

K2 ENERGY LIMITED

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The Manager Companies
Australian Stock Exchange
20 Bridge Street
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Dear Sir

PROJECT UPDATE

The Directors of K2 Energy Limited provide the following drilling results and project updates:

SHARY PROSPECT- Hidalgo County, Texas

The Kaler Blackstone Shary #1 Well completed in June 2006 is awaiting connection to the Chesapeake Energy Corp gas gathering system, pursuant to an agreement to farm out 40 acres of shallow rights to Chesapeake.

The Chesapeake farm out allows the Shary #1 to connect to Chesapeake's gas gathering system in exchange for the shallow mineral rights on a 40 acre section of the Shary Lease acreage on which Chesapeake is the holder of the deep mineral rights below 10,000'. K2 has no interest in the Chesapeake well but has the right to access data from the successful deep test.

Connection timing for the Shary #1 is expected in the next few weeks. In addition the Chesapeake Well encountered strong gas shows from the 9500' frio sands, which gives rise to possibly two additional drilling locations on the targeted fault block.

Further evaluation of the Chesapeake well data by the operator is continuing with a view to establishing the feasibility of drilling additional test wells on the Shary acreage. An additional offset well location up dip from K2 Energy's Shary #1 discovery well is also under evaluation.

SOUTH BOURG PROSPECT - Terrebonne Parish, Louisiana

The initial test well on South Bourg, The Callahan #1 will be drilled to a depth of 11,500' targeting an estimated reserve of 21 BCF of gas.

A rig booking has been secured and the well is expected to spud mid January 2007.

K2 Energy has a 5% working interest in the prospect.

HIDDEN LAKE PROSPECT – GAYLE #1 Well - Brazoria County, Texas

The initial test well on The Hidden Lake Prospect, which is an offset to the producing Azimuth #2-A Strunk well, is to be drilled to 11,400' and will target a potential estimated reserve of 16 BCF of gas. It is expected to spud in late December 2006.

K2 Energy has a 9.0616% working interest in the prospect.

DRILLING RESULTS

BLACKSTONE- SHIVERS #1 WELL Hidalgo County Texas

The Shivers #1 well was drilled to 12,100' encountered good gas shows, however poor reservoir sand quality, due to tight shaly sands being logged has resulted in the company accepting the operator's recommendation to plug and abandon the well on the basis that the well would be uneconomic if completed.

K2 Energy had a 6.8% working interest in the well and its budgeted share of prospect and dry hole costs was \$US165, 000.

KELLY 26-6#1 WELL Escambia County, Alabama

The Kelly 26-6 #1 test well was drilled to 14,500' targeting the Smackover dolomite formation. The target formation was encountered but the stratigraphic trap was not sealed laterally and no oil accumulations were encountered. The well is to be plugged and abandoned.

K2 Energy had a 1.2% working interest in the well and its budgeted share of prospect and drilling costs was \$US42, 000.

Yours faithfully,



T.A. Flitcroft
Company Secretary