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ASX RELEASE

**QUARTERLY ACTIVITIES REPORT FOR THE QUARTER
ENDED 31st DECEMBER 2007**

The Directors of K2 Energy Limited (ASX: KTE) are pleased to provide the following report for the December 2007 Quarter.

HIGHLIGHTS

- **Oil and gas production up 12% for the quarter.**
- **New wells Patriot #3 and Shary #2 drilled.**
- **Workovers on 5 existing wells increased production by 400 mcf/d.**
- **Gayle #1 well in Texas continues to produce 80 bopd and 120 mcf/d.**
- **Leasing and pooling process of 9 new drilling locations in the Bad Creek project area progressing.**
- **Three to five exploration wells planned for coming quarter.**

OPERATIONAL OVERVIEW

BAD CREEK PROJECT - OKFUSKEE COUNTY, OKLAHOMA.

PATRIOT GAS FIELD – BAD CREEK PROJECT

Patriot #1-15 (K2 12.6%)

The Patriot discovery was made in may 2007 and is currently producing from only one of several gas bearing zones. The Jefferson Sand is currently producing at 600 mcf/d. Remaining untested zones will be tested with planned offset wells. The Patriot prospect is relatively large covering over 300 acres of structural closure that is well defined on the 3D data set. Significant oil and gas shows were encountered while drilling and electric logs indicate the hydrocarbon pay is possible in 9 identified zones in the well

Patriot #3-15 (K2 12.6%)

During the quarter K2 Energy participated in the drilling of the Patriot #3 well in its Bad Creek 3D seismic project. Patriot #3 is a development well offsetting the producing Patriot #1 well, which has been producing at 600 mcf/d in recent months.

The well log identified 4 potential producing zones and 65 feet of potential net pay in the Booch, Cromwell, Union valley and Jefferson sands.

The Jefferson sand zone has been tested and produced approximately 40 mcf/g per day and 70 barrels of water per day and was deemed uneconomic. The operator is planning to test the Cromwell sand in the coming quarter.

The well logs indicate that the Cromwell, Booch and Union Valley zones have excellent potential and remain to be tested in the well. Successful tests in any of the remaining zones have the potential to add to the reserves of the prospect.

PRIEGEL PROSPECT – BAD CREEK PROJECT

Priegel # 1-10 (K2 - 33%)

The Priegel #1-10 was drilled well in the Bad Creek project was producing steadily at 200 mcf/d from May 2007 until October 2007, however rising water production from the Jefferson zone necessitated the well to be shut in as the water issue could not be resolved. It is proposed to move up the hole and test the Gilcrease sand zone and this work will be completed during this quarter.

Priegel # 3-10 (K2 – 33%)

The Priegel #3-10 is an appraisal well that is proposed to test the Booch sand zone identified on the logs on the Priegel #1-10 as potentially productive. This well is scheduled to be drilled in February 2008.

The operator proposed an offset well, the Priegel #2-10, to test the Jefferson sand, however due to geological concerns K2 Energy elected not to participate in the well.

9 New Drilling Locations – Bad Creek Project

During the Quarter K2 Energy's partner and the operator of the project, Metro Energy Group ("Metro") of Tulsa Oklahoma, has been progressing the leasing of multiple new drilling targets within the Bad Creek project area and pooling of 9 the new drilling targets are progressing.

K2 Energy and Metro were hopeful that the Oklahoma forced pooling process, whereby all mineral right holders within a proposed drilling unit are forced to either participate in the proposed well or be pooled and receive the usual applicable royalties, would have been completed on the first 3 of these new drilling locations in the December quarter. The pooling of the 3 locations has been delayed by certain objections by some mineral owners. Metro Energy expects that the objections will be resolved without significant further delay, as these objections are expected to be heard by the Oklahoma Corporation Commission within the next month.

A further pooling applications in respect of proposed drilling locations are at various stages in the pooling process and the operator advises that it expects the applications to be granted in respect of the new locations progressively over the coming Quarter.

WORKOVER PROGRAM - EXISTING TOMAHAWK ENERGY WELLS

Prior to the merger of K2 Energy and Tomahawk Energy, Tomahawk engaged Schlumberger Consulting engineers to evaluate the behind pipe resource potential of 14 of the 28 existing Tomahawk wells. As previously announced Schlumberger has indicated that behind pipe resource potential of 20 BCF of gas was possible from the existing wells it reviewed.

A workover program was initiated after the merger of K2 Energy and Tomahawk Energy in June 2007. Workovers have been completed by Metro Energy on only 5 unconventional shale wells known as the "Devon Wells," as they were initially drilled and operated by Devon Energy in which Tomahawk Energy had a 12.5% working interest. The workovers of the 5 wells cost K2 Energy \$44,000 and yielded an increase in total production of approximately 200 mcf/d.

An additional workover program initiated by K2 Energy in the December Quarter on 5 additional wells in the existing Tomahawk Energy project known as the Snell – Heirs project has been more successful yielding production increases equivalent to approximately 400 mcf/d net to K2 Energy. (400 x \$6 = \$2400 per day estimated gross revenue). The Budget for this workover program was \$156,000 and the wells are being connected to sakes and will add to production in the March Quarter.

The workover program will continue to evaluate and unlock the behind pipe potential of the existing Tomahawk wells as the company sees the potential to increase production from the existing wells for relatively modest expenditure.

HIDDEN LAKE PROSPECT, BRAZORIA COUNTY, TEXAS.

The Gayle #1 discovery well in Brazoria County Texas is in production and is averaging at 120 mcf/d gas (on a 12/64th choke) and 80 barrels of oil per day (BOPD) from the 10,200ft Frio sand. Further potentially productive shallower zones are yet to be tested in the well. K2 Energy has a 9.0616% Working interest in the well.

SHARY PROSPECT, HIDALGO COUNTY, TEXAS.

The **Black Stone – Shary #1 (K2 6.8%)** well has continued to produce steadily at a modest 100 mcf/d for the past several months from the 8400' Frio sand. Evaluation of the seismic data gave encouragement to the Operator to propose an up dip offset well the Shary #2.

The Shary #2 development well was drilled and completed in December 2007. A review of the 3D seismic data indicated that the up dip Shary #2 location would gain 60 feet of structure on a contiguous fault block and was considered to have potential for a possible resource of 4 BCF of gas and K2 Energy increased its working interest in the well from 6.8% to 12.17% on this basis.

The well returned excellent gas shows from the drill cuttings and mud logs and the well logs exhibited the same resistivity profiles as the productive Shary #1 in the target sand from the well logs and the operator concluded that the well was a “discovery” and recommended that two potentially productive sand zones be completed. The completed zones were tested and produced some gas but also excessive fresh water and were deemed uneconomic. This result was most disappointing given the very positive log interpretations and gas shows prior to completion of the well. Review of additional potential zones in continuing, however it is anticipated that the well will be plugged and abandoned.

ALEX PROSPECT, STARR COUNTY, TEXAS

The Alex #1 (K2 Energy 7.5%) well was drilled to test a fault bounded structure with excellent gas shows in an off-structure, or down dip well. Multiple reservoir target zone were identified on the well logs that exhibited log profiles extraordinarily similar to other producing wells in the field and potential to recover up to 24 bcf of gas. Multiple sand formations were completed and tested positive for gas at rates between 200-300 mcf/d but returned excessive water production and proved uncommercial. Further evaluation of the well is proceeding, however it is anticipated that the well will be plugged and abandoned.

CHEROKEE UNCONVENTIONAL GAS PROJECT

The company has retained its 12.5% interest in the Cherokee Unconventional gas project on approximately 27,000 acres in Okfuskee and Hughes Counties in Oklahoma.

The area remains prospective for unconventional shale gas production. K2 Energy and its partner Metro Energy have sold 50% of the 87.5% interest in the acreage to Irvine Energy, a company listed on the AIM market in London. Metro and its partners continue to evaluate the potential of the unconventional resource in the Caney and Woodford shales and have engaged Schlumberger engineering to further evaluate seismic and other data with a view to advancing the project.

OIL AND GAS PRODUCTION

Gas production increased throughout the quarter by approximately 11% from 14.2 million cubic feet in the September Quarter to 15.6 million cubic feet in the December Quarter.

Oil production increased in the December Quarter by over 300% from 1009 Barrels to 3072 barrels of oil. This came at a time when both oil and gas prices rose sharply.

The company expects that recent, and planned workovers in the coming Quarter, will further increase production, as will drilling success on planned exploration and development wells in the Bad Creek Project.

CONCLUSION

The company was active in the Quarter drilling 3 wells and completing 5 workovers on existing wells that have added to future production for minimal capital outlay.

Providing pooling issues with drill locations in Oklahoma are resolved as anticipated, the company plans, subject to rig availability and other operational issues, to drill from 3 to 5 wells in the coming Quarter and the workover program will continue on existing wells in Oklahoma.

K2 Energy's focus continues to be on extracting maximum production and cash flow from its Bad Creek project in Oklahoma project. The company plans to aggressively pursue "workovers" and development drilling to add low cost reserves and production and take advantage of the high oil and gas prices. It also plans to drill and test its multiple exploration targets in the Bad Creek Project with as many new exploration wells as possible in the coming Quarter.

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