

31st October 2008

ASX RELEASE

QUARTERLY ACTIVITIES REPORT FOR THE QUARTER ENDED 30TH SEPTEMBER 2008

The Directors of K2 Energy Limited (ASX: KTE) are pleased to provide the following report for the Quarter ended 30th September 2008.

REVIEW OF OPERATIONS

During the September 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 was drilled and the flow back of frac fluids is well advanced, with the well expected to be connected to sales in November. Gas has been observed during the flow back process and the company is hopeful that a commercial well will result.

Engineering plans are currently being prepared by the Operator of the project for additional Caney and Woodford shale wells to be drilled in the coming months.

A high level of activity continues in Woodford and Caney shale plays in Oklahoma with large independents such as Newfield Exploration, XTO, Petrohawk Energy, and Devon Energy all actively drilling extensive acreage positions in the Woodford play.

Advances in drilling and completion technology and US gas prices have resulted in increases in the value of acreage in the past year and an increased level of drilling activity targeting the Woodford and Caney shale plays. This is a major boost for K2 Energy, which was an early entrant in this area and now holds a significant acreage position.

New wells are being proposed based on detailed 3D seismic interpretation completed by Schlumberger Consulting that recommended 12 priority targets within the Bad Creek project area for Woodford and/or Caney test wells.

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 last quarter as an appraisal well to test the Booch (Boak) sand oil zone. When initially completed the well was placed on pump and was producing 7-8 barrels of fluid per hour with a 2-5% oil cut. The well was shut in while a nearby well was converted to a salt water disposal well. The well has now been connected to the saltwater disposal system and fluid production has commenced with a 1-2% oil cut achieved to date. This well will be evaluated during the coming Quarter.

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 Priegel #3 well.

The **Patriot #3** well was drilled earlier this year flowing gas from the Union Valley and Cromwell zones, however associated water production was excessive. The well has now been connected to the water disposal system and has now commenced production at 30-40 mcf/d. The Cromwell and Union Valley zones and additional shallow zones are currently being further evaluated. K2 Energy has a 12.6% working interest in the well.

The **Ross 3-27** operated by Williams Petroleum was producing 400 mcf/d from the Union Valley sand formation but gas production has now declined and water production has increased. Williams has recommended that the shallower Gilcrease zone be completed and tested and the company has consented to this proposal. The Gilcrease is expected to be completed and tested in the December Quarter. K2 Energy has a 4.4% Interest in the well.

CONCLUSION

The company continues to focus on evaluating the Bad Creek project area to generate further drilling opportunities for both conventional oil and gas targets and unconventional Woodford and Caney Shale gas targets.

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