

K2 ENERGY LIMITED
A B N 35 003 255 221
AND CONTROLLED ENTITIES

Appendix 4D and Half-Year Financial Report

31 December 2006

This half-year report is for the six months ended 31 December 2006. The previous corresponding period is the half-year ended 31 December 2005.

The information in this report should be read in conjunction with the most recent annual financial report.

Results for announcement to the market

				\$		\$
Revenues from ordinary activities	Up	783 %	\$245,388	to	\$276,718	
Profit (loss) from ordinary activities after tax attributable to members	Down	N/A%	\$1,089,495	to	(\$1,067,626)	
Net profit (loss) for the period attributable to members	Down	N/A%	\$1,089,495	to	(\$1,067,626)	
Dividends			Amount per security	Franked amount per security		
Final dividend			- ¢	- ¢		
Interim dividend			- ¢	- ¢		
Record date for determining entitlements to the dividend			Not applicable			
Brief explanation of any of the figures reported above:						
Refer to comments in the attached Directors' Report.						
NTA Backing			31 December 2006	30 June 2006		
Net tangible asset backing per share			11.99 cents	12.79 cents		

K2 Energy Limited ABN 19 115 310 560 and its Controlled Entity

DIRECTORS' REPORT

Your directors submit the financial report of the economic entity for the half-year ended 31 December 2006.

Directors

The names of directors who held office during or since the end of the half-year:

Samuel M Gazal
Peter Moore
Bruce Moore
Michael Reed
Robert Kenneth Gaunt
John Thompson (appointed 20th July 2006)

Review of Operations

In the first half the company successfully completed a \$2 million capital raising and was listed on the Australian Stock Exchange in November 2006.

The activities of the group for the half year ended 31st December 2006 focused on the successful listing, maintaining the group's existing oil and gas exploration projects and investigating and evaluating new US exploration prospects. The company conducted several Geoflite evaluation programs on recently drilled producing wells, in which K2 has no interest. However, these testing programs were in the company's focus areas in the Texas Gulf Coast, South Texas, the Smackover Play in Alabama, and the Niagaran Reef plays in the Illinois and Michigan Basins. Good correlation between geochemical values was returned by Geoflite with the results of the new wells drilled and production established was apparent. Valuable data was generated which can be applied to assist in future prospect evaluation in the company's areas of focus.

Prospects

K2 Energy invested in a number of prospects, which are scheduled to be drilled in the half year to June 2007. The status of these active prospects is as follows:-

South Bourg Prospect, Terrebonne Parish, Louisiana

Drilling of this prospect has been delayed due to rig availability, however the drill pad location is under construction and a drilling rig will move on to the location upon its completion to test the Callahan #1 well. The well is scheduled to be drilled in March, 2007 and the prospect has estimated reserve potential ranging up to 21 BCF gas. K2 Energy holds a 5% working interest and a 3.67 % net revenue interest in the prospect.

Hidden Lake Prospect, Brazoria County, Texas

Again rig availability delayed the commencement of drilling on the Hidden Lake Prospect. The drill pad location construction is scheduled to begin in March 2007. The Gayle #1 well has two rigs on standby and one will be chosen to move on location in early April, 2007. Reserve potential up to 16 BCF may be recovered from the prospect and K2 Energy holds a 9.0616% working interest and a 7.058% net revenue interest in the prospect.

DIRECTORS' REPORT

Review of operations (continued)

Prospects (continued)

North Case 26 Prospect, Presque Isle County, Michigan

The company elected to participate in the re-drill (sidetrack) of the Haskill 1-26 well. The well location is already cleared and the rig will move to the location once the road weight restrictions are lifted due to thawing ground conditions. The rig is expected to be on site in April/May 2007. The Haskill 1-26 well is targeting a Silurian pinnacle reef above 4,000' true vertical depth. Potential reserves range up to 500,000 barrels of oil and associated casing head gas. K2 Energy holds a 30% working interest and a 22.5% net revenue interest in the prospect.

Shary Prospect, Hidalgo County, Texas

The Black Stone – Shary #1 well was production tested over a 16 day period at a stable rate of 150 MCFD with 16 BWPD and 430 psi flowing pressure on an 8/64" choke. The well is slated for a further production test to determine sustainable gas rates and pipeline specifications. Estimated gas reserves based on the test results are undetermined at this time. An additional prospective drill site located higher on structure, and in the same fault block, is now considered a likely drill target later in 2007.

The company has secured access to the pipeline gathering system owned by Chesapeake Energy Corp in exchange for the shallow mineral rights on a 40 acres lease controlled by the Shary Prospect owners. Chesapeake's deep well encountered gas shows in a separate fault segment, which may also result in a future well proposal in which K2 Energy will have participation rights. K2 holds a 6.8% working interest and 5.03% net revenue interest in the Black Stone – Shary #1 well.

Samano Prospect, Starr County, Texas

The company expects to exercise its option to participate in the well in March 2007. The 9,900' well targets a Vicksburg sand package, which is estimated to have reserve potential ranging up to 5 BCF. The Samano Prospect is a development well into the Samano and Flores Field and K2 Energy will have a 10% interest in the well.

Alex Prospect, Hidalgo County, Texas

The company is reviewing contracts for a 7.5% working interest in the Alex Prospect. This 12,000' prospect is targeting up to 24 BCF gas from multiple Frio sand targets on an under explored fault block in the Mercedes Field. One previous well was drilled in the block (pre 3-D seismic) and encountered gas shows in one of the 4 objective sands. The proposed Chapa #1 well will test the fault block in a higher structural position, where we anticipate multiple reservoirs will be trapped. Dewbre Petroleum will operate, and will be able to access existing markets and pipelines already in place at Mercedes Field.

DIRECTORS' REPORT

Tomahawk Energy Merger Proposal

The company evaluated a number of new exploration opportunities in late 2006 and a merger proposal between Tomahawk Energy Limited ("Tomahawk") and the company was announced in February 2007. The Directors believe that upon the successful completion of the proposed merger the new group will have access to delineated behind pipe oil and gas resources, multiple drilling targets identified by 3D seismic as well as an interest in potential unconventional gas development project covering 27,000 acres.

The proposed Tomahawk merger will provide K2 Energy with a mature conventional gas play, with multiple drill targets, in an area with proven "stacked" pay zones. The wells will be relatively inexpensive to drill and produce and the re-completion in existing wells has the potential for early cash flow from production.

While Tomahawk has focused on the unconventional shale gas play in Okfuskee County, Oklahoma in the past, the post merger strategy will be to aggressively develop the conventional oil and gas targets, while at the same time continuing to develop completion techniques to exploit the unconventional play.

The merger is subject to completion of due diligence, and 90% acceptance of the offer by K2 Energy shareholders. Once these conditions have been satisfied the Tomahawk Board will be restructured so that K2 Energy assumes control of the Tomahawk Board with the appointment of three K2 Energy Directors to the Board of Tomahawk and the retirement of two of the existing four Tomahawk Directors.

The company hopes to be in a position to recommend the offer in the near future.

Conclusion

The Directors of K2 Energy are happy with progress of the company for the half year to 31 December 2006. While prospect acquisition was more subdued than anticipated due to the ASX listing process, and drilling on some prospects was delayed due to unavailability of rigs, the outlook for the first half of 2007 is bright with 4 wells due to be drilled in the near future. We also look forward to additional drilling and completion activity, once the proposed merger with Tomahawk is completed.

Auditor's Independence Declaration

The auditor's independence declaration for the half year ended 31st December 2006 is set out on page 14 of these half yearly accounts.

Signed in accordance with a resolution of the Board of Directors.



Peter Moore Executive Chairman

Dated this 16th day March 2007

**CONSOLIDATED INCOME STATEMENT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2006**

	Economic Entity	
	31.12.06	31.12.05
	\$	\$
Revenue	276,718	31,330
Administrative expenses	(445,316)	(88)
Depreciation and amortisation expense	(1,482)	-
Employee benefits expense	(97,928)	-
Exploration and evaluation expenditure written off	(436,638)	-
Licence fees	(195,491)	-
Unrealised exchange difference	(234,858)	-
Profit /(loss) before income tax	(1,134,995)	31,242
Income tax (expense)/benefit	67,369	(9,373)
Profit/ (loss) attributable to members of the parent entity	<u>(1,067,626)</u>	<u>21,869</u>
Basic earnings per share (cents)	(1.4)	0.1
Diluted earnings per share (cents)	(1.4)	0.1

The accompanying notes form part of these financial statements.

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2006

	Economic Entity	
	31.12.06	30.6.06
	\$	\$
CURRENT ASSETS		
Cash and cash equivalents	9,903,597	9,498,659
Trade and other receivables	21,412	3,682
TOTAL CURRENT ASSETS	<u>9,925,009</u>	<u>9,502,341</u>
NON-CURRENT ASSETS		
Property, plant and equipment	15,180	15,688
Exploration and evaluation expenditure	501,879	584,037
Deferred tax assets	54,198	2,162
TOTAL NON-CURRENT ASSETS	<u>571,257</u>	<u>601,887</u>
TOTAL ASSETS	<u>10,496,266</u>	<u>10,104,228</u>
 CURRENT LIABILITIES		
Provisions	2,068	-
Payables	119,747	368,731
TOTAL CURRENT LIABILITIES	<u>121,815</u>	<u>368,731</u>
NON-CURRENT LIABILITIES		
Provisions	9,188	9,749
Deferred tax liabilities	-	17,401
TOTAL NON-CURRENT LIABILITIES	<u>9,188</u>	<u>27,150</u>
TOTAL LIABILITIES	<u>131,003</u>	<u>395,881</u>
NET ASSETS	<u>10,365,263</u>	<u>9,708,347</u>
 EQUITY		
Issued capital	11,880,210	10,130,000
Foreign currency translation reserve	(29,289)	(3,621)
Accumulated losses	(1,485,658)	(418,032)
TOTAL EQUITY	<u>10,365,263</u>	<u>9,708,347</u>

The accompanying notes form part of this financial report.

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2006**

	Economic Entity	
	31.12.06	31.12.05
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments to suppliers and employees	(1,266,638)	(88)
Interest received	276,718	31,330
Net cash inflow/(outflow) from operating activities	(989,920)	31,242
CASH FLOWS FROM INVESTING/FINANCING ACTIVITIES		
Proceeds from issue of shares	1,750,210	8,044,900
Payments for exploration and evaluation	(354,480)	-
Payments for property, plant and equipment	(872)	-
Net cash inflow/(outflow) from investing/financing activities	1,394,858	8,044,900
Net increase in cash held	404,938	8,076,142
Cash at 30 June 2006	9,498,659	8,076,142
Cash at 31 December 2006	9,903,597	8,076,142

The accompanying notes form part of these financial statements.

**STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 DECEMBER 2006**

Economic Entity	Issued Capital	Foreign Currency Translation Reserve	Retained Earnings	Total
	\$	\$	\$	\$
Balance at 1 July 2005	-	-	-	-
Shares issued during the period	130,000	-	-	130,000
Profit (loss) attributable to members of parent entity	-	-	21,869	21,869
Balance at 31st December 2005	130,000		21,869	151,869
Balance at 1st January 2006	130,000		21,869	151,869
Shares issued during the Period	10,000,000			10,000,000
Adjustments from translation of foreign controlled entities	-	(3,621)	-	(3,621)
Profit (loss) attributable to members of parent entity	-	-	(439,901)	(439,901)
Balance at 30 June 2006	10,130,000	(3,621)	(418,032)	9,708,347
Balance at 1st July 2006	10,130,000	(3,621)	(418,032)	9,708,347
Shares issued during the period	2,000,000	-	-	2,000,000
Costs associated with share issues	(249,790)	-	-	(249,790)
Adjustments from translation of foreign controlled entities	-	(25,668)	-	(25,668)
Profit (loss) attributable to members of parent entity	-	-	(1,067,626)	(1,067,626)
Balance at 31st December 2006	11,880,210	(29,289)	(1,485,658)	10,365,263

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

NOTE 1: BASIS OF PREPARATION

The half-year consolidated financial statements are a general purpose financial report prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards, including Accounting Standard AASB 134: Interim Financial Reporting and other authoritative pronouncements of the Australian Accounting Standards Board.

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2006 and any public announcements made by K2 Energy Limited and its controlled entity during the half-year in accordance with continuous disclosure requirements arising under the *Corporations Act 2001*.

The accounting policies have been consistently applied by the entities in the economic entity and are consistent with those applied in the 30 June 2006 annual report.

The half-year report does not include full disclosures of the type normally included in an annual financial report.

NOTE 2: REVENUE

Operating activities

Interest received -other persons

TOTAL REVENUE

Economic Entity

	31.12.06	31.12.05
	\$	\$

	276,718	31,330
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	276,718	31,330
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NOTE 3: DIVIDENDS

No dividends were paid during or subsequent to the half year ended 31st December 2006.

NOTE 4: ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND RESTRUCTURINGS

No subsidiaries were acquired or disposed of during the half year ended 31st December 2006.

NOTE 5: DISCONTINUING OPERATIONS

No operations were discontinued during the half-year ended 31st December 2006.

NOTE 6: SEGMENT INFORMATION

Primary Reporting – Business Segments

The economic entity's operations during the period related to investment in oil and gas exploration prospects, which is the only business segment.

Secondary Reporting – Geographical Segments

	Segment Revenues from External Customers	Segment Results Profit/(Loss)
Geographical location:	31.12.06	31.12.06
	\$	\$
Australia	276,718	(146,366)
USA	-	(988,629)
	<hr/> 276,718	<hr/> (1,134,995)

Geographical location:	31.12.05	31.12.05
	\$	\$
Australia	31,330	31,242
USA	-	-
	<hr/> 31,330	<hr/> 31,242

NOTE 7: CONTINGENT LIABILITIES

As at 31st December 2006 no contingent liabilities existed.

NOTE 8: EVENTS SUBSEQUENT TO REPORTING DATE

There are no significant events subsequent to the half year ended 31st December 2006 except that on 23rd February 2007 it was announced that the company has agreed to merge with Tomahawk Energy Limited (K2 Energy). The merger is proposed to be carried out by Tomahawk making a takeover offer (Offer) for K2 Energy Limited. The Offer will be subject to two conditions only, namely:

- before the end of the Offer period, Tomahawk and its associates have a relevant interest in at least 90% of all K2 Energy shares on issue at that time; and
- there being no K2 Energy Prescribed Occurrences before the end of the offer period

Under the merger Tomahawk will offer:

- 6 new Tomahawk fully paid ordinary shares for every 10 fully paid ordinary shares in K2 Energy; and
- 3 new Tomahawk 31 December 2008 options for every 7 options held in K2 Energy.

The directors of K2 Energy intend to recommend the offer, subject to satisfactory completion of legal due diligence in relation to Tomahawk's US oil and gas interests in the absence of:

- a superior proposal; and
- a Tomahawk Prescribed Occurrences occurring before the end of the offer period.

DIRECTORS' DECLARATION

The directors of the company declare that:

1. The financial statements and notes, as set out on pages 5 to 10 are in accordance with the Corporations Acts 2001, including:
 - a. complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - b. giving a true and fair view of the economic entity's financial position as at 31st December 2006 and of its performance for the half year ended on that date.
2. In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.



Peter Moore Executive Chairman

Dated this 16th day of March 2007



STIRLING INTERNATIONAL

CHARTERED ACCOUNTANTS

INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF K2 ENERGY LIMITED

We have reviewed the accompanying half-year financial report of K2 Energy Limited, which comprises the consolidated balance sheet as at 31 December 2006, income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, notes to the financial statements and the directors' declaration set out on pages 5 to 11 of the consolidated entity comprising the company and the entity it controlled at the half-year's end or from time to time during the half-year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Act 2001. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of an Interim Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2006 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001. As auditor of K2 Energy Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

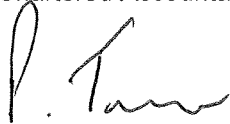
In conducting our review, we have complied with the independence requirements of the Australian professional accounting bodies.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of K2 Energy Limited is not in accordance with the Corporations Act 2001, including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2006 and of its performance and its cash flow for the half-year ended on that date; and
- (b) complying with Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

STIRLING INTERNATIONAL
Chartered Accountants



P E TURNER
Partner

Sydney, 16 March 2007

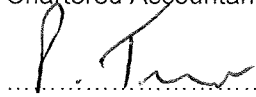
**LEAD AUDITOR'S INDEPENDENCE DECLARATION
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001
TO THE DIRECTORS OF K2 ENERGY LIMITED**

I declare that, to the best of my knowledge and belief, during the half-year ended 31 December 2006 there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.

Stirling International

Chartered Accountants


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Peter Turner

Partner

16 March 2007

St James Centre 111 Elizabeth St Sydney 2000