



# Kilgore Oil & Gas

*HALF YEAR FINANCIAL STATEMENTS*

FOR THE HALF YEAR ENDED 31 DECEMBER 2010

THE INFORMATION CONTAINED IN THIS DOCUMENT SHOULD BE READ IN CONJUNCTION WITH KILGORE OIL AND GAS FULL YEAR REPORT DATED 30 JUNE 2010 AND ANY PUBLIC ANNOUNCEMENTS MADE BY THE COMPANY IN ACCORDANCE WITH THE CONTINUOUS DISCLOSURE OBLIGATIONS ARISING FROM THE CORPORATIONS ACT 2001 AND THE ASX LISTING RULES.

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## DIRECTORS' REPORT

Your directors present their report as the consolidated entity consisting of Kilgore Oil and Gas Ltd and the entities it controls as at the end of, or during, the half-year ended 31 December 2010.

### Directors

The following persons were directors of Kilgore Oil and Gas Ltd during the whole of the half-year and up to the date of this report:

G. Sklenka  
B. Ayers  
A. Short

### Principal Activities

The principal continuing activities of the Group and Company during the financial period were the acquisition, exploration, development and production 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 period.

### Operating Results

The net operating loss of the Group for the period ended 31 December 2010 after income tax amounted to \$262,789 (31 December 2009: loss \$1,022,595).

### Dividends Paid or Recommended

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

### Review of Operations

#### Corporate

During the period, the company issued 5,000,000 fully paid ordinary shares at \$0.01 per share together with 2,500,000 free options attaching to retire \$50,000 in debt. The securities were issued on the same terms as Kilgore's renounceable rights issue in December 2009.

Also during the period, the company undertook a renounceable rights issue of shares on the basis of four new shares for every one share held on the record date. The offer was strongly supported with shareholders subscribing for 77.8% of the entitlement shares and the company raising \$1.63 million (note 13). The Company retired \$1 million of debt upon completion of the entitlements portion of the issue. The shortfall shares were issued subsequent to the end of the period together with a further placement of 78,000,000 shares.

#### Development and Production

The Galveston 307 field was connected in July 2010 and began producing in July 2010. The project produced 2,440 MCF and 15 barrels of condensate net to Kilgore before being shut in on 17<sup>th</sup> August due to scheduled maintenance on the American Midstream pipeline into which the Galveston production pipeline flows. First cash flows from this initial production were received in November 2010 and production re-commenced on 1<sup>st</sup> November 2010.

### Significant changes in the state of affairs

There were no significant changes in the state of affairs during the year.

### Events Subsequent to Balance Sheet Date

Subsequent to the end of the period, the shortfall of the renounceable rights issue was issued together with 78,000,000 placement shares resulting in receipt of an additional \$542,000. The Company has also retired further debt and liabilities in the amount of almost \$500,000.

### Loan and Debt Facilities

The Company has a loan facility of \$1.5 million in loan funds of which \$258,407 was drawn down at 31 December 2010. This loan now attracts interest at 12% per annum (Note 14).


### Likely developments

The Company anticipates production continuing on Galveston 307 at or around 8,000 mcfpd. It also is reviewing a number of additional projects and an announcement will be made to the market, as and when appropriate.

### Auditor's Independence Declaration

Section 307C of the Corporations Act 2001 requires the consolidated entity's auditors, BDO Audit (WA) Pty Ltd to provide the directors with a written Independence Declaration in relation to their review of the financial statements for the period ended 31 December 2010. The written Auditor's Independence Declaration forms part of this Director's Report.

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



G. Sklenka  
Chairman  
West Perth, W.A.  
16/03/2011



A. Short  
Director

16 March 2011

The Directors  
Kilgore Oil and Gas Limited  
16 Ord Street  
WEST PERTH WA 6009

Dear Sirs

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

As lead auditor of Kilgore Oil & Gas Limited for the half-year ended 31 December 2010, 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 review; and
- No contraventions of any applicable code of professional conduct in relation to the review.

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



**Glyn O'Brien**  
Director



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

## FINANCIAL STATEMENTS

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the half-year ended 31 December 2010

Consolidated			
Notes	Half Year End 31/12/2010 AU\$	Half Year End 31/12/2009 AU\$	
Revenue from continuing operations	7	62,738	9,221
Lease operating expense		(64,228)	(63,956)
Depreciation and amortisation		(152,875)	(1,683)
Accounting and audit		(32,259)	(80,345)
Consultancy		275,497	(375,505)
Travel expenses		(23,893)	(85,166)
Rent		-	(14,875)
Legal fees		(2,160)	(17,473)
Marketing and advertising		-	(120)
Regulatory expenses		(41,034)	(54,210)
Administrative expenses		(219,368)	(102,492)
Interest expenses		(65,209)	(196,741)
Other Expenses		-	(10,000)
<b>Loss before income tax</b>		<b>(262,789)</b>	<b>(993,345)</b>
Income tax (expense)/benefit		-	(29,250)
<b>Loss for the year</b>		<b>(262,789)</b>	<b>(1,022,595)</b>
<b>Loss attributable to members</b>		<b>(262,789)</b>	<b>(1,022,595)</b>
<b>Other comprehensive income for the year</b>			
Exchange differences on translation of foreign operations		(397,322)	(514,947)
<b>Total comprehensive income for the year</b>		<b>(397,322)</b>	<b>(1,537,542)</b>
<b>Total comprehensive income for the year is attributed to:</b>			
Owners of Kilgore Oil and Gas Ltd		(660,111)	(1,537,542)
Earnings per share for loss from continuing operations attributable to the ordinary equity holders of the company:	9	(0.05)	(0.82)
Basic earnings per share/ Diluted earnings per share			

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

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

	Notes	Group	
		Half Year End 31/12/2010	Year End 30/06/2010
		AUS	AUS
<b>Current Assets</b>			
Cash and cash equivalents		399,060	31,585
Receivables	11	404,120	251,301
<b>Total current assets</b>		<b>803,180</b>	<b>282,886</b>
<b>Non current Assets</b>			
Property, plant and equipment		5,682	8,518
Oil and gas properties	8	2,413,628	2,890,184
Other financial assets		82,500	32,500
<b>Total non current assets</b>		<b>2,501,810</b>	<b>2,931,202</b>
<b>Total Assets</b>		<b>3,304,990</b>	<b>3,214,088</b>
<b>Current Liabilities</b>			
Payables	10	1,022,034	1,415,814
Borrowings	10	495,857	1,013,243
Asset retirement obligation		788	-
<b>Total liabilities</b>		<b>1,518,679</b>	<b>2,429,057</b>
<b>Net Assets</b>		<b>1,786,311</b>	<b>785,031</b>
<b>Equity</b>			
Issued share capital	13	16,015,918	14,354,527
Option Reserve		550,000	550,000
Reserves		(533,343)	(136,021)
Accumulated Losses		(14,246,264)	(13,983,475)
<b>Total Equity</b>		<b>1,786,311</b>	<b>785,031</b>

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

## CONSOLIDATED STATEMENT OF CASH FLOW

For the half year ended 31 December 2010

	Group	
	Half Year End 31/12/2010	Half Year End 31/12/2009
	AUS	AUS
<b>Cash flows from operating activities</b>		
Payments to suppliers and staff	(292,879)	(958,680)
Receipt from customers	142,735	-
Interest received/paid	-	9,221
<b>Net cash (used in) operating activities</b>	<b>(150,144)</b>	<b>(949,459)</b>
<b>Cash flows from investing activities</b>		
Purchase of intangible assets	(146,045)	(1,066,521)
Purchase of other tangible assets / development cost	-	51,641
Purchase of plant and equipment	-	1,301
Purchase of investments	(50,000)	-
Bond to related company	-	60,000
<b>Net cash (used in) investing activities</b>	<b>(196,045)</b>	<b>(953,579)</b>
<b>Cash flows from financing activities</b>		
Proceeds from issues of shares and options	1,382,988	4,158,000
Loan from other related parties	50,000	333,473
Capital raising cost	-	(288,940)
Loan repaid to other related parties	(712,596)	(625,645)
Oversubscription of shares	-	60,470
<b>Net cash flows provided by financing activities</b>	<b>720,392</b>	<b>3,637,358</b>
<b>Net increase or (decrease) in cash and cash equivalents</b>	<b>374,203</b>	<b>1,734,320</b>
<b>Cash and cash equivalents at the beginning of the financial period</b>	<b>31,585</b>	<b>58,560</b>
Foreign Exchange	(6,730)	-
<b>Cash and cash equivalents at the end of the financial period</b>	<b>399,060</b>	<b>1,792,880</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

For the half year ended 31 December 2010	Issued Capital	Accumulated Losses	Equity Reserve	Option Reserve	Investment Revaluation Reserve	Foreign Currency Reserve	Total Equity
	AU\$	AU\$	AU\$	AU\$	AU\$	AU\$	AU\$
Balance at beginning of period	14,354,527	(13,983,475)	80	550,000	-	(136,101)	785,031
Loss for the period	-	(262,789)	-	-	-	-	(262,789)
Currency translation of foreign operations	-	-	-	-	-	(397,322)	(397,322)
Total comprehensive income for the half year	-	(262,789)	-	-	-	(397,322)	(660,111)
<b>Transactions with equity holders in their capacity as equity holders</b>							
Issues of share capital	1,680,344	-	-	-	-	-	1,680,344
Issued Options	-	-	-	-	-	-	-
Cost of issuing shares	(18,953)	-	-	-	-	-	(18,953)
Balance at 31 December 2010	16,015,918	(14,246,264)	80	550,000	-	(533,423)	1,786,311

For the half year ended 31 December 2009	Issued Capital	Accumulated Losses	Equity Reserve	Option Reserve	Investment Revaluation Reserve	Foreign Currency Reserve	Total Equity
	AU\$	AU\$	AU\$	AU\$	AU\$	AU\$	AU\$
Balance at beginning of period	10,592,848	(9,189,900)	80	-	97,500	148,851	1,649,380
Loss for the period	-	(1,022,595)	-	-	-	-	(1,022,595)
Currency translation of foreign operations	-	-	-	-	-	(514,947)	(514,947)
Total comprehensive income for the half year	-	(1,022,595)	-	-	-	(514,947)	(1,537,542)
<b>Transactions with equity holders in their capacity as equity holders</b>							
Issues of share capital	4,078,000	-	-	-	-	-	4,078,000
Issued Options	-	-	-	550,000	-	-	550,000
Cost of issuing shares	(288,940)	-	-	-	-	-	(288,940)
Balance at 31 December 2009	14,381,908	(10,212,495)	80	550,000	97,500	(366,095)	4,450,898

*The Consolidated Statement of Changes in Equity should be read in conjunction with the notes to the financial statement*

## NOTES TO THE CONSOLIDATED HALF YEAR FINANCIAL STATEMENTS

### 1. REPORTING ENTITY

Kilgore Oil and Gas Ltd ("Kilgore") is a company domiciled in Australia. The consolidated half year financial statements of the Company as at and for the six months ending 31 December 2010 comprises Kilgore and its subsidiaries (together referred to as the "consolidated entity") and the consolidated entities interests in associated and jointly controlled entities.

The consolidated annual financial statements of the consolidated entity as at and for the period ended 30 June 2010 is available upon request from Kilgore website [www.kilgoreoilandgas.com](http://www.kilgoreoilandgas.com), the ASX website or the companies registered office at Suite 2, 16 Ord Street, WEST PERTH, Western Australia 6005.

### 2. STATEMENT OF COMPLIANCE

The consolidated half year financial statements are general purpose financial statements which have been prepared in accordance with AASB 134: Interim Financial Reporting and the Corporations Act 2001.

The consolidated half year financial statements do not include all of the notes and information normally included in annual financial statements. Accordingly this report should be read in conjunction with the consolidated annual financial statements for the year ended 30 June 2010 and any public announcements made by Kilgore Oil and Gas Ltd during the half year reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

This consolidated half year financial statements were approved by the Board of Directors on 16 March 2011.

### 3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied by the consolidated entity in this consolidated interim financial report are the same as those applied by the consolidated entity in its consolidated financial report for the year ended 30 June 2010.

### 4. ESTIMATES

The preparation of the interim financial report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In preparing this consolidated interim financial report the significant judgements made by management in applying the consolidated entity's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial report for the year ending 30 June 2010.

### 5. GOING CONCERN

The half year financial statements have been prepared on a going concern basis, which contemplates the continuity of normal business activity and the realisation and settlement of liabilities in the normal course of business.

The Consolidated entity has incurred a loss after tax for the half year ended 31 December 2010 of \$262,789 (2009: loss of \$1,022,595) but did experience net cash inflows of \$374,203 (2009 net cash inflows: \$1,734,320). As at 31 December 2010 the Consolidated Entity had a net current asset deficiency of \$715,499 (2009 net current asset deficiency: \$2,146,171).

During the half year to 31 December 2010 and to the date of issue of these half year financial statements, the Directors have taken steps to ensure the Consolidated Entity continues as a going concern. These steps have included:

- (i) A non renounceable rights issue which, after placing all the shortfall and making a further \$78,000 placement, raised a total of \$2.172 million.
- (ii) Reducing debt, as at today's date, in excess of \$1.5 million (of which \$1 million was repaid during the half year to 31 December 2010), while retaining approximately \$600,000 in cash at the date of this report.
- (iii) Progressing the Galveston 307 project to facilitate commercial production such that available cash flows in the next year will

further ensure the company's ability to meet all necessary expenses, and to fund evaluation of new projects.

- (iv) A review of the quantum and timing of all discretionary expenditures and wherever necessary these costs will be minimised to suit the Consolidated Entity's cash flow from operations ; and
- (v) A review of new projects for the company. It is anticipated that a new project and a further capital raising will take place in the 2011 calendar year.

The ability of the Consolidated Entity to continue as a going concern and to pay its debts as and when they fall due is dependent on the ongoing and active management of expenditure incurred by the Consolidated Entity and the maintenance of production and output on Galveston 307 at Henry Hub gas prices of greater than USD\$2.00/MCF for gas.

The Directors have reviewed the Consolidated Entity's overall position and outlook in respect of the matters identified above and are confident that the use of the going concern basis is absolutely appropriate in the circumstances.

However, should the entity be unable to continue as a going concern, it may be required to realise its assets and extinguish liabilities other than those in the normal course of business and at amounts different from those stated in the financial report. The financial report does not include any adjustments relating to classification of recorded amounts of assets or liabilities that may be necessary should the Consolidated Entity be unable to continue as a going concern.

## 6. SEGMENT INFORMATION

### Industry Segment

The consolidated entity operates solely in the exploration, development and production of oil and gas producing properties.

Half year ended 31 December 2010	USA	Australia	Consolidated
Geographical segment	AU\$	AU\$	AU\$
Revenues from continuing activities	142,738	295,924	438,662
Segment result (loss)	(436,608)	374,507	(62,101)
Segment assets	2,556,315	1,987,251	4,543,566
Segment liabilities	(12,288,291)	(1,120,920)	(13,409,211)

Half year ended 31 December 2009	USA	Australia	Consolidated
Geographical segment	AU\$	AU\$	AU\$
Revenues from continuing activities	7,097	2,124	9,221
Segment result (loss)	(470,939)	(1,841,748)	(2,312,687)
Segment assets as at 30 June 2010	6,064,556	804,967	6,869,523
Segment liabilities as at 30 June 2010	(14,263,612)	(1,974,534)	(16,238,146)

#### 1) Segment results

Segment result reconciles to total comprehensive income as follows:

	Consolidated	
	December 2010	December 2009
Total segment result	(62,101)	(2,312,687)
Intersegment eliminations	(200,688)	1,319,342
Loss before income tax	(262,789)	(993,345)

## 7. REVENUE FROM CONTINUING OPERATIONS

Oil and Gas Revenue  
 Interest Received

	Half year 31 December 2010 AU\$	Half year 31 December 2009 AU\$
Oil and Gas Revenue	62,738	7,097
Interest Received	-	2,124
	<u>62,738</u>	<u>9,221</u>

## 8. OIL AND GAS PROPERTIES

Oil and gas properties – cost  
 Less accumulated depletion

	Half year 31 December 2010 AU\$	Year ended 30 June 2010 AU\$
Oil and gas properties – cost	2,655,293	2,971,675
Less accumulated depletion	(241,665)	(81,491)
	<u>2,413,628</u>	<u>2,890,184</u>

Movements in carrying amounts are reconciled as follows:

Opening balance

Acquire during period

Depreciation

Disposal/Write off

Foreign Exchange

Opening balance	2,890,184	4,799,141
Acquire during period	-	1,111,984
Depreciation	(146,035)	(81,491)
Disposal/Write off	-	(2,939,450)
Foreign Exchange	(330,520)	-
	<u>2,413,628</u>	<u>2,890,184</u>

## 9. LOSS PER SHARE

### Reconciliation of loss

Net loss

Loss used in the calculation of basic EPS

	Half year 31 December 2010 AU\$	Half Year 31 December 2009 AU\$
Net loss	(262,789)	(1,022,595)
Loss used in the calculation of basic EPS	(262,789)	(1,022,595)

Weighted average number of ordinary shares outstanding during the period used in calculation of basic EPS

Dilutive EPS is not reflected as it would result in the reduction of the loss per share.

Weighted average number of ordinary shares outstanding during the period used in calculation of basic EPS	522,452,465	123,363,340
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## 10. TRADE PAYABLES AND BORROWINGS

### TRADE AND OTHER PAYABLES

Trade creditors

Accruals

GST Receivables/Payable

Other payables/short term borrowings

	Half year 31 December 2010 AU\$	Year ended 30 June 2010 AU\$
Trade creditors	981,396	1,349,477
Accruals	31,605	67,337
GST Receivables/Payable	10,821	-
Other payables/short term borrowings	(1,000)	(1,000)
	<u>1,022,822</u>	<u>1,415,814</u>

### BORROWINGS- RELATED PARTIES

Loan from Odin Energy Ltd (i)

Loan from AXG Mining Ltd (ii)

Loan from Palace Resources Ltd (iii)

Loan from Odin Energy Ltd (i)	258,407	782,881
Loan from AXG Mining Ltd (ii)	118,724	115,181
Loan from Palace Resources Ltd (iii)	118,724	115,181
	<u>495,857</u>	<u>1,013,243</u>

- (i) 12% interest is charged on Loan from Odin Energy Ltd.
- (ii) AXG Mining Ltd is charging 6.25% interest to the company.
- (iii) Palace Resources Ltd is charging 6.25% interest to the company.  
Refer to Note 14 for Related party transactions.

## 11. TRADE AND OTHER RECEIVABLES

### Current

#### Receivables (i)

	Half year 31 December 2010 AU\$	Year ended 30 June 2010 AU\$
	404,121	251,301
	<u>404,121</u>	<u>251,301</u>

- (i) The company received \$277,402 for issued share capital which was held in a trust account. Subsequent to 31 December 2010 this amount was transferred to the company's bank account.

## 12. CONTINGENT ASSETS/LIABILITIES

The Company has farmed out 50% of its interest in the Galveston 307 gas project. The farminee has invested approximately \$2.5 million into this project and has been guaranteed a minimum return from cash flows and ultimate sale of the project of \$3.25 million. At 31 December 2010 the Company doesn't believe it is possible to say whether or not the guarantee will be called upon and thus haven't brought a potential future cost/liability to account for this reason.

The group is currently disputing approximately \$460,000 in joint interest billings from a third party operator of Apache Corporation. KilgoreExploration Inc has requested an audit of these billings. As at 31 December 2010, the outcome of the matter is not determinable and full costs have been included in financial statements.

## 13. EQUITY SECURITIES ISSUED

### a) Issued Capital

	Half year 31 December 2010 AU\$	Half year 31 December 2009 AU\$
2,153,944,350 fully paid ordinary shares (31 December 2009: 518,600,006)	16,015,918	15,101,083
<b>Movements in shares on issue</b>		
Beginning of period	14,354,527	10,592,848
<b>Shares issued during the half year</b>		
5,000,000 shares issued to Odin Energy for loan repayment	50,000	-
1,630,344,344 shares issued @ \$0.001	1,630,344	-
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>	<u>16,034,872</u>	<u>14,670,848</u>
Less: capital raising costs	(18,953)	(288,940)
<b>End of period</b>	<u>16,015,918</u>	<u>14,381,908</u>

### Movements in options issued

#### Beginning of year

550,000

-

Options issued during the year

2,500,000 issued with 5,000,000 shares to Odin Energy Ltd	-	-
1,250 options exercised on 31/12/2010	-	-
275,000,000 options issued @\$0.002	-	550,000
<b>End of period</b>	<b>550,000</b>	<b>550,000</b>
<b>CPS reserve</b>	<b>80</b>	<b>80</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.

b) Converting Performance Shares

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

#### 14. 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) AUS	Relationship
AAG Management Pty Ltd	31 December 2010	119,774	AAG Management Pty Ltd is a management company which provides facilities, human resources, and other administration and consulting services. AAG Management Pty Ltd is a fully owned subsidiary of GBU Capital Pty Ltd. From 01/07/2010 GBU Capital has been charging a fixed monthly fee for the above mentioned services. GBU Capital Pty Ltd is a related party because Anthony Short and Gordon Sklenka are directors of GBU Capital. The outstanding balance to GBU/AAG is included in trade creditors/other payables.
	30 June 2010	91,401	
Odin Energy Ltd	31 December 2010	258,407	During the period the company borrowed \$365,000 and repaid \$1,077,225 to Odin Energy ( of which \$50,000 was paid by issuing fully paid ordinary shares to Glory Run Pty Ltd, a fully owned subsidiary of Odin Energy Ltd). The remaining balance accrues interest at the rate of 12% per annum and is repayable by 30 June 2012. Odin Energy is a related party because Anthony Short was previously a director of Odin Energy Ltd and David Ballantyne is a director of Odin Energy Ltd and company secretary of both companies.
	30 June 2010	782,881	
AXG Mining Ltd	31 December 2010	118,725	AXG Mining Ltd is a related party because Gordon Sklenka is a director of both AXG Mining Ltd and Kilgore Oil and Gas Limited. Interest is payable at the rate of 6.25% per annum. This has been repaid subsequent to period end.
	30 June 2010	115,181	

Palace Resources Ltd	31 December 2010	118,725	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 resigned from Palace Resources Limited with effect from 14 October 2009. Interest is payable at the rate of 6.25% per annum. This loan has been repaid subsequent to period end.
	30 June 2010	115,181	

At 31 December 2010 the company also has a Farmin Agreement with Odin Energy Ltd to the value of \$2,557,143 (30 June 2010: \$2,557,143).

(b) Details of the transactions including amounts accrued but unpaid to directors and officer at the end of the period are as follows:

Specified Director/Officer	Transaction	Note	Half year	Year End
			31 December 2010	30 June 2010
			AU\$	AU\$
Bryan Ayers	Consulting fees	(i)	10,079	8,587
Gordon Sklenka	Consulting fees	(ii)	30,000	102,000
Anthony Short	Consulting fees	(iii)	30,000	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 Formaine Pty Ltd, a company for which Mr Gordon Sklenka is a director.
- iii. The Company used the management consulting services of Cumberland Investment Pty Ltd, a company for which Mr Anthony Short is a director.

## 15. EVENTS SUBSEQUENT TO BALANCE SHEET DATE

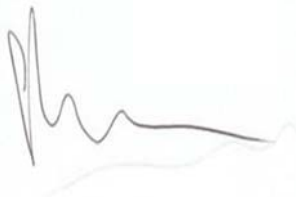
Subsequent to the end of the period, the shortfall of the renounceable rights issue was issued together with 78,000,000 placement shares resulting in receipt of an additional \$542,000. The Company has also retired further debt and liabilities in the amount of almost \$500,000.

## DIRECTORS DECLARATION

### FOR THE HALF YEAR ENDED 31 DECEMBER 2010

In the opinion of the directors of Kilgore Oil and Gas Ltd ("the Company"):

1. the financial statement and notes set out on pages 5 to 14, are in accordance with the Corporations Act 2001 including:
  - (a) giving a true and fair view of the financial position of the consolidated entity as at 31 December 2010 and of its performance, as represented by the results of its operations and cash flows for the half-year ended on that date; and
  - (b) complying with Australian Accounting Standard AASB 134 Interim Financial statements and the Corporation Regulations 2001; and
2. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.



.....  
Gordon Sklenka  
Chairman

Dated at PERTH this 16th day of March 2011.



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

### Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Kilgore Oil and Gas Limited, which comprises the statement of financial position as at 31 December 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the disclosing entity and the entities it controlled at the half-year end or from time to time during the half-year.

### Directors' Responsibility for the Half-Year Financial Report

The directors of the disclosing entity are responsible for the preparation of the half-year financial report in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Reports Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the disclosing entity's financial position as at 31 December 2010 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Kilgore Oil and Gas Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

### Independence

In conducting our review, we have complied with the independence requirements of the *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 it had been given to the directors at the time of this auditor's review report.



## Conclusion

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

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and Corporations Regulations 2001.

## Emphasis of Matter

Without qualifying our conclusion, we draw attention to Note 5 in the half-year financial report which indicates that Kilgore Oil and Gas Limited incurred a net loss of \$262,789 during the half-year ended 31 December 2010 and, as of that date, the disclosing entity's current liabilities exceeded its current assets by \$715,499. These conditions, along with other matters as set forth in Note 5, indicate the existence of a material uncertainty which may cast significant doubt about the disclosing entity's ability to continue as a going concern and therefore, the disclosing entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

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

Signed in Perth, Western Australia  
Dated this 16<sup>th</sup> day of March 2011