

26th February 2014

UPDATE ON MEARS TECHNOLOGIES

The Directors of K2 Energy Limited (ASX: KTE) (“K2”) provide the following update on Mears Technologies Inc. (“Mears”).

Mears has made significant progress in relation to a capital raising and on the commercialisation front there have been positive developments.

Mears is a major asset of K2 represented by a direct shareholding of 5.339% in Mears, a fully diluted shareholding of 13.260%, as well as a bridge loan of US\$1 million plus interest of approximately US\$260,000 provided to that company.

In relation to a capital raising for Mears, they are close to reaching agreement on a Term Sheet with a United States based investment bank, which has conducted extensive due diligence on Mears over the past eight (8) months. The business model of this investment bank is to support IP rich companies to a potential public listing on an exchange such as NASDAQ, subject to the required regulatory approvals.

On commercialisation, there have been a number of positive developments with Mears:

1. starting baseline process integration work following a signed Partnership Memorandum of Understanding and work agreements with a leading Integrated Device Manufacturer of Analog products in Japan;
2. advancing negotiation of a Joint Marketing Agreement with one of the industry’s leading Original Equipment Manufacturers, based on successful MST-1 process development results in its batch EPI reactor, a high- throughput machine used to insert Mears film into transistors on an industrial scale; and
3. engaging in senior management discussions with a major US-based Integrated Device Manufacturer, concerning selection of its first product that may incorporate Mears Silicon Technology (“MST”).

Company names relating to Mears commercialisation are not disclosed due to customer confidentiality agreements that are in place.

In order to cover funding requirements in the period prior to the potential public listing and continue the commercialization momentum, Mears is seeking to raise up to \$6M of new capital from existing Mears shareholders.

The investment bank has completed extensive due diligence on Mears. Mears believes it is now very well placed because of its following profile:

1. **Large Market Potential:** Mears has a disruptive platform technology that has broad application to the \$300B semiconductor industry.
2. **Unique Technology:** Extensive, broad patent portfolio protecting our technology with the potential for continued IP portfolio expansion.
3. **Early Validation:** Industry leaders believe the technology is real and significant.
4. **Visible Inflection Point:** Commercialisation timeline is short and credible. Well positioned with a significant book of potential customers and industry partners. Mears are poised to complete a compelling commercialization business plan once they are properly funded.

SUMMARY

Mears believes that this represents a turning point for the company and believes that it has a pathway to the funding needed to commercialise the technology and drive it, with the help of one or more of four leading customers, into the \$300B semiconductor market.