



kilgore  
Oil&Gas<sup>ltd</sup>

# 2011 ANNUAL REPORT

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## CORPORATE DIRECTORY

Chairman	Charles Morgan – <i>appointed 1 August 2011</i>
Executive Director	Brett Mitchell – <i>appointed 1 August 2011</i>
Non-Executive Director	Brian Ayers
Company Secretary	Rachel Jelleff – <i>appointed 1 August 2011</i>
Registered & Principal Office	Level 21, Allendale Square, 77 St Georges Tce PERTH WA 6000 Telephone: + 618 9389 2000 Facsimile: + 618 9389 2099
Postal Address	PO Box Z5446 St Georges Tce PERTH WA 6831
Auditors	BDO Audit (WA) Pty Ltd 38 Station St SUBIACO WA 6008
Solicitors – Perth	Hardy Bowen Level 1, 28 Ord St West Perth WA 6005
Website Address	<a href="http://www.kilgoreoilandgas.com.au">www.kilgoreoilandgas.com.au</a>
Stock Exchange Listings	Kilgore Oil & Gas Ltd shares are listed on the Australian Stock Exchange under the code KOG, KOGO and KOGOA
Share Registry	Advanced Share Registry Services 150 Stirling Hwy Nedlands WA 6009

## CHAIRMAN'S LETTER TO SHAREHOLDERS

Dear Shareholder,

As part of the new board and management team, I would like to take this opportunity to welcome you to the new Kilgore Oil and Gas. The Company has undergone a significant restructuring during 2011 and the Board and management team are looking forward to an exciting future.

The cornerstone assets for the new Kilgore are the Duvernay Shale and Rock Creek Oil assets in Alberta, Canada. Together with our joint venture partners we have engaged Macquarie-Tristone to market our interests to achieve a sell down or farm out part of our interests in these assets to not only realise some immediate value for the Company but also to begin the drilling and development of our acreage retaining a meaningful interest.

The Duvernay Shale is one of the most significant new resource plays in North America which has seen acreage prices in its core area increase from around \$200 an acre to between \$2000 to \$5000 over the last 12 months. This has created the current opportunity to potentially divest some of our interest for a significant gain to the Company and its shareholders.

In addition to our two Alberta projects, we have also acquired material working interests in both the Lyons Point and West Klondike prospects in Louisiana. Success at either of these exploration plays will represent a significant value creation for Kilgore. Importantly both of these projects are being evaluated in the near term, with Lyons Point currently drilling and West Klondike due to spud before the end of the year.

Your board will continue to assess opportunities as we find them and look to acquire further projects that we believe will offer our investors the right balance of risk and return.

I would like to take this opportunity to welcome fellow Director Mr Brett Mitchell and our new Company Secretary Rachel Jelleff to the team. I'm looking forward to working together with our new team and existing Director Mr Brian Ayers on the new suite of Kilgore assets.

We look forward to keeping you informed of developments on all our projects and building the Company.



Charles Morgan  
Chairman

## REVIEW OF OPERATIONS

### Summary

- Acquisition of 100% Warren Energy Ltd – Kilgore now holds a direct interest in the Rock Creek Project (13,545 acres) and the strategic Duvernay Shale Project (6,568 acres) in Alberta, Canada
- Macquarie appointed for potential farmout and/or partial sale of Duvernay Shale Project and Rock Creek Project. This is being undertaken following strong acreage prices in Alberta in 2011, and to secure a farm-in partner(s) for the 2012 drilling programs on the Rock Creek and Duvernay lands
- General Meeting on 25 July 2011 approved the Warren Energy acquisition and \$1.8m in new capital raisings
- New Board of Directors and Management Team
- Acquisition of 2 High Impact Exploration Plays- Lyons Point and West Klondike in Louisiana, both to be drilled in 2011

### Warren Energy Acquisition: Duvernay Shale and Rock Creek Projects

The acquisition of Warren Energy Limited was a transformational event for the Company. It has delivered two substantial resource assets in Alberta, Canada (Duvernay and Rock Creek Projects), a deal flow of high impact oil and gas exploration projects (acquisition of 10% working interest in both the Lyons Point and West Klondike prospects since 1 July) and an experienced Board and management team.

The Duvernay Shale has hosted several significant liquids-rich, shale gas discoveries in Alberta in recent months, resulting in a significant increase in price for leases. The Company's strategy is to seek early monetisation of the Duvernay Shale rights following the soaring prices of exploration acreage in the region. Kilgore, with its partners, now hold a total of 141.5 sections covering more than 90,579 acres covering both the Duvernay Shale and Rock Creek Projects ("the Alberta Projects"), in which Kilgore holds a net 6,568 acres and 13,545 acres respectively. A land sale in Alberta in September 2011 confirmed the strong continued industry interest in the area when \$185 million was paid for 92,040 acres (\$2,010/acre or \$4,965/Ha) of land immediately to the west of Kilgore's holding.

In light of the valuations being placed on the surrounding exploration acreage, the Board of Kilgore together with its Alberta Joint Venture partners agreed to the appointment of Macquarie- Tristone as announced on 16 August 2011, to undertake this partial sale/farmout process of the Duvernay Shale and Rock Creek Projects. Bids are expected in October and November of 2011.

### Warren Energy Transaction Summary

Pursuant to settlement of the Acquisition of Warren Energy on 1 August 2011, the Company issued 2,200,000,000 Shares in consideration for the acquisition of Warren Energy (Vendor Shares) of which 1,000,000,000 were issued to a Company associated with Mr Charles Morgan and 200,000,000 were issued to a Company associated with Mr Brett Mitchell. The Vendor Shares are subject to voluntary escrow for a period of 12 months from the date of issue. As part of the transaction consideration, Kilgore will repay Warren's share of its Alberta Projects acquisition costs (16%) to the Warren Vendors, with the total acreage acquisition cost of approximately \$1,080,000 (~\$200/ha) to be repaid as a priority from the next capital raising undertaken by the Company.

The Alberta Projects acquired through the Acquisition are subject to a crown royalty and additional gross royalty payments of 4.25% over the proceeds of the sale of oil and gas produced, which includes a 2.25% gross royalty payable to the Warren vendors.

### New Board and Management

Following completion of the Warren Energy acquisition, a number of Board and Management changes were effected:

- Mr Charles Morgan and Mr Brett Mitchell were appointed Directors of the Company, with Ms Rachel Jelleff being appointed Company Secretary;
- Mr Anthony Short and Mr Gordon Sklenka resigned as a Directors of the Company and Mr David Ballantyne resigned as Company Secretary; and

- the registered address of the Company was changed to Level 21, Allendale Square, 77 St Georges Terrace, Perth WA 6000

#### **Lyons Point (10% Working Interest)**

The Company is earning a 10% working interest in the Lyons Point Prospect, in Acadia Parish, Louisiana, through funding 13.33% of the initial well and completion costs. The Pruitt et al #1 well, to be operated by Clayton Williams Energy, Inc. (NASDAQ: CWEI), commenced drilling operations on 14 September 2011 and is expected to take 60 days to be drilled to its target depth of 16,300 feet.

The Lyons Point Prospect has a closure of circa 400 acres and is targeting a likely resource potential of 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.

#### **West Klondike (10.2% Working Interest)**

On 29 August Kilgore announced a working interest swap agreement with Grand Gulf Energy Ltd to farm down a 5% interest in its Lyons Point prospect (Kilgore retains a 10% working interest) to acquire a 5% working interest in the West Klondike exploration prospect. On 9 September the Company announced it had acquired an additional 5.2% WI in West Klondike, to hold a total of 10.2% WI through funding 13.5% of the initial well and completion costs.

The West Klondike Prospect is a fault block closure which has been identified on 3D seismic data and is in close proximity to analogous offset production. The targeted sand sections are the Marg Tex, Lario and Upper and Lower Nod Blan, all of which produce in the fields highlighted on the sub regional map. The likely resource potential is 2 million barrels of oil (MMBL) and 6 billion cubic feet of gas (BCF) with unrisks potential of 4.8 MMBL and 17 BCF gas. In addition to the main target there is a larger, high pressure, prospect in the leased area that will require a separate deeper well. The target sands of this deeper feature (Bridas) have recently yielded a significant discovery approximately 2.5km to the North-East. West Klondike covers an area of 640 acres in Iberville Parish, Louisiana

## DIRECTORS' REPORT

Your Directors present their report on the consolidated entity (Group) for the year ended 30 June 2011.

### Directors

The names and details of the Company's Directors in office at any time during the financial year and until the date of this report are detailed below.

- C. Morgan (appointed – 01 August 2011)
- B. Mitchell (appointed – 01 August 2011)
- B. Ayers (appointed – 21 January 2008)
- G. Sklenka (appointed – 26 September 2007, resigned – 29 August 2011)
- A. Short (appointed – 26 September 2007, resigned – 01 August 2011)

### Principal activities

The principal continuing activities of the Group and Company during the financial year were the acquisition, production and exploration of petroleum and gas properties in Texas, United States of America.

There were no changes in the nature of the activities of the group during the year.

### Operating results

The net operating loss of the Group for the year ended 30 June 2011 after income tax amounted to \$ 2,801,344 (2010: Loss \$4,793,575).

### Dividends paid or recommended

No dividend was paid or declared during the year and the Directors do not recommend the payment of a dividend.

### Review of operations

Information on the operations and corporate activities of the group and its business strategies and prospects is set out in the review of operations and activities on page 4 of this annual report.

### Significant changes in the state of affairs

During the year the Company undertook a significant corporate and asset restructuring as a result of the agreement to acquire Warren Energy Ltd as detailed in the Review of Operations. Through this transaction, which settled on 1 August 2011, the Company acquired a 16% interest in the Rock Creek Oil project, an unconventional oil and condensate play, and an 8% interest in the strategic Duvernay Shale Project, both projects located in central Alberta, Canada.

Through this transaction the Company completed capital raisings of more than \$1.8m before costs, appointed Mr Charles Morgan and Mr Brett Mitchell to the Board as new Directors and Ms Rachel Jelleff as Company Secretary.

### Events Subsequent to Balance Sheet Date

- On 1 August 2011 the Company completed the acquisition of Warren Energy Limited (Warren Energy). Warren Energy Ltd holds a 16% interest in the Rock Creek Project, an unconventional oil and condensate play, and an 8% interest in the strategic Duvernay Shale Project for the Company, with both projects located in central Alberta, Canada.

- On 1 August 2011, Mr Charles Morgan and Mr Brett Mitchell were appointed Directors of the Company and Ms Rachel Jelleff was appointed Company Secretary. On the same day, Mr Anthony Short resigned as a Director of the Company and Mr David Ballantyne has resigned as Company Secretary.
- From 1 August 2011, the Company changed its registered address to Level 21, Allendale Square, 77 St Georges Tce Perth WA 6000
- On 2 August 2011, 2,200,000,000 shares were issued by the Company in consideration for the acquisition of Warren Energy (Vendor Shares) of which 1,000,000,000 were issued to a company associated with Mr Charles Morgan and 200,000,000 were issued to a company associated with Mr Brett Mitchell. The Vendor Shares are subject to voluntary escrow for a period of 12 months from the date of issue. As part of the transaction consideration, Kilgore will repay Warren's share of its Alberta acreage acquisition costs (16%) to the Warren Vendors, with the total acreage acquisition cost of approximately \$1,080,000 (~\$200/ha) to be repaid as a priority from the next capital raising undertaken by the Company.

The Alberta projects acquired through the Acquisition are subject to a crown royalty and additional gross royalty payments of 4.25% over the proceeds of the sale of oil and gas produced, which includes a 2.25% gross royalty payable to the Warren vendors.

- On 2 August 2011 the Company also completed the placement of 1,500,000,000 fully paid ordinary shares in the capital of the Company at \$0.001 each to raise \$1,500,000 before costs.
- On 19 August 2011 the Company allotted 3,200,000,000 listed options at 0.01 cents each, to raise \$320,000 before costs under the prospectus dated 9 August 2011. The options are exercisable at \$0.005 per Option on or before 19 August 2015.
- On 29 August 2011, Mr Gordon Sklenka has resigned as a Director of the Company.
- On 29 August 2011 the Company entered into a swap agreement with Grand Gulf Energy Ltd to acquire a 5% working interest (WI) in the West Klondike Exploration Prospect, which covers an area of 640 acres in Iberville Parish, Louisiana. Under the swap agreement, the 5% WI in West Klondike was acquired through a farm-down of a 5% WI in Lyons Point to Grand Gulf (with the Company retaining a 10% WI in Lyons Point). Kilgore will receive approximately \$424,000 from Grand Gulf under the terms of the deal, as reimbursement of its proportionate share of prepaid drilling costs for the Lyons Point well already paid to the Operator. The Company will be paying 6.67% of the West Klondike initial well and entry costs (~US\$220,000) to earn its 5% WI.
- On 9 September 2011 the Company entered into an agreement to acquire an additional 5.2% WI in the West Klondike Exploration Prospect, through reimbursement of back costs of approximately \$40,000 and otherwise on materially the same terms as the acquisition of a 5% WI from Grand Gulf Energy Ltd. The Company will now earn a total 10.2% WI in the West Klondike prospect by paying 13.5% of the drilling and completion costs of the initial exploration well, due to be spudded in October 2011. The well is expected to take 30 days to be drilled to a total depth of 10,900ft. Kilgore's share of the dry hole costs are approximately US\$360,000.

Subsequent to year end 3,200,000,000 listed options were issued at 0.01cents to raise \$320,000 before cost. These listed options were issued on 19/08/2011 and expiring on 17/08/2015.

### Options- expiring 17/08/2015

Holder	Held at beginning of the year	Granted during the year	Sold	Balance at the date of report
Brian Ayers - Direct	-	-	-	-
Gordon Sklenka - Indirect	-	200,000,000	-	200,000,000
Anthony Short - Indirect	-	200,000,000	-	200,000,000
Charles Morgan - Direct/Indirect	-	550,000,000	-	550,000,000
Brett Mitchell - Direct/Indirect	-	130,000,000	-	130,000,000

### Loan and Debt Facilities

The Company had a loan facility of \$1.5 million that was repaid and terminated during the period. During the year, \$50,000 was repaid by issuing shares and \$1,257,587 was paid in cash. As at 30 June 2011, the outstanding balance of \$132,244 is written off to nil (note 13).

### Likely Developments

The consolidated entity will continue to pursue activities within its corporate objectives. Further information about likely developments in the operations of the Company and the expected results of those operations in the future financial years has not been included in this report because disclosure would be likely to result in unreasonable prejudice to the Company

The Company's strategic direction has been outlined in recent announcements and investor presentations.

### Environmental Issues

The Group's operations are subject to various environmental regulations under the Federal and State Laws of United States of America. The majority of the company's activities involve low level disturbance associated with its production facilities and exploration drilling programs. As at the date of this report the group complies fully with all such regulations.

The Group is subject to the reporting requirements of both the Energy Efficiency Opportunities Act 2006 and the National Greenhouse and Energy Reporting Act 2007.

The Energy Efficiency Opportunities Act 2006 requires the Group to assess its energy usage, including the identification, investigation and evaluation of energy saving opportunities, and to report publicly on the assessments undertaken, including what action the Group intends to take as a result.

The National Greenhouse and Energy Reporting Act 2007 requires the Group to report its annual greenhouse gas emissions and energy use. The Group is in early stage of production so no measurements have been recorded. The Group intends to implement the system and process for the collection and calculation of the data required in financial year 2012.

## Information on Directors and Secretary

Names, qualifications, experience and special responsibilities of current Directors and company secretary:

### **Charles Morgan (appointed – 01 August 2011)** **Chairman**

Mr Morgan is a resources and technology strategist who has successfully identified emerging international opportunities and acquired large, early stage and strategic positions in a wide range of ventures around the globe. His particular strengths include identifying early stage opportunities, acquiring strategic assets and positions, partnering with regional and technology experts, securing teams of appropriate Executives and to develop those positions.

Mr Morgan has extensive experience in equity capital markets and has been involved with numerous projects over a 20 year period. The bulk of these were in the resources/oil & gas industries and in the technology sector.

Current Directorships and date of appointment

Alcyone Resources Limited (appointed 19 January 2006), Grand Gulf Energy Ltd (appointed 21 August 2009)

Other Directorships within the last three years:

None

### **Brett Mitchell, B Ec (appointed – 01 August 2011)** **Executive Director**

Mr Mitchell has worked for both private and publicly listed entities for the past 19 years as a corporate finance Executive. Mr Mitchell holds a Bachelor of Economics degree from the University of Western Australia and has specific experience in the financial markets and resources sectors and is a member of the Australian Institute of Company Directors (ACID).

Current Directorship and date of appointment:

Transerv Energy Limited (July 2006 - present), Wildhorse Energy Limited (April 2009 – present) and Quest Petroleum NL (May 2007 - present).

Other Directorships within the last three years:

Energy Ventures Limited (appointed September 2004 and resigned May 2009), XState Resources Limited (appointed August 2009 and resigned April 2011) and Newland Resources Limited (appointed October 2009 and resigned November 2010).

### **Brian Ayers, B.Geophs, MBA** **Non-Executive Director**

Mr. Ayers is an E&P Executive with over 31 years of experience in the US oil and gas industry. He began his career as a geophysicist with Texaco USA in New Orleans, Louisiana then became an exploration geologist with Coastal Oil and Gas (pipeline, marketing, exploration and production company) where he rose to Vice President, Domestic Exploration over an 18-year tenure. He was Vice President and Houston Division Manager for Samson Resources, a large, private oil and gas Company based in Oklahoma, then was President and CEO of Centurion Exploration Company, a private, US Gulf Coast explorer, for four years. Mr. Ayers is currently Vice President Geology and Geophysics at Pearl Resources LLC. He has wide-ranging technical experience in the Gulf Coast arena and has successfully managed several integrated oil and gas exploration and production teams.

Current Directorship and date of appointment:

None

Other Directorships within the last three years:

None

**Rachel Jelleff - Company Secretary (appointed 01 August 2011)**

Miss Jelleff has 3 years' experience in administrating public companies.

Current Directorship and date of appointment:

None

Other Directorships within the last three years:

None

**Anthony Short, BPE, B.Comm, Grad Dip Fin, MAICD**

**Managing Director (Executive), (appointed – 26 September 2007, resigned – 01 August 2011)**

Mr Short has 19 years experience in the administration and management of listed public companies. He has extensive experience at Board level in the management and formation of public companies in the areas of oil and gas exploration and production and gold mining in the USA. Mr Short has held the position of chairman, CFO and managing director in a number of listed public companies and has also acted as corporate advisor on a number of successful public listings.

Current Directorship and date of appointment:

He is currently the managing director of Advance Energy Ltd since 16/11/04 and Odin Energy Ltd – reappointed on 02/08/2011.

Other Directorships within the last three years:

Vector Resources Ltd (appointed - 06/01/05 and resigned 11/01/2011)

Special Responsibilities:

Managing Director

**Gordon Sklenka, B.Com, (UWA)**

**Chairman (Non-Executive Director), (appointed – 26 September 2007, resigned – 29 August 2011)**

Mr Sklenka began his career in Chartered Accounting in Sydney and Perth. He has more than 16 years experience in corporate finance in the areas of capital raisings, IPOs, acquisitions and project finance in the resources and technology sectors. He has worked with a number of listed public companies in both Australia and Canada and developed extensive experience in company formation, capital raisings and project acquisition.

Current Directorship and date of appointment:

Advance Energy Ltd (director since 16/11/04), AXG Mining Ltd (director since 16/02/05), Rand Mining NL (director since 16/08/04) and Tribune Resources NL (director since 16/08/04).

Other Directorships within the last three years:

Regal Resources Ltd (appointed 11/09/2003 and resigned on 10/06/2009), Vector Resources Ltd (director since 06/01/05 and resigned 11/01/2011)

Special Responsibilities:

Chairman / Non-Executive Director

**David Ballantyne - Company Secretary MA (Hons) University of Edinburgh, ACA (appointed 01 June 2008 and resigned on 01 August 2011)**

**Company Secretary**

Mr. Ballantyne is a Chartered Accountant who has a significant level of commercial experience and technical ability in the exploration / mining industry plus in the biotechnology and aquaculture industries. He previously worked for a Big 4 accounting firm and second tier accounting firms in the areas of audit, corporate services and insolvency.

Current Directorship and date of appointment:

None

Other Directorships within the last three years:

Odin Energy Ltd (appointed on 15/06/2010 and resigned on 02/08/2011)

Special Responsibilities:

Company Secretary

## Meetings of Directors

The numbers of meetings attended by each director to the report date were:

Director	Board meetings held	Board meetings attended
G. Sklenka	5	5
B. Ayers	5	0
A. Short	5	5
C. Morgan*	5	0
B. Mitchell*	5	0

\*All Board meetings were held prior to appointment of Mr Morgan and Mr Mitchell as Directors.

## Securities held and controlled by Directors

As at the date of this report, the interests of the Directors in shares, options and Convertible Performance Shares ("CPS") of the Company were:

### Ordinary shares

Holder	Held at beginning of the year	Acquired	Sold/Dispose	Converted from CPS	Balance at the date of report
Brian Ayers - Direct	3,000,000	-	3,000,000	-	-
Gordon Sklenka - Direct/Indirect	24,000,001	96,000,000	-	-	120,000,001
Anthony Short - Direct/Indirect	23,709,437	94,837,744	-	-	118,547,181
Charles Morgan - Direct/Indirect	-	1,212,500,000	-	-	1,212,500,000
Brett Mitchell - Direct/Indirect	-	250,000,000	-	-	250,000,000

### Converting Performance shares (CPS)

Holder	Held at beginning of the year	Acquired	Sold	Converted to shares	Balance at the date of report
Brian Ayers - Direct	2,000	-	-	-	2,000
Gordon Sklenka - Indirect	2,000	-	-	-	2,000
Anthony Short - Indirect	2,000	-	-	-	2,000

Details of the conditions relating to conversion of the Converting Performance Shares are included in note 22.

### Options- expiring 30/06/2012

Holder	Held at beginning of the year	Granted during the year	Sold	Balance at the date of report
Brian Ayers - Direct	-	-	-	-
Gordon Sklenka - Indirect	8,000,000	-	-	8,000,000
Anthony Short - Indirect	7,854,718	-	-	7,854,718
Charles Morgan - Direct/Indirect	-	-	-	-
Brett Mitchell - Direct/Indirect	-	-	-	-

### REMUNERATION REPORT (AUDITED)

The information provided in this remuneration report has been audited as required by section 308(3C) of the Corporation Act 2001.

This report outlines the remuneration arrangements in place for Directors and Executives of Kilgore Oil & Gas Limited. This report has been set out under the following main headings:

- A. Principles Used to Determine the Nature and Amount of Remuneration
- B. Service Agreements
- C. Details of Remuneration
- D. Share-based Compensation
- E. Additional Information

As noted in the corporate governance, section of this Financial Report, under council principle 8, the Company is not currently of a size, nor are its affairs of such complexity to justify the formation of a remuneration committee. The Board manages the remuneration policy, setting the terms and conditions for Executive Directors and other Senior Executives.

#### A. Principles Used to Determine the Nature and Amount of Remuneration

The Board of Directors is responsible for determining and reviewing compensation arrangements for the Directors and Executive Officers. The Board will assess the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and Executive team.

The objective of the Group's Executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns Executive reward with achievement of strategic objectives and the creation of value for shareholders, and conforms with market best practice for delivery of reward. The Board ensures that Executive reward satisfies the following key criteria for good reward governance practices:

- Competitiveness and reasonableness
- Acceptability to shareholders
- Performance linkage/alignment of Executive compensation
- Transparency
- Capital management

The Board policy is to remunerate Non-Executive Directors at fair market rates for comparable companies for the relevant time, commitment and responsibilities. The Board determines payments to the Non-Executive Directors and reviews their remuneration annually based on market practice, duties and accountability. The maximum amount of fees that can be paid to Directors is subject to approval by shareholders at the Annual General Meeting. The maximum amount approved is \$300,000. Fees for Non-Executive Directors are not linked to the performance of the Group. However, to align director's interests with shareholder interests the Directors are encouraged to hold shares in the Company and may be issued with additional securities as deemed appropriate.

The Board believes that the remuneration policy is appropriate given the stage of development of the Company and the activities which it undertakes and is appropriate for aligning director and executive objectives with shareholder and business objectives. The Board will continually develop new practices which are appropriate to the Company's size and stage of development.

Executive Officers are those directly accountable for the operational management and strategic direction of the Company and the consolidated entity.

All contracts with Directors and Executives may be terminated by either party with three months' notice.

### **Fixed remuneration**

Fixed remuneration consists of a base remuneration package, which includes Directors' fees (in the case of Directors), salaries, consulting fees and employer contributions to superannuation funds.

Fixed remuneration levels for Directors and Executive officers will be reviewed annually by the Board through a process that considers the employee's personal development, achievement of key performance objectives for the year, industry benchmarks wherever possible and CPI data.

### **Performance-linked remuneration**

All employees may receive bonuses and/or share options based on achievement of specific goals related to performance against individual KPIs and to the performance of the Company as a whole as determined by the Directors, based on a range of factors. These factors include traditional financial considerations such as operating performance, cash consumption and deals concluded. They also include industry-specific factors relating to the advancement of the Company's activities and relationships with third parties and internal employees. There were no bonus or performance linked options granted during the year.

## **B. Service Agreements**

Remuneration, consulting and other terms of employment for the key management personnel are determined by the Board but are not currently formalised in service agreements. Each of these Directors have fully paid ordinary shares and convertible performance shares in the Company which give them considerable incentive to see the Company perform well. Other current provisions are set out below.

The Directors and key management personnel during the year included:

#### **Directors**

Mr A Short, Managing Director, Executive Director

- Agreement commenced 26 September 2007, terminated on 01 August 2011;
- Consulting fees (including Directors' fees) for the year ended 30 June 2011 of \$75,000 to be reviewed annually by the Board; and
- Payment of a termination benefit on early termination by the Company, other than for gross misconduct, equal to 3 months' consulting fees.

Mr B Ayers, Exploration Director, Executive Director

- Agreement commenced 21 January 2008, no termination date;
- Consulting fees (including Directors' fees) for the year ended 30 June 2011 of \$ 24,171 to be reviewed annually by the Board; and
- Payment of a termination benefit on early termination by the Company, other than for gross misconduct, equal to 3 months' consulting fees.

Mr G Sklenka, Chairman, Non-Executive Director

- Agreement commenced 26 September 2007, terminated on 29 August 2011;

- Consulting fees (including Directors' fees) for the year ended 30 June 2011 of \$75,000 to be reviewed annually by the Board; and
- Payment of a termination benefit on early termination by the Company, other than for gross misconduct, equal to 3 months' consulting fees.

As at reporting date, the Company had not yet entered a formal service agreement with Mr. Morgan and Mr. Mitchell.

#### Key Management Personnel Remuneration

##### Mr D Ballantyne, Company Secretary

- Term of agreement commencing 1 June 2008, terminated on 01 August 2011;
- Consulting fee, based upon actual hours worked, but not to exceed \$60,000 and to be reviewed annually by the Board; and
- Payment of a termination benefit on early termination by the Company, other than for gross misconduct, equal to one (1) months' consulting fee.

### C. Details of Remuneration

The key management personnel of Kilgore Oil & Gas Limited during the year ended 30 June 2011 includes all Directors and Executives mentioned above. There are no other Executives of the Company which are required to be discussed.

Remuneration packages contain the following key elements:

Primary benefits – salary/fees and bonuses;

Post-employment benefits – including superannuation;

Equity – share options and other equity securities; and

Other benefits.

Nature and amount of remuneration for the year ended 30 June 2011 and 2010:

		Short-term employee benefits		Post -	Equity Performance	Total
		Salary, consulting fees	Bonus	employment	related	
		AU\$	AU\$	benefits	Performance share based	AU\$
				Superannuation	payments	
				AU\$	AU\$	
<b>Executive Directors</b>						
<b>B Ayers</b>	2011	24,171	-	-	-	<b>24,171</b>
	2010	28,624	-	-	-	<b>28,624</b>
<b>A Short</b>	2011	75,000	-	-	-	<b>75,000</b>
	2010	140,000	-	-	-	<b>140,000</b>
<b>Non-Executive Directors</b>						
<b>G Sklenka</b>	2011	75,000	-	-	-	<b>75,000</b>
	2010	102,000	-	-	-	<b>102,000</b>
<b>Total Directors' compensation</b>	2011	<b>174,171</b>	-	-	-	<b>174,171</b>
	2010	<b>270,624</b>	-	-	-	<b>270,624</b>
<b>Other key management personnel</b>						
<b>D Ballantyne*</b>	2011	-	-	-	-	-
<b>(Company Secretary)</b>	2010	18,750	-	-	-	<b>18,750</b>
<b>Total other key management compensation</b>	2011	-	-	-	-	-
	2010	18,750	-	-	-	<b>18,750</b>
<b>TOTAL COMPENSATION</b>	<b>2011</b>	<b>174,171</b>	-	-	-	<b>174,171</b>
	<b>2010</b>	<b>289,374</b>	-	-	-	<b>289,374</b>

\*Consulting fees for David Ballantyne is based upon actual hours worked but not to exceed \$60,000. Due to low activity David Ballantyne has not charged any consulting fees to the Company.

## D. Share-based Compensation

No share based compensation issued during the year ended 30 June 2011.

### CPS

Holder		Held at beginning of period	Acquired	Sold	Converted to shares	Balance at end of period
Brian Ayers-Direct	2011	2,000	-	-	-	2,000
	2010	2,000	-	-	-	2,000
David Ballantyne -Direct/Indirect	2011	-	-	-	-	-
	2010	-	-	-	-	-
Gordon Sklenka- Indirect	2011	2,000	-	-	-	2,000
	2010	2,000	-	-	-	2,000
Anthony Short-Indirect	2011	2,000	-	-	-	2,000
	2010	2,000	-	-	-	2,000

Each Converting Performance Share (CPS) converts into 500 ordinary shares as follows:

CPS-A – upon the Company's shares being listed on the main Board of the ASX; these were converted into ordinary shares on date of listing, being 10/07/08.

CPS-B – upon the Company achieving proven reserves of 2Bcfe, these were converted into ordinary shares in 2009.

CPS-C – upon the Company achieving proven reserves of 4Bcfe, these were converted into ordinary shares in 2009.

CPS-D – upon the Company achieving proven reserves of 8Bcfe.

The convertible performance shares are not transferable. The CPS shareholder does have the same right as holders of shares to receive notice, reports and audited accounts and to attend general meetings of the Company but are not entitled to vote. Further, CPS shareholders are not entitled to receive any dividend on their Convertible Performance Shares.

## E. Additional information

Principles used to determine the nature and amount of remuneration: relationship between remuneration and Company performance.

In considering the Company's performance and its effect on shareholder wealth, the Board have regard to a broad range of factors, some of which are financial and others of which relate to the progress on the Company's projects, results and progress of exploration and development activities, joint venture agreements etc.

The Board also gives consideration to the Company's result and cash consumption for the year. It does not utilise earnings per share as a performance measure or contemplate payment of any dividends in the short to medium term given that all efforts are currently being expended to build the business and establish self-sustaining revenue streams.

**END OF AUDITED REMUNERATION REPORT**

## INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During the financial year, the Company maintained an insurance policy which indemnifies the Directors and Officers of Kilgore Oil & Gas Limited in respect of any liability incurred in connection with the performance of their duties as Directors or Officers of the Company. The Company's insurers have prohibited disclosure of the amount of the premium payable and the level of indemnification under the insurance contract.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a wilful breach of duty or the improper use of position/information to gain advantage for themselves or someone else or to cause detriment to the Company.

## PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied to the Court under section 237 of the Corporation Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the court under section 237 of the Corporation Act 2001.

## NON-AUDIT SERVICES

The following non-audit services were provided by the entity's auditor, BDO Audit (WA) Pty Ltd or associated entities. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act. The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- All non-audit services have been reviewed by the Board to ensure they do not impact the impartiality and objectivity of the auditor; and
- None of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risk and rewards.

BDO received or are due to receive the following amounts for the provision of audit and/or non-audit services:

Other assurance services	Group	
BDO Audit (WA) Pty Ltd	2011AU\$	2010AU\$
- Audit and assurance services	65,541	42,416
- Tax and other advices	-	-
<b>Total Remuneration</b>	<b>65,541</b>	<b>42,416</b>
Amounts received or due and receivable by FCP CPA in relation to the US based subsidiary companies for:	2011US\$	2010 US\$
Audit and audit review services of the financial reports	-	30,879
Other non audit charges	-	4,250
	-	35,129

## AUDITORS INDEPENDENCE DECLARATION

The Auditor's Independence Declaration, as required under Section 307c of the Corporations Act 2001, for the financial year ended 30 June 2011 has been received and can be found on page 19.

This report is made in accordance with a resolution of Directors.

A handwritten signature in black ink, appearing to read 'Brett Mitchell', with a stylized flourish at the end.

Brett Mitchell  
Executive Director  
Perth, Western Australia  
29 September 2011

The Directors  
Kilgore Oil and Gas Limited  
Level 21 Allendale Square  
77 St Georges Terrace  
PERTH WA 6000

29 September 2011

Dear Sirs,

**DECLARATION OF INDEPENDENCE BY GLYN O'BRIEN TO THE DIRECTORS OF KILGORE OIL AND GAS LIMITED**

As lead auditor of Kilgore Oil and Gas Limited for the year ended 30 June 2011, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Kilgore Oil and Gas Limited and the entities it controlled during the period.

Yours sincerely

**BDO Corporate Tax (WA) Pty Ltd**



Glyn O'Brien  
Director



**BDO Audit (WA) Pty Ltd**  
Perth, Western Australia

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2011

	Notes	Consolidated	
		Year End 30/06/2011	Year End 30/06/2010
		AU\$	AU\$
Revenue from continuing operations	5	22,807	14,354
Accounting and audit		(91,877)	(60,315)
Employee/Consultant fees	6	245,483	(417,002)
Travel expenses		(38,745)	(199,868)
Rent		-	(14,875)
Legal fees		(67,290)	(15,989)
Marketing and advertising		-	(505)
Regulatory expenses		(44,711)	(17,428)
Administrative expenses		(184,536)	(188,564)
Finance Costs		(7,087)	(273,845)
Impairment expenses		(431)	-
<b>Loss before income tax</b>		<b>(166,387)</b>	<b>(1,174,037)</b>
Income tax (expense)/benefit	7	-	-
<b>Loss from continuing operations</b>		<b>(166,387)</b>	<b>(1,174,037)</b>
Loss from discontinued operations	12	(2,634,957)	(3,619,538)
<b>Loss for the year</b>		<b>(2,801,344)</b>	<b>(4,793,575)</b>
<b>Other comprehensive income for the year</b>			
Exchange differences on translation of foreign operations		136,101	(284,953)
Investment revaluation		-	(97,500)
<b>Other comprehensive income/(loss) for the year, net of tax</b>		<b>136,101</b>	<b>(382,453)</b>
<b>Total comprehensive loss for the year</b>		<b>(2,665,243)</b>	<b>(5,176,028)</b>
<b>Loss attributed to :</b>			
Owners of Kilgore Oil and Gas Ltd		(2,801,344)	(4,793,575)
<b>Total comprehensive loss for the year is attributed to:</b>			
Owners of Kilgore Oil and Gas Ltd		(2,665,243)	(5,176,028)
Earnings per share for loss from continuing operations attributable to the ordinary equity holders of the Company:			
Basic loss per share/ Diluted loss per share	17	(0.002)	(0.015)

*The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.*

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30th June 2011

	Notes	Consolidated	
		Year End 30/06/2011	Year End 30/06/2010
		AU\$	AU\$
<b>Current Assets</b>			
Cash and cash equivalents	8	319,748	31,585
Receivables	9	-	251,301
<b>Total current assets</b>		<b>319,748</b>	<b>282,886</b>
<b>Non current Assets</b>			
Property, plant and equipment	10	-	8,518
Oil and gas properties	11	105,647	2,890,184
Other financial assets	9	-	32,500
Deferred Tax Assets	7	-	-
<b>Total non current assets</b>		<b>105,647</b>	<b>2,931,202</b>
<b>Total Assets</b>		<b>425,395</b>	<b>3,214,088</b>
<b>Current Liabilities</b>			
Payables	13	108,054	1,415,814
Borrowings	13	-	1,013,243
<b>Total Liabilities</b>		<b>108,054</b>	<b>2,429,057</b>
<b>Net Assets</b>		<b>317,341</b>	<b>785,031</b>
<b>Equity</b>			
Issued share capital	14	16,552,142	14,354,527
Options Reserve	14	549,938	550,000
Reserves	15	80	(136,021)
Accumulated Losses	16	(16,784,819)	(13,983,475)
<b>Total Equity</b>		<b>317,341</b>	<b>785,031</b>

*The above consolidated statement of financial position should be read in conjunction with the notes to the financial statements.*

## CONSOLIDATED STATEMENT OF CASH FLOW

For the year ended 30 June 2011

		Consolidated	
	Notes	Year End 30/06/2011 AU\$	Year End 30/06/2010 AU\$
<b>Cash flows from operating activities</b>			
Payments to suppliers and consultants		(407,898)	(1,683,512)
Interest received		22,807	21,963
<b>Net cash outflow from operating activities</b>	19	<b>(385,091)</b>	<b>(1,661,549)</b>
<b>Cash flows from investing activities</b>			
Exploration costs		(105,647)	-
Development – other tangible assets	12	-	(1,183,175)
Cash disposed from disposal of subsidiary	12	(153,973)	-
<b>Net cash outflow from investing activities</b>		<b>(259,625)</b>	<b>(1,183,175)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issues of shares		2,222,396	3,608,000
Option Issued		62	550,000
Oversubscription of shares		-	(71,000)
Borrowing cost		(7,086)	(10,000)
Repayment of Borrowings		(1,257,587)	(942,929)
Capital raising costs		(24,906)	(316,321)
<b>Net cash inflow from financing activities</b>		<b>932,879</b>	<b>2,817,750</b>
<b>Net increase or (decrease) in cash and cash equivalents</b>		<b>288,163</b>	<b>(26,975)</b>
<b>Cash and cash equivalents at the beginning of the financial year</b>		<b>31,585</b>	<b>58,560</b>
<b>Cash and cash equivalents at the end of the financial year</b>	8	<b>319,748</b>	<b>31,585</b>

*The above consolidated statement of cash flow should be read in conjunction with the notes to the financial statements.*

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Consolidated	30/06/2011 (AU\$)						
	Issued Capital	Options	Accumulated Losses	Equity Reserve	Investment Revaluation Reserve	Foreign Currency Reserve	Total Equity
Balance at beginning of year	14,354,527	550,000	(13,983,475)	80	-	(136,101)	785,031
<b>Total comprehensive income/(loss) for the year</b>	-	-	(2,801,344)	-	-	136,101	(2,665,243)
<b>Transactions with equity holders in their capacity as equity holders</b>							
Issues of share capital	2,222,468	-	-	-	-	-	2,222,468
Options Issued	-	(62)	-	-	-	-	(62)
Capital raising costs	(24,853)	-	-	-	-	-	(24,853)
<b>Balance at end of the year</b>	<b>16,552,142</b>	<b>549,938</b>	<b>(16,784,819)</b>	<b>80</b>	<b>-</b>	<b>-</b>	<b>317,341</b>

Consolidated	30/06/2010 (AU\$)						
	Issued Capital	Options	Accumulated Losses	Equity Reserve	Investment Revaluation Reserve	Foreign Currency Reserve	Total Equity
Balance at beginning of year	10,592,848	-	(9,189,900)	80	97,500	148,852	1,649,380
<b>Total comprehensive income/(loss) for the year</b>	-	-	(4,793,575)	-	(97,500)	(284,953)	(5,176,028)
<b>Transactions with equity holders in their capacity as equity holders</b>							
Issues of share capital	4,078,000	-	-	-	-	-	4,078,000
Options Issued	-	550,000	-	-	-	-	550,000
Capital raising costs	(316,321)	-	-	-	-	-	(316,321)
<b>Balance at end of the year</b>	<b>14,354,527</b>	<b>550,000</b>	<b>(13,983,475)</b>	<b>80</b>	<b>-</b>	<b>(136,101)</b>	<b>785,031</b>

*The consolidated statement of changes in equity should be read in conjunction with the notes to the financial statements.*

## NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 30 June 2011

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the year presented, unless otherwise stated. The financial statements of the consolidated entity consist of Kilgore Oil & Gas Limited and its subsidiaries.

#### *(a) Basis of Preparation*

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of Australian Accounting Standards Board, Australian Accounting Interpretations and the Corporations Act 2001.

##### *i) Compliance with IFRSs*

The consolidated entity financial statements also comply with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

##### *ii) Historical cost convention*

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets.

##### *iii) Critical accounting estimates*

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

##### *iv) Early adoption on standards*

The Group has not elected to apply any pronouncements early.

#### *(b) Principles of Consolidation*

##### *i) Subsidiaries*

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Kilgore Oil & Gas Limited ("Company" or "parent entity") as at 30 June 2011 and the results of all subsidiaries for the year then ended. Kilgore Oil & Gas Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Investments in subsidiaries are accounted for at cost in the individual financial statements of Kilgore Oil & Gas Limited.

**ii) Jointly controlled assets and operations**

The majority of operations are carried out subject to joint venture arrangements. The proportionate interests in the assets, liabilities, income and expenditure of a joint venture activity have been incorporated in the financial statements under the appropriate headings.

The interest in a joint venture partnership is accounted for in the consolidated financial statements using the equity method and is carried at cost by the parent entity. Under the equity method, the share of the profits or losses of the partnership is recognised in the income statement, and the share of movements in reserves is recognised in reserves in the statement of financial position.

**(c) Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the strategic steering committee.

**(d) Foreign currency translation**

**i) Functional and presentation currency**

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Australian dollars, which is Kilgore Oil & Gas Limited's functional and presentation currency. The functional currency of the overseas subsidiaries is US dollar.

**ii) Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the income statement, within finance costs. All other foreign exchange gains and losses are presented in the income statement on a net basis within other income or other expenses.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Transaction difference on assets and liabilities carried at fair value are reported as part of the fair value gain or loss.

**iii) Group companies**

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of the statement of financial position;
- Income and expenses for each income statement are translated at average exchange rate (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- All resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other

comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange difference is reclassified to profit or loss, as part of the gain or loss on sale where applicable.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entities and translated at the closing rate.

#### **(e) Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured.

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and amounts collected on behalf of third parties. Revenue is recognised as follows:

##### **(i) Interest income**

Interest income is recognised on a time proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

##### **(ii) Oil and Gas revenue**

Revenue is recognised when the significant risks and rewards of ownership of the goods have delivered to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

#### **(f) Inventories**

Oil stocks and field consumables are stated at the lower of cost and net realisable value. Cost includes all expenditure incurred in acquiring and bringing the inventories to their existing condition and location.

#### **(g) Trade and other receivables**

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less allowance for doubtful debts. Trade receivables are due for settlement between thirty (30) and ninety (90) days from the date of recognition.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement within "other expenses". When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against other expense in the profit or loss.

Recoverability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. The amount of the provision is recognised in the profit or loss.

The amount of the impairment loss is recognised in profit or loss within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account.

#### **(h) Property, Plant and Equipment**

##### **i) Plant and equipment**

Plant and equipment is stated at cost less accumulated depreciation and any accumulated losses for impairment.

##### **ii) Depreciation**

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset which is estimated to vary between 5 and 15 years.

##### **iii) Impairment**

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If any indication of impairment exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses are recognised separately in the statement of comprehensive income.

Any item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the profit or loss in the year the item is derecognised.

#### **i) Leases**

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are recognised as an expense in the income statement on a straight line basis over the lease term.

### ***(j) Non-current assets (or disposal groups) held for sale and discontinued operations***

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to see, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expense attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the statement of financial position. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the statement of financial position.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The result of discontinued operations are presented separately in the statement of comprehensive income.

### ***(k) Investments and other financial assets***

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at each reporting date.

#### ***(i) Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the statement of financial report date which are classified as non-current assets. Loans and receivables are included in receivables in the statement of financial report (note 9).

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Loans and receivables are carried at amortised cost using the effective interest method.

#### ***(l) Exploration, evaluation and development expenditure***

Exploration, evaluation and development expenditure incurred is either written off as incurred or accumulated in respect of each identifiable area of interest. Costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves.

Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

Restoration, rehabilitation and environmental costs necessitated by exploration and evaluation activities are expensed as incurred and treated as exploration and evaluation expenditure.

### **(m) Oil and gas properties**

Following commencement of production activities all acquisition, exploration, evaluation and development expenditure in relation to an area of interest is accumulated into an oil and gas property.

When further development expenditure is incurred in respect of a property after the commencement of production, such expenditure is carried forward as part of the cost of that property only when substantial economic benefits are established, otherwise such expenditure is classified as part of the cost of production.

Amortisation of the cost of oil and gas properties is provided on the unit-of-production basis over the proved developed reserves of the field concerned with separate calculations being made for each resource. The unit-of-production basis results in an amortisation charge proportional to the depletion of the economically recoverable reserves. Amortisation is charged from the commencement of production.

The net carrying value of each property is reviewed regularly for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If the asset does not generate largely independent cash flows, the recoverable amount is determined for the cash generating unit to which the asset belongs. If such indication exists and where the carrying value exceeds the estimated recoverable amount, the assets are written down to their recoverable amount.

The recoverable amount is the greater of fair-value less costs to sell and value in use. In assessing value in use, the estimated cash flows are discounted to their present value using the pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the assets.

### **(n) Fair Value estimation**

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired at fair value. The fair value of financial assets and financial liabilities must be estimated for recognition and measured or for disclosure purposes.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

### **(o) Borrowings**

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the year of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

**(p) Trade and other payables**

These amounts represent liabilities for goods and services provided to the group prior to the end of the financial year, which remain unpaid at year end. The amounts are unsecured and are usually paid within 60 days of recognition. They are recognised at fair value on initial recognition and subsequently at amortised cost.

**(q) Employee benefits**

**(i) Wages and salaries, annual leave and sick leave**

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

**(ii) Long service leave**

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

**(iii) Termination benefits**

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal of providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after reporting date are discounted to present value.

**(r) Borrowing Costs**

Borrowing costs are recognised as an expense when incurred except if costs were incurred for the construction of any qualifying asset, where the costs are capitalised over the year that is required to complete and prepare the asset for its intended use or sale.

**(s) Cash and cash equivalents**

Cash and short-term deposits in the statement of financial position comprise cash at bank and in hand and short term deposits with an original maturity of three months or less.

For the purposes of the Cash Flow Statement cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

**(t) Income Tax**

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the statement of financial position date.

Deferred income tax is provided on all temporary differences at the statement of financial position date arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements and are recognised for all taxable temporary differences:

- Except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses can be utilised:

- Except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor the taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future extent that it is probable that the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the statement of comprehensive income.

#### **(u) Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of GST, except:

- Where the GST incurred on a purchase of goods and services is not recoverable from the taxation authorities, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense item as applicable; and
- Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

#### **(v) Contributed Equity**

Issued and paid up capital is recognised at the fair value of the consideration received by the Company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction, net of tax, of the share proceeds received.

**(w) Earnings per share**

**(i) Basic earnings per share**

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

**(ii) Diluted earnings per share**

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary share and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

**(x) New accounting standards and interpretations**

**(i) New and amended standards adopted by the Group**

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 July 2010:

- AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project;
- AASB 2009-8 Amendments to Australian Accounting Standards - Group Cash-settled Share-based Payment Transactions;
- AASB 2009-10 Amendments to Australian Accounting Standards - Classification of Rights Issues; and
- AASB 2010-3 Amendments to Australian Accounting Standards arising from the Annual Improvements Project.

The adoption of these standards did not have any impact on the current period or any prior period and is not likely to affect future periods.

**(ii) New accounting standards and interpretations not yet adopted**

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2011 reporting periods and have not yet been applied in the financial report. The Group's assessment of the impact of these new standards and interpretations is set out below.

- AASB 2010-6 Amendments to Australian Accounting Standards - Disclosures on Transfers of Financial Assets (effective for annual reporting periods beginning on or after 1 July 2011). Amendments made to AASB 7 Financial Instruments: Disclosures in November 2010, introduce additional disclosures in respect of risk exposures arising from transferred financial assets. The amendments are not expected to have any significant impact on the Group's disclosures. The Group intends to apply the amendment from 1 July 2011.
- AASB 10 Consolidated Financial Statements (effective for the annual reporting periods commencing on or after 1 January 2013). AASB 10 introduces certain changes to the consolidation principles, including the concept of de facto control and changes in relation to the special purpose entities. The Group is continuing to assess the impact of the standard.
- AASB 11 Joint Arrangements (effective for the annual reporting periods commencing on or after 1 January 2013). AASB 11 introduces certain changes to the accounting for joint arrangements. Joint arrangements will be classified as either joint operations (where parties with joint control have rights to assets and obligations for liabilities) or joint ventures (where parties with joint control have rights to the net assets of the arrangement). Joint arrangements structured as a separate vehicle will generally be treated as joint ventures and accounted for using the equity method. The Group is continuing to assess the impact of the standard.
- AASB 13 Fair Value Measurement (effective for annual reporting periods commencing on or after 1 January 2013). AASB 13 establishes a single framework for measuring fair value of financial and non-financial items recognised at fair value on the balance sheet or disclosed in the notes to the financial statements. The Group is continuing to assess the impact of the standard.
- AASB 2011-9 Presentation of Financial Statements (effective for annual reporting periods commencing on or after 1 July 2013). AASB 101, amended in June 2011, introduces amendments to align the presentation items of other

comprehensive income with US GAAP. The Group will apply the amended standard from 1 July 2013. When the standard is first adopted, there will be changes to the presentation of the statement of comprehensive income. However, there will be no impact on any of the amounts recognised in the financial statements.

- AASB 1054 Australian Additional Disclosures (effective for annual reporting periods beginning on or after 1 July 2011). AASB 1054, issued in May 2011, moves additional Australian specific disclosure requirements for for-profit entities from various Australian Accounting Standards into this Standard as a result of Trans-Tasman Convergence Project. AASB 1054 Australian Additional Disclosures removes the requirement to disclose each class of capital commitments contracted for at the end of the reporting period (other than commitments for the supply of inventories). When the standard is adopted for the first time for the financial year ending 30 June 2012, the financial statements will no longer include disclosures about capital and other expenditure commitments as these are no longer required by AASB 1054.
- AASB 9 Financial Instruments and AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) (effective for annual reporting periods beginning on or after 1 January 2013). AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2013 but is available for early adoption. Kilgore is continuing to assess its full impact.
- Revised AASB 124 Related Party Disclosures and AASB 2009-12 Amendments to Australian Accounting Standards (effective for annual reporting periods beginning on or after 1 January 2011). In December 2009 the AASB issued a revised AASB 124 Related Party Disclosures. It is effective for accounting periods beginning on or after 1 January 2011 and must be applied retrospectively. The amendment clarifies and simplifies the definition of a related party. The Group's will apply the amended standard from 1 July 2011. When the amendments are applied, The Group will need to disclose any transactions between its subsidiaries and its associates. However, there will be no impact on any of the amounts recognised in the financial statements.
- AASB 1053 Application of Tiers of Australian Accounting Standards and AASB 2010-2 Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements (effective from 1 July 2013). On 30 June 2010 the AASB officially introduced a revised differential reporting framework in Australia. Under this framework, a two-tier differential reporting regime applies to all entities that prepare general purpose financial statements. The Group is listed on the ASX and is not eligible to adopt the new Australian Accounting Standards - Reduced Disclosure Requirements. The two standards will therefore have no impact on the financial statements of the entity.
- AASB 2010-8 Amendments to Australian Accounting Standards - Deferred Tax: Recovery of Underlying Assets (effective from 1 January 2012). In December 2010, the AASB amended AASB 112 Income Taxes to provide a practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model. AASB 112 requires the measurement of deferred tax assets and liabilities to reflect the tax consequences that would follow from the way management expects to recover or settle the carrying amount of the relevant assets or liabilities, that is through use or through sale. The amendment introduces a rebuttable presumption that investment property which is measured at fair value is recovered entirely by sale. The amendment is not expected to have any significant impact on The Group's financial statements. The Group intends to apply the amendment from 1 July 2012.
- AASB 119 - Elimination of the 'corridor' approach for deferring gains/losses for defined benefit plans, actuarial gains/losses on remeasuring the defined benefit plan obligation/asset to be recognised in OCI rather than in profit or loss, and cannot be reclassified in subsequent periods, subtle amendments to timing for recognition of liabilities for termination benefits, and employee benefits expected to be settled (as opposed to due to settled under current standard) within 12 months after the end of the reporting period are short-term benefits, and therefore not discounted when calculating leave liabilities. Annual leave not expected to be used within 12 months of end of reporting period will in future be discounted when calculating leave liability. This standard has no impact as there are no annual leave provision amounts that are non-current. The Group will apply this from 1 July 2013.

The Group does not anticipate early adoption of any of the above accounting standards.

## 2. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks, and ageing analysis for credit risk.

Risk management is carried out by the Board of Directors.

	2011	2010
<b>Financial Assets</b>		
Cash and cash equivalents	319,748	31,585
Trade and other receivables	-	251,301
Other financial assets	-	32,500
<b>Financial Liabilities</b>		
Trade and other payables	108,054	1,415,814
Borrowings	-	1,013,243

### (a) Market risk

#### (i) Foreign exchange risk

The Group operates internationally through foreign subsidiaries and is exposed to foreign exchange risk arising from currency exposures, primarily with respect to the US dollar.

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency and net investments in foreign operations. The risk is measured using cash flow forecasting. The foreign exchange risk is not actively managed as the Company does not expect repayment of the inter group loan within the short term and the subsidiary is not expected to remit operating profits in the short term.

The Group does not have any exposure to foreign currency risk at the reporting date.

#### (ii) Price risk

The Group is in an early stage of production so not exposed to price risk on its financial instruments.

#### (iii) Cash flow and fair value interest rate risk

The Group is not affected with interest rate risk as no short term or long term borrowings are held.

### (b) Credit risk

The Group is in an early stage of production of oil. So there are no significant concentrations of credit risk. The Group ensure the use of leading investment institutions in terms of managing cash.

The group has policies in place to ensure that future sales of products and services are made to customers with an appropriate credit history. No guarantees are provided currently.

### (c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions should they arise. Due to the dynamic nature of the underlying businesses, the Group aims at maintaining flexibility in funding by keeping committed credit lines available with a variety of counterparties. No unused lines of credit currently exist.

### *Maturities of financial liabilities*

The tables below analyses the Group's and the parent entity's financial liabilities based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows as at 30 June 2011.

	Note	Consolidated	
		2011 AU\$	2010 AU\$
<b>Financial Liabilities</b>			
Trade Creditors and Borrowings payable within 6 months	13	108,054	1,415,814
Fixed Rate Barrowings payables between 6 to 12 months	13	-	1,013,243
<b>Total Financial Liabilities</b>		<b>108,054</b>	<b>2,429,057</b>

### *(d) Fair value estimation*

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

Fair values in accordance with values carried in the statement of financial position.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of forward exchange contracts is determined using forward exchange market rates at the reporting date.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

### *(e) Capital risk management*

The Group's and the parent entity's objectives when managing capital are to safeguard their ability to continue as a going concern. Where possible they seek to minimise additional equity capital, to avoid unnecessary shareholder dilution.

## **3. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectation of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) *Estimated impairment*

The Group tests annually whether oil and gas properties have suffered any impairment, in accordance with the accounting policy stated in note 1 (l). The recoverable amounts of cash generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions like commodity price and production quantity. Some of these assumptions may be amended in the future and this may lead to the subsequent impairment of the assets concerned.

(ii) *Income taxes*

The Group is subject to income taxes in Australia and jurisdictions where it has foreign operations. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the year in which such determination is made.

Recoverability of deferred tax assets recognised from carried forward tax losses are depending upon the Group passing the continuity of ownership tests. After completing the capital raising during the year, the Group has reviewed the capacity to claim carry forward tax losses. The Group is satisfied that they have passed the continuity of ownership tests.

(iii) *Share based payments*

*Converting Performance Shares*

The assessed fair value at grant date of CPS's granted during the 2007 period was determined using a Black-Scholes pricing model that takes into account the exercise price, the term of the CPS, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the CPS, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

Since issue, half the estimated full value of CPS has been amortised to the Statement of Comprehensive Income by assuming the probability of conversion equal to the 50% of agreed performance achieved.

(iv) *Exploration expenditure*

Expenditure and development expenditure that does not form part of the cash generating units assessed for impairment has been carried forward on the basis that exploration and evaluation activities have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in relation to the area are continuing. In the event that significant operations cease and/or economically recoverable reserves are not assessed as being present, this expenditure will be expensed to the Income Statement.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

#### 4. SEGMENT REPORTING

Management has determined the operating segments based on reports reviewed by the Board of Directors that are used to make strategic decisions. The Board of Directors considers the business from a geographic perspective and have identified the below reportable segments:

Geographical segment	2011 (AU\$)			2010 (AU\$)		
	USA	Australia	Consolidated	USA	Australia	Consolidated
Revenues	-	22,807	22,807	-	14,354	14,354
Segment result (loss)	(431)	(165,956)	(166,387)	-	(1,174,037)	(1,174,037)
Total segment assets	105,647	425,825	531,473	3,125,105	804,967	3,930,072
Total segment liabilities	(106,078)	(108,056)	(214,134)	(14,263,611)	(1,974,534)	(16,238,145)

##### 1) Revenue

Segment revenue reconciles to total revenue from the continuing operations as follow:

	Consolidated	
	2011 AU\$	2010 AU\$
Total segment revenue	22,807	14,354
Other revenue		
Total revenue from continuing operations (Note 5)	22,807	14,354

##### 2) Segment results

Segment result reconciles to total comprehensive income as follows:

	Consolidated	
	2011 AU\$	2010 AU\$
Total segment result	(166,387)	(1,174,037)
Loss before income tax	(166,387)	(1,174,037)

##### 3) Segment assets

The amounts provided to the Board with respect to total assets are measured in a manner consistent with that of the financial statements. These assets are allocated based on the operations of the segment and the physical location of the asset.

Reportable segments' assets are reconciled to total assets as follows:

	Consolidated	
	2011 AU\$	2010 AU\$
Total segment assets	531,473	3,930,072
Intersegment eliminations	(106,078)	(715,984)
Total assets	425,395	3,214,088

4) Segment liabilities

The amounts provided to the Board with respect to total liabilities are measured in a manner consistent with that of the financial statements. These liabilities are allocated based on the operations of the segment and the physical location of the asset.

Reportable segments' liabilities are reconciled to total assets as follows:

	Consolidated	
	2011 AU\$	2010 AU\$
Total segment liabilities	(214,134)	(16,238,145)
Intersegment eliminations	106,080	13,809,088
Total liabilities	(108,054)	(2,429,057)

## 5. REVENUE

	Group	
	2011 AU\$	2010 AU\$
Interest Received	22,807	14,354
	22,807	14,354

## 6. EXPENSES

	Group	
	2011 AU\$	2010 AU\$
Loss from continuing operations before income tax has been determined after		
Employee/consultant benefit expense		
Directors/key management remuneration	(245,483)	417,002
Share/option based payments	-	-

## 7. INCOME TAX

Income tax recognised in profit or loss	Group	
	2011 AU\$	2010 AU\$
Tax expense/(income) comprises:		
Current tax expense/(income) in respect of the current year	-	-
Deferred tax expense/(income) relating to the origination and reversal of temporary differences	-	-
<b>Total tax expense/(income)</b>	<b>-</b>	<b>-</b>

The prima facie income tax expense/(income) on pre-tax accounting loss from operations reconciles to the income tax expense/(income) in the financial statements as follows:

	Group	
	2011 AU\$	2010 AU\$
Loss from continuing operations	(166,387)	(1,174,037)
Loss from discontinuing operations	(2,634,957)	(3,619,538)
	<b>(2,801,344)</b>	<b>(4,793,575)</b>
Income tax expense/(income) calculated at 30%	(840,403)	(1,438,073)
Effect of revenue that is not assessable in determining taxable profit	-	-
Effect of expenses that are not deductible in determining taxable profit	151,335	807,974
Effect of unused tax losses and tax offsets not recognised as deferred tax assets	449,764	345,775
Effect of different tax rates of subsidiaries operating in other jurisdictions	313,792	519,043
Other	(74,488)	(234,719)
	<b>-</b>	<b>-</b>

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in the corporate tax rate when compared with the previous reporting period.

### Income tax recognised directly in equity

	Group	
	2011 AU\$	2010 AU\$
<b>Deferred Tax Assets</b>		
Arising on income and expenses taken directly to equity:		
Impairment of assets	-	-
	<b>-</b>	<b>-</b>

### Unrecognised deferred tax balances

	Group	
	2011	2010
	AU\$	AU\$
Deferred tax assets/(liabilities) un-recognised:		
<i>Tax losses:</i>		
Australian tax losses – revenue	1,089,184	885,184
Foreign tax losses - revenue	-	2,044,754
<i>Temporary differences:</i>		
Australian - Other	33,729	81,913
Foreign subsidiaries - Capitalised exploration and evaluation	65	(171,160)
Foreign subsidiaries - Other	-	(30,447)
Un-recognised deferred tax assets	<b>1,122,978</b>	<b>2,810,244</b>

Net deferred tax assets have not been brought to account as it is not probable that immediate future profits will be available against which deductible temporary differences and tax losses can be utilised.

## 8. CASH AND CASH EQUIVALENTS

	GROUP	
	2011	2010
	AU\$	AU\$
Cash at bank	319,748	31,585

Cash at bank earned a floating rate of interest of between 0.01% and 4.50%.  
The Group's exposure to interest rate risk is discussed in note 2.

## 9. TRADE AND OTHER RECEIVABLES

	GROUP	
	2011	2010
	AU\$	AU\$
<b>Current</b>		
Other receivables	-	251,301
<b>Non current</b>		
Other financial assets	-	32,500

Due to the short-term nature of these receivables, their carrying amount is assumed to approximate their fair value and no impairment is considered necessary. The group is confident on credit quality from past transaction history.

## 10. PROPERTY, PLANT AND EQUIPMENT

	GROUP	
	2011	2010
	AU\$	AU\$
Plant and equipment – cost	-	14,557
Less accumulated depreciation	-	(6,039)
	-	<b>8,518</b>
Movements in carrying amounts are reconciled as follows:		
Balance at the beginning of period	8,518	12,721
Additions	-	1,836
Disposals	(8,518)	-
Depreciation expense	-	(6,039)
	-	<b>8,518</b>

## 11. OIL AND GAS PROPERTIES

The ultimate recoupment of these costs is dependent on successful development and commercial exploitation, or alternatively, the sale of the respective areas.

	GROUP	
	2011	2010
	AU\$	AU\$
Oil and gas properties – cost	105,647	2,971,675
Less accumulated depletion	-	(81,491)
	105,647	<b>2,890,184</b>
Movements in carrying amounts are reconciled as follows:		
Opening balance	2,890,184	4,799,141
Acquired during period	105,647	1,111,984
Depreciation expense	-	(81,491)
Disposal/Write off during period	(2,890,184)	(2,939,450)
	<b>105,647</b>	<b>2,890,184</b>

## 12. DISPOSAL OF SUBSIDIARIES

- i) On 01 June 2011 the controlled entity (Kilgore Oil and Gas Ltd) sold two fully owned subsidiaries called Kilgore Exploration Inc and Jet Strike Pty Ltd. Effective from 01 June 2011 the subsidiaries disposed are reported in these financial statements as a discontinued operation.

Financial information relating to the discontinued operation for the period to the date of disposal is set out below.

- ii) Financial performance and cash flow information  
The financial performance and cash flow information presented are for eleven months ended 30 June 2011 for Kilgore Exploration Inc and Jet Strike Pty Ltd.

Financial performance and cash flow:	Kilgore Exploration Inc and Jet Strike Pty Ltd	
	2011	2010
Revenue	556,495	7,609
Expenses	(1,064,236)	(1,247,330)
Profit/(loss) before income tax	(507,742)	(1,239,721)
Income tax	-	-
Profit after income tax of discontinue operations	(507,742)	(1,239,721)
Gain/(loss) on sale of division before income tax	(2,127,215)	(2,379,817)
Income tax	-	-
Gain/(loss) on sale of division after income tax	(2,127,215)	(2,379,817)
Profit/(loss) from discontinued operations	(2,634,957)	(3,619,538)
Net cash inflow from operating activities	259,623	(433,308)
Net cash inflow (outflow) from investing activities	(153,978)	(1,183,175)
Net cash outflow from financing activities	-	-
Net increase in cash generated by the division	105,648	(1,616,483)
iii) Details of the sale of subsidiaries :		
<b>Details of Sale:</b>		
Consideration received	-	-
Total consideration	-	-
Carrying amount of net assets/(liabilities) sold	2,127,215	2,379,817
Gain/(loss) on sale before income tax	(2,127,215)	(2,379,817)
Income tax	-	-
Gain/(loss) on sale after income tax	(2,127,215)	(2,379,817)

### 13. TRADE PAYABLES AND BORROWINGS

	GROUP	
	2011	2010
	AU\$	AU\$
<b>TRADE AND OTHER PAYABLES</b>		
Trade creditors	-	1,349,477
Accruals	108,054	67,337
Other payables/short term borrowings	-	(1,000)
	<b>108,054</b>	<b>1,415,814</b>
<b>BORROWINGS- RELATED PARTIES</b>		
Loan from Odin Energy Ltd	-	782,881
Loan from AXG Mining Ltd	-	115,181
Loan from Palace Resources Ltd	-	115,181
	-	<b>1,013,243</b>

- During the year, \$1,077,225 was repaid to Odin Energy Ltd out of which \$50,000 is repaid by issuing fully paid ordinary shares the remaining balance of \$132,244 is written off. Refer to Note 14.1
- The Company has paid \$118,724 to AXG Mining Ltd. The repayment includes principal of \$115,181 and interest expense of \$3,543.
- The Company has paid \$118,724 to Palace Resources Ltd. The repayment includes principal of \$115,181 and interest expense of \$3,543.
- Refer to Note 2 for foreign currency exposure.
- Refer to Note 21 for Related Borrowings.

## 14. ISSUED CAPITAL

### 14.1 Ordinary Shares

Ordinary shares	GROUP	
	2011 AU\$	2010 AU\$
2,696,006,280 fully paid ordinary shares(2010: 518,600,006)	16,552,142	14,354,527
<b>Movements in shares on issue</b>		
Beginning of year	<b>14,354,527</b>	<b>10,592,848</b>
<b>Shares issued during the year</b>		
5,000,000 shares issued to Odin Energy Ltd for loan repayment	50,000	-
1,630,344,344 shares issued @ \$0.001	1,630,344	-
1,250 options exercised @\$0.05	62	-
464,060,680 shares issued @\$0.001	464,061	-
78,000,000 shares issued @\$0.001	78,000	-
83,090,567 shares issued @ \$0.01	-	830,906
27,709,436 shares issued @ \$0.01	-	277,094
250,000,000 shares issued @ \$0.01	-	2,500,000
47,000,000 shares issued to Odin Energy Ltd for loan repayment	-	470,000
<b>Total shares issued</b>	<b>2,222,468</b>	<b>4,078,000</b>
Less: capital raising costs	(24,853)	(316,321)
<b>End of the year</b>	<b>16,552,142</b>	<b>14,354,527</b>
<b>Movements in options issued</b>		
Beginning of year	550,000	-
<b>Options issued during the year</b>		
1,250 options exercised	(62)	-
41,545,280 issued with 83,090,567 shares	-	-
13,854,718 issued with 27,709,436 shares	-	-
125,000,000 Issued with 250,000,000 shares	-	-
23,500,000 issued with 47,000,000 shares to Odin Energy Ltd	-	-
275,000,000 options issued @\$0.002	-	550,000
<b>End of the year</b>	<b>549,938</b>	<b>550,000</b>

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

### 14.2 Converting Performance Shares

During the period there was no movement in converting performance shares.

## 15. RESERVES

	GROUP	
	2011 AU\$	2010 AU\$
Foreign currency translation reserve <sup>1</sup>	-	(136,101)
Equity reserve <sup>2</sup>	80	80
Investment Revaluation Reserve <sup>3</sup>	-	-
	<b>80</b>	<b>(136,021)</b>
<b>(1) Foreign currency translation</b>		
Opening balance	(136,101)	148,852
Currency translation differences arising during the year	136,101	(284,953)
	-	<b>(136,101)</b>
<b>(2) Equity reserve</b>		
Opening balance	80	80
Issue of CPS	-	-
Conversion into ordinary shares	-	-
Value of conversion right convertible note	-	-
Deferred tax component	-	-
	<b>80</b>	<b>80</b>
<b>(3) Investment Revaluation Reserve</b>		
Opening balance	-	97,500
Investment Revaluation Reserve during the year	-	(97,500)
	-	-

### Nature and purpose of reserves

#### <sup>(1)</sup> Foreign currency translation reserve

Exchange differences arising on translation of the foreign controlled entities are taken to the foreign currency translation reserve as described in note 1(d). The reserve is recognised in profit and loss when the net investment is disposed of.

#### <sup>(2)</sup> Equity reserve

The equity reserve is used to recognise the amortised portion of the fair value of CPS's issued and the equity component of the convertible note issued during the year.

#### <sup>(3)</sup> Investment Revaluation Reserve

The investment reserve was used to revalue the subsidiary's (Jetstrike Pty Ltd) investment in Advance Energy Ltd.

## 16. ACCUMULATED LOSSES

	GROUP	
	2011	2010
	AU\$	AU\$
Accumulated losses at the beginning of the year	(13,983,475)	(9,189,900)
Net loss attributable to the members of the parent entity	(2,801,344)	(4,793,575)
<b>Accumulated losses at the end of the financial year</b>	<b>(16,784,819)</b>	<b>(13,983,475)</b>

## 17. LOSS PER SHARE

	GROUP	
	2011	2010
	AU\$	AU\$
Reconciliation of earnings to net loss		
Net loss	(2,801,344)	(4,793,575)
Earnings/(loss) used in the calculation of basic and dilutive EPS	(0.002)	(0.015)
<b>Weighted average number of ordinary shares outstanding during the year used in calculation of basic and dilutive EPS</b>	<b>Number</b>	<b>Number</b>
	<b>1,536,245,075</b>	<b>319,895,858</b>

Details of the shares issued are included under notes 14 and 15. Dilutive EPS is not reflected as the CPS would result in the reduction of the loss per share.

## 18. PARENT ENTITY INFORMATION

The ultimate holding Company of the group, Kilgore Oil and Gas Ltd (the "Parent") has not been reported on in these financial statements other than the followings, pursuant to changes to the corporation act 2001;

	PARENT ENTITY	
	2011 AU\$	2010 AU\$
Current Assets	319,748	53,003
Non Current Assets	106,077	719,464
<b>Total Assets</b>	<b>425,825</b>	<b>772,467</b>
Current Liabilities	108,054	1,714,534
Non Current Liabilities	-	-
<b>Total Liabilities</b>	<b>108,054</b>	<b>1,714,534</b>
Issued Capital	16,552,142	14,354,527
Options Issued	549,938	550,000
Accumulated Losses	(16,784,389)	(15,846,674)
Equity Reserve	80	80
Investment Revaluation Reserve	-	-
Foreign Currency Reserve	-	-
<b>Total Equity</b>	<b>(317,771)</b>	<b>(942,067)</b>
Loss for the Year	(937,715)	(6,903,126)
Other Comprehensive income for the year	-	-
<b>Total Comprehensive income for the year</b>	<b>(937,715)</b>	<b>(6,903,126)</b>

The Parent entity has not entered into any guarantees, has no contingent liabilities or contractual commitments.

## 19. CASH FLOW INFORMATION

Reconciliation of cash flow from operations with loss from continuing operations after income tax

	GROUP	
	2011	2010
	AU\$	AU\$
<b>Loss after income tax</b>	(2,801,344)	(4,793,575)
<b>Non cash flows in loss</b>		
Depreciation	-	87,530
Exploration Write off	-	2,939,450
Bond offset against payables	-	60,000
Impairment Loss	431	-
Loss on discontinued operations	2,634,957	-
<b>Changes in assets and liabilities</b>		
Increase/(decrease) in trade creditors and accruals	(203,173)	159,250
(Increase)/decrease in trade and other receivables	(15,962)	26,528
(Increase)/decrease in other assets	-	(140,733)
<b>Cash flows from (used in) operations</b>	<b>(385,091)</b>	<b>(1,661,550)</b>

Non – cash investing and financing activities

	GROUP	
	2011	2010
	AU\$	AU\$
Loan repayment by issuing fully paid ordinary shares	50,000	470,000

## 20. SUBSIDIARIES

The Company has the following Subsidiaries.

Name of Subsidiary	Place of Incorporation	Percentage held 2011	Percentage held 2010
Kilgore Exploration, Inc.	Texas USA	0%	100%
Jetstrike Pty Ltd	Perth Australia	0%	100%
Kilgore Exploration LLC	Louisiana USA	100%	0%

Kilgore Exploration LLC was incorporated on 5 May 2011.

## 21. RELATED PARTY TRANSACTIONS

### (a) Transactions with related parties

Directors and officers, or their personally-related entities, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

Entity		Amount Owning/ (Owed) AU\$	Relationship
AAG Management Pty Ltd/GBU Capital Pty Ltd	2011	Nil	AAG Management Pty Ltd and GBU Capital Pty Ltd are management companies which provide facilities, human resources, and other administration and consulting services. AAG Management is fully owned subsidiary of GBU Capital Pty Ltd and Anthony Short and Gordon Sklenka are Directors of GBU Capital Pty Ltd.
	2010	101,420	
Odin Energy Ltd	2011	Nil	Odin Energy is a related party because Anthony Short was previously a director of Odin Energy Ltd and David Ballantyne was a director of Odin Energy Ltd and Company secretary of both companies.
	2010	782,881	
AXG Mining Ltd	2011	Nil	AXG Mining Ltd is a related party because Gordon Sklenka is a director of both AXG Mining Ltd and Kilgore Oil and Gas Limited.
	2010	115,181	
Palace Resources Ltd	2011	Nil	Palace Resources Limited is a related party because Anthony Short was a director of both Palace Resources Ltd and Kilgore Oil and Gas Limited. He has resigned from Palace Resources Limited with effect from 14 October 2009.
	2010	115,181	

### (b) Transactions with related subsidiaries

At the end of the year the following loans were owed by subsidiaries:

Entity	Amount Owed AU\$	Relationship
Kilgore Exploration Inc.	Nil	A wholly owned subsidiary disposed during the year
Jet Strike Pty Ltd	Nil	A wholly owned subsidiary disposed during the year
Kilgore Exploration LLC	\$106,077	A wholly owned subsidiary acquired during the year

Details of interests in wholly owned controlled entities are set out in Note 20.

Loans between entities in the wholly owned group are denominated in US dollar, non interest bearing are unsecured and are repayable upon reasonable notice having regard to the financial stability of the Company.

The aggregate amounts recognised during the year relating to specified Directors/officers and their personally-related entities are included in the primary benefits component of remuneration of Directors by the consolidated entity in the remuneration report (refer page 15 of this Annual Report).

c) Details of the transactions including amounts accrued but unpaid at the end of the year are as follows:

Specified Director/Officer	Travel Reimbursement		Consulting	
	2011 AU\$	2010 AU\$	2011 AU\$	2010 AU\$
Bryan Ayers (i)	-	-	24,171	8,587
David Ballantyne (ii)	-	-	-	-
Gordon Sklenka (iii)	8,410	-	75,000	102,000
Anthony Short (iv)	27,770	-	75,000	140,000

- i. The director fees for Bryan Ayers are accrued from amounts were billed based on normal market rates for such services and were due and payable under normal payment terms.
- ii. The Company used the management consulting services of Sandgroper Pty Ltd, a Company of which Mr David Ballantyne is a director.
- iii. The Company used the management consulting services of Formaine Pty Ltd, a Company for which Mr Gordon Sklenka is a director. During the year Mr Sklenka has reduced consulting fees by issuing credit note of \$178,200.
- iv. The Company used the management consulting services of Cumberland Investment Pty Ltd and Fay Holdings Pty Ltd. Mr Anthony Short is director of both companies. During the year Mr Short has reduced consulting fees by issuing a credit note of \$274,999.

(d) Share and Option holdings  
Refer to page 11 and 12 of the Directors' Report for further information.

(e) Loan from related parties

Loans from related parties -2011	AAG Management Pty Ltd	Odin Energy Ltd	AXG Mining Ltd	Palace Resources Ltd	GBU Capital Pty Ltd
Beginning of the year	91,401	782,881	115,181	115,181	10,019
Loans/purchases/interest charged	2,081	426,588	3,543	3,543	210,652
Loan/Interest /repayments	(93,482)	(1,077,225)	(118,724)	(118,724)	(220,671)
Write offs	-	(132,244)	-	-	-
End of the year	-	-	-	-	-

Loans from related parties -2010	AAG Management Pty Ltd	Odin Energy Ltd	AXG Mining Ltd	Palace Resources Ltd	ADVANCE ENERGY LTD	GBU Capital Pty Ltd
Beginning of the year	142,149	1,752,739	204,794	204,794	(316,310)	-
Loans/purchases	345,252	790,000	-	-	1,275,000	10,019
Loan/Interest repayments	(396,000)	(1,975,000)	(100,000)	(100,000)	(986,619)	-
Interest charged	-	215,142	10,387	10,387	27,929	-
End of the year	91,401	782,881	115,181	115,181	0	10,019

f) AAG Management and GBU Capital Pty Ltd Expense Reimbursement

During the year following expenses are reimbursed by AAG Management and GBU Capital Pty Ltd for Director or consultants travel and other administrative expenses:

**2011**

DIRECTORS/CONSULTANTS	REIMBURSEMENT FOR TRAVEL AND ACCOMMODATION
Mr. A Short	-
Mr. G Sklenka	\$6,394
Mr. A Bajada	-
Total	<u>\$6,394</u>

	REIMBURSEMENT FOR ADMINISTRATIVE EXPENSE
AAG Management Pty Ltd	\$1,616
GBU Capital Pty Ltd	\$210,652

**2010**

DIRECTORS/CONSULTANTS	REIMBURSEMENT FOR TRAVEL AND ACCOMMODATION
Mr. A Short	\$134,551
Mr. G Sklenka	\$82,174
Mr. A Bajada	\$6,220
Total	<u>\$222,945</u>

	REIMBURSEMENT FOR ADMINISTRATIVE EXPENSE
AAG Management Pty Ltd	\$231,191
GBU Capital Pty Ltd	\$10,019

## 22. KEY MANAGEMENT PERSONNEL DISCLOSURES

- (a) Names and positions of key management personnel at any time during the financial period and summary of short term employee benefits are:

### Short term employee/consulting benefits

Name of the Key Management Personnel	Invoiced Company	Position Held	Summary for consulting 2011 AU\$	Summary for consulting 2010 AU\$
Mr B Ayers	-	Director	24,171	28,624
Mr D Ballantyne	Sandgroppers Pty Ltd	Company Secretary	-	18,750
Mr G Sklenka	Formaine Pty Ltd	Chairman	75,000	102,000
Mr A Short	Cumberland Investments Pty Ltd	Managing Director	75,000	140,000
			174,171	289,374

No post employment, long term or termination benefits provided in year 2011 and 2010. Share base payments are explained in note 22(b).

- (b) Equity instrument disclosures relating to key management personnel.

### Ordinary Shares

Holder		Held at beginning of period	Acquired	Sold/dispose	Converted CPS	Balance at end of period
Brian Ayers -Direct	2011	3,000,000	-	3,000,000	-	-
	2010	3,000,000	-	-	-	3,000,000
David Ballantyne -Direct/Indirect	2011	6,389,500	14,568,500	-	-	20,958,000
	2010	200,000	6,189,500	-	-	6,389,500
Gordon Sklenka -Indirect	2011	24,000,001	96,000,000	-	-	120,000,001
	2010	6,000,001	18,000,000	-	-	24,000,001
Anthony Short-Indirect	2011	23,709,437	94,837,744	-	-	118,547,181
	2010	6,000,001	17,709,436	-	-	23,709,437

### Converting Performance shares (CPS)

Holder		Held at beginning of period	Acquired	Sold	Converted to shares	Balance at end of period
Brian Ayers-Direct	2011	2,000	-	-	-	2,000
	2010	2,000	-	-	-	2,000
David Ballantyne -Direct/Indirect	2011	-	-	-	-	-
	2010	-	-	-	-	-
Gordon Sklenka -Indirect	2011	2,000	-	-	-	2,000
	2010	2,000	-	-	-	2,000
Anthony Short -Indirect	2011	2,000	-	-	-	2,000
	2010	2,000	-	-	-	2,000

## Options Issued

Holder		Held at beginning of period	Acquired	Sold	Converted to shares	Balance at end of period
Brian Ayers-Direct	2011	-	-	-	-	-
	2010	-	-	-	-	-
David Ballantyne -Direct/Indirect	2011	3,094,750	-	-	-	3,094,750
	2010	-	3,094,750	-	-	3,094,750
Gordon Sklenka -Indirect	2011	8,000,000	-	-	-	8,000,000
	2010	-	8,000,000	-	-	8,000,000
Anthony Short -Indirect	2011	7,854,718	-	-	-	7,854,718
	2010	-	7,854,718	-	-	7,854,718

## 23. REMUNERATION OF AUDITORS

	GROUP	
	2011 AU\$	2010 AU\$
<b>Amounts received or due and receivable by BDO Audit (WA) Pty Ltd for:</b>		
Audit and audit review services of the year end financial reports	65,541	42,416
Tax and other advices	-	-
	<b>65,541</b>	<b>42,416</b>
<b>Amounts received or due and receivable by FCP CPA in relation to the US based subsidiary companies for:</b>		
Audit and audit review services of the financial reports	-	30,879
Other non audit charges	-	4,250
	-	35,129
	<b>65,541</b>	<b>77,545</b>

## 24. COMMITMENTS

The Company had no commitments other than those mentioned in Note 25.

## 25. JOINT VENTURE OPERATIONS

The Company's current Joint Venture interests are set out in detail in the Review of Operations on page 4.

## 26. EVENTS SUBSEQUENT TO BALANCE SHEET DATE

- On 1 August 2011 the Company completed the acquisition of Warren Energy Limited (Warren Energy). Warren Energy Ltd holds a 16% interest in the Rock Creek Oil project, an unconventional oil and condensate play, and an 8% interest in the strategic Duvernay Shale Project for the Company, with both projects located in central Alberta, Canada.

- On 1 August 2011, Mr Charles Morgan and Mr Brett Mitchell were appointed Directors of the Company and Ms Rachel Jelleff was appointed Company Secretary. On the same day, Mr Anthony Short resigned as a Director of the Company and Mr David Ballantyne has resigned as Company Secretary.
- From 1 August 2011, the Company changed its registered address to Level 21, Allendale Square, 77 St Georges Tce Perth WA 6000.
- On 2 August 2011, 2,200,000,000 shares were issued by the Company in consideration for the acquisition of Warren Energy (Vendor Shares). The Vendor Shares are subject to voluntary escrow for a period of 12 months from the date of issue. As part of the transaction consideration, Kilgore will repay Warren's share of its Alberta acreage acquisition costs (16%) to the Warren Vendors, with the total acreage acquisition cost of approximately \$1,080,000 (~\$200/ha) to be repaid as a priority from the next capital raising undertaken by the Company.

The Alberta projects acquired through the Acquisition are subject to a crown royalty and additional gross royalty payments of 4.25% over the proceeds of the sale of oil and gas produced, which includes a 2.25% gross royalty payable to the Warren vendors.

- On 2 August 2011 the Company also completed the placement of 1,500,000,000 fully paid ordinary shares in the capital of the Company at \$0.001 each to raise \$1,500,000 before costs.
- On 19 August 2011 the Company allotted 3,200,000,000 listed options at 0.01 cents each, to raise \$320,000 before costs under the prospectus dated 9 August 2011. The options are exercisable at \$0.005 per Option on or before 19 August 2015.
- On 29 August 2011, Mr Gordon Sklenka has resigned as a Director of the Company.
- On 29 August 2011 the Company entered into a swap agreement with Grand Gulf Energy Ltd to acquire a 5% working interest (WI) in the West Klondike Exploration Prospect, which covers an area of 640 acres in Iberville Parish, Louisiana. Under the swap agreement, the 5% WI in West Klondike was acquired through a farm-down of a 5% WI in Lyons Point to Grand Gulf (with the Company retaining a 10% WI in Lyons Point). Kilgore will receive approximately \$424,000 from Grand Gulf under the terms of the deal, as reimbursement of its proportionate share of prepaid drilling costs for the Lyons Point well already paid to the Operator. The Company will be paying 6.67% of the West Klondike initial well and entry costs (~US\$220,000) to earn its 5% WI. In a success case the Company's share of completion costs are estimated to be a further US\$50,000.
- On 9 September 2011 the Company entered into an agreement to acquire an additional 5.2% WI in the West Klondike Exploration Prospect, through reimbursement of back costs of approximately \$40,000 and otherwise on materially the same terms as the acquisition of a 5% WI from Grand Gulf Energy Ltd. The Company will now earn a total 10.2% WI in the West Klondike prospect by paying 13.5% of the drilling and completion costs of the initial exploration well, due to be spudded in October 2011. The well is expected to take 30 days to be drilled to a total depth of 10,900ft. Kilgore's share of the dry hole costs are approximately US\$360,000.

## 27. CONTINGENCIES

The Company has no contingent asset or liabilities.

## 28. SHARE BASED PAYMENTS

Other than referred in note 14, there were no share or option based payments during the year.

## 29. DIVIDENDS

There were no dividends paid or payable in respect of the current financial year.

## DIRECTORS' DECLARATION

The Directors of the Company declare that:

- 1) The financial statements and notes, as set out on pages 20 to 54, are in accordance with the Corporations Act 2001 and:
  - a) comply with Accounting Standards and the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
  - b) give a true and fair view of the financial position as at 30 June 2011 and of the performance for the year ended on that date of the Company and Group;
- 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.
- 3) The financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board
- 4) The Directors have been given the declaration by the Chief Executive Officer and Chief Financial Officer required by section 295A of the Corporation Act 2001.

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



Brett Mitchell  
Executive Director  
Perth, Western Australia  
29 September 2011



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## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KILGORE OIL AND GAS LIMITED

### Report on the Financial Report

We have audited the accompanying financial report of Kilgore Oil and Gas Limited, which comprises the consolidated statement of financial position as at 30 June 2011, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

### Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

### Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Kilgore Oil and Gas Limited, would be in the same terms if given to the directors as at the time of this auditor's report.



## Opinion

In our opinion:

- (a) the financial report of Kilgore Oil and Gas Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

## Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

## Opinion

In our opinion, the Remuneration Report of Kilgore Oil and Gas Limited for the year ended 30 June 2011 complies with section 300A of the *Corporations Act 2001*.

**BDO Audit (WA) Pty Ltd**

A handwritten signature in blue ink, appearing to read 'Glyn O'Brien', with the letters 'BDO' written above it.

**Glyn O'Brien**  
Director

Perth, Western Australia  
Dated this 29<sup>th</sup> day of September 2011

## CORPORATE GOVERNANCE

### COMPLIANCE WITH ASX CORPORATE GOVERNANCE RECOMMENDATIONS

#### OVERVIEW

In March 2003, the Australian Securities Exchange (ASX) Corporate Governance Council published its Principles of Good Corporate Governance and Best Practice Recommendations ("Recommendations").

In August 2007, the ASX Corporate Governance Council published a revised Principles and Recommendations (2nd Edition).

In 2010, the ASX Corporate Governance Council published a further revised Corporate Governance Principles and Recommendations with 2010 Amendments (2nd Edition) to ensure that these remain relevant to the Australian business and investment communities. The Company's Corporate Governance Statement is structured below with reference to the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations with 2010 Amendments (2<sup>nd</sup> Edition). The Company's Board of Directors has reviewed the recommendations. In many cases the Company was already achieving the standard required. In a limited number of instances, the Company has determined not to comply with the standard set out in the recommendations, largely due to the recommendation being considered by the Board to be unduly onerous for a Company of this size. Recommendations which the Company does not comply with are highlighted in this report.

Further information on the Company's corporate governance policies is located on the website: [www.kilgoreoilandgas.com.au](http://www.kilgoreoilandgas.com.au)

#### 1. PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

##### 1.1 Companies should establish and disclose the respective roles and responsibilities of Board and management.

- **Recommendation 1.1:** Companies should establish the functions reserved to the Board and those delegated to Senior Executives and disclose those functions.
- **Recommendation 1.2:** Companies should disclose the process for evaluating the performance of Senior Executives.
- **Recommendation 1.3:** Companies should provide the information indicated in the Guide to reporting on Principle 1.

##### 1.2 The Company's practice:

The Board considers that the essential responsibility of Directors is to oversee the Company's activities for the benefit of its shareholders, employees and other stakeholders and to protect and enhance shareholder value. Responsibility for management of The Company's business is delegated to the Executive Director, who is accountable to the Board.

Further, the Board takes specific responsibility for:-

- Contributing to the development of and approving corporate strategy;
- Appointing, assessing the performance of and, if necessary removing the Executive Director;
- Reviewing and approving business plans, the annual budget and financial plans including available resources and major capital expenditure initiatives;
- Overseeing and monitoring:
  - Organizational performance and the achievement of strategic goals and objectives
  - Compliance with the Company's code of conduct
  - Progress of major capital expenditures and other corporate projects including acquisitions, mergers and divestments;
- Monitoring financial performance including approval of the annual, half yearly and quarterly reports and liaison with the auditor;

- Ensuring there are effective management processes in place, including reviewing and ratifying systems of risk identification and management, ensuring appropriate and adequate internal control processes, and that monitoring and reporting procedures for these systems are effective;
- Enhancing and protecting the Company's reputation;
- Approving major capital expenditure, capital management, acquisitions and divestments;
- Reporting to shareholders;
- Appointment of Directors; and
- Any other matter considered desirable and in the interest of the Company.

The Board is responsible for the overall Corporate Governance of the Company including the strategic direction, establishing goals for management and monitoring the achievement of these goals.

The Company has a formal Board Charter which is on the Company's website and summarised above. In broad terms, the Board is accountable to the shareholders and must ensure that the Company is properly managed to protect and enhance shareholders' wealth and other interests. The Board Charter sets out the role and responsibilities of the Board within the governance structure of the Company and its related bodies corporate (as defined in the Corporations Act).

Senior Executives are responsible for the ongoing management of the Company's operations and report to the Board. They are accountable for all functions that are necessary to the operations of the Company and not specifically reserved to the Board. Senior Executives performance is reviewed on a regular basis by the Board.

Based on the above information the Company believes it is fully compliant with Recommendations 1.1, 1.2 and 1.3.

## 2. PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

2.1 Companies should have a Board of an effective composition, size and commitment to adequately discharge its responsibilities and duties.

- **Recommendation 2.1:** A majority of the Board should be independent Directors.
- **Recommendation 2.2:** The chair should be an independent director.
- **Recommendation 2.3:** The roles of chair and Chief Executive Officer should not be exercised by the same individual.
- **Recommendation 2.4:** The Board should establish a nomination committee.
- **Recommendation 2.5:** Companies should disclose the process for evaluating the performance of the Board, its committees and individual Directors.
- **Recommendation 2.6:** Companies should provide the information indicated in the Guide to reporting on Principle 2.

### 2.2 The Company's practice:

#### Independence

Corporate Governance Council Recommendation 2.1 requires a majority of the Board to be independent Directors. The Corporate Governance Council defines independence as being free from any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of unfettered and independent judgement. In accordance with this definition, the Company has one independent, Non-Executive Director. The Board as a whole comprises a Non-Executive Chairman, an Executive Director and one Non-Executive Director.

#### Composition

The Directors have been chosen for their particular expertise to provide the Company with a competent and well-rounded decision-making body and which will assist the Company and shareholders in meeting their objectives.

The term in office held by each director in office at the date of this report is as follows and details of the professional skills and expertise of each of the Directors are set out in the Directors' Report.

Name	Position	Term in Office
Charles Morgan	Chairman	2 months
Brett Mitchell	Executive Director	2 months
Brian Ayers	Non-Executive Director	4 years

The Directors meet frequently, both formally and informally, so that they maintain a mutual, thorough understanding of the Company's business and to ensure that the Company's policies of corporate governance are adhered to.

#### **Education**

The Company has a formal process to educate new Directors about the nature of the business, current issues, the corporate strategy and the Company's expectations concerning the performance of Directors. Directors are given access to and encouraged to participate in continuing education opportunities to update and enhance their skills and knowledge.

#### **Independent professional advice and access to Company information**

Each director has the right of access to all relevant Company information and to the Company's Executives and, subject to prior consultation with the Chairman, may seek independent professional advice from a suitably qualified advisor at the consolidated entity's expense. The director must consult with an advisor suitably qualified in the relevant field and obtain the Chairman's approval of the fee payable for the advice before proceeding with the consultation. A copy of the advice received by the director is made available to all other Board members.

#### **Nomination committee**

The Company does not currently have a separate nomination committee and as such has not complied with Recommendation 2.4. The duties and responsibilities typically delegated to such a committee are considered to be the responsibility of the full Board, given the size and nature of the Company's activities and as such, the Board does not believe that any marked efficiencies or enhancements would be achieved by the creation of a separate nomination committee.

#### **Monitoring of Board Performance**

The performance of all Directors is reviewed by the Chairman on an ongoing basis and any Director whose performance is considered unsatisfactory is asked to retire. The Chairman's performance is reviewed by the other Board members.

The Company has established firm guidelines to identify the measurable and qualitative indicators of the Director's performance during the course of the year. Those guidelines include:

- Attendance at all Board meetings. Missing more than three consecutive meetings without reasonable excuse will result in that Director's position being reviewed,
- Attendance at the Company's Shareholder Meetings. Non-attendance without reasonable excuse will result in that Director's position being reviewed.

Based on the above information the Company believes it is fully compliant with Recommendations 2.1, 2.3, 2.5 and 2.6. The Company is not compliant with Recommendation 2.2 and 2.4 as outlined.

### **3. PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING**

#### **3.1 Companies should actively promote ethical and responsible decision-making.**

- **Recommendation 3.1:** Companies should establish a code of conduct and disclose the code or a summary of the code as to:

- the practices necessary to maintain confidence in the Company's integrity
- the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders
- the responsibility and accountability of individuals for reporting and investigating reports of unethical practices
- **Recommendation 3.2:** Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the Board to establish measurable objectives for achieving gender diversity for the Board to assess annually both the objectives and progress in achieving them.
- **Recommendation 3.3:** Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the Board in accordance with the diversity policy and progress towards achieving them.
- **Recommendation 3.4:** Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior Executive positions and women on the Board.
- **Recommendation 3.5:** Companies should provide the information indicated in the Guide to reporting on Principle 3.

### 3.2 The Company's practice:

#### **Ethical Standards**

The Company has a formal Code of Conduct as per Recommendation 3.1. This code outlines how Directors and employees of the Company and its related bodies corporate are to behave when conducting business. A full copy of this Code of Conduct is available on the Company's website.

The Company is committed to the highest level of integrity and ethical standards in all business practices. Directors and employees must conduct themselves in a manner consistent with current community and corporate standards and in compliance with all legislation. In addition, the Board subscribes to the Statement of Ethical Standards as published by the Australian Institute of Company Directors.

All Directors and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Company.

#### **Diversity Policy**

The Board has adopted a Diversity Policy as per Recommendation 3.2. The Diversity Policy addresses equal opportunities in the hiring, training and career advancement of Directors, officers and employees. The Diversity Policy outlines the processes by which the Board will set measurable objectives to achieve the aims of its Diversity Policy, with particular focus on gender diversity within the Company.

The Company is committed to ensuring a diverse mix of skills and talent exists amongst its Directors, officers and employees and is utilised to enhance the Company's performance.

The Board is responsible for monitoring Company performance in meeting the Diversity Policy requirements, including the achievement of diversity objectives.

#### **Gender Diversity**

As a priority, the Company is focusing on the participation of women on its Board and within senior management. The Board is in the process of determining appropriate measurable objectives for achieving gender diversity.

#### **Women Employees, Executives and Board Members**

The Company and its consolidated entities have two (2) female employees/Executives:

- its Company Secretary; and
- its Chief Financial Officer

which represent approximately 40% of the total employees, Executives and/or Board members of the Company and its consolidated entities. There are currently no female members of the Board of the Company.

Based on the above information the Company believes it is fully compliant with Recommendations 3.1, 3.2, 3.3, 3.4 and 3.5.

#### **4. PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING**

##### **4.1 Companies should have a structure to independently verify and safeguard the integrity of their financial reporting.**

- **Recommendation 4.1:** The Board should establish an audit committee.
- **Recommendation 4.2:** The audit committee should be structured so that it:
  - consists only of Non-Executive Directors
  - consists of a majority of independent Directors
  - is chaired by an independent chair, who is not chair of the Board
  - has at least three members.
- **Recommendation 4.3:** The audit committee should have a formal charter.
- **Recommendation 4.4:** Companies should provide the information indicated in the Guide to reporting on Principle 4.

##### **4.2 The Company's practice:**

###### **Audit Committee**

The Board has not established a separate audit committee and as such has not complied with Recommendation 4.1 & 4.2. The duties and responsibilities typically delegated to such a committee are the responsibility of the full Board, due to the size and current operations of the Company.

The processes the Board applies in performing this function include:-

- reviewing internal control and recommending enhancements;
- monitoring compliance with Corporations Act 2001, Securities Exchange Listing Rules, matters outstanding with auditors, Australian Taxation Office, Australian Securities and Investment Commission and financial institutions;
- improving the quality of the accounting function, personnel and processes;
- reviewing external audit reports to ensure that where major deficiencies or breakdowns in controls or procedures have been identified, appropriate and prompt remedial action is taken by management;
- liaising with the external auditors and ensuring that the annual audit and half-year review are conducted in an effective manner; and
- reviewing the performance of the external auditors on an annual basis and nomination of auditors is at the discretion of the Board.

###### **Audit and Compliance Policy**

The Board imposes stringent policies and standards to ensure compliance with all corporate financial and accounting standards. Where considered appropriate, the Company's external auditors, professional advisors and management are invited to advise the Board on these issues and the Board meets quarterly to consider audit matters prior to statutory reporting.

The Company requires that its auditors must not carry out any other major area of service to the Company and should have expert knowledge of both Australian and international jurisdictions.

The Board assumes responsibility to ensure that an effective internal control framework exists within the entity. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information. The Board maintains responsibility for a framework of internal control and ethical standards for the management of the consolidated entity.

The Board, consisting of members with financial expertise and detailed knowledge and experience of the mineral exploration and evaluation business, advises on the establishment and maintenance of a framework of internal control and appropriate ethical standards for the management of the Company. The Managing Director and Chief Financial Officer declared in writing to the Board that the Company's financial reports for the year ended 30 June 2011 present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards. This statement is required annually.

Based on the above information the Company believes it is fully compliant with Recommendations 4.3 and 4.4. The Company is not compliant with Recommendations 4.1 and 4.2 as outlined.

## 5. PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE

### 5.1 Companies should promote timely and balanced disclosure of all material matters concerning the Company.

- **Recommendation 5.1:** Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.
- **Recommendation 5.2:** Companies should provide the information indicated in the Guide to reporting on Principle 5.

### 5.2 The Company's practice:

#### Continuous Disclosure Policy

The Company has a formal Continuous Disclosure Policy as required by Recommendation 5.1. This policy was introduced to ensure the Company achieves best practice in complying with its continuous disclosure obligations under the Corporations Act and ASX Listing Rules and ensuring The Company and individual officers do not contravene the Corporations Act or ASX Listing Rules. A full copy of this policy can be found on the Company's website.

The Company is required to immediately tell the ASX once it becomes aware of any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities.

Therefore to meet this obligation the Company undertakes to:

- (a) Notify the ASX immediately it becomes aware of any information that a reasonable person would expect to have a material effect on the price and value of the companies securities, unless that information is not required to be disclosed under the listing rules;
- (b) Disclose notifications to the ASX on the Company website following confirmation of the publishing of the information by the ASX; and
- (c) Not respond to market speculation or rumour unless the ASX considers it necessary due to there being, or likely to be, a false market in the Company's securities.

The Executive Director and the Company Secretary are responsible for co-ordinating the disclosure requirements. To ensure appropriate procedure all Directors, officers and employees of the Company coordinate disclosures through the Executive Director and the Company Secretary, including:

- (d) Media releases;
- (e) Analyst briefings and presentations; and
- (f) The release of reports and operational results.

Based on the above information the Company believes it is fully compliant with Recommendations 5.1 and 5.2.

## 6. PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS

### 6.1 Companies should respect the rights of shareholders and facilitate the effective exercise of those rights.

- **Recommendation 6.1:** Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.
- **Recommendation 6.2:** Companies should provide the information indicated in the Guide to reporting on Principle 6.

### 6.2 The Company's practice:

#### Shareholder Communication

It is the policy of the Company to communicate effectively with its shareholders by giving them ready access to balanced and understandable information about the Company and making it easier for them to participate in general meetings.

The Board encourages full shareholder participation at the Annual General Meeting as it provides shareholders an opportunity to review the Company's annual performance. Shareholder attendance also ensures a high level of accountability and identification with the Company's strategy and goals.

The shareholders are responsible for voting on the appointment of Directors, approval of the maximum amount of Directors' fees and the granting of options and shares to Directors. Important issues are presented to the shareholders as single resolutions.

The Company's auditor is required to be present, and be available to shareholders, at the Annual General Meeting.

Information is communicated to shareholders through:-

- the Financial Report which is distributed to all shareholders;
- Half-Yearly Reports, Quarterly Reports, and all Australian Securities Exchange announcements which are posted on the Company's website;
- the Annual General Meeting and other meetings so called to obtain approval for Board action as appropriate; and
- compliance with the continuous disclosure requirements of the Australian Securities Exchange Listing Rules.

The Company's full policy on shareholder communication can be found on our website.

Based on the above information the Company believes it is fully compliant with Recommendations 6.1 and 6.2.

## 7. PRINCIPLE 7: RECOGNISE AND MANAGE RISK

### 7.1 Companies should establish a sound system of risk oversight and management and internal control.

- **Recommendation 7.1:** Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.
- **Recommendation 7.2:** The Board should require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks.
- **Recommendation 7.3:** The Board should disclose whether it has received assurance from the Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) that the declaration provided in accordance

with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

- **Recommendation 7.4:** Companies should provide the information indicated in the Guide to reporting on Principle 7.

## 7.2 The Company's practice:

### RISK MANAGEMENT

#### Recognise and Manage Risk

Risk oversight, management and internal control are dealt with on a continuous basis by management and the Board, with differing degrees of involvement from various Directors and management, depending upon the nature and materiality of the matter.

The Board has established a formal policy to effectively recognise and manage risk as required by Recommendation 7.1. The Company's policy is to achieve levels of operation that balance risk and reward with the ultimate aim of optimising shareholder value. The Risk Management and Internal Control policy is detailed in full on our website.

#### Oversight of the risk management system

The Board takes a proactive approach to risk management. The Board is responsible for oversight of the processes whereby the risks, and also opportunities, are identified on a timely basis and that the Company's objectives and activities are aligned with the risks and opportunities identified by the Board. This oversight encompasses operational, financial reporting and compliance risks.

The Company believes that it is crucial for all Board members to be a part of the process, and as such the Board has not established a separate risk management committee. The Board oversees the establishment, implementation and annual review of the Company's risk management policies as part of the Board approval process for the strategic plan, which encompasses the Company's vision and strategy, designed to meet stakeholder's needs and manage business risks.

The Executive Director has declared, in writing to the Board and in accordance with section 295A of the Corporations Act, that the financial reporting risk management and associated compliance and controls have been assessed and found to be operating efficiently and effectively. All risk assessments covered the whole financial year and the period up to the signing of the annual financial report for all material operations in the Company.

#### Internal control framework

The Board acknowledges that it is responsible for the overall internal control framework, but recognizes that no cost effective internal control system will preclude all errors and irregularities. To assist in discharging this responsibility, the Board has instigated an internal control framework that deals with:

- Financial reporting - there is a comprehensive budgeting system with an annual budget, updated on a regular basis approved by the Board. Monthly actual results are reported against these budgets.
- Investment appraisal - the Company has clearly defined guidelines for capital expenditure including annual budgets, detailed appraisal and review procedures, levels of authority and due diligence requirements where businesses or assets are being acquired or divested.
- Quality and integrity of personnel - the Company's policies are detailed in an approved induction manual. Formal appraisals are conducted annually for all employees.

Based on the above information the Company believes it is fully compliant with Recommendations 7.1, 7.2, 7.3 and 7.4.

## 8. PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

### 8.1 Companies should ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is clear.

- **Recommendation 8.1:** The Board should establish a remuneration committee.
- **Recommendation 8.2:** The remuneration committee should be structured so that it:
  - consists of a majority of independent Directors
  - is chaired by an independent chair
  - has at least three members
- **Recommendation 8.3:** Companies should clearly distinguish the structure of Non-Executive Directors' remuneration from that of Executive Directors and senior Executives.
- **Recommendation 8.4:** Companies should provide the information indicated in the Guide to reporting on Principle 8.

### 8.2 The Company's practice:

#### Remuneration committee

The Company does not currently have a separate remuneration committee and as such has not complied with Recommendation 8.1 or Recommendation 8.2. The duties and responsibilities typically delegated to such a committee are considered to be the responsibility of the full Board, given the size and nature of the Company's activities.

#### Remuneration policies

Remuneration of Directors are formalised in service agreements. The Board is responsible for determining and reviewing compensation arrangements for the Directors themselves, the Executive Director and the Executive team.

It is the Company's objective to provide maximum stakeholder benefit from the retention of a high quality Board and Executive team by remunerating Directors and Senior Executives fairly and appropriately with reference to relevant employment market conditions. To assist in achieving this objective, the Board links the nature and amount of Executive Directors' and Senior Executives emoluments to the Company's financial and operational performance. The expected outcomes of the remuneration structure are:

1. Retention and Motivation of Senior Executives
2. Attraction of quality management to the Company
3. Performance incentives which allow Executives to share the rewards of the success of the Company

Remuneration of Non-Executive Directors is determined by the Board with reference to comparable industry levels and, specifically for Directors' fees, within the maximum amount approved by shareholders. There is no scheme to provide retirement benefits, other than statutory superannuation, to Non-Executive Directors.

For details on the amount of remuneration and all monetary and non-monetary components for all Directors refer to the Remuneration Report on pages 12 to 16 of the Annual Financial Report. In relation to the payment of bonuses, options and other incentive payments, discretion is exercised by the Board, having regard to the overall performance of the Company and the performance of the individual during the period.

Based on the above information the Company believes it is fully compliant with Recommendation 8.4 and is not compliant with Recommendation 8.1 or Recommendation 8.2 as outlined.

Principle	Reference in the Company's Corporate Governance Statement
<p><b>Principle 1 – Lay solid foundations for Management and oversight</b></p> <p>Companies should establish and disclose the respective roles and responsibilities of Board and Management.</p> <ul style="list-style-type: none"> <li>• <b>Recommendation 1.1:</b> Companies should establish the functions reserved to the Board and those delegated to Senior Executives and disclose those functions.</li> <li>• <b>Recommendation 1.2:</b> Companies should disclose the process for evaluating the performance of Senior Executives.</li> <li>• <b>Recommendation 1.3:</b> Companies should provide the information indicated in the Guide to reporting on Principle 1.</li> </ul>	<p>See pg 58</p>
<p><b>Principle 2 - Structure the Board to add value</b></p> <p>Companies should have a Board of an effective composition, size and commitment to adequately discharge its responsibilities and duties.</p> <ul style="list-style-type: none"> <li>• <b>Recommendation 2.1:</b> A majority of the Board should be independent Directors.</li> <li>• <b>Recommendation 2.2:</b> The chair should be an independent director.</li> <li>• <b>Recommendation 2.3:</b> The roles of chair and Chief Executive Officer should not be exercised by the same individual.</li> <li>• <b>Recommendation 2.4:</b> The Board should establish a nomination committee.</li> <li>• <b>Recommendation 2.5:</b> Companies should disclose the process for evaluating the performance of the Board, its committees and individual Directors.</li> <li>• <b>Recommendation 2.6:</b> Companies should provide the information indicated in the Guide to reporting on Principle 2.</li> </ul>	<p>See pg 59</p>
<p><b>Principle 3 - Promote ethical and responsible decision-making</b></p> <p>Companies should actively promote ethical and responsible decision-making</p> <ul style="list-style-type: none"> <li>• <b>Recommendation 3.1:</b> Companies should establish a code of conduct and disclose the code or a summary of the code as to: <ul style="list-style-type: none"> <li>- the practices necessary to maintain confidence in the Company's integrity</li> <li>- the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders</li> <li>- the responsibility and accountability of individuals for reporting and investigating reports of unethical practices</li> </ul> </li> <li>• <b>Recommendation 3.2:</b> Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the Board to establish measurable objectives for achieving gender diversity for the Board to assess annually both the objectives and progress in achieving them.</li> <li>• <b>Recommendation 3.3:</b> Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the Board in accordance with the diversity policy and progress towards achieving them.</li> <li>• <b>Recommendation 3.4:</b> Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in Senior Executive positions and women on the Board.</li> <li>• <b>Recommendation 3.5:</b> Companies should provide the information indicated in the Guide to reporting on Principle 3.</li> </ul>	<p>See pg 60</p>
<p><b>Principle 4 - Safeguard integrity in financial reporting</b></p> <p>Companies should have a structure to independently verify and safeguard the integrity of their financial reporting.</p> <ul style="list-style-type: none"> <li>• <b>Recommendation 4.1:</b> The Board should establish an audit committee.</li> <li>• <b>Recommendation 4.2:</b> The audit committee should be structured so that it: <ul style="list-style-type: none"> <li>- consists only of Non-Executive Directors</li> <li>- consists of a majority of independent Directors</li> <li>- is chaired by an independent chair, who is not chair of the Board</li> <li>- has at least three members.</li> </ul> </li> <li>• <b>Recommendation 4.3:</b> The audit committee should have a formal charter.</li> <li>• <b>Recommendation 4.4:</b> Companies should provide the information indicated in the Guide to reporting on Principle 4.</li> </ul>	<p>See pg 62</p>

Principle	Reference in the Company's Corporate Governance Statement
<p><b>Principle 5 - <i>Make timely and balanced disclosure</i></b></p> <p>Companies should promote timely and balanced disclosure of all material matters concerning the Company.</p> <ul style="list-style-type: none"> <li>• <b>Recommendation 5.1:</b> Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a Senior Executive level for that compliance and disclose those policies or a summary of those policies.</li> <li>• <b>Recommendation 5.2:</b> Companies should provide the information indicated in the Guide to reporting on Principle 5.</li> </ul>	<p>See pg 63</p>
<p><b>Principle 6 - <i>Respect the rights of shareholders</i></b></p> <p>Companies should respect the rights of shareholders and facilitate the effective exercise of those rights.</p> <ul style="list-style-type: none"> <li>• <b>Recommendation 6.1:</b> Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.</li> <li>• <b>Recommendation 6.2:</b> Companies should provide the information indicated in the Guide to reporting on Principle 6.</li> </ul>	<p>See pg 64</p>
<p><b>Principle 7 - <i>Recognise and manage risk</i></b></p> <p>Companies should establish a sound system of risk oversight and management and internal control.</p> <ul style="list-style-type: none"> <li>• <b>Recommendation 7.1:</b> Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.</li> <li>• <b>Recommendation 7.2:</b> The Board should require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks.</li> <li>• <b>Recommendation 7.3:</b> The Board should disclose whether it has received assurance from the Chief Executive Officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.</li> <li>• <b>Recommendation 7.4:</b> Companies should provide the information indicated in the Guide to reporting on Principle 7.</li> </ul>	<p>See pg 64</p>
<p><b>Principle 8 - <i>Remunerate fairly and responsibly</i></b></p> <p>Companies should ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is clear.</p> <ul style="list-style-type: none"> <li>• <b>Recommendation 8.1:</b> The Board should establish a remuneration committee.</li> <li>• <b>Recommendation 8.2:</b> The remuneration committee should be structured so that it: <ul style="list-style-type: none"> <li>- consists of a majority of independent Directors</li> <li>- is chaired by an independent chair</li> <li>- has at least three members.</li> </ul> </li> <li>• <b>Recommendation 8.3:</b> Companies should clearly distinguish the structure of Non-Executive Directors' remuneration from that of Executive Directors and Senior Executives.</li> <li>• <b>Recommendation 8.4:</b> Companies should provide the information indicated in the Guide to reporting on Principle 8.</li> </ul>	<p>See pg 66</p>

## SHAREHOLDER INFORMATION

### EXCHANGE LISTING

Kilgore Oil and Gas Ltd shares are listed on the Australian Securities Exchange. The Company's ASX code is KOG.

### SUBSTANTIAL SHAREHOLDERS (HOLDING NOT LESS THAN 5%)

As at 30 September 2011

Name of Shareholder	Total Number of Voting Share in Kilgore Oil and Gas Ltd in which the Substantial Shareholders and its Associates Hold Relevant Interests	Percentage of Total Number of Voting Shares (%)
Aviemoore Capital Pty Ltd	1,200,000,000	18.76
Falcore Pty Ltd <Morgan Super Fund A/C>	1,000,000,000	15.63

### CLASS OF SHARES AND VOTING RIGHTS

At 30 September 2011 there were 776 holders of 6,396,006,280 ordinary fully paid shares of the Company. The voting rights attaching to the ordinary shares are in accordance with the Company's Constitution being that:

- each Shareholder entitled to vote may vote in person or by proxy, attorney or Representative;
- on a show of hands, every person present who is a Shareholder or a proxy, attorney or Representative of a shareholder has one vote; and
- on a poll, every person present who is a shareholder or a proxy, attorney or Representative of a shareholder shall, in respect of each fully paid Share held by him, or in respect of which he is appointed a proxy, attorney or Representative, have one vote for the Share, but in respect of partly paid Shares, shall, have such number of votes as bears the proportion which the paid amount (not credited) is of the total amounts paid and payable (excluding amounts credited)."

The number of shareholders holding less than a marketable parcel is 290.

### UNLISTED SECURITIES

Securities	Number of Securities on issue	Number of Holders	Name of Holders holding more than 20%	Number Held
Convertible Performance Shares	14,000	7	Rulston Pty Ltd	4,000

### ESCROWED SECURITIES

The Company has 2,200,000,000 ordinary shares on issue that are in voluntary escrow until 2 August 2012.

### CASH USAGE

Since the time of listing on ASX, the entity has used its cash and assets in a form readily converted to cash that it had at the time of admission to the official list of ASX in a manner which is consistent with its business objectives.

## LISTING OF 20 LARGEST SHAREHOLDERS AS AT 30 SEPTEMBER 2011

	Name of Ordinary Shareholder	Shares Held	% of Shares
1	AVIEMORE CAPITAL PTY LTD	1,200,000,000	18.76
2	FALCORE PTY LTD <MORGAN SUPER FUND A/C>	1,000,000,000	15.63
3	MR RAYMOND JEPP	275,000,000	4.3
4	GLORY RUN PTY LTD	260,000,000	4.07
5	SEASPIN PTY LTD <THE APHRODITE A/C>	212,500,000	3.32
6	MR BRETT MITCHELL + MRS MICHELLE MITCHELL <MITCHELL SPRING FAMILY A/C>	200,000,000	3.13
7	JAMES WAITE MORGAN	200,000,000	3.13
8	SKYMIST ENTERPRISES PTY LTD	160,000,000	2.5
9	FAY HOLDINGS PTY LTD	118,547,180	1.85
10	NUMBER 7 INVESTMENTS PTY LTD <SUPERANNUATION FUND A/C>	103,500,000	1.62
11	MR MATHEW DONALD WALKER	100,000,000	1.56
12	PENSON AUSTRALIA NOMINEES PTY LTD <INDIAN OCEAN A/C>	96,575,170	1.51
13	CORRIDOR NOMINEES PTY LTD	70,000,000	1.09
14	MS NICOLE GALLIN + MR KYLE HAYNES <GH SUPER FUND A/C>	70,000,000	1.09
15	CORRIDOR NOMINEES PTY LTD	65,000,000	1.02
16	GOLD WELLS PTY LTD	61,873,440	0.97
17	HOLDEX NOMINEES LIMITED <416 A/C>	60,000,000	0.94
18	SPARTAN NOMINEES PTY LTD <SPARTAN SUPER FUND A/C>	60,000,000	0.94
19	FORMAINE PTY LTD	60,000,000	0.94
20	RULSTON PTY LTD	60,000,000	0.94
	<b>Total</b>	<b>4,432,995,790</b>	<b>69.31</b>

## DISTRIBUTION OF SHAREHOLDERS

Spread of Holdings	Ordinary Shares
1 – 1,000	13
1,001 – 5,000	4
5,001 – 10,000	17
10,001 – 100,000	207
100,001 and over	535
<b>Total</b>	<b>776</b>

## LISTING OF 20 LARGEST OPTION HOLDERS AS AT 30 SEPTEMBER 2011

Listed Options exercisable at 0.5 cents each expiring on or before 17 August 2015 (ASX Code: KOGOA)

	Name of Option holder	Options Held	% of Options
1	SEASPIN PTY LTD <THE APHRODITE A/C>	550,000,000	17.19
2	AVIEMORE CAPITAL PTY LTD	500,000,000	15.63
3	SKYMIST ENTERPRISES PTY LTD	296,250,000	9.26
4	BLUEBASE PTY LTD	280,000,000	8.75
5	FORMAINE PTY LTD <THE SKLENKA FAMILY A/C>	200,000,000	6.25
6	FAY HOLDINGS PTY LTD <AN SHORT FAMILY A/C>	200,000,000	6.25
7	SPARTAN NOMINEES PTY LTD <SPARTAN SUPER FUND A/C>	200,000,000	6.25
8	MR MARK FREEMAN <FREEMAN FAMILY A/C>	148,500,000	4.64
9	MR BRETT MITCHELL + MRS MICHELLE MITCHELL <MITCHELL SPRING FAMILY A/C>	130,000,000	4.06
10	MANDEVILLA PTY LTD <N J BASSETT SUPER FUND A/C>	100,000,000	3.13
11	GOLD WELLS PTY LTD	96,000,000	3.00
12	BLU BONE PTY LTD	44,000,000	1.38
13	KOBIA HOLDINGS PTY LTD <THE KOBIA A/C>	44,000,000	1.38
14	HELMET NOMINEES PTY LTD <TIM WEIR FAMILY FUND A/C>	40,000,000	1.25
15	JOKE PTY LTD <KENNY FAMILY FUND A/C>	40,000,000	1.25
16	GEBA PTY LTD <GEBA FAMILY A/C>	30,000,000	0.94
17	MS NICOLE GALLIN + MR KYLE HAYNES <GH SUPER FUND A/C>	25,000,000	0.78
18	MOVIDO PTY LTD	20,000,000	0.63
19	THIRD REEF PTY LTD <BACK REEF A/C>	15,000,000	0.47
20	ELLIE BURTON	10,000,000	0.31
	<b>Total</b>	<b>2,968,750,000</b>	<b>92.77</b>

## DISTRIBUTION OF OPTION HOLDERS

Spread of Holdings	Ordinary Shares
1 – 1,000	0
1,001 – 5,000	0
5,001 – 10,000	0
10,001 – 100,000	0
100,001 and over	65
<b>Total</b>	<b>65</b>

## LISTING OF 20 LARGEST OPTION HOLDERS AS AT 30 SEPTEMBER 2011

Listed Options exercisable at 5 cents each expiring on or before 30 June 2012 (ASX Code: KOGO)

	Name of Option Holder	Options Held	% of Options
1	SPARTAN NOMINEES PTY LTD <SUPER FUND A/C>	49,500,000	10.28
2	PENSON AUSTRALIA NOMINEES PTY LTD <INDIAN OCEAN A/C>	40,000,000	8.31
3	SOSIE LIMITED	35,000,000	7.27
4	DISTINCT RACING + BREEDING PTY LTD	34,358,952	7.14
5	GEBA PTY LTD <GEBA FAMILY A/C>	32,500,000	6.75
6	GLORY RUN PTY LTD	26,000,000	5.4
7	PORTINFER CAPITAL LIMITED	17,500,000	3.64
8	BEACHCRAFT PTY LTD	15,000,000	3.12
9	MANDEVILLA PTY LTD <N J BASSETT SUPER FUND A/C>	12,500,000	2.6
10	BLUEBASE PTY LTD	10,000,000	2.08
11	WESTRADER HOLDINGS PTY LTD	10,000,000	2.08
12	ESSELITE HOLDINGS PTY LTD <F & G SERVICE A/C>	10,000,000	2.08
13	SUMMERSET INVESTMENTS PTY LTD	10,000,000	2.08
14	MR DAVID MARK HICKMOTT <HICKMOTT FAMILY A/C>	10,000,000	2.08
15	FAY HOLDINGS PTY LTD	7,854,718	1.63
16	DAVHAL INVESTMENTS PTY LTD	7,500,000	1.56
17	NUMBER 7 INVESTMENTS PTY LTD <SUPERANNUATION FUND A/C>	5,500,000	1.14
18	MR KYLE BRADLEY HAYNES	5,000,000	1.04
19	JACOBS CORPORATION PTY LTD	5,000,000	1.04
20	FORMAINE PTY LTD	5,000,000	1.04
<b>Total</b>		<b>348,213,670</b>	<b>72.33</b>

## DISTRIBUTION OF OPTION HOLDERS

Spread of Holdings	Ordinary Shares
1 – 1,000	2
1,001 – 5,000	22
5,001 – 10,000	29
10,001 – 100,000	176
100,001 and over	182
<b>Total</b>	<b>411</b>

## TENEMENTS

As at 30 September 2011, Kilgore has an interest in the following projects:

Lease or Project	Location	% Interest	Stratigraphic Unit
0510070216	38-5W5: Sec 12	16	PNG bb Mannville
0510080087-1	41-6W5: Sec 19	16	Base Viking to Basement
0510080087-2	41-6W5: Sec 30	16	PNG bb Mannville
0510080088	41-7W5: Sec 13	16	Base Viking to Basement
0510080091	41-7W5: Sec 25	16	PNG bb Mannville
0510080093	41-7W5: Sec 27	16	Base Viking to Basement
0510080097	41-7W5: Sec 36	16	Base Viking to Basement
0510080155-1	50-10W5: Sec S & NW 29	16	PNG bb Mannville
0510080155-2	50-10W5: Sec E 32	16	Base Nisku to basement
0510080156-1	50-10W5: Sec E 33	16	PNG bb Mannville
0510080156	50-10W5: W 33	16	PNG bb Mannville
0510080158	51-10W5: Sec N & SE 4	16	Base Viking to Basement
0510080160	51-10W5: Sec N 5	16	Base Viking to Basement
0510080162-1	51-10 W5: Sec 8	16	PNG bb Mannville
0510080162-2	51-10W5: Sec 17	16	Base Viking to Basement
0510080163	51-10W5: Sec 9	16	Base Viking to Basement
0510080170	51-10W5: Sec 21	16	PNG bb Mannville
0510090102	39-5W5: Sec NE 7	16	PNG bb Mannville
0410090079	38-4W5: Sec 18	16	PNG bb Mannville
0410090078	38-4W5: Sec N 17	16	PNG bb Mannville
0410090077	38-4W5: Sec NW 16	16	PNG bb Mannville
0410090375	40-4W5: Sec W 21	16	PNG bb Mannville
0410090373	40-4W5: Sec 17	16	PNG bb Mannville
0410090371	40-4W5: Sec E 10	16	PNG bb Mannville
0410090377	40-4W5: Sec E27	16	PNG bb Mannville
510090712	38-5W5: Sec 10	16	PNG bb Mannville
510090715	38-5W5: SE & N 13	16	PNG bb Mannville
0510090716	38-5W5: Sec NW15	16	PNG bb Mannville
0510090717	38-5W5: Sec NW 15	16	Base Viking to Base Mannville
0510090824	48-8W5: Sec 17	16	PNG bb Mannville
0510090826	48-8W5: Sec 23	16	PNG bb Mannville
0510090725	38-5W5: Sec S24, NE24	16	PNG bb Mannville
0510090731	38-6W5: Sec 12	16	PNG bb Mannville
0510090733	38-6W5: Sec 24	16	PNG bb Mannville
0510090736	39-5W5: Sec NW11	16	PNG bb Mannville
0510090737	39-5W5: Sec 14	16	PNG bb Mannville
0510090738	39-5W5: Sec 16	16	PNG bb Mannville
0510090739	39-5W5: Sec 17	16	PNG bb Mannville
0510090740	39-5W5: Sec 19	16	PNG bb Mannville
0510090741	39-5W5: Sec 20	16	PNG bb Mannville
0510090743	39-5W5: Sec 21	16	PNG bb Mannville
0510090744	39-5W5: Sec 22	16	PNG bb Mannville

Lease or Project	Location	% Interest	Stratigraphic Unit
0510090745	39-5W5: Sec Portion 23	16	PNG bb Mannville
0510090746	39-5W5: Sec 28	16	PNG bb Mannville
0510090747	39-5W5: Sec 29	16	PNG bb Mannville
0510090748	39-5W5: Sec 30	16	PNG bb Mannville
0510090749	39-5W5: Sec N31,SE31	16	PNG bb Mannville
0510090750	39-5W5: Sec 32	16	PNG bb Mannville
0510090751	39-5W5: Sec 34	16	PNG bb Mannville
0510090752	39-6W5: Sec 13	16	PNG bb Mannville
0510090753	39-6W5: Sec 14	16	PNG bb Mannville
0510090754	39-6W5: Sec. 15	16	Base Nordegg to Basement
0510090755	39-6W5: Sec 23	16	PNG bb Mannville
0510090756	39-6W5: N 24, SE 24	16	Surface to base Edmonton
0510090757	39-6W5: Sec 24	16	PNG bb Mannville
0510090758	39-6W5: Sec 25	16	PNG bb Mannville
0510090759	39-6W5: Sec NE26	16	PNG bb Mannville
0510090760	39-6W5: Sec 34	16	PNG bb Mannville
0510090761	39-6W5: Sec 36	16	PNG bb Mannville
0510090763	40-5W5: Sec 6	16	PNG bb Mannville
0510090765	40-5W5: Sec 25	16	PNG bb Mannville
0510090766	40-5W5: Sec 28	16	PNG bb Mannville
0510090767	40-5W5: Sec 32	16	PNG bb Mannville
0510090768	41-5W5: Sec 6	16	PNG bb Mannville
0510090785	47-8W5: Sec 15	16	PNG bb Mannville
0510090786	47-8W5: Sec 17	16	PNG bb Mannville
0510090787	47-8W5: Sec 18	16	PNG bb Mannville
0510090788	47-8W5: Sec 20	16	PNG bb Mannville
0510090789	47-8W5: Sec 21	16	PNG bb Mannville
0510090790	47-8W5: Sec 23	16	PNG bb Mannville
0510090791	47-8W5: Sec 24	16	PNG bb Mannville
0510090793	47-8W5: Sec 25	16	PNG bb Mannville
0510090794	47-8W5: Sec 26	16	PNG bb Mannville
0510090795	47-8W5: Sec S27, NE27	16	PNG bb Mannville
0510090796	47-8W5: Sec S28	16	PNG bb Mannville
0510090798	47-8W5: Sec 35	16	PNG bb Mannville
0510090799	47-9W5: Sec NE13	16	PNG bb Mannville
0510090803	48-7W5: Sec 7	16	PNG bb Mannville
0510090814	48-8W5: Sec 3	16	PNG bb Mannville
0510090819	48-8W5: Sec 11	16	PNG bb Mannville
0510090820	48-8W5: Sec 12	16	PNG bb Mannville
0510090829	48-8W5: S 29	16	Base Nisku to Basement
0510120361	41-7 W5: Sec. 14	16	Base Viking to Basement
0510120376	49-11W5: Sec. N & SW 16	16	Base Mannville to base Banff
0510120378	49-11W5: N & SW 16 & SE 21	16	bb Base Banff
0510120379	49-11W5: Sec. SE 21	16	Base Mannville to base Banff
0510120389	53-12W5: 24	16	All PNG
0510120390	53-12W5: 35	16	Base Edmonton to Basement

Lease or Project	Location	% Interest	Stratigraphic Unit
0511020393	54-11W5: 6N	16	Base Edmonton to Basement
0511020095	40-6W5: NE 12	16	PNG bb Mannville
0511020101	41-7W4: NE 26	16	PNG bb Mannville
0511020102	41-7W5: S & NW 28	16	PNG bb Mannville
0511020104	42-5W5: NE 16	16	NG in L. Mannville - Rock Creek
0511020106	42-5W5: W 22	16	NG in L. Mannville - Rock Creek
0511020117	43-5W5: 20	16	PNG bb Viking to base Mannville
0511020118	43-6W5: NW 13	16	PNG bb Viking to base Mannville
0511020120	43-6W5: 36	16	PNG bb Viking to base Mannville
0511020123	43-8w5: 19	16	PNG bb Mannville
0511020124	44-9w5: 5	16	PNG bb Mannville to base Rock Creek
0511020130	44-9w5: 17	16	PNG bb Mannville
0511020131	44-9W5: 29	16	PNG bb Mannville
0511020141	46-9W5: 20	16	PNG bb Mannville
0511020145	46-10W5: 21	16	PNG bb Mannville
0511020147	46-10W5: 22	16	PNG bb Mannville
0511020148	46-10W5: 28	16	PNG bb Mannville
0511020150	46-10W5: 33	16	PNG bb Mannville
0511020151	47-8w5: E 6	16	PNG bb Mannville to base Jurassic
	47-8w5: W 6	16	bb Mannville to base Nordegg
0511020152	47-8W5: 7	16	PNG bb Mannville to base Nordegg
0511020163	47-9W5: 22	16	PNG bb Mannville
0511020165	47-9W5: 23	16	PNG bb Mannville
0511020166	47-10W5: 3	16	PNG bb Mannville
0511020167	47-10W5: 4	16	PNG bb Mannville
0511020168	47-10W5: 10	16	PNG bb Mannville
0511020169	47-10W5: 15	16	PNG bb Mannville
0511020175	47-10W5: W 25	16	PNG bb Mannville
0511020176	47-11W5: 13	16	PNG bb Mannville
0511030316	51-9W5: 7	16	PNG bb Mannville
0511030318	51-9W5: W 8	16	PNG bb Mannville
0511030319	51-9W5: 15	16	PNG bb Mannville
0511030321	51-9W5: SW 17	16	PNG bb Mannville
0511030323	51-9W5: 19	16	PNG bb Mannville
0511030324	51-9W5: 23	16	PNG bb Mannville
0511030325	51-9W5: 24	16	PNG bb Mannville
0511030326	51-9W5: 28	16	PNG bb Mannville
0511030327	51-9W5: 29	16	PNG bb Mannville
0511030329	51-9W5: 34	16	PNG bb Mannville
0511030330	51-9W5: N 35	16	PNG bb Mannville
0511030293	50-9W5: 29	16	BB NORDEGG TO BASEMENT
0511030294	50-9W5: 33	16	PNG bb Mannville
0511030286	50-8W5: 7	16	PNG bb Mannville
0511030287	50-8W5: E 18	16	PNG bb Mannville
0511030272	49-9W5: N 9	16	PNG bb Mannville
0511030277	49-9W5: 16	16	PNG bb Mannville

Lease or Project	Location	% Interest	Stratigraphic Unit
0511030289	50-9W5: 1	16	BB MANN TO BASEMENT
0511030297	50-10W5: N 5	16	PNG bb Mannville
0511030298	50-10W5: 8	16	PNG bb Mannville
0511030299	50-10W5: 9	16	PNG bb Mannville
0511030302	50-10W5: N 17	16	BB EDMONTON TO BASE BELLY RIV
0511030301	50-10W5: 17	16	PNG bb Mannville
0511030303	50-10W5: NE 28	16	PNG bb Mannville
0511030306	50-10W5: N&SE 31	16	PNG bb Mannville
0511030282	49-11W5: 36	16	PNG bb Mannville
0511030259	48-9W5: NE 21	16	PNG bb Mannville
0511030261	48-9W5: 22	16	PNG bb Mannville
0511030332	51-10W5: S 2	16	PNG bb Mannville
0511030334	51-10W5: 3	16	PNG bb Mannville
0511030336	51-10W5: SW 5	16	PNG bb Mannville
0511030338	51-10W5: 13	16	PNG bb Mannville
0511030339	51-10W5: 19	16	PNG bb Mannville EXCEPT NG IN L. MANN - ROCK CREEK
0511030341	51-10W5: SE 20	16	PNG bb Mannville
0511030342	51-10W5: 24	16	PNG bb Mannville
0511030343	51-11W5: 24	16	BB MANN TO BASMENT EXCL NG IN L. MANN - ROCK CREEK
0511030346	52-10W5: S 7	16	PNG bb Mannville
0511040385	51-10W5: SW 33	16	PNG bb Mannville
0511040380	51-9W5: 14	16	PNG bb Mannville
0511040379	51-9W5: 11	16	PNG bb Mannville
0511040377	49-9W5: SE 21	16	PNG bb Mannville
0511040374	48-10W5: SW 10	16	PNG bb Mannville
0511040371	47-9W5: E 12	16	PNG bb Mannville
0511040364	47-8W5: 13	16	PNG bb Mannville
0511040359	43-6W5: 20	16	BB MANN TO BASE ROCK CREEK
0511080052	38-5W5: 35	16	PNG bb Mannville
0511080053	40-5W5: 15	16	PNG bb Mannville
0511080054	40-5W5: 22	16	PNG bb Mannville
0511080055	41-5W5: 7	16	PNG bb Mannville
0511080062	47-11W5: S 36	16	PNG bb Mannville
	47-11W5: N 36	16	Base Mann to Nordegg/Base Nisku to Basement
0511080092	54-11W5: 7	16	PNG bb Mannville
0511080093	54-12W5: 12	16	PNG bb Mannville
0511080079	51-14W5: 35	16	Base Bluesky-Bullhead to Basement
0511080073	50-14W5: 28	16	Base Bluesky-Bullhead to Basement

Note – Kilgore holds 16% interest in all the lands set out above. This is a direct 16% working interest in all Rock Creek lands and direct 8% working interest of all Duvernay lands, with 8% working interest of the Duvernay interest held on trust for which the Company is not the beneficial owner. Please refer to the Company's announcements dated 1 August 2011 (Completion of Warren Energy Acquisition), 29 July 2011 (June Quarterly Activities and Cashflow Report) and the audited financial accounts lodged 29 October 2011 for further information.