

K2 ENERGY LIMITED

ABN 99 106 609 143

AND CONTROLLED ENTITIES

Appendix 4D and Half-Year Financial Report**31 December 2007**

This half-year report is for the six months ended 31 December 2007. The previous corresponding period is the half-year ended 31 December 2006.

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	Down 23.6%	140,870	to 454,680
Loss from ordinary activities after tax attributable to members	Reduced 24.2%	785,430	to 2,453,414
Net loss for the period attributable to members	Reduced 24.2%	785,430	to 2,453,414

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 2007	30 June 2007
Net tangible asset backing per share	8.2¢	10.3¢

K2 Energy Limited

(ABN 99 106 609 143)

Half Year Report

31 December 2007

Company Directory

Directors

Sam Gazal

Peter Moore

Ken Gaunt

Mike Reed

John Thompson

Bob Rosenthal

Company Secretary

Terry Flitcroft

Principal and Registered Office

Level 2 Kyle House

27 Macquarie Place

Sydney NSW 2000

Telephone: (02) 9251 3311

Facsimile: (02) 9521 6550

Auditors

Stirling International

Share Registrar

Registries Limited

Level 7, 207 Kent Street

Sydney NSW 2000

Telephone: (02) 9290 9600

Facsimile: (02) 9279 0664

Stock Exchange Listing

Ordinary Shares: KTE

Listed Options: KTEO/KTEOA

Bankers

Westpac Banking Corporation

Website

www.K2energy.com.au

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DIRECTORS' REPORT

Your directors submit the financial report of the consolidated entity for the half-year ended 31 December 2007. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

Directors

The names of directors who held office during or since the end of the half year and until the date of this report are as below. Directors were in office for this entire period unless otherwise stated.

Sam Gazal	Chairman
Peter Moore	Managing Director
Ken Gaunt	Non executive Director
Mike Reed	Non executive Director (appointed 23 rd July 2007)
John Thompson	Non executive Director (appointed 23 rd July 2007)
Bob Rosenthal	Non executive Director

Review of Operations

Your Directors are pleased to report that the company has made significant progress in its areas of main focus.

A summary of this progress follows:

- **SEVERAL NEW WELLS DRILLED IN 6 MONTHS TO 31 DECEMBER.**
- **ADDITIONAL SCHLUMBERGER 3D SEISMIC REPORT IDENTIFIES ADDITIONAL PRIORITY TARGETS IN THE BAD CREEK PROJECT AREA.**
- **LARGE BOOCH SAND CHANNEL IDENTIFIED ON 3D SEISMIC FOR POSSIBLE LARGE SCALE WATER FLOOD PROJECT TO ENABLE OIL PRODUCTION.**
- **GAYLE #1 WELL INCREASES PRODUCTION TO 70 BOPD AND 350 MCF GAS PER DAY. (K2 – 9.2% interest)**
- **PRIEGEL#3 WELL TO SPUD NEXT MONTH TO TEST BOOCH SAND ZONE**
- **PATRIOT #3- UNION VALLEY ZONE TO BE TESTED SHORTLY**
- **WORKOVER PROGRAM ON EXISTING WELLS DELIVERED 400 MCFPD IN INCREASED PRODUCTION**
- **8 WELL DRILLING PROGRAM PROPOSED FOR BAD CREEK PROJECT**

The Patriot #3 well was drilled as an offset to the successful Patriot #1 well. The well logs showed a potential 65 feet of net pay in the Jefferson, Booch, Cromwell and Union Valley sands. Completion and testing of the Cromwell zones is underway with the Union Valley to follow.

The Priegel #1 well tested gas at 1700mcf/d and produced at 200 mcf/d for several months from the Jefferson sand zone before water increased to make the zone non-commercial. This well is to be utilized as a water disposal well for the **Priegel #3**. In the next month the **Priegel #3** is to be drilled to test the Booch sand zone identified in the Priegel #1.

Additional 3D seismic interpretation was commissioned from Schlumberger Engineers during the period and 10 additional priority targets were identified as well as a large previously un-mapped **Booch Sand Channel** that has potential for a large-scale water flood oil recovery operation. We propose to drill several test wells in the Booch channel including a horizontal Booch well to further test the low permeability Booch zone identified in the Patriot #2 well. The company and its project partners believe that the Booch sand channels are highly prospective for oil production through both horizontal wells and water flood recovery techniques.

The workover program on the existing previously drilled wells continued with workovers of additional zones in 10 wells completed that have to date delivered additional production of 400 mcfg per day and, subject to test rates being maintained, a potential increase in revenue of \$750,000 in the next year to the company. The company spent approximately \$200,000 on workovers during the period and plans further workovers on additional zones in the coming months.

Drilling success was mixed with the company participating in 2 wildcat wells outside of the Bad Creek Project in Oklahoma. The Alex #1 and the Shary#2 both recorded excellent gas shows during drilling and wells logs indicated significant net pay and while both wells flowed gas, excessive water production from the tested pay zones resulted in the wells being non commercial.

The 8 well drilling program announced in the September quarter has not proceeded as quickly as hoped, due to delays in pooling procedures in Oklahoma that are designed to consolidate all fractional mineral interests within the proposed drilling unit. The system allows for consolidation of interests to facilitate the establishments of drilling units and is seen as a significant advantage once it is finalized. The company expects that the 17 pooling applications that are currently initiated by its operator/partner Metro Energy Group will start to be approved over the next few months and that the drilling of the units will commence as soon as possible thereafter.

The company has in excess of 20 high quality 3D seismic generated targets to drill in the future as locations are pooled and the drilling units established.

The company remains very positive about the Bad Creek 3D project as the project has:-

- Existing production
- Oil and gas resources "behind pipe" in existing wells currently being successfully exploited by workover program
- In excess of 20 conventional oil and gas drill targets identified with 3D seismic.
- A large Booch channel water flood oil prospect identified by 3D seismic.
- Booch channel horizontal wells to exploit identified low perm resource.


The company looks forward to further development of the Bad Creek project in Oklahoma and to further successful drilling in 2008. New wells in the Bad Creek Project and the workover program is beginning to deliver a meaningful increase in revenues from production increases of 400mcfd + (yielding potential additional revenue of up to \$1,000,000 per year) in an environment of rising gas prices, where US gas prices have risen 40% in recent months. In tandem with working to increase cash flow and revenue, the company has initiated several cost cutting measures that will significantly reduce future overheads.

Change of name

The Company changed its name to K2 Energy Limited from Tomahawk Energy Limited on 5th December 2007.

Auditor's Independence Declaration

The auditor's independence declaration for the half year ended 31st December 2007 is set out on page 14 of these half yearly accounts.



Peter Moore

Managing Director

Dated this 29th February 2008

CONDENSED INCOME STATEMENT

FOR THE HALF YEAR ENDED 31 DECEMBER 2007

		Consolidated	
	Notes	2007 \$	2006 \$
Revenue	2	321,564	558,271
Other revenue from activities		133,116	37,279
Direct operating costs		(198,162)	(350,531)
Depreciation and amortisation expense		(434,436)	(1,108,101)
Impairment of non current assets		(1,224,344)	-
Consulting expense		(350,664)	(306,044)
Foreign exchange differences		(81,487)	(1,381,113)
Employee benefits expense		(105,739)	-
Directors' fees		(35,496)	(109,637)
Other expenses		(477,766)	(173,015)
Loss before income tax expense		(2,453,414)	(2,832,891)
Income tax expense		-	(405,953)
Net loss for the period		(2,453,414)	(3,238,844)
Net loss attributable to members of parent		(2,453,414)	(3,238,844)
Basic earnings per share (cents per share)		(2.0)	(3.8)

The accompanying notes form part of these financial statements

CONDENSED CONSOLIDATED BALANCE SHEET FOR THE HALF YEAR ENDED 31 DECEMBER 2007

		Consolidated	
	Notes	31 December 2007	30 June 2007
		\$	\$
Assets			
Current Assets			
Cash and cash equivalents		4,292,621	6,388,436
Trade and other receivables		107,732	83,039
Total Current Assets		4,440,353	6,471,475
Non-Current Assets			
Deferred exploration, evaluation and development costs		5,494,436	5,902,227
Total Non-Current Assets		5,494,436	5,902,227
Total Assets		9,894,789	12,373,702
Liabilities			
Current Liabilities			
Trade and other payables		123,044	285,587
Provisions		-	-
Total Current Liabilities		123,044	285,587
Total Liabilities		123,044	285,587
Net Assets		9,771,745	12,088,115
Equity			
Issued Capital	3	41,365,368	40,883,347
Reserves	5	3,762,316	3,774,350
Accumulated losses		(35,355,939)	(32,902,525)
Minority Interest		-	332,943
Total Equity		9,771,745	12,088,115

The accompanying notes form part of these financial statements

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE HALF YEAR ENDED 31 DECEMBER 2007

Consolidated

	Minority Interest	Foreign Currency Translation Reserves	Options Reserve	Issued Capital	Accumulated Losses	Total
	\$	\$	\$	\$	\$	\$
Balance at 1 July 2006	-	(7,500)	2,183,300	30,634,433	(4,861,523)	27,948,710
Foreign translation revenue	-	115,900	-	-	-	115,900
Loss attributable to members	-	-	-	-	(3,238,844)	(3,238,844)
Cancellation of shares	-	-	-	(5,400,000)	-	(5,400,000)
Balance at 31 December 2006	-	108,400	2,183,300	25,234,433	(8,100,367)	19,425,766
Balance at 1 January 2007	-	108,400	2,183,300	25,234,433	(8,100,367)	19,425,766
Share based payments	-	-	305,800	-	-	305,800
Loss attributable to members	-	-	-	-	(24,802,158)	(24,802,158)
Foreign translation revenue	-	1,176,850	-	-	-	1,176,850
Shares issued during period	-	-	-	15,648,914	-	15,648,914
Minority interest	332,943	-	-	-	-	332,943
Balance at 30 June 2007	332,943	1,285,250	2,489,100	40,883,347	(32,902,525)	12,088,115
Balance at 1 July 2007	332,943	1,285,250	2,489,100	40,883,347	(32,902,525)	12,088,115
Loss attributable to members	-	-	-	-	(2,453,414)	(2,453,414)
Foreign translation revenue	-	(12,034)	-	-	-	(12,034)
Shares issued during the year	-	-	-	482,021	-	482,021
Purchase of Minority interest	(332,943)	-	-	-	-	(332,943)
Balance at 31 December 2007	-	1,273,216	2,489,100	41,365,368	(35,355,939)	9,771,745

The accompanying notes form part of these financial statements

CONDENSED CASH FLOW STATEMENT

FOR THE HALF YEAR ENDED 31 DECEMBER 2007

	Note	Consolidated 2007 \$	2006 \$
Cash flows from operating activities			
Receipts from customers		303,301	595,336
Payments to suppliers and employees		(1,540,809)	(644,246)
Interest received		133,116	51,498
Net cash provided by/(used in) operating activities		(1,104,392)	2,588
Cash flows from investing activities			
Payments for exploration and evaluation		(910,437)	(1,571,561)
Purchase of exploration assets		-	-
Net cash provided by/(used in) investing activities		(910,437)	(1,571,561)
Cash flows from financing activities			
Proceeds from issue of shares		500	-
Net cash provided by/(used in) financing activities		500	-
Net increase/(decrease) in cash and cash equivalents held		(2,014,329)	(1,568,973)
Cash and cash equivalents at beginning of period		6,388,436	2,248,897
Effect of exchange rate changes		(81,487)	(20,552)
Cash and cash equivalents at end of reporting period		4,292,620	659,372

The accompanying notes form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2007

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The half-year consolidated financial statements are a general purpose financial report prepared in accordance with the requirements of the Corporations Act 2001, applicable accounting standards including AASB 134: Interim Financial Reporting and other authoritative pronouncements of the Australian Accounting Standards Board ('AASB'). Compliance with AASB 134 ensures compliance with IAS 34 'Interim Financial Reporting'.

The half-year report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2007 and any public announcements made by K2 Energy Limited and its subsidiaries during the half-year in accordance with continuous disclosure requirements arising under the Corporations Act 2001.

The half-year report does not include full disclosures of the type normally included in an annual financial report. Therefore, it cannot be expected to provide as full an understanding of the financial performance, financial position and cash flows of the group as in the full financial report.

For the purpose of preparing the half-year report, the half-year has been treated as a discrete reporting period.

The company is a company of a kind referred to in ASIC Class Order 98/0100 and accordingly amounts in the directors' report and the half-year financial report are rounded off to the nearest dollar, unless otherwise indicated.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the company's 2007 annual financial report for the financial year ended 30 June 2007.

In the half-year ended 31 December 2007, the Group has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2007.

It has been determined by the Group that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change is necessary to Group accounting policies.

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2007

NOTE 2: LOSS BEFORE INCOME TAX EXPENSE

	Consolidated	
	31 December 2007	31 December 2006
	\$	\$
The following revenue and expense items are relevant in explaining the financial performance for the half-year:		
Interest revenue	133,116	37,279
Oil and gas sales revenue	321,564	558,271
Total revenue	<u>454,680</u>	<u>595,550</u>

NOTE 3: ISSUED CAPITAL

	Consolidated	
	31 December 2007	30 June 2007
	\$	\$
(a) Ordinary shares		
Issued and fully paid	<u>41,365,368</u>	<u>40,883,347</u>
	No.	\$
Movements in ordinary shares on issue		
At 1 July 2007	116,926,322	40,833,347
Movement during the period	1,928,581	482,021
At 31 December 2007	<u>118,854,903</u>	<u>41,365,368</u>

On 2nd July 2007, 2500 shares were issued pursuant to the exercise of options at 20 cents per share.

1,926,081 shares and 885,208 options were issued on 10th July 2007, following the completion of the compulsory acquisition of the remaining K2 Energy Limited shares and options not yet acquired at 30th June 2007.

(b) Options

At the date of this report the following options over ordinary shares in the Company were on issue.

Type	No. Issued	No. Quoted	Exercise Price	Expiry Date
Listed Options	12,298,000	12,298,000	20 cents	31 December 2008
Listed Options	29,997,500	29,997,500	20 cents	30 September 2009
Unlisted Options	500,000	-	70 cents	31 December 2008
Unlisted Options	2,000,000	-	40 cents	31 December 2008

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2007

NOTE 4: RESERVES

	Consolidated	
	31 December 2007	30 June 2007
	\$	\$
Option Reserves	2,489,100	2,489,100
Foreign Currency Translation Reserves	1,273,216	1,285,250
	3,762,316	3,794,350

NOTE 5: SEGMENT REPORTING

Geographical segments

The following table presents the revenue and profit information regarding geographical segments for the half-year periods ended 31 December 2007 and 31 December 2006.

	Continuing operations		
	Australia	USA	Total
	\$	\$	\$
31 December 2007			
Segment revenue	133,116	321,564	454,680
Segment results	(460,506)	(1,992,910)	(2,453,416)
31 December 2006			
Segment revenue	-	558,271	558,271
Segment results	(582,864)	(2,250,027)	(2,832,891)

NOTE 6: CONTINGENT LIABILITIES AND COMMITMENTS

As reported previously, by a consultancy agreement, the Company will, subject to satisfaction of production milestones below, be required to grant Carpinteria (or its permitted nominee) the following Technical Consultant Options, pursuant to shareholders approval obtained on 28 March 2006:

- 3,285,000 Technical Consultant Options, but only if net production attributable to the Company from the Prospect Area exceeds 1.0 million cubic feet of gas per day or the equivalent in liquids; and
- 2,000,000 Technical Consultant Options, but only if net production attributable to the Company from the Prospect Area exceeds 5.0 million cubic feet of gas per day or the equivalent in liquids.

Apart from the matter above, the economic entity is not aware of any contingent liabilities which existed as at the end of the half year or have arisen as at the date of this report.

NOTE 7: EVENTS SUBSEQUENT TO REPORTING DATE

Since the end of the financial year, the directors are not aware of any matter that has significantly affected or may significantly affect the operations of the Company in subsequent financial years.

NOTE 8: DIVIDENDS

No dividends were paid during or subsequent to the half year ended 31st December 2007.

NOTE 9: ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND RESTRUCTURINGS

No subsidiaries were acquired or disposed of during the half year ended 31st December 2007.

NOTE 10: DISCONTINUING OPERATIONS

No operations were discontinued during the half-year ended 31st December 2007.

NOTE 11: COMMITMENTS

K2 Energy currently assesses and drills wells on a well by well basis. The company is expecting to participate in a workover program in Oklahoma and other drilling prospects however at 31st December 2007 there were no material commitments for future expenditure.

DIRECTORS' DECLARATION

The directors of the company declare that:

1. The financial statements and notes thereto, as set out on 3 to 10:
 - a. comply with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations; and
 - b. give a true and fair view of the consolidated entity's financial position as at 31 December 2007 and of its performance for the half-year then ended.
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 signed in accordance with a resolution of the Board of Directors made pursuant to s.303(5) of the Corporations Act 2001.



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Peter Moore

Managing Director

Dated this 29th February 2008



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 and Controlled Entities (the consolidated entity) which comprises the balance sheet as at 31 December 2007, and the income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors' declaration.

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 a conclusion 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 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 2007 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of K2 Energy Limited and Controlled Entities, 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 *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of K2 Energy Limited and Controlled Entities would be in the same terms if provided to the directors as at the date of this auditor's review report

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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 and Controlled Entities 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 2007 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

A handwritten signature in black ink, appearing to read 'Karya', with a long horizontal flourish extending to the right.

KARYA

Partner

Sydney, 29 February 2008

**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 2007 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



Keanu Arya

Partner

29th February 2008

St James Centre 111 Elizabeth St Sydney 2000