



30 April 2007  
Australian Stock Exchange  
By: ASX Online

### **Third Quarter Activities Report**

It is with pleasure that we present the quarterly report covering the operations of the company for the third quarter of the 2006-2007 year (1 January 2007 to 31 March 2007).

The highlight for the quarter under review was the announcement that the company plans to merge with K2 Energy Limited.

The merger is to be carried out by Tomahawk making a takeover offer (Offer) for K2 Energy. The Offer is subject to two conditions only, namely:

- Before the end of the Offer period, Tomahawk has a relevant interest in no less than 90% of all K2 Energy shares and options on issue at that time; and
- There being no K2 Energy Prescribed Occurrences before the end of the offer period.

The Directors of K2 Energy have unanimously recommended, in their Target Statement, that K2 shareholders should accept the Tomahawk offer, in the absence of a superior proposal.

K2 Energy listed on the ASX in November 2006 after raising approximately \$12m and to date has invested in a number of oil and gas drilling projects in Texas, Michigan, Louisiana, Illinois and Alabama.

In addition to these projects K2 Energy has approximately \$10m cash which will be applied to the Tomahawk leases to increase the pace of development.

**Proposed Offer terms:**

Under the merger Tomahawk will offer:

- 6 new Tomahawk fully paid ordinary shares for every 10 fully paid ordinary shares in K2 Energy; and
- 1 new Tomahawk 31 September 2009 option for every 2 options held in K2 Energy.

Tomahawk will make application with the ASX to have the shares and options issued under the Offer to be quoted.

It is the view of the directors that the next phase for smaller players in the sector will be one of consolidation and it is our intention for Tomahawk to be an active participant in that process so that when combined with ongoing project development we deliver a robust growth profile for share holders. This first step is a major development for us as it brings together all the pieces required to build a successful company.

For the first time we will now have access to adequate capital to fully exploit both the conventional and unconventional formations in the highly prospective oil and gas project in Oklahoma, USA. During these past years we have raised relatively small amounts of capital, typically \$2 to \$3m each time which has determined the pace of development. With the \$10m that K2 Energy brings we will now be able to get onto the front foot and aggressively develop the project.

Not only is the cash important but also the management team, both in Australia and the US, and K2's proprietary technology are very complementary. The Geoflite technology analyses airborne multi-spectral image data to detect rock fracture and jointing in the earth's crust. The identified fracture and joint systems are then tested for hydrocarbon leakage along the fractures with proprietary soil geochemistry techniques to measure hydrocarbon leakage that can possibly indicate hydrocarbon accumulations at depth. This technology has the potential to add significantly to the success of the exploration program of the company in both conventional and unconventional gas exploration activities.

By merging K2 Energy and Tomahawk we believe we can unlock tremendous shareholder value. The magnitude of the unconventional Shale targets is of great interest however in the immediate term we intend to use the cash to focus on using the Schlumberger review to increase production from existing resources behind pipe in wells already drilled and using the proprietary 3D seismic information that Tomahawk has acquired to generate large scale, low risk conventional targets for immediate drilling

The enlarged package of the Tomahawk project, the K2 Energy projects, substantial cash reserves, strong technical management and the technology significantly changes the outlook for Tomahawk shareholders.

**Proposed board changes:**

Subject to successful completion of the takeover it is expected that a number of board changes will be made to bring representatives of K2 Energy onto the Tomahawk board. Peter Moore, Sam Gazal and Ken Gaunt, directors of K2 Energy, will be invited to join the Board of Tomahawk, on the offer becoming unconditional and 90% acceptance being reached, and Tony Brennan and Garry Ralston will retire from the Board at that time.

**Proposed timetable**

Tomahawk's bidder's statement was mailed to K2 Shareholders on 23 April 2007 and it is expected that the K2 Energy Target Statement will be mailed to their shareholders Wednesday 2 May 2007.

The offer will be open until 23 May 2007 however the directors of Tomahawk may choose to extend the offer.

Should you have any queries regarding the Activities Report or any other aspect of the company's development please contact this office.

Tony Brennan  
Chairman  
30 April 2007

## Appendix 5B

### *Mining exploration entity quarterly report*

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

Tomahawk Energy Limited

ABN

99 106 609 143

Quarter ended ("current quarter")

31 March 2007

### Consolidated statement of cash flows

		Current quarter \$A'000	Year to date (9 months) \$A'000
<b>Cash flows related to operating activities</b>			
1.1	Receipts from product sales and related debtors	275	828
1.2	Payments for		
	(a) exploration and evaluation	(274)	(1,643)
	(b) development	-	-
	(c) production	(130)	(394)
	(d) administration	(283)	(812)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	8	59
1.5	Interest and other costs of finance paid	-	-
1.6	Income taxes paid	-	-
1.7	Other -	-	-
<b>Net Operating Cash Flows</b>		<b>(404)</b>	<b>(1,962)</b>
<b>Cash flows related to investing activities</b>			
1.8	Payment for purchases of: (a)prospects	-	-
	(b)equity investments	-	-
	(c) other fixed assets	-	-
1.9	Proceeds from sale of: (a)prospects	-	-
	(b)equity investments	-	-
	(c)other fixed assets	-	-
1.10	Loans to other entities	-	-
1.11	Loans repaid by other entities	-	-
1.12	Other (provide details if material)	-	-
<b>Net investing cash flows</b>		<b>-</b>	<b>-</b>
1.13	Total operating and investing cash flows (carried forward)	<b>(404)</b>	<b>(1,962)</b>

1.13	Total operating and investing cash flows (brought forward)	(404)	(1,962)
	<b>Cash flows related to financing activities</b>		
1.14	Proceeds from issues of shares, options, etc.	-	-
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other - cost of share capital	-	-
	<b>Net financing cash flows</b>	-	-
	<b>Net increase (decrease) in cash held</b>	(404)	(1,962)
1.20	Cash at beginning of quarter/year to date	660	2,249
1.21	Exchange rate adjustments to item 1.20	220	189
1.22	<b>Cash at end of quarter</b>	476	476

### Payments to directors of the entity and associates of the directors

### Payments to related entities of the entity and associates of the related entities

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	72
1.24	Aggregate amount of loans to the parties included in item 1.10	

### 1.25 Explanation necessary for an understanding of the transactions

1.23 includes salary and fees paid to directors

### Non-cash financing and investing activities

#### 2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

#### 2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

Not applicable

### Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	-	-
3.2 Credit standby arrangements	-	-

### Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	
4.2 Development	
<b>Total</b>	

### Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	10	9
5.2 Deposits at call	442	557
5.3 Bank overdraft	-	-
5.4 Other – USD funds	24	94
<b>Total: cash at end of quarter (item 1.22)</b>	476	660

### Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed			
6.2	Interests in mining tenements acquired or increased			

## Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

		Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1	<b>Preference securities</b> (description)				
7.2	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3	<b>*Ordinary securities</b>	66,494,827	63,494,827		
7.4	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	9,000,000	-		
7.5	<b>*Convertible debt securities</b> (description)				
7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7	<b>Options</b> (description and conversion factor)	12,298,000 3,500,000 500,000	12,298,000 Nil Nil	Exercise price 20 cents 40 cents 70 cents	Expiry date 31/12/08 31/12/08 31/12/08
7.8	Issued during quarter				
7.9	Exercised during quarter				
7.10	Expired during quarter				
7.11	<b>Debentures</b> (totals only)				

