

18 March 2014

Ms Lux Wigneswaran
Senior Adviser, Listings
ASX Limited
Exchange Centre
20 Bridge Street
SYDNEY NSW 2000

Dear Ms Wigneswaran,

K2 Energy Limited – Level of Operations Query

I refer to your letter dated 13 March 2014 in which you have requested a response to certain questions detailed in your letter. We wish to reply as follows:

1. K2 Energy believes it has sufficient level of operations to warrant the continued quotation of its securities on ASX in accordance with the requirements of Listing Rule 12.1.

K2 Energy has three activities:

- a. K2 holds approximately a 16% interest in Trey Resources I, LLC, which is an oil and gas exploration and production business through which it is active in Oklahoma and Texas in the United States. Trey Resources 1, LLC holds approximately 6,700 net acres of leasehold acreage, with oil and gas production from approximately 194 active wells. K2 Energy has not been required to incur any expenditure due to the cash flow generated from current production by Trey.
- b. K2 Energy owns the exclusive worldwide rights to the Mears Silicon Technology (“MST™”) for all solar energy applications. As indicated in the 2012 Annual Report, K2 Energy has moved into the next phase for this technology, approaching major international solar groups to collaborate in its future development and commercialisation. As a result no research and development expenditure was incurred during the six months ended 31st December 2013. Mears and K2 Energy are actively seeking a joint venture partnership with an existing solar manufacturer in South East Asia/Japan to commercialise the MST technology.
- c. K2 Energy has a major investment in Mears Technologies Inc., together with a bridge loan it has provided to that company. As advised in our previous announcements to the ASX, significant progress has been made by Mears in relation to the commercialisation and adoption of its technology by firms in the semiconductor industry and a capital raising for Mears. Whilst the proposed merger with Mears Technologies Inc. consumed a great deal of management time during 2013, considerable progress has been made in the meantime on the commercialisation front during the past twelve months.

As advised in our announcement dated 26th February 2014, on commercialisation, there have recently been a number of positive developments with Mears:

- i. 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;
- ii. 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
- iii. 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 were not disclosed due to customer confidentiality agreements in place.

In relation to a capital raising for Mears, we advised that Mears indicated 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.

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

- i. **Large Market Potential:** Mears has a disruptive platform technology that has broad application to the \$300B semiconductor industry.
- ii. **Unique Technology:** Extensive, broad patent portfolio protecting our technology with the potential for continued IP portfolio expansion.
- iii. **Early Validation:** Industry leaders believe the technology is real and significant.
- iv. **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.

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.

A number of the above commercial arrangements are incomplete at this time and confidential.

The Board remains confident in the prospects for Mears Technologies Inc., provided it can raise sufficient funds privately to complete its commercialisation process. If Mears is successful in commercialising its chip technology, K2 and its shareholders will be major beneficiaries.

The Directors of K2 Energy are also of the opinion that, given the right circumstances and as a result of the ongoing activities in relation to each individual activity, K2 Energy has the potential to generate returns for shareholders.

K2 Energy has had share turnover of 22.1 million shares in the past twelve months and 23 million shares in the previous 12 months.

Should K2 Energy shares cease quotation on the ASX many small shareholders would be seriously disadvantaged, because in the event that the Company has success in any of the above activities, they would have no ready market in which to trade their shares.

2. Not applicable
3. We confirm the Company is in compliance with the Listing Rules and, in particular, Listing Rule 3.1.

Yours sincerely,



Terence Flitcroft
Company Secretary



13 March 2014

Mr Terry Flitcroft
Company Secretary
K2 Energy Limited
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27 Macquarie Place
Sydney NSW 2000

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PO Box H224
Australia Square
NSW 1215

www.asx.com.au

By Email

Dear Terry,

K2 Energy Limited (the “Company”) – Level of Operations Query

ASX Limited (“ASX”) refers to the following:

1. The Company’s announcement titled ‘Mears Technologies, Inc. and K2 Energy Limited Merger Update and Timetable’, lodged with the ASX Market Announcements Platform and released on 25 June 2013, in which the Company stated the following in relation to its proposed merger with Mears Technologies, Inc.:

“The Proposed Merger agreement was subject to a number of conditions, including raising a minimum of \$7.5M. Unfortunately due to the difficult equity raising climate in Australia for technology companies, this has not been possible in the required time frame.

The Board of K2 has therefore decided to close the process in relation to the merger and cancel the shareholder meeting scheduled for 28th June 2014.”

2. The Company’s Half Year Report for the six months ended 31 December 2013 (“Half Year Report”), lodged with the ASX Market Announcements Platform and released on 27 February 2014, in which the Company summarised its operations during the period as follows:

“The major activity of the Company during the half year was in relation to its investment in Mears Technologies Inc. The Company has two major assets, its investment in Mears Technologies Inc and a 16% unit holding in Trey Resources 1 LLC. During the quarter, Mears continued to engage with major companies in connection with the commercialisation of the Mears semiconductor technology and evaluations with these companies are in process. The Board remains confident in the prospects of Mears Technologies Inc, provided it can raise sufficient funds privately to complete its commercialisation process. K2 currently has a direct shareholding of 5.339% in Mears, and a fully diluted shareholding of 13.260%, as well as a bridge loan of US\$1 million provided to that company. If Mears is successful in having its technology adopted by companies in the semiconductor industry, K2 shareholders should benefit significantly.”

3. The Consolidated Income Statement in the Half Year Report which sets out the following:
 - (a) Revenues of \$2,166 comprised solely of interest received by the Company.
 - (b) Administration and corporate expenses of \$35,105.

- (c) Research and development expenses of \$0.
- (d) Net loss after tax of \$31,594.

Relevant Listing Rules and Guidance

Listing Rule 12.1 – *The level of an entity's operations must, in ASX's opinion, be sufficient to warrant the continued quotation of the entity's securities and its continued listing.*

Questions for Response

In light of the information contained in the Half Year Report and the application of Listing Rule 12.1, please respond to each of the following questions:

1. Does the Company consider that its level of operations is sufficient to warrant the continued quotation of its securities on ASX in accordance with the requirements of Listing Rule 12.1? In answering this question, please also explain the basis for this conclusion.
2. If the answer to question 1 is "No", please explain what steps the Company has taken, or proposes to take, to warrant its continued listing on ASX in accordance with the requirements of Listing Rule 12.1.
3. Please confirm that the Company is in compliance with the Listing Rules and, in particular, Listing Rule 3.1.

Please note the ASX reserves its right under Listing Rule 18.7A to release this letter and the Company's response to the market. Accordingly, the Company's response should address each question separately and be in a format suitable for release to the market.

Unless the information is required immediately under Listing Rule 3.1, a response is requested as soon as possible and, in any event by **no later than 9.30 a.m. AEDT on Tuesday, 18 March 2014.**

Any response should be sent to me by return email. It should not be sent to the ASX Market Announcements Office.

If you have any queries regarding any of the above, please let me know.

Yours sincerely,

[Sent electronically without signature]

Lux Wigneswaran
Senior Adviser, Listings Compliance (Sydney)