

29th April, 2008

ASX ANNOUNCEMENT

Drilling approved on WOODFORD SHALE

K2 Energy Limited (ASX: KTE) will shortly participate in its first horizontal drilling campaign in the Woodford gas play in its Bad Creek project in Oklahoma.

Improvements in drilling technology and a recent doubling of US gas prices has resulted in a large increase in the value of K2 Energy's petroleum acreage and increased drilling activity targeting this, now proven, play type. This is a major boost for K2 Energy, which was an early entrant in this area gaining a valuable position to be drilled in the coming months.

Highlights:-

- **2 horizontal unconventional gas wells to be drilled in Bad Creek**
- **Wells to test Woodford Shale gas play, now a prolific producer in the region.**
- **Multiple conventional zones as well as unconventional zones to be tested.**
- **Woodford and Caney Shale plays now proven and in high demand in K2 Energy's core area.**
- **K2 Energy holds 5500 net acres where Woodford gas shale acreage is selling for \$4000 to \$16000 per acre.**
- **K2 holds 25% of Jones #1 and 11% of Sears #1 horizontal Woodford wells.**
- **Wells to spud 2nd half of 2008 with net cost to K2 of ~\$US700,000.**

The two planned wells have been proposed after detailed 3D seismic interpretation completed recently by Schlumberger Consulting that recommended 12 priority targets within the Bad Creek project area for Woodford shale test wells.

The Jones #1 (KTE 25% working interest) and the Sears #1 (KTE 11% working interest) are located on two of the priority targets recommended by Schlumberger.

Both wells will initially be drilled vertically to approximately 4000 feet and all potential conventional oil and gas zones will be logged and assessed before an up hole plug is set and the well kicked off horizontally to intersect the Woodford Shale zones. Any productive conventional zones may be co-mingled with Woodford production in the future or produced separately from additional accelerator wells.

The wells are planned to incorporate a 2000 ft lateral section into the Woodford. This zone will receive multiple fracture stimulations using techniques that have proven successful for other operators elsewhere in the Woodford play in South East Oklahoma.

Well completion techniques in the Woodford shales have been refined by major operators over the past 2 years with companies like Newfield Exploration drilling > 3000' lateral with multistage slick water and gel fracture treatments returning production rates > 1MMCFD (1 million cubic feet per day) and 2-4 BCF of reserves per well.

Newfield Exploration has reported that it holds 165,000 net acres (see attached map) in the Woodford play in SE Oklahoma, has 3100 producing wells and plans to drill over 200 wells, spending approximately \$700 million in the play in 2008.

Other large independents such as Devon Energy, Chesapeake Energy, XTO and Petrohawk Energy are all active in the booming Woodford Shale unconventional gas play in S.E. Oklahoma.

K2 Energy also has potential in its Bad Creek Project for Caney Shale gas production (also known as the Fayetteville Shale). K2 Energy has some gas production from vertical wells in the Caney shale and sees significant potential to test the Caney in several locations in Bad Creek.

To the East of the K2 Energy Bad Creek project Southwestern Energy has a very large Fayetteville shale (Caney Shale) project comprising ~ 906,000 acres at the end of 2007 (see attached map) in which it has drilled 699 wells and spent ~\$960 million in 2007. The company produced 325 MMCFD from its Fayetteville shale wells in 2007.

K2 Energy has completed detailed 3D seismic interpretation in Bad Creek over the past 6 months.

Recent acreage sales in the Woodford areas to the south of Bad Creek for proven undeveloped acreage have been from \$4000 to \$6000 with some sales reported at \$16,000 an acre in the prime producing areas of the play.

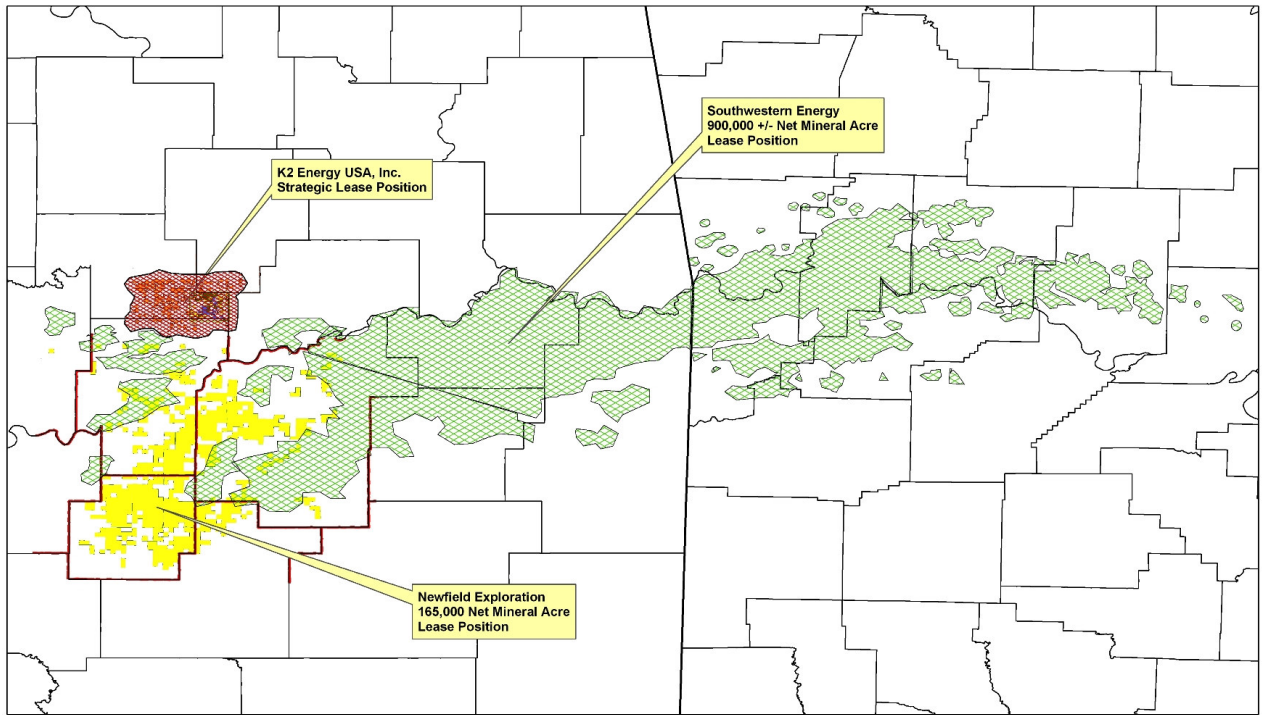
Commenting on the gas potential of the Woodford and Caney shales in the Bad Creek Project area K2 Energy's managing director Peter Moore said,

“ We see huge upside for K2 Energy in the Woodford and Caney shales in Bad Creek. Since the company successfully drilled vertical Woodford and Caney wells in 2004-2005 without 3D seismic, horizontal well completion techniques have advanced significantly. We now have the benefit of 3D seismic acquired in 2006 and know from previous drilling and production that the Caney and Woodford shales contain gas in the Bad Creek area.”

“We believe that the massive amount of very successful activity in the Woodford and Caney shales all around Bad Creek could provide a very significant increase in the value of the Bad Creek project for K2 Energy.”

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

K2 ENERGY LIMITED
Woodford Shale Players Acreage Position



Oklahoma & Arkansas
Carbonaceous Shale Plays
Woodford & Caney Fayetteville Formations