

30<sup>th</sup> April 2007

The Manager Companies  
Australian Stock Exchange  
20 Bridge Street  
Sydney NSW 2000

Dear Sir/Madam,

**Exploration Report for the quarter ended 31<sup>st</sup> March, 2007**

**Drilling Program**

**1.) Hidden Lake Prospect, Brazoria County, Texas.**

The drill pad is completed. The Gayle #1 well is expected to spud in early June, 2007, due to another change in rig schedules. Reserve potential up to 16 BCF may be recovered from the prospect, which is competitive with another company.

K2 holds a 9.0616% working interest and a 7.058% net revenue interest in the prospect.

**3.) North Case 26 Prospect, Presque Isle County, Michigan.**

The company elected to participate in the re-drill (sidetrack) of the Haskill 1-26 well. Location is already cleared and the rig will move to the location in May. This well is targeting a Silurian pinnacle reef above 4,000' true vertical depth. Potential reserves range up to 500,000 barrels of oil and associated casing head gas.

K2 holds a 30% working interest and a 22.5% net revenue interest

**4.) Shary Prospect, Hidalgo County, Texas.**

The Black Stone – Shary #1 well is slated for a production test to determine sustainable gas rates and pipeline specifications. The well was production tested over a 16 day period at a stable rate of 150 MCFD with 16 BWPD and 430 psi flowing pressure on an 8/64" choke. Estimated gas reserves based on the test results are undetermined at this time. However, a prospective drill site higher on structure, and in the same fault block, is now considered a likely drill target later in 2007. The company has secured access to the pipeline gathering system owned by Chesapeake Energy Corp in exchange for the shallow mineral rights on a 40 acres lease controlled by the Shary Prospect owners. Chesapeake's deep well encountered gas shows in a separate fault segment, which may also result in a future well proposal in which K2 will have participation rights.

#### **5.) Samano Prospect, Starr County, Texas**

The company's option to participate in the Samano Prospect, Starr County, Texas will be exercised or closed when the new drilling and completion cost estimates are furnished by the operator and/or prospect generator. The 9,500' well targets Vicksburg sands estimated to have reserve potential ranging in excess of 5 BCF. The Samano Prospect is a development well into the Samano and Flores Field.

#### **6.) Alex Prospect, Hidalgo County, Texas**

The company has signed to participate for a 10% Working Interest before casing point and 7.5% Working interest after casing point in the Chapa #1 well, Alex Prospect, located in Hidalgo County, Texas. The well will test a fault bounded structure with and excellent gas shows in an off-structure, or down dip, well. Multiple reservoir targets are possible with reserve potential of up to 24 billion cubic feet (BCF) of gas, and 360,000 barrels of condensate.

#### **7.) Bad Creek, Okfuskee County, Oklahoma**

On 26 April 2007, K2 Energy announced that it had concluded an agreement with Metro Energy of Tulsa Oklahoma to acquire a 50% interest in 1930 acres of oil and gas leases owned by Metro Energy in Okfuskee County, Oklahoma. The leases are located in an Area of Mutual Interest ("AMI") known as the "Bad Creek AMI" covering 36 square miles. The Bad Creek AMI contains strategic 3D target specific acreage with potential to drill 10 – 20 exploration wells on 3D generated exploration targets, with multiple potential pay zones to depths generally less than 5000 feet. The consideration paid by K2 Energy to Metro Energy for a 50% interest in the Bad Creek AMI is US\$945,000 and K2 Energy has agreed to carry Metro Energy for 25% of the total of the combined cost of Metro Energy/K2 Energy's participation in the first four wells drilled through production casing point. Metro Energy will be the operator of all wells drilled within the Bad Creek AMI and will be AMI manager. Metro Energy and K2 Energy will participate in new leases acquired within the AMI on a 50/50 basis and K2 Energy will pay its share of the leasing costs, plus 20%, as Metro Energy will provide or procure all land management services. In the event that the Tomahawk/K2 Energy does not proceed, Metro Energy has the option to buy back all or part of the acreage acquired by K2 Energy within the Bad Creek AMI.

### **Bad Creek, Okfuskee County, Oklahoma (continued)**

Drilling has already commenced in the Bad Creek AMI. The Priegel# 10-1 Well has been drilled to a total depth of 4350 feet and encountered strong gas shows from mud logs in multiple potential pay zones in the Jefferson, Boak and Gilcrease sands and the deeper Hunton Chert Zone. The electric logs of the well have not yet been provided to K2 Energy and further information will be provided to the market once the company has evaluated well logs to be provided by Metro Energy. K2 Energy has a 28.5591% working interest in the Priegel #1-10 well. The Patriot #1-15, the second well in the Bad Creek AMI, has commenced drilling to a total depth of 4350 feet on a 370 acre 3D generated structure. The well is drilling and has reached a depth of 3,336 feet. Mud logs indicate strong gas shows in the Bartlesville, Booch, Cromwell and Jefferson sands and the well appears to be confirming the 3D structural high identified by 3D seismic. K2 Energy has a 6.0425% working interest in the Patriot #1-15.

### **Drilling Results**

The Callahan # 1 well was drilled on the South Bourg Prospect in Terrebonne Parish, Louisiana and encountered the objective P & M sands at 10,890' and 11,190' respectively which were structurally high and returned good gas shows, however the objectives were non productive due to water. The well was deepened to 11,640' to test the R sand objective however this sand was poorly developed and determined to be non-productive. The well has been plugged and abandoned.

### **Expenditure**

Expenditure on exploration and administration costs during the quarter amounted to \$378,000.

A handwritten signature in black ink that reads 'Michael S. Reed'.

Michael S. Reed  
Director