION	The Parties agree that as part of the merger transaction, the number of K2 shares outstanding may need to be consolidated on a basis yet to be determined, subject to the advice of FS, in which case the number of Merger Shares will be adjusted accordingly.
8.	WARRANTS, OPTIONS, AND STOCK PURCHASE PROGRAMS:	FS has advised the Parties that for capital raising purposes, it is preferable for the capital structure of the Merged Entity to comprise ordinary shares, absent pre-merger warrants, options, or other stock purchase programs. This will require MTI to seek the approval of holders of common shares and equity securities convertible into common shares (other than K2) to accept Merger Shares as consideration for their equity securities convertible into common shares (including all warrants, options, any outstanding bridge loan and other securities), in number recommended by the board of MTI. K2 will own 100% of MTI upon completion of the Merger, with no other securities in MTI in existence at that time.
9.	MANAGEMENT INCENTIVE PLAN FOR THE MERGED ENTITY:	Within three months of the date of completion of the Merger, the Merged Entity will formally establish an incentive plan for senior management of the Merged Entity.
10.	MERGED ENTITY BOARD, MANAGEMENT, AND GOVERNANCE:	The Board, management, and governance structure of the Merged Entity will be established according to the best practices of companies generally listed on the ASX. The Board members of the Merged Entity will be selected by the K2 Board and MTI Board on a pro rata basis according to the Merger Ratio in Section 11 below. The initial Management Team of the Merged Entity will be selected by the MTI Board. The contracts, however, for the each of the initial Management Team members must be unanimously approved by the Merged Entity Board. The Merged Entity is expected to conduct its business from offices in Sydney, the San Francisco area, and possibly Boston.
11.	ADJUSTMENT TO NUMBER OF MERGER SHARES:	<p>During the period commencing on the date of this Agreement and until completion of the Merger (“Interim Period”), the Parties acknowledge that the number of Merger Shares will be adjusted as follows:</p> <p>a) any new issue of ordinary shares or equity securities convertible into new ordinary shares by K2, will result in K2 adjusting up the absolute number of Merger Shares so that the ratio of</p>

		<p>800,000,000 / 244,057,151 (“Merger Ratio”) is maintained;</p> <p>b) any reduction in the number of ordinary shares outstanding in the capital of K2 by way of a capital reduction or consolidation of shares will result in K2 adjusting down the absolute number of Merger Shares so that the Merger Ratio is maintained (for example, a one (1) for ten (10) share consolidation by K2 will result in a reduction in the number of Merger Shares from 800,000,000 to 80,000,000); and</p> <p>c) any fund raising completed directly by MTI during the Interim Period (for example, the MTI Bridge Fund Raising in Section 12 below), will result in K2 adjusting up the absolute number of Merger Shares in an amount of shares calculated by dividing the dollar value of that fund raising denominated in US dollars by three (3.0) Australian cents per share using an exchange rate of USD1.02:AUD1.00.</p>
12.	MTI BRIDGE FUND RAISING:	<p>The MTI Bridge Fund Raising will constitute a one (1) for two (2) rights issue of common shares in the capital of MTI at a price of USD0.25 each, to raise up to a total of USD1,541,585.50, of which a minimum raise of USD1,000,000 is to be jointly underwritten in the proportions of 50% by FS and 50% by a group of MTI shareholders approved by the MTI board (including members of the Board). Prior to final completion and the taking up of any shortfall of the minimum raise of USD1,000,000 (if any) by the underwriters, MTI will first offer any shortfall back to the MTI shareholders on a pro-rata basis.</p>
13.	MERGER COSTS:	<p>The Merged Entity shall pay for any and all FS fees relating to the Fund Raising and the MTI Bridge Fund Raising, whereby:</p> <p>a) MTI will retain and be responsible for the cost of its own legal and financial advisors in relation to the proposed merger transaction.</p> <p>b) K2 will retain and be responsible for the cost of its own legal and financial advisors in relation to the proposed merger transaction, the cost of the Fund Raising and MTI’s reasonable travel costs for fund raising road show(s).</p>
14.	TERMINATION:	<p>This Agreement shall automatically terminate and be made void with no force or effect, unless agreed otherwise in MTI Board’s sole discretion, if any one of the following events occurs:</p> <p>a) MTI has not received a formal underwriting commitment of at least USD500,000 from FS and executed binding Subscription Agreements for the minimum USD1,000,000 MTI Bridge Fund</p>

		<p>Raising on or before November 1, 2012 with the only condition being K2 and MTI shareholder approval of the Merger based upon this Agreement,</p> <p>b) Any portion of the entire amount of the Required New Capital at the required “pre-money” value is not closed and the Merger thereby not consummated on or before the Merger Deadline for any reason,</p> <p>c) K2 does not receive the necessary shareholder approval to consummate the Merger, or</p> <p>d) MTI does not receive the necessary shareholder approval to consummate the Merger.</p>
15.	BRIDGE LOAN EXTENSION:	Subject to the holders of Promissory Notes with a face value in the amount of approximately USD0.58 million extending the maturity date of their Promissory Notes by six (6) months, K2 shall also extend the maturity date of its Promissory Note with a face value in the amount of USD1.0 million by six (6) months from April 4, 2013 to October 4, 2013.
16.	PUBLIC ANNOUNCEMENTS:	The timing and content of any public announcements about this Agreement shall require the mutual approval of both Parties.
17.	BINDING AGREEMENT:	Subject to the approvals referred to herein, this Agreement is intended to constitute the binding agreement of the parties hereto; provided, however, that MTI's obligations hereunder shall be subject to approval of the definitive acquisition agreement by the MTI board of directors.
18.	CONFIDENTIALITY:	The parties shall execute a mutually acceptable Confidentiality Agreement which shall remain in force outside this Agreement.

SIGNATURES:

This Memorandum of Agreement has been agreed effective this 19th day of October, 2012.

FOR K2 ENERGY LTD.

FOR MEARS TECHNOLOGIES INC.

Signed by

Signed by

Sam Gazal
Chairman

John Gerber
Chairman