

September 11, 2008

ASX ANNOUNCEMENT

Jones #1 Well (KTE 28%) – Progress Report

K2 Energy Limited (ASX-KTE) is pleased to announce that the multistage fracture treatment has been completed and the flow back of frac fluids has commenced on the Jones #1 well in the company's Bad Creek Project in Oklahoma.

Two of the four frac treatments achieved excellent penetration in to the Woodford shale formation and the well started flowing gas with 400 p.s.i. flowing casing pressure, prior to bridge plugs being set.

The flow back of Frac fluids has commenced with an average unassisted fluid flow back rate of 5 barrels an hour. The full well head stream is presently piped to temporary frac tanks where gas has been observed but not measured. The company is encouraged that the well has flowed unassisted for the past five days because this has historically been a strong indication of future gas rates in other commercial wells.

Over 15,000 barrels of slick water frac fluid was used in the frac process and the operator advises that 30-40% of this fluid will need to be flowed back (recovered from the well) before gas flow can expect to be established. This process may take several weeks at the current flow back rate.

The installation of the water separator facility and the gas sales line is complete, allowing immediate gas sales to commence upon recovery of necessary frac fluids.

The behaviour of the well to date has been within expectations and the company and its partners remain optimistic that a commercial Woodford shale gas well will be established once the well has flowed back sufficient frac fluids over the coming few weeks.

K2 Energy has a 28% working interest in the well with the other principal partners being the large independents Williams Petroleum, Mahalo Energy, as well as Irvine Energy and the operator Metro Energy Group.

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 13th May 2008.

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