

31st July 2012

**ACTIVITIES REPORT FOR THE QUARTER
ENDED 30th June 2012**

The Directors of K2 Energy Limited (ASX: KTE) (“K2”) provide the following report for the Quarter ended 30th June 2012.

MEARS SOLAR

As previously announced, a new design has been developed and fabrication of solar cells for testing occurred during the quarter.

The new design is intended to elucidate and help overcome the recombination issues encountered in the earlier version.

Fabrication was recently completed at the CNS facility at Harvard and testing is underway.

In 2011 a major achievement of the research was made with regards to the optical characteristics of the MST™ enhanced silicon. Ellipsometry measurements indicate a significant increase in optical absorption using MST™ film, a major breakthrough. The last obstacle is to solve the recombination issues of electrons, as the energy is drawn from the PV cell.

K2 is intending to move shortly into the next phase for this technology, and to approach major international solar manufacturing groups to collaborate in its further development and commercialisation.

MEARS TECHNOLOGIES INC.

K2 announced on 4th April 2012 that it had 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, 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 are currently discussing a possible merger of the two companies. 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 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.

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.

OIL AND GAS

KTE retains its 30% shareholding in Trey Resources I LLC, a US-based limited liability company. During the quarter there was no expenditure incurred in relation to this investment.