

30 January, 2009

ASX RELEASE

QUARTERLY ACTIVITIES REPORT FOR THE QUARTER ENDED 31st December 2008

The Directors of K2 Energy Limited (ASX: KTE,) are pleased to provide the following report for the Quarter ended 31 December, 2008.

REVIEW OF OPERATIONS

During the Quarter the company continued to focus on operations in the Bad Creek Project in Oklahoma, where it has conventional and unconventional gas production.

The Jones #1 Woodford shale well

The Jones #1 Woodford well, drilled in June 2008, was placed on sales in November and began selling gas at an average rate of 40 mcfg per day. A surface pumping unit was placed on the well in December to continue the recovery of frac fluids at an average rate of 50 barrels of water per day. In excess of 60% of the frac fluids have been recovered and gas production could increase as fluid continues to be recovered from the formation.

The results of the Jones well are encouraging for the Woodford shale play in Bad Creek as, while the production rates to this stage are below expectations, the well appears to be commercial and together with the Snell 2-19 well, the company now has two producing Woodford shale wells in the Bad Creek area.

A high level of activity continues in Woodford and Caney shale plays in Oklahoma with large independents, such as Newfield Exploration, XTO, Petrohawk Energy, BP, Chesapeake Energy and Devon Energy all actively drilling extensive acreage positions in the Woodford play. Most companies have however announced reduced capital expenditures on all exploration and development projects, including the Woodford and Caney shale plays.

K2 Energy is currently reviewing its position in the Bad Creek Project and its drilling budget in the light of current economic conditions.

Booch (Boak) Appraisal Project

Interpretation of the Bad Creek 3D seismic data has identified a potentially significant oil producing reservoir know as the Booch sand. The target zone is extensive and has potential for oil production from a water flood recovery project and from horizontal wells. Oil was produced form the Booch sand in both the Patriot #2 and the Priegel #3 wells and the wells have been shut in pending further appraisal of the feasibility of developing a water flood recovery program to further test the prospect.

Well review

During the Quarter the company reviewed all producing wells in Oklahoma and decided to shut in 8 uneconomic wells in the Snell Heirs and Bad Creek projects in Oklahoma. The company now has 6 producing wells in Oklahoma and 2 in Texas producing 150- 200 mcf/d net to the company.

Revenues

Revenue received from production reduced for the Quarter due to accounting issues with the operator in Oklahoma Metro Energy Group, after it transitioned to a new accounting system over the past 6 months. There are disputed amounts which we are endeavouring to resolve with the operator.

CONCLUSION

The company's drilling program is under review having regard to the changed economic conditions and the current issues with the operator Metro Energy Group. The company is continuing to reduce costs and overhead in order to preserve as much cash as possible during the coming year.

The company will also review acquisition opportunities that may arise in the coming months, as a result of the economic crisis.

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