

31st July 2008

QUARTERLY ACTIVITIES REPORT FOR THE QUARTER
ENDED 30th June 2008

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

HIGHLIGHTS

- **Reserve Report on Bad Creek Project from Netherland Sewall & Associates reports up to 81 BCF of gas potential NET TO KTE on Bad Creek project acreage.**
- **New Woodford Shale horizontal well, the JONES #1 drilled. Now being completed with multi stage fracture treatment.**
- **Priegel 3 appraisal well drilled to assess Booch Sand potential return 3% oil cut. Waiting on permits to connect to salt water disposal well to allow production testing.**
- **Workovers on existing wells continuing.**
- **Woodford and Caney Shale gas potential in Bad Creek continues to be upgraded.**
- **Net acreage in Bad Creek Project increased from 5500 acres to approximately 5700 acres.**
- **Acreage values in Woodford & Caney shale plays increasing significantly. Chesapeake Energy sells Woodford shale acreage to BP for \$1.75 billion in July 2008.**

REVIEW OF OPERATIONS

NETHERLAND SEWALL & ASSOCIATES RESOURCE ESTIMATE AND RESERVE REPORT

During the quarter the company received the above report from Netherland Sewall & Associates Inc. (NSA) 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.

NSA reported a contingent resource in place in place on K2's Bad Creek acreage as follows:

High (C3) - 81 BCF net to K2

Best (C2) - 46 BCF

Low (C1) - 17 BCF

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.

PRODUCTION

Production for the Quarter was 20 million cubic feet net to K2 Energy, down from 24 million cubic feet in the March Quarter.

Gross Revenue for the Quarter was \$289,000.

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 – JONES #1 horizontal well drilled at BAD CREEK

The company continues to ramp up its focus on the unconventional gas potential of the Woodford and Caney shale on its Bad Creek Acreage. The company has participated in the drilling of the Jones #1 horizontal Woodford test well in June/ July in which the company had a 25% interest as of 30th June 2008. This interest increased in July 2008 to 38% as a result of pooling. The well has been drilled with a 2200 ft lateral horizontal leg will be completed with a multistage frac in late July and should be tested during August.

The large independent's Williams Petroleum and Mahalo Energy, along with Irvine Energy and Metro Energy, are the principal partners in the well.

The Woodford and Caney shale plays continue to boom in Oklahoma with large independents such as Newfield Exploration, XTO, Petrohawk, and Devon Energy all very active drilling successfully in the Woodford play.

In July Chesapeake Energy recently announced the sale of its Woodford acreage in SE Oklahoma to oil giant BP PLC for \$1.75 billion. BP acquired 90,000 acres and existing wells from Chesapeake producing approximately 50 million cubic feet of gas per day in Coal, Pittsburg and Hughes Counties immediately south of K2's Bad Creek project.

In the US the unconventional shale plays such as the Woodford, Caney (also known as the Fayetteville shale), Barnett, Haynesville and Marcellus plays have seen unprecedented levels of leasing and drilling activity in the past 2 years.

Advances in drilling and completion 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.

An additional horizontal Woodford test well the Sears #1 (KTE 11%) is proposed to be drilled in the coming quarter with additional wells planned.

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 and /or Caney test wells.

The Jones #1 (KTE 25% working interest as at June 30 which has increased to 38% as at 31st July 2008) and the Sears #1 (KTE 11% working interest) are located on two of the priority targets recommended by Schlumberger.

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 being completed by the operator of the Bad Creek project. Delays in completing the acreage pooling process, which facilitates the establishment drilling units, with the Oklahoma Corporate Commission continue to frustrate the establishment of drilling units, however the Company is expecting additional pooling applications to be finalized in the coming Quarter.

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. The well was completed and placed on pump was producing 7-8 barrels of fluid per hour with a 2-5% oil cut. The well has been shut in while a nearby well is converted to salt water disposal well and the well is expected to begin production testing during September 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, 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 production test the well from the Cromwell and Union Valley zones.

The Ross 3-27 operated by Williams Petroleum continues to produce from the Union Valley sand formation at approximately 150 to 200 mcfg per day.

K2 Energy has a 4.4% Interest in the well.

The Ross well is encouraging as it demonstrates 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.

Additional Acreage Acquired in Bad Creek

K2 Energy continues to lease new acreage within the Bad Creek project area and during the Quarter increased its acreage position by several hundred acres.

Workover Program - Existing wells

The company is continuing to evaluate opportunities to re-complete additional zones in its existing wells within the Bad Creek project area with several new workovers under consideration for the coming Quarter.

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.

The multi stage fracture stimulation completion of the Jones #1 well in August will be an important process for the company as a commercially productive well will represent the first step in proving up the potential resource of 81 BCF net to K2 Energy that was identified in the Netherland Sewell and Associates Report received during the Quarter. The potential upside of the Woodford and Caney shales at Bad Creek is significant and it is the company's intention to participate in as many additional appraisal wells as possible this year.

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