

**30 July, 2009**

**QUARTERLY ACTIVITIES REPORT FOR THE QUARTER  
ENDED 30 JUNE 2009**

The Directors of K2 Energy Limited (ASX: KTE,) are pleased to provide the following report for the Quarter ended 30 June, 2009.

**REVIEW OF OPERATIONS**

During the Quarter the company continued with its strategy of conserving capital and actively evaluating new opportunities for the company in the oil and gas and resources sector. A significant number of new opportunities have been reviewed by K2 Energy during the quarter and due diligence in respect of several new projects is continuing. The company is hopeful that an appropriate new project can be determined in the coming quarter.

The company continued the suspension of its drilling activity in the Bad Creek project area in Oklahoma, due to the ongoing legal and accounting dispute with the operator of the project Metro Energy Group.

The company will continue to seek to resolve the issues with Metro Energy on the best possible commercial terms. Market conditions in the onshore conventional and unconventional oil and gas sectors in the US continue to be difficult with gas prices remaining low and the net gas price received in Oklahoma often below \$4 per mcfg during the quarter.

**Legal Action – Metro Energy Group**

Due to the poor performance of Metro Energy as Operator of the Bad Creek project the company is currently engaged in litigation with Metro Energy Group in Oklahoma seeking the removal of Metro as operator of the project. In addition the company is alleging Breach of Contract, as well as other issues.

During the quarter the company sought to complete an audit of the 5 wells drilled by Metro Energy Group since the merger of K2 Energy and Tomahawk Energy in June 2007. The auditor has noted a significant number of accounting exceptions on the wells audited in the company's favour and the auditors are seeking explanation information from Metro Energy in respect thereof. Metro Energy has withdrawn co-operation with the auditor and a Motion to Compel Production of documents has been lodged with the court in Oklahoma to compel Metro's co-operation. The hearing in respect of the Motion to Compel is scheduled to be heard in mid August.

### **Well review**

The company has 6 producing wells in Oklahoma and 2 in Texas producing 150- 200 mcf of gas per day net to the company. The Jones #1 Woodford shale well in Oklahoma continues to produce at 30-40 mcf/d, which while not significant in dollar terms, does serve to further underline the potential of the Woodford shale play on the company's acreage in Oklahoma. The Snell 1-19 well continues to produce at a consistent 160 mcf/d from the Woodford also.

### **Revenues**

Production revenue received by the company for the Quarter were reduced, as all revenue from the Oklahoma wells is being held in escrow pending the resolution of litigation with Metro Energy Group.

### **Conclusion**

The company is working to resolve the legal and accounting issues with Metro Energy Group on reasonable terms as soon as possible. Management is working hard on reviewing a significant number of new opportunities for the company and remains confident that new opportunities capable of restoring shareholder value will emerge in the coming months. In the meantime the company will continue to manage funds carefully and preserve as much capital as possible to ensure that the company is position to take full advantage of emerging opportunities.

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