



ASX Announcement

30 April 2010

31 March 2010 - Quarterly Report

Highlights

- Kilgore agrees to acquire 51% of Clarence Moreton Resource Pty Ltd which has 2,050 km² of permits in the Clarence Moreton Basin of northern NSW that are prospective for coal seam gas and conventional hydrocarbons
- Estimated potential gas in place in all permits of 7.3 TCF
- Work commences on the Galveston 307 pipeline and production facilities and is expected to be completed in June 2010

Corporate

Acquisition

Kilgore entered into an agreement to acquire 51% of the issued capital of Clarence Moreton Resources Pty Ltd (CMR) that has 100% interest in three permits in the highly prospective Clarence Moreton Basin in New South Wales.

CMR has 100% interest in both the conventional and coal seam rights of Petroleum Exploration Licenses (PEL) 457, 478 and 479 covering an area of approximately 2,050 km². The permit area is located close to planned gas infrastructure and adjacent to significant acreage positions held by major CSG/LNG companies.

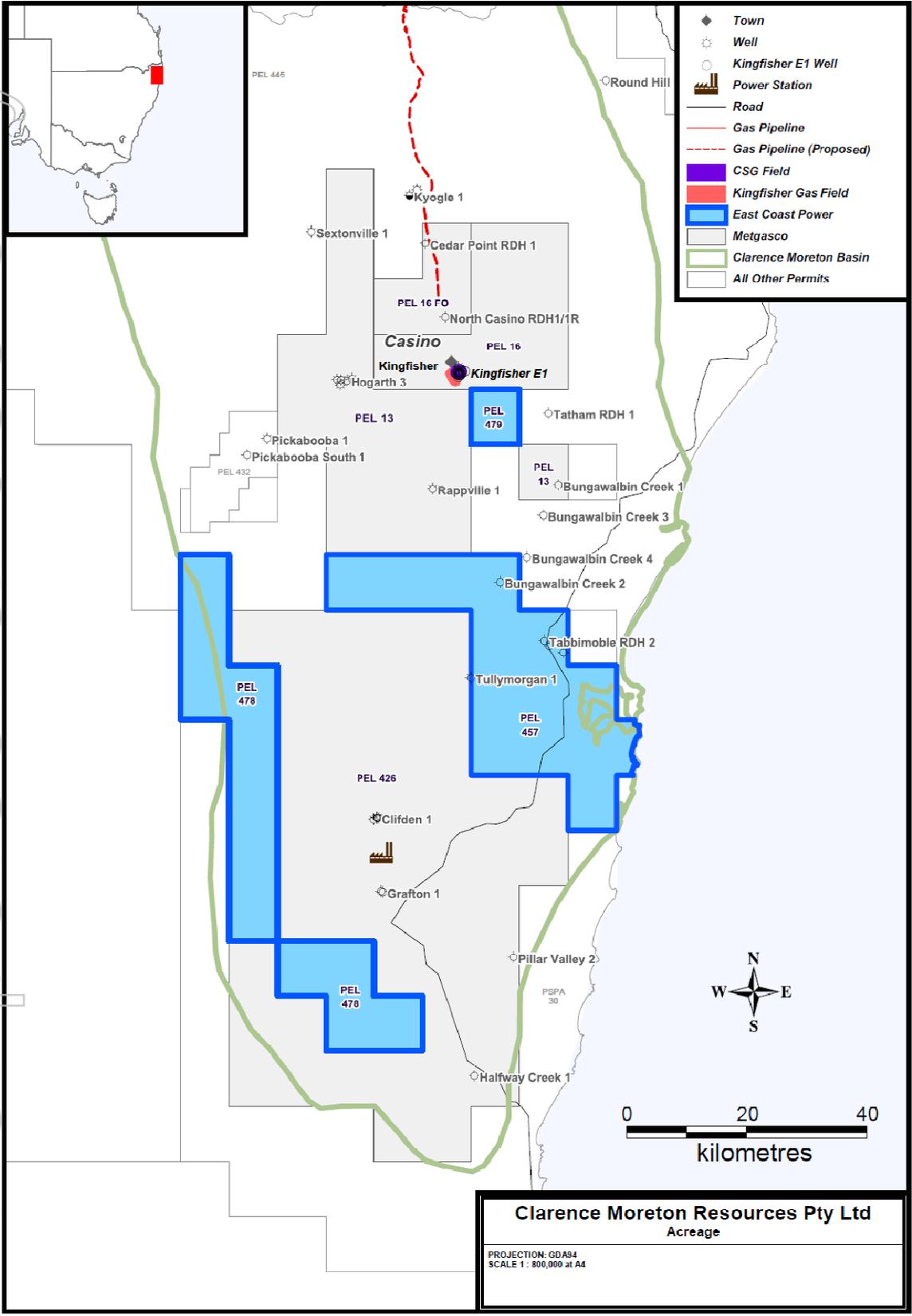
Subject to the satisfaction of certain terms and conditions, Kilgore proposes to acquire 51% of CMR through the issue of 175 million fully-paid ordinary Kilgore shares and 175 million options to acquire Kilgore shares at \$0.05 on or before 30th June 2012.

Kilgore has also secured an option to acquire the remaining 49% of CMR through the issue of additional shares and options and the payment of an annual royalty on gross sales arising from the project.

Coal Seam Gas Potential

The project is well located with recent coal seam gas exploration success in the Casino area. In particular, PEL 479 is immediately south of Metgasco Ltd's PEL 16. Metgasco stated that its CSG reserves from six of the eleven graticular blocks within PEL16 had been independently certified as follows:

- 2.7 Bcf (Proved)
- 396.7 Bcf (Proved and Probable)
- 2,239.3 Bcf (Proved, Probable and Possible)



For personal use only

Geological setting and potential gas-in-place

The target in all coal seam gas exploration in the Clarence Moreton Basin to date has been the Middle Jurassic Walloon Coal Measures sequence from which gas is being produced in the Surat Basin in Queensland. The Coal distribution and thickness is variable with thick coals occurring within the permit areas and distributed at depths suitable for the generation of thermogenic gas.

While the Walloon Coal Measures has to date been the main focus of CSG exploration there is also potential in the Triassic sediments of the Ipswich-Nymboida Coal Measures. There has been no exploration for these sediments in the basin, though data from outcrops and small scale mining of the Nymboida Coal Measures in the south west of the basin has shown that these could have potential for coal seam gas accumulations. Interpretations of the geological data show that the westernmost region of PEL 478 and the eastern region of PEL 457 have prospectivity in the Ipswich-Nymboida Coal Measures.

Review of available information has enabled an estimate of the coal gas resource potential of the project. The gas-in-place potential for all of the permits combined has been estimated at 7.3 TCF (8161 PJ).

Conventional Gas Potential

In addition there is also potential for the discovery of conventional gas in sandstone reservoirs. PEL 479 is adjoining and immediately south of the Metgasco Kingfisher E1 conventional gas field. According to Metgasco (Australian Stock Exchange announcement dated 28 January 2010 titled "Kingfisher E1-first test zone flows at 2.97 million scfd") their initial analysis is that the field contains a contingent resource of:

- 77 Bcf (Proved and Probable) and
- 284 Bcf (P90)

This contingent resource is the largest conventional gas discovery in the history of New South Wales oil and gas exploration and confirms Kilgore's confidence in the Clarence Moreton Basin as an underexplored basin with substantial potential for both conventional hydrocarbon resources and coal seam gas.

Commitments to raise \$2m

The Company is currently in discussions with a number of brokers to raise not less than A\$2 million as part of the conditions that must be satisfied before Kilgore will acquire 51% of CMR. The Company has received preliminary commitments to complete the A\$2 million capital raise. The Company will apply for quotation of the Placement shares on the ASX.

Proposed exploration activities

An exploration programme is proposed for the Project to investigate the CSG potential from the Jurassic Walloon Coal Measures in the Clarence-Moreton Basin with the exploration programme to consist of:

- A detailed review of the geology of the area, including relevant publications and reports
- A review of Department, coal company and petroleum wells drilled in and around the Project
- A review of seismic lines surveyed in and around the Project
- Acquisition of additional seismic to tie in to the existing lines to further assist the delineation of the coal measure sequences

From the reviews, drill sites will be chosen to investigate the CSG potential of the coal measures. An initial core hole is expected to be drilled in PEL 457 in mid 2010 to meet the Departments minimum statutory work commitments. If the initial exploration results are encouraging the exploration and production appraisal efforts will be accelerated.

Kilgore is in discussions with a number of parties who have industry leading expertise in CSG and conventional gas exploration and commercialisation to lead the exploration program.

Infrastructure and logistics

On discovery of a significant CSG resource the Project would have numerous development/exit options available to it given the existing and planned infrastructure in close proximity to the Project. The northern boundary of PEL 479 is only 20kms from the new high pressure gas pipeline (Lions Way) planned to connect Clarence Moreton gas fields in Northern NSW to customers in SE Queensland. The 145km pipeline starts in Casino (NSW) and finishes in Ipswich (Qld).

This Project represents a major growth opportunity for Kilgore and the potential creation of significant value for Kilgore shareholders and offering new investors outstanding exposure to exploration in the Clarence Moreton Basin, one of the most exciting gas exploration areas in Australia.

Operations

Galveston 307 Prospect (Snipe, Egret and Sandpiper), Texas State Waters (WI 5.625% NRI 4.5% post Odin earn-in)

Having transferred its share of the cost of the pipeline and production facilities, the funds were held in trust by the operator, Black Pool Energy, until it finalized its own financial arrangements in late February 2010. Work commenced in March 2010 and the Operator advises that the pipeline is currently in Houston and will be shipped offshore and laid in May 2010. Fabrication of the deck and installation of the equipment is continuing at the State Service yard in Ingleside, Texas and is scheduled to be shipped on 25 May 2010. On this basis, it is likely that first production will commence in late June 2010 with first cash flows received in August.

UpMach Prospect-Goliad County, Texas (WI 22.5%, NRI 16.425%)

The workover performed by the Operator, Hurd Resources, in January and February of this year to isolate the water flow and re-test of the 10,200 ft sand was successful in re-establishing 150 Mcfe/d. Hurd is now proposing to add the 10,120 ft Wilcox in this well by temporarily abandoning the 10,200, testing the 10,120 and adding back the 10,200. If this is successful, the Operator estimates that up to three additional Proved Undeveloped (PUD) locations could be justified.

Kilgore is in direct contact with the Operator and will be discussing the proposed procedure further in May 2010.

Stary Prospect, Lavaca County, Texas (WI 33.75%, NRI 25.31%)

The Stary#1 well was perforated in the 9.500 foot zone in November 2009 and was subsequently fraced in January 2010. Subsequent flow back has yielded marginal flow rates and the zone appears to have been depleted by the offsetting Talon Stary #2 well that produced approximately 1.0 BCFE from the same zone. The well is still being tested and continues to slowly unload the remaining frac fluid. Once all of the frac load has been recovered diagnostics will be performed to insure the perforations are not sanded off.

The technical information regarding US projects in this report has been provided by Brian Ayers, B.Geophs, MBA and Embry Canterbury, BSc (Petroleum Engineering), SPE, ADAM. Mr. Ayers has more than 28 years relevant experience in the US oil and gas industry as a geophysicist and exploration geologist, while Mr. Canterbury has more than 13 years relevant experience in the practice of petroleum engineering and operations. Both Mr. Ayers and Mr. Canterbury consent to the inclusion in this announcement of the information in the form and context in which it appears.

The technical information regarding the Clarence Moreton Basin project is based on information compiled by Scott Thomson who has in excess of 30 years experience in coal and CSG exploration and production. Scott Thomson is a certified member of the Society of Petroleum Engineers, and the Geological Society of Australia, and is subject to the code of ethics of these bodies. Scott Thomson has prepared a number of reports and evaluations for a variety of Australian and North American companies over the past ten years.

The potential gas in place estimates are classified Undiscovered Petroleum Initially In Place (UPIIP) in accordance with SPE PRMS classification and additional work is required to report a contingent gas resource.

For further information contact:

Mr Anthony Short (Director) or Mr David Ballantyne (Company Secretary)

Telephone: +61 (0)8 9486 1122

Facsimile: +61 (0)8 9486 1011

Appendix 5B

Mining exploration entity quarterly report

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

Name of entity

Kilgore Oil & Gas Ltd

ABN

66 127 735 442

Quarter ended ("current quarter")

31 March 2010

Consolidated statement of cash flows

Cash flows related to operating activities		Current quarter \$A000's	Year to date (9 months) \$A000's
1.1	Receipts from product sales and related debtors	-	7
1.2	Payments for (a) exploration and evaluation (b) development (c) production (d) administration	- (132) - (300)	- (2,136) - (547)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	9	11
1.5	Interest and other costs of finance paid	-	-
1.6	Income taxes paid	-	-
1.7	Other (provide details if material)	-	-
	Net Operating Cash Flows	(423)	(2,665)
Cash flows related to investing activities			
1.8	Payment for purchases of: (a)prospects (b)equity investments (c)other fixed assets	-	-
1.9	Proceeds from sale of: (a)prospects (b)equity investments (c)other fixed assets	-	-
1.10	Loans to other entities	-	-
1.11	Loans repaid by other entities	-	316
1.12	Other (provide details if material)	-	60
	Net investing cash flows	-	376
1.13	Total operating and investing cash flows (carried forward)	(423)	(2,289)

+ See chapter 19 for defined terms.

For personal use only

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(423)	(2,289)
Cash flows related to financing activities			
1.14	Proceeds from issues of shares, options, etc.	-	4,628
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	349
1.17	Repayment of borrowings	(509)	(1,804)
1.18	Dividends paid	-	-
1.19	Other-oversubs & capital raising expenses	(125)	(85)
	Net financing cash flows	(634)	3,088
	Net increase (decrease) in cash held	(1,057)	799
1.20	Cash at beginning of quarter/year to date	1,793	58
1.21	Exchange rate adjustments to item 1.20	(71)	(192)
1.22	Cash at end of quarter	665	665

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

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

1.25 Explanation necessary for an understanding of the transactions

Non-cash financing and investing activities

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

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

+ See chapter 19 for defined terms.

For personal use only

Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	1,750	754
3.2 Credit standby arrangements – line of credit	-	-

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	-
4.2 Development	200
Total	200

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	665	1793
5.2 Deposits at call	-	-
5.3 Bank overdraft	-	-
5.4 Other (provide details): Security deposit	-	-
Total: cash at end of quarter (item 1.22)	665	1793

Changes in interests in mining tenements

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

+ See chapter 19 for defined terms.

For personal use only

Appendix 5B
Mining exploration entity quarterly report

Issued and quoted securities at end of current quarter

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

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 Performance +securities <i>(description)</i>	14,000	Unquoted Class D		
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 +Ordinary securities	518,600,006	476,050,006		Fully paid
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs				
7.5 +Convertible debt securities <i>(description)</i>				
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 Options <i>(description and conversion factor)</i>	478,899,998	478,899,998	<i>Exercise price</i> 5cents	<i>Expiry date</i> 30 June 2012
7.8 Issued during quarter				
7.9 Exercised during quarter				
7.10 Expired during quarter				
7.11 Debentures <i>(totals only)</i>				
7.12 Unsecured notes <i>(totals only)</i>				

+ See chapter 19 for defined terms.

For personal use only

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 5).
- 2 This statement does ~~not~~* (*delete one*) give a true and fair view of the matters disclosed.



Sign here:

(~~Director~~/Company secretary)

Date: ...30 April 2010.....

Print name: David Ballantyne.....

Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

== == == == ==

+ See chapter 19 for defined terms.

For personal use only