

28th May 2008

## **ASX ANNOUNCEMENT**

### **Spudding of First Woodford Shale Horizontal well**

K2 Energy Limited (ASX-KTE) is pleased to announce that its first horizontal appraisal well to test the Woodford shale in the current drilling program on its Bad Creek Project in Oklahoma is expected to spud this week.

The Jones #1 well (KTE 25%) will be drilled vertically to 4000' to log multiple conventional oil and gas zones before being kicked off to drill a 2000' lateral leg into the Woodford shale. Multistage fracture stimulation techniques applied successfully by other operators in the play adjacent to the Bad Creek project area will be applied by the company.

The Jones #1 well is the first of several planned wells to test the Woodford and Caney shale resource of up to **81BCF net to KTE** of gas outlined by Netherland Sewall & Associates in its Independent Experts Report announced on 13<sup>th</sup> May 2008.

### **Woodford / Caney Shale Play – Arkoma Basin Oklahoma**

The Woodford / Caney Shale play is now proven and one of the fastest developing unconventional gas plays in the United States with many large independent such as Newfield Exploration, Devon Energy, Southwestern Energy, XTO, Petrohawk Energy and others all mounting aggressive drilling programs on the back of many successful wells in the adjoining areas. These wells generally produce over 1 million cubic feet of gas per day and reserves of 2-4 BCF of gas per well are being booked.

Newfield Exploration has announced expenditure of \$700m drilling in the Woodford play in SE Oklahoma in 2008.

Comments by Managing Director Peter Moore:

“KTE has numerous wells planned for this year targeting both the conventional and unconventional hydrocarbons in its core area at Bad Creek. The spudding of our first Woodford horizontal well represents an extremely important event for the company. KTE has identified a large prospective gas resource in its Bad Creek area and if drilling proves successful, it can start booking these resources into the proven and probable reserves category, which will create significant value for our company.”

“The industry is already ascribing significant value to the acreage as evidenced by recent acreage sales in the play for undeveloped proven acreage that have been reported at \$4000 - \$6000 per acre with some sales at \$18,000 per acre. K2 Energy holds approximately 5,500 acres in the Bad Creek Project. This value is not currently being translated into our share price but hopefully successful drilling and the booking of reserves will help to crystallize that value.”

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For any further information please contact, Managing Director, Peter Moore on 02 9251 2254.