

Rights Attaching to Options

K2 Energy Limited ("K2 Energy")

The rights attaching to the Existing Options and the Options to be allotted and issued under this Prospectus are set out below.

- Each Option entitles the holder, when exercised, to one Share in the capital of K2 Energy.
- The Options are exercisable at a price of 20 cents each.
- The Options will expire on 30 September 2009 ("Expiry Date").
- The Company will provide to each Option holder a notice that is to be completed when exercising the Options (Notice of Exercise). Options may be exercised at any time from 1 October 2006 by the Option holder in whole or in part by completing the Notice of Exercise and forwarding the same to the Company Secretary or the Share Registry to be received prior to the Expiry Date. The Notice of Exercise must state the number of Options exercised, the consequent number of Shares to be allotted and the identity of the proposed allottee. The Notice of Exercise by an Option holder must be accompanied by payment in full for the relevant number of Shares being subscribed, being an amount of the exercise price per Share.
- All Shares issued upon exercise of the Options will rank pari passu in all respects with K2 Energy's then existing shares.
- K2 Energy will apply for quotation by the ASX of all Shares issued upon exercise of the Options.
- Options are freely transferable subject to the Company's Constitution and the Corporations Act
- There are no participating rights or entitlements inherent in the Options and the holder will not be entitled to participate in new issues of capital offered or made to shareholders during the currency of the Options. However, K2 Energy will ensure that for the purposes of determining entitlements to any such issue, the record date will be at least 10 business days after the issue is announced. This will give Option holders the opportunity to exercise their Options prior to the date for determining entitlements to participate in any such issue.
- There will be no change to the exercise price of an Option or a change to the number of underlying securities over which they can be exercised (except in the case of a bonus issue or reconstruction).
- If at any time the issued capital is reconstructed, all rights of an option holder are to be changed in a manner consistent with the ASX Listing Rules (if applicable) and in any case in a manner which will not result in any benefits being conferred on Option holders which are not conferred on shareholders.
- If the Company's share capital is reconstructed (including a consolidation; subdivision, reduction or return):
 - (i) The number of Options and the exercise price will be deemed to have been automatically reconstructed (as appropriate) on the reconstruction coming into effect, in a manner which will not result in any benefits being conferred on the holders of Options which are not conferred on shareholders, and in the appropriate manner of reconstruction as specified in Listing Rule 7- 22 as amended from time to time (or the equivalent or replacement provision)(if applicable); and
 - (ii) Subject to any provisions regarding rounding of entitlements and/or fractions by the meeting of shareholders approving the reconstruction of capital, in all other respects the terms of exercise of an Option will remain unchanged.
- The Options will not entitle the Option holder to participate in any new issue of securities in the Company unless:
 - (i) the Option holder has become entitled to exercise the Options; and
 - (ii) the Option holder has exercised the Options prior to the record date for the determination of entitlements to the new issue of securities and participates as a result of being a holder of fully paid ordinary shares in the Company.
- In the event that prior to the date of exercise of the Options a pro rata bonus issue is made to the holders of fully paid ordinary shares in the Company (other than an issue in lieu or in satisfaction of dividends or by way of a dividend reinvestment plan), upon exercise of the Options, the entitlement to be issued fully paid ordinary shares upon exercise of the Options will be adjusted to include the number of bonus shares that would have been issued to the holder of the Options as if the Options held had been exercised prior to the record date for the bonus issue. Notwithstanding any adjustment to the entitlement to be issued fully paid ordinary shares upon exercise of the Options that result from a bonus issue, the exercise price in respect of the Options will not change.
- Any calculations or adjustments which are required to be made to the exercise price of an Option or the number of underlying securities ("Option Adjustment") will be made by the auditors of the Company for the time being and will, in the absence of manifest error be final and binding on the holder of the Options.
- If the Board in its absolute discretion determines that an Option Adjustment (or the fact that no Option Adjustment is prescribed in respect of a particular reconstruction) would not be fair and equitable to the holder of the Options and the holders of all Shares, having regard to the circumstances of the particular capital reconstruction or bonus issue and the capital structure of the Company at that time, then the Board may, subject to the ASX Listing Rules (if applicable), substitute another adjustment, provided that the Board reasonably considers that the substitute adjustment is fair and equitable.
- The Company will notify the holder of the Options of any Option Adjustments within seven days of the date of the adjustment.

NOTICE OF EXERCISE OF OPTION

To: K2 Energy Limited C/- Registries Limited, PO Box R67, Royal Exchange, Sydney NSW 1223

I / We.....
Name of Option holder/s (Please use block letters)

.....
Registered address of Option holder/s (Please use block letters)

hereby exercise my options to apply for
(number in words) (in figures)

fully paid ordinary shares in the capital of K2 Energy Limited and I/we enclose my/our cheque for \$.....
in payment of such shares at \$0.20 per option subscription. I/we request that you allot me/us on the share register the number of shares to which I am/we are entitled and I/we agree to accept such shares subject to the Company's Constitution.

PLEASE SIGN HERE:

Shareholder 1 (Individual)

Joint Shareholder 2 (Individual)

Joint Shareholder 3 (Individual)

Sole Director & Sole Company Secretary

Director

Director / Company Secretary

Business Telephone No. () Date