

29th October 2015

**QUARTERLY ACTIVITIES REPORT FOR THE QUARTER ENDED
30th SEPTEMBER 2015**

The Directors of K2 Energy Limited (ASX: KTE) (“K2”) provide the following report for the quarter ended 30th September 2015.

K2 Energy had 3 major activities during the quarter being its oil and gas activities in the USA, its solar energy activities and its interest in MEARS Technologies Inc. (“MEARS”).

OIL AND GAS ACTIVITIES

K2 Energy owns 10.68% of Trey Resources I, LLC, which is an oil and gas producer based in Texas, USA. Trey Resources has substantial acreage of approximately 19,000 net acres, predominantly in Texas and Oklahoma.

Production generated from the assets at 30th September 2015 is approximately 700 BOEPD (Barrels of Oil Equivalent Per Day) gross and approximately 550 BOEPD net.

The recent drilling program, including horizontal wells was completed, with two of these wells being quite promising. Trey Resources has obtained approval for a water disposal well, to enable the horizontal wells to produce optimally. Oil and gas prices remained depressed, with oil price hedges being in place for much of the current production.

MEARS TECHNOLOGIES, INC.

K2 Energy has an investment in MEARS, which has made good progress in relation to the commercialisation and adoption of its technology by firms in the semi-conductor industry.

MEARS entered into an engagement agreement with a West Coast USA based investment firm to prepare MEARS for an IPO.

To bridge MEARS working capital requirement until IPO, the investment firm arranged a Convertible Note Issue during the March 2015 quarter, which was significantly oversubscribed, raising over US\$8 million. At the same time K2 has exchanged its Convertible Note of \$1.3 million for the new series of Convertible Notes.

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MEARS TECHNOLOGIES, INC. (continued)

The strength of this capital raising was impressive and augurs well for the planned IPO. This was a major milestone for MEARS as it provided the capital required for the commercialisation process.

MEARS is preparing for an IPO with the assistance of a West Coast, USA based investment firm, with timing dependent on stock market conditions, with the likely period being the first half of calendar year 2016, with the target time being the end of the March 2016 quarter. MEARS is currently hiring key personnel and recently appointed a new CEO to take the company through to the IPO.

During late 2014 MEARS signed a Memorandum of Understanding with a Multinational Semiconductor Manufacturer* for a program leading to a Product Qualification that incorporates MST Technology. MEARS also continues to engage with a number of other major international firms on the commercialisation of its Mears Silicon Technology (“MST™”).

MEARS also signed a joint Marketing Agreement Term Sheet with a leading Japanese OEM (Original Equipment Manufacturer) in late 2014. This will substantially enhance the sales and marketing process.

Additional customer engagements have been occurring which expands the potential sales pipeline of the business.

K2 has a direct shareholding of 5.339% in MEARS, options in Mears as well as a convertible note of \$1.3 million. The convertible note can be converted into further equity in MEARS at a 50% discount to the IPO price.

MST™ has been demonstrated to reduce gate leakage and increase drive current (performance) in CMOS semiconductors. It also has the benefit of reducing the increasing variability in key parameters, that is now one of the most significant problems facing the industry and which is limiting the yield, power and performance of leading products.

* The name of the Multinational Semiconductor Manufacturer cannot be disclosed because of confidentiality agreements in place.

MEARS SOLAR

K2 Energy owns the exclusive worldwide rights to the Mears Silicon Technology (“MST™”) for all solar energy applications.

K2 Energy funded a research and development solar program conducted by Mears with the aim being to develop more efficient silicon based cells utilising MST™. MEARS and K2 Energy have agreed that the solar activities have entered the commercialization/collaboration phase. K2 Energy, together with the assistance of MEARS, is actively seeking a major international solar group to joint venture or collaborate with in order to commercialise the MST technology.

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