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ASX RELEASE

QUARTERLY ACTIVITIES REPORT FOR THE QUARTER ENDED 31st March 2008

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

HIGHLIGHTS

- **Gas production up 53% for the quarter.**
- **New discovery Ross 1-27 producing 500 mcf/d gas (K2 -4.4%)**
- **Priegel 3 appraisal well drilled to assess Booch Sand potential.**
- **Workovers on existing wells continuing.**
- **Reserve Report on Bad Creek Project from Netherland Sewall & Associates commissioned and nearing completion**
- **Woodford and Caney Shale gas potential in Bad Creek upgraded.**
- **Additional 700 acres acquired in Bad Creek 3D project area.**
- **Acreage values in Woodford & Caney shale plays increasing significantly.**

REVIEW OF OPERATIONS

GAS PRODUCTION - UP BY 53%

As expected workovers of existing wells and new drilling has resulted in a 53% increase in total gas production in the quarter from 15.6 million cubic feet of gas in the December quarter to approximately 24 million cubic feet of gas produced net to K2 Energy in the March quarter. This increase coincides with strongly rising oil and gas prices in the United States.

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.

RESOURCE ESTIMATE AND RESERVE REPORT – NETHERLAND SEWALL & ASSOCIATES

During the quarter the company retained Netherland Sewall & Associates Inc. (NSA) to prepare a Resource Estimate and Reserve Report on the company's Bad Creek project and in particular to assess the potential of the Unconventional gas potential of the Woodford and Caney Shales. Netherland Sewall is regarded as one of the top worldwide consultants to the energy sector with particular expertise in the emerging unconventional gas sector in the United States.

The Netherland Sewall Reserve Report is expected to be completed in May 2008.

BAD CREEK PROJECT - OKLAHOMA

In the Bad Creek project area the company continued to evaluate the potential of the conventional oil and gas targets in the project area as well as conducting a detailed re-evaluation of the potential of the Woodford and Caney Shales unconventional gas targets.

Woodford & Caney shales – two horizontal wells planned

The company will drill 2 new horizontal wells to ramp up its focus on the potential of the Caney and Woodford shales in the Bad creek project.

The proposed drilling program is the culmination of many years of work and stems from the large success achieved by other operators in the area. Improvements in technology and a doubling of US gas prices has resulted in a large increase in the value of acreage and an increased level of drilling activity targeting this, now proven, play type. This is a major boost for K2 Energy, which was an early entrant in this area and now holds a valuable position to be drilled in the coming months.

During the quarter K2 Energy commissioned Schlumberger Consulting Services to evaluate the Bad Creek 3D seismic data to select potential 'sweet spots' associated with high density fracture zones interpreted on the 3D data. Schlumberger has generated 10 high priority targets and the company plans to drill horizontal wells on the first two of these targets in the next few 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. K2 Energy has approximately 5,500 net acres in the Bad Creek project area

Highlights:-

- 2 horizontal unconventional gas wells to be drilled in Bad Creek
- Wells to test Woodford Shale gas play which is now a proven prolific producer in the region.
- Wells will test multiple conventional zones for later production as well as unconventional zones.
- Woodford and Caney Shale Plays now proven and in high demand in K2 Energy's core area.
- K2 to have 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.
- K2 Energy holds approximately 5500 net acres in the Woodford gas shale play where acreage is selling for \$4000 to \$16000 per acre. This implies significant value to K2 Energy.

The 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 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 the Jones #1 (KTE 25% working interest) and the Sears #1 (KTE 11% working interest) wells will initially be drilled vertically to approximately 4000' and all potential conventional oils and gas zones will be logged and assessed before an up hole plug is set. The wells will then be 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' lateral section into the Woodford that will be treated to multiple fracture stimulations using well completion and fracturing 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 in the play over the past 2 years with companies like Newfield Exploration drilling > 3000' lateral with multi-stage 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 in the Woodford play in SE Oklahoma, has 3100 producing wells, and plans to drill over 200 wells and spend ~ \$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 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.

Conventional Oil and Gas – Bad Creek Project

The company is continuing to evaluate the 20-30 conventional oil and gas bearing structures that it has identified on 3D seismic data. Leasing and pooling applications for some 13 targets are continuing and the company is hopeful that delays in the pooling process with the Oklahoma Corporate Commission will improve.

Production from the Patriot #1 is steady at ~ 200 mcf/d and the Priegel #1 has been converted to a water disposal well to be utilized in the appraisal of the Booch Sand water flood or horizontal drilling evaluation currently being conducted with the Priegel #3 Booch appraisal well.

Booch (Boak) Appraisal Project

Interpretation of the bad Creek 3D seismic data has identified a potentially significant oil producing reservoir known 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.

The Priegel #3 well was drilled during the quarter as an appraisal well to test the Booch (Boak) sand oil zone.

On March 24th the well was acid stimulated and swabbed back 15 -20 feet of free oil. On March 29th the Booch zone was fracture stimulated and the well flowed fluids before being placed on pump on April 15th. The well has been producing 7-8 barrels of fluid per hour with a 2-5% oil cut since that time and the operator plans to continue to pump fluids for 30 days to evaluate the potential of the well to produce at an economic oil cut percentage in the fluids produced. The well will be connected to a water disposal system in the coming weeks and the operator plans to pump high volumes of water increase oil production.

The Priegel #3 well is intended to evaluate the potential of the Booch zone for a water flood oil recovery project and /or a horizontal drilling program to produce oil from the extensive Booch reservoir mapped on 3D seismic. .

K2 Energy has a 33% interest in the well. The Booch zone is primarily an oil target with some potential for gas.

The Patriot #3 well, drilled last quarter, is currently testing the Union Valley zone after earlier testing positive gas flow from the Cromwell zone. The Union valley zone blew a strong gas show and some water in recent testing. The well has been shut in awaiting connection to the water disposal system after which the company plans to produce the well from the Cromwell and Union Valley zones.

The Ross 3-27 discovery well was drilled by the operator, Williams Petroleum, in late February 2008. It flow tested at between 488 and 736 mcf of gas per day from the Union Valley sand formation with excellent tubing pressures.

The well has been placed on production and is producing ~ 500 MCFD.

K2 Energy has a 4.4% Interest in the well.

This discovery is important to K2 Energy as the well, with its development potential, continues to demonstrate the potential of the Union Valley Limestone formation in the Bad Creek Project area where K2 Energy has broad interests ranging from 4.0 to 50% in numerous 3D seismic targets that have Union Valley production potential.

The Union Valley formation is a primary objective of several proposed new wells and on going work overs of K2 Energy's existing wells in the Bad Creek Area. The success of this well continues to provide encouragement and confidence in forthcoming activities in K2's Bad Creek project area.

Additional Acreage Acquired in Bad Creek

During the Quarter the company acquired an additional 700 acres in the Bad Creek 3D area bringing its total acreage position to approximately 5500 net acres. The company will continue to build its land position within the project area.

Workover Program - Existing wells

Workovers were completed on a further 7 existing wells during the quarter, which have contributed to the 53% increase in gas production during the quarter. The company will continue with the evaluation of the rework potential of its existing wells and will continue its existing workover program during the quarter.

Weather delays for workover and drilling activities were experienced through February and March due to heavy rain and severe flooding in Oklahoma.

CONCLUSION

The company was again active in the past quarter and the evaluation of the potential of the Woodford and Caney shales for unconventional gas in the Bad Creek 3D project area could be very significant for the company.

The drilling of 2 horizontal Woodford test wells will be an exciting step for the company and the success of other Woodford players in S.E Oklahoma in recent years in refining horizontal well completion techniques will greatly assist the drilling program. Success with the two proposed wells has the potential to add significant value for shareholders.

The 53% increase in gas production was pleasing and the company will continue to work to increase production and revenue from workovers of existing wells and the drilling of new conventional oil and gas wells on the 30 targets identified in Bad Creek to date.

The Booch sand evaluation well, the Priegel #3, will also be important to the company as if it can establish commercial oil production there is significant potential to expand the scale of the project by horizontal drilling of the Booch sand or designing a water flood oil project on the extensive Booch reservoir identified on 3D seismic.

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