

January 8, 2009,

ASX ANNOUNCEMENT

Gas Production Established - Jones #1 Well (KTE 28%)

K2 Energy Limited (ASX-KTE) advises that the Jones #1 horizontal Woodford shale well in the company's Bad Creek Project in Oklahoma is producing 30-40 mcf of gas per day. The well was recently placed on surface pump to continue the recovery of remaining frac fluid. The well has been recovering between 30 and 50 barrels of frac water per day and 30-40 mcf of gas per day and the well was connected to the gas gathering system and the sales line in November 2008.

The operator advises that 58% of the frac fluid load in the well has been retrieved and that gas production can be expected to increase as additional frac fluid is recovered.

The well was designed by Schlumberger Engineers and a review of the well and engineering issues is being conducted by Schlumberger with a view to enhancing gas recovery from the well.

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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