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ASX Announcement

29 July 2011

kilgore Oil&Gas ltd

30 June 2011 - Quarterly Report

Highlights

- Acquisition of Warren Energy Ltd – Kilgore to hold a 16% interest in the Rock Creek Project and 8% interest in strategic Duvernay Shale Project in Alberta, Canada
- Negotiations underway for a third party funded appraisal drilling program on the Rock Creek, comprising horizontal wells with multi-stage fracs to commence in Q4 2011
- Commitment from incoming investor syndicate to raise at least an additional $1.8m in equity
- Potential farmout and/or partial sale of Duvernay Shale rights being considered following recent soaring acreage sale prices in Alberta
- Appointment of Charles Morgan and Brett Mitchell as new Directors
- High impact Lyons Point prospect (15% WI) due to commence drilling late August 2011

Corporate

Rock Creek Acquisition (16% WI)

Summary

On 1 June Kilgore executed a share sale agreement to acquire Warren Energy Ltd, which holds a 16% interest in the Rock Creek Oil Project, an unconventional oil and condensate play located in central Alberta, Canada, and an 8% interest in the underlying and strategic Duvernay Shale Project. The Rock Creek Oil Project is a tight oil appraisal play positioned for commercial evaluation through an appraisal drilling program scheduled for Q4 2011. These projects are strategically located at the heart of the emerging Canadian unconventional oil and gas industry.

As part of the transaction, Kilgore is undertaking a share placement to an investor syndicate, led by Mr Craig Burton and Mr Charles Morgan, to raise up to $1,500,000 before costs through the issue of 1,500,000,000 shares at 0.1 cents each. This new investor syndicate will also take the lead in driving the future strategic direction and asset focus of the Company.

Rock Creek Project Highlights

- A significant land position in an emerging Canadian unconventional oil and gas play
- Highly analogous to the Bakken and Cardium unconventional light oil plays.
- Proven production area- 20mmbbls of liquids and 1 TCF of gas.
- Participation in 123 sections of Crown land (~31,100 hectares/77,000 acres)
- Kilgore to hold a 16% working interest in the Rock Creek play
- Net holdings to Kilgore of 4,900 hectares (12,300 acres)

The Rock Creek Project is situated within proven hydrocarbon bearing reservoirs with a production history from conventional wells. The strategy has been to acquire a large land holding then exploit with the application of modern horizontal fracture stimulation technology, based on the commercial success achieved from the same development strategy in nearby formations.

Discussions concerning an appropriate farm out / exploration program to test the Rock Creek reservoir have commenced with select North American operating parties during the quarter, and will be subject to further announcements by the Company.

Location of the Rock Creek Oil Project

The Rock Creek Oil Project play is based on the Rock Creek formation, known to be hydrocarbon charged but not yet fully exploited. In Alberta, the nearby Cardium and Bakken formations have recently enjoyed substantial success as a result of the application of horizontal wells and fracture stimulation technology. The target Rock Creek play is hydrocarbon-bearing along its entire length, though low permeability has limited its yield with historical vertical drilling. As a result, the play has not been exploited in the tighter areas. Reservoir modeling indicates the same horizontal frac technology that has lead to the successful exploitation of the Cardium and Bakken is likely to enable commercial production from this play.

The area is productive along the entire trend and to date has produced over 20 mmbbl of liquids and 1 TCF of gas from several thousand wells. Almost all of this production has come from mildly stimulated vertical wells.

Rock Creek Resource Estimate Report

The operator of the Project, Mako Energy Canada Ltd ("Operator"), a subsidiary of Mako, commissioned Sproule & Associates Ltd to undertake an estimate of the Gross Undiscovered Petroleum Initially In-Place for 100% of the Project the results of which were released to the market in March 2011 ("Sproule Report"). The Sproule Report was prepared in accordance with the Canadian Oil and Gas Evaluation Handbook (COGEH) resource definitions which are consistent with the standards of National Instrument 51-101.

Rock Creek Oil Project Resource – Gross Undiscovered Petroleum Initially-in-Place				
	3% porosity cut-off		**6% porosity cut-off**	
	OOIP (MMbbl)	**OGIP (Bcf)**	**OOIP (MMbbl)**	**OGIP (Bcf)**
Mako (50%)	115.25	168.25	76.3	111.55
Transerv (34%)	78.37	114.41	51.88	75.85
Kilgore (16%)	36.88	53.84	24.42	35.7
All (100%)	230.5	336.5	152.6	223.1

Source: Sproule & Associates

The 3% and 6% porosity cutoffs nominally equate to 0.2 and 0.05 mD permeability cutoffs respectively. Sproule uses the 6% porosity cutoff to develop low (P90) resource estimates and the 3% cutoff to develop high (P10) estimates.

The Sproule Report was based on Mako's holding of the Project at the time (being 58,120 acres). The landholding has since been increased to approximately 77,000 acres as a result of the acquisition of a further 31 sections.

The Sproule Report also provided estimates of the Gross Prospective Resources for 12 selected prospects totaling 1,760 acres within the Project. The average Estimated Ultimate Recovery per well is 168,000 BOE.

Horizontal wells have been used to exploit the Rock Creek gas play for the last five years with approximately 30 wells reported in the public record. However, there have been only 5 applications of horizontal wells to the Rock Creek oil play, of which two are still confidential. Horizontal techniques are typically used to exploit reservoirs within low permeability sandstones that have not been commercially produced using vertical wells.

Sproule & Associates considers the Project to be a low permeability ('tight') sandstone play and, as such, is likely to be amenable to exploitation using horizontal wells and multi-stage fracture stimulation technology

Alberta Joint Venture – Duvernay Shale (8% WI)

The Alberta Joint Venture (AJV) partners are currently reviewing options for a possible farmout and/or partial sale of its key Duvernay Shale interests in Alberta, Canada.

The AJV's exploration interests extend from the shallower Rock Creek interval down through deeper intervals to the highly prospective Duvernay Shale. The Duvernay has hosted several significant liquids-rich, shale gas discoveries in the region in recent months, resulting in a significant increase in demand for this acreage.

The strategy to seek early monetisation of the Duvernay Shale rights has been prompted by the soaring price of exploration acreage in the region, where the AJV holds 123 sections covering more than 31,100 hectares with rights to the deep intervals.

In light of the valuations being placed on the surrounding exploration acreage, it is considered commercially prudent to evaluate the possibility of a farmout and/or partial sale of its Duvernay Shale rights.

This spectacular price appreciation has led the AJV to hold initial discussions with several leading North American investment banks about a potential farmout/sale of the rights it holds over the Duvernay Shale horizon. The AJV, which also includes Mako Energy (50%) and Transerv Energy (34%), expects to grant an exclusive mandate to conduct the process within a few weeks. The process could be completed by the end of the year.

The AJV would consider a variety of sale options, including a combination of cash and a free-carried interest in a multi-well exploration program. The AJV is also planning to retain its interests in the Rock Creek interval and pursue a separate third party-funded exploration program in the second half of this year.

Warren Energy Acquisition and New Capital Raisings

Kilgore has agreed to acquire 100% of the shares of Warren Energy Ltd from the vendors (**Warren Vendors**), which holds the 16% interest in the Rock Creek project and an 8% interest in the underlying Duvernay Shale project, for the issue of 2,200,000,000 fully paid ordinary shares in Kilgore, voluntary escrowed for 12 months. Under the transaction Kilgore will also repay Warren's share of its Alberta acreage acquisition costs (16%) to the Warren Vendors, that is approximately $200/ha or $1,000,000 as a priority from the Company's next capital raising. The transaction and related capital raisings were approved by Kilgore shareholders at the general meeting held on 25 July 2011.

Both projects are subject to a crown royalty in Alberta, and additional gross royalty payments of 4.25% over the proceeds from oil and gas sales, which includes a 2.25% gross royalty payable to the vendors of Warren.

Capital Raisings

The Company has obtained shareholder approval to undertake the following capital raisings as part of the Transaction:

a) the placement of 1,500,000,000 Shares each at an issue price of 0.1 cents to raise $1,500,000 (before costs) ("Share Placement"); and

b) the placement of 3,200,000,000 Options exercisable at 0.5 cents within 4 years of the date of issue at an issue price 0.01 cents each to raise $320,000 (before costs) ("Option Placement").

c) a future placement facility for the issue of up to 1,500,000,000 Shares at an issue price of at least 80% of the average market price on which sales in the Shares were recorded before the day on which the issue was announced. This placement would include an attaching option to acquire a Share (Option) for every 2 Shares issued exercisable at $0.05 within 4 years of the date of issue (Capital Raising).

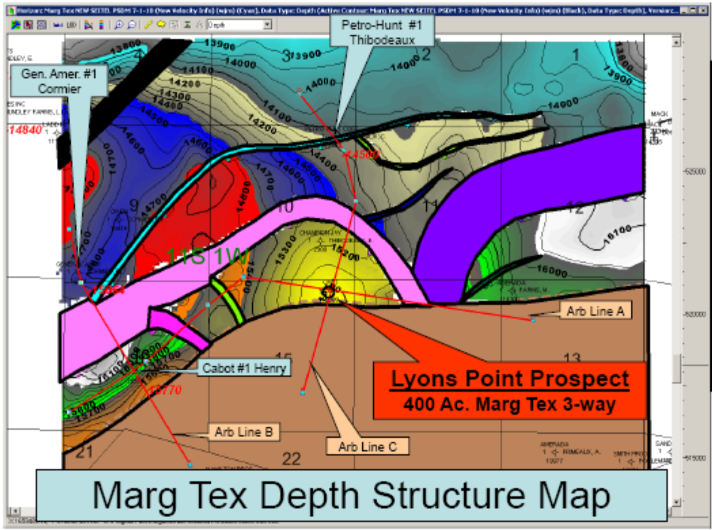
Board Appointments

On settlement of the Warren Energy acquisition, Mr Charles Morgan and Mr Brett Mitchell will be appointed directors of the Company and Mr Anthony Short will resign as a director.

Lyons Point Farm-In

Kilgore signed a Participation Agreement to acquire a 15% working interest in the Lyons Point Prospect, in Acadia Parish, Louisiana, to be operated by Clayton Williams Energy Inc (NASDAQ: CWEI). It is expected the prospect will commence drilling operations in late August 2011 and will take 45 days to be drilled to its target depth of 16,300 feet.

The Lyons Point Prospect has a closure of circa 400 acres with a most likely resource potential is 3 MMBC (Million Barrels Condensate) and 60 BCF (Billion Cubic Feet Gas) with upside potential of 4 MMBC and 80 BCF. This estimate is conceptual in nature and insufficient activity has been conducted to determine a hydrocarbon reserve.



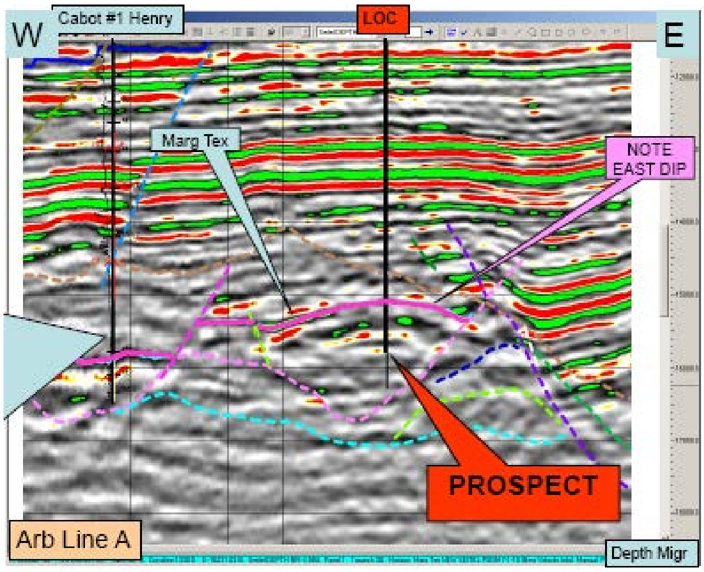
Lyons Point Project Summary

The Lyons Point Prospect is a seismically defined upthrown three-way structural closure that is bounded by faults on all four sides. The objective is the prolific Oligocene Marginulina Texana (MT) 1, 2, and 3 Sands, which are projected to be 700 feet thick.

The objective MT sands are productive in several fields in the immediate surrounding area. The main field fault is the same trapping fault that sets up Leleux Field, which has cumulative historical production of 5 MMBC and 300 BCFG from the MT interval.

Production rates are estimated to be significant given adjacent analog wells are producing at rates of 750 BBLCD (Barrels Condensate Per Day) and 15,000 MMCFD (Million Cubic Feet Gas Per Day). It is likely only four wells will be required to drain the structure.

This prospect is best classified as a "develo-cat" well (between a development well and a wildcat well) based on the proximity of producing wells and full support of the prospect by modern, high quality 3D seismic data. Clayton Williams have addressed the four principle geologic risk factors; generation and migration of hydrocarbons from source to reservoir, reservoir quality, reservoir seal, and structure in a very complete manner, again mostly with the support of the 3D seismic data.



The Lyons Point Joint Venture partners have recently agreed to contract a rig to drill the well on a "turnkey" or fixed cost basis, with Company's share of the initial dry hole well costs are estimated at US$1,385,000 (includes entry costs) under the turnkey contract. In a success case the Company's share of completion and facilities costs are estimated to be a further US$450,000.

The participation terms are favourable with the Company paying 20% to earn a 15.00% working interest. The net revenue interest on the project is 75%.

Based on the internal and external technical reviews undertaken on the Lyons Point Prospect, the Board agrees with the independent expert's opinion (POS 50-66%) that this prospect has a very high chance of success.

The Board also believes the operator to be of suitable competent experience to drill and manage this prospect in the best interest of all the partners.

Participants in the Lyons Prospect are as below:

	Before Casing Point	**After Casing Point**
	Initial Well	**Initial & Subsequent Wells**
Kilgore Oil and Gas Ltd (KOG)	20.00	15.00
Verus Investments Ltd (VIL)	20.00	15.00
Tango Petroleum Ltd (TNP)	23.00	17.25
Other	37.00	52.75
	100.00	100.00

Operations

Galveston 307 Project (Snipe, Egret and Sandpiper), Texas State Waters (WI 5.625% NRI 4.5%)

Production during the quarter ending 30 June 2011 increased by approximately 29% on the previous quarter with the project producing approximately 765,758 MCF of gas and 3,009 Barrels of condensate (approximately 33,919 MCF and 134 BC net to Kilgore).

The technical information relating to the Lyons Point Project has been reviewed by Mark Kramer (Registered Geologist, Texas USA), who has over 36 years experience within oil and gas sector. Mark Kramer is not a full time employee of the Company.

For further information contact:
Mr Gordon Sklenka (Director)
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Facsimile: +61 8 9486 1011

Rule 5.3

Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001, 01/06/10.

Name of entity

Kilgore Oil & Gas Ltd

ABN

66 127 735 442

Quarter ended ("current quarter")

30 June 2011

Consolidated statement of cash flows

	Cash flows related to operating activities	Current quarter $A'000	Year to date (12 months) $A'000
1.1	Receipts from product sales and related debtors	129	346
1.2	Payments for (a) exploration & evaluation	-	-
	(b) development	-	(228)
	(c) production	(46)	(138)
	(d) administration	(69)	(765)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	19	23
1.5	Interest and other costs of finance paid	(4)	(69)
1.6	Income taxes paid	-	-
1.7	Other (provide details if material)	-	-
	Net Operating Cash Flows	29	(831)
	Cash flows related to investing activities		
1.8	Payment for purchases of: (a) prospects	(106)	(106)
	(b) equity investments	(13)	(13)
	(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 (net on disposal of subsidiaries)	(137)	(137)
	Net investing cash flows	(256)	(256)
1.13	Total operating and investing cash flows (carried forward)	(227)	(1,087)

+ See chapter 19 for defined terms.

1.13	Total operating and investing cash flows (brought forward)	(227)	(1,087)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	-	2,222
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	365
1.17	Repayment of borrowings	(11)	(1,196)
1.18	Dividends paid	-	-
1.19	Other (over subs & capital raising expenses)	-	(19)
	Net financing cash flows	(11)	1,372
	Net increase (decrease) in cash held	(238)	285
1.20	Cash at beginning of quarter/year to date	559	31
1.21	Exchange rate adjustments to item 1.20	(1)	4
1.22	**Cash at end of quarter**	320	320

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	27
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

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

None

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

+ See chapter 19 for defined terms.

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	1,274
4.2	Development	-
4.3	Production	-
4.4	Administration	80
	Total	**1,354**

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	320	559
5.2	Deposits at call		
5.3	Bank overdraft		
5.4	Other (provide details)-held on trust		
	Total: cash at end of quarter (item 1.22)	320	559

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				

+ See chapter 19 for defined terms.

6.2	Interests in mining tenements acquired or increased	-Lyons Point Prospect, Louisiana -Rock Creek Project, Alberta	Exploration prospect Exploration prospect	- -	15% (WI) 20% (PI) 16%

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	**Preference +securities** *(description)*	14,000	Unquoted Class D		
7.2	Changes during quarter (a) Increases through issues (b) Decreases-capital returns, buy-backs or redemptions				
7.3	**+Ordinary securities**	2,696,006,280	2,696,006,280		Fully paid
7.4	Changes during quarter (a) Increases-through issues (b) Decreases-capital returns or buy-backs				
7.5	**+Convertible debt securities** *(description)*				
7.6	Changes during quarter (a) Increases through issues (b) Decreases-maturing or conversion of securities				
7.7	**Options** *(description and conversion factor)*	481,398,748	481,398,748	*Exercise price* 5cents	*Expiry date* 30 June 2012
7.8	Issued during quarter				
7.9	Exercised during quarter				

+ See chapter 19 for defined terms.

7.10	Expired during quarter				
7.11	**Debentures** *(totals only)*				
7.12	**Unsecured notes** *(totals only)*				

Compliance statement

1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).

2 This statement does give a true and fair view of the matters disclosed.

Sign here: .... Date: ..29 July 2011.......
(Director/Company secretary)

Print name: David Ballantyne

Notes

1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.

2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.

3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.

4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.

5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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+ See chapter 19 for defined terms.