Kilgore Oil & Gas

ANNUAL REPORT

FOR THE YEAR ENDED 30 JUNE 2010

Contents

CORPORATE DIRECTORY

Chairman	Gordon Sklenka
Managing Director	Anthony Short
Non Executive Director	Brian Ayers
Company Secretary	David Ballantyne
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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	www.kilgoreoilandgas.com.au
Stock Exchange Listings	Kilgore Oil & Gas Ltd shares are listed on the Australian Stock Exchange under the code KOG
Share Registry	Advanced Share Registry Services 150 Stirling Hwy Nedlands WA 6009

CHAIRMAN'S LETTER

Dear Shareholder

This year has seen the Company focus on the six discoveries of its initial exploration program, in particular, the Egret, Sandpiper and Snipe discoveries in the offshore Galveston 307 Block. In 2009, the Galveston 307 wells were flow tested at a combined rate of 10,000 mcfpd and the Company undertook a major recapitalisation to fund its share of the production platform and pipeline expenditure.

The operator, Black Pool Energy LLC, experienced some delays in finalising its own funding and, consequently, construction of the platform and pipeline did not commence until March 2010. The field has since been brought into production and the operator plans to gradually increase flow rates towards the levels achieved during flow testing giving Kilgore its first regular cash flow.

The operators of Kilgore's onshore discoveries continued to experience difficulties in achieving sustained production and, consequentially, Kilgore has elected not to participate in any further activities. This has proven to be a sensible decision as further programs undertaken by the operators have failed to enhance these prospects.

The Board continues to consider opportunities to increase shareholder value and, with the Galveston 307 field about to fulfil its potential, anticipates pursuing new opportunities during coming financial year.

Gordon Sklenka
Chairman
29 September 2010

REVIEW OF OPERATIONS

Operational Overview

Following its 2008/2009 drilling programme during which the Company made six discoveries, the Company has continued to evaluate each of these discoveries and their potential economic returns. Three onshore wells and the three offshore Galveston 307 (Snipe, Egret and Sandpiper) have been completed. The three onshore wells have proved, for a number of reasons, too problematical to bring into consistent production. However, the Company anticipates consistent production and revenues from the Galveston 307 wells in the coming financial year.

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

The operator, Black Pool Energy LLC, commissioned the manufacture of a production caisson and sales pipeline for the three Galveston 307 wells. These facilities were installed in the final quarter of the year and first gas flows commenced on a tight (8/64") choke subsequent to the end of the financial year. The wells were temporarily shut-in as a result of scheduled testing of a pipeline into which the Galveston 307 pipeline flows, but will be flowing again consistently by early October 2010.

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

The DM Rush#1 well was plugged back to the 10,200 foot sand and flowed at an initial rate of approximately 1,000 mcfpd and 6 barrels of condensate per day. After one week of sustained flow, the well began making 200 barrels of salt water and production declined significantly. The Operator performed a further two squeeze jobs, re-perforating the 10,200 foot Wilcox zone and temporarily re-establishing production at 150 mcfpd. The Operator proposed temporarily abandoning the 10,200 foot zone, testing the 10,120 foot zone and adding back the 10,200 foot zone. In light of the risks, Kilgore elected not to participate in this further procedure.

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

Mego Resources took over as operator of the Stary#1 well in the final quarter of 2009 and plugged the Stary#1 well back to the 9,500 foot zone. The well was re-fraced in January 2010 resulting in marginal improvement in flow rates. Kilgore has elected not to participate in any further developments to the well.

Alford Prospect, Victoria County, Texas (WI 67.5%, NRI 50.26%)

The decision was taken to plug and abandon the Alford#1 well.

Corporate Activities

Kilgore undertook a major recapitalisation in the final quarter of 2009 when it raised $4.1m from a rights issue, share placement and option placement. Proceeds were used to fund Kilgore's share of the production and sales infrastructure for Galveston 307, residual exploration and development costs on the onshore wells. In addition to that the group issued 47,000,000 fully paid ordinary shares with 23,500,000 options for debt reduction.

The Board has also actively investigated new opportunities and in march 2010 agreed to acquire 51% of Clarence Moreton Resources Pty Ltd, which is the holder of three permits covering 2,050 km2 of the Clarence Moreton Basin of New South Wales that are prospective for coal seam gas and conventional hydrocarbons. The resolution to acquire these interests was defeated at a general meeting of shareholders. Futher projects will be evaluated in the coming months.

CORPORATE GOVERNANCE

COMPLIANCE WITH ASX CORPORATE GOVERNANCE RECOMMENDATIONS

Introduction

Kilgore Oil and Gas Ltd ("Company") has adopted systems of control and accountability as the basis for the administration of corporate governance. These policies and procedures are summarised below.

Corporate governance is the system by which companies are directed and managed. It influences how the objectives of the Company are achieved, how risk is monitored and assessed and how performance is optimised.

The Board and management are committed to corporate governance and, to the extent they are applicable to the Company, have adopted the Eight Essential Corporate Governance Principles as set out in the Corporate Governance Principles and Recommendation (2nd Edition) as published by the ASX Corporate Governance Council.

To obtain a copy of these principles please go to the ASX website (asx.com.au/professionals/companies/index.htm).
Whilst the Board has demonstrated, and continues to demonstrate, its commitment to best practice in corporate governance, it emphasises that good corporate governance is only one factor contributing to the success of the Company's operations.

Additional information about the Company's corporate governance practices is set out on the Company's website at www.kilgoreoilandgas.com.au.

The table below summarises the Company's compliance with the Corporate Governance Council's Recommendations:

Principle	ASX Corporate Governance Council Recommendations	Comply
1	Lay solid foundations for management and oversight	
1.1	Establish the functions reserved to the board and those delegated to senior executives and disclose those functions.	Yes
1.2	Disclose the process for evaluating the performance of senior executives.	Yes
1.3	Provide the information indicated in the Guide to reporting on principle 1.	Yes
2	Structure the Board to add value	
2.1	A majority of the board should be independent directors.	No
2.2	The chair should be an independent director.	No
2.3	The roles of chair and chief executive officer should not be exercised by the same individual.	Yes
2.4	The board should establish a nomination committee.	No
2.5	Disclose the process for evaluating the performance of the board, its committees and individual directors.	Yes
2.6	Provide the information indicated in the Guide to reporting on principle 2.	Yes
3	Promote ethical and responsible decision-making	
3.1	Establish a code of conduct and disclose the code or a summary as to: • the practices necessary to maintain confidence in the company's integrity; • the practices necessary to take into account the company's legal obligations and the reasonable expectations of its stakeholders; and • the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.	Yes
3.2	Establish a policy concerning trading in company securities by directors, senior executives and employees and disclose the policy or a summary.	Yes
3.3	Provide the information indicated in the Guide to reporting on principle 3.	Yes
4	Safeguard integrity in financial reporting	
4.1	The board should establish an audit committee.	No
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; and • has at least three members.	No
4.3	The audit committee should have a formal charter	Yes

4.4	Provide the information indicated in the Guide to reporting on principle 4.	Yes
5	Make timely and balanced disclosure	
5.1	Establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at senior executive level for that compliance and disclose those policies or a summary of those policies.	Yes
5.2	Provide the information indicated in the Guide to reporting on principle 5.	Yes
6	Respect the rights of shareholders	
6.1	Design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose the policy or a summary of that policy.	Yes
6.2	Provide the information indicated in the Guide to reporting on principle 6.	Yes
7	Recognise and manage risk	
7.1	Establish policies for the oversight and management of material business risks and disclose a summary of those policies.	Yes
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.	Yes
7.3	The board should disclose whether it had received assurance from the chief executive officer and the chief financial officer 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.	Yes
7.4	Provide the information indicated in the Guide to reporting on principle 7.	Yes
8	Remunerate fairly and responsibly	
8.1	The board should establish a remuneration committee.	No
8.2	Clearly distinguish the structure on non-executive directors' remuneration from that of executive directors and senior executives.	Yes
8.3	Provide the information indicated in the Guide to reporting on principle 8.	Yes

Council Principle 1: Lay solid foundations for management and oversight

1.1 Role of the Board

The Board's primary role is the protection and enhancement of medium to long term shareholder value. To fulfil this role, the Board is responsible for the overall Corporate Governance of the consolidated entity including its strategic direction, establishing goals for management and monitoring the achievement of these goals.

1.2 Responsibility of the Board

The Board is collectively responsible for promoting the success of the Company by:

- Supervising the Company's framework of control and accountability systems to enable risk to be assessed and managed;
- Ensuring the Company is properly managed;
- Approving and monitoring the progress of major capital expenditure, capital management, and acquisitions and divestitures;
- Approval of the annual budget;
- Monitoring the financial performance of the Company;
- Approving and monitoring financial and other reporting;
- Overall corporate governance of the Company, including conducting regular reviews of the balance of responsibilities within the Company to ensure division of functions remain appropriate to the needs of the Company;
- Liaising with the Company's external auditors as appropriate; and
- Monitoring, and ensuring compliance with, all of the Company's legal obligations, in particular those obligations relating to the environment, native title, cultural heritage and occupational health and safety.

The Board must convene regular meetings with such frequency as is sufficient to appropriately discharge its responsibilities. Between regular meetings it will also ensure that important matters are addressed by way of circular resolutions. The Board may, from time to time, delegate some of the responsibilities listed above to its senior management team.

CORPORATE GOVERNANCE (Cont)

1.3 Materiality threshold

The Board has agreed on both quantitative and qualitative guidelines for assessing the materiality of matters. Qualitative indications of materiality would include if:

- They impact on the reputation of the Company;
- They involve a breach of legislation;
- They are outside the ordinary course of business;
- They could affect the Company's rights to its assets; or
- If accumulated they would trigger the quantitative tests.

1.4 The Chairman

The chairman is responsible for leadership of the Board, for the efficient organisation and conduct of the Board's function and for the briefing of all directors in relation to issues arising at Board meetings. The chairman is also responsible for overall shareholder communication, chairing shareholder meetings, and arranging Board performance evaluation.

1.5 The Managing Director

The managing director is responsible for running the affairs of the Company under delegated authority from the Board and to implement the policies and strategy set by the Board. In carrying out his/her responsibilities the managing director must report to the Board in a timely manner and ensure all reports to the Board present a true and fair view of the Company's financial condition and operational results.

1.6 Role and responsibility of management

The role of management is to support the managing director and implement the running of the general operations and financial business of the Company, in accordance with the delegated authority of the Board. Management is responsible for reporting all matters which fall within the Materiality Threshold at first instance to the managing director or if the matter concerns the managing director then directly to the chairman or the lead independent director, as appropriate.

1.7 Relationship of Board with management

Management of the day-to-day business of the Company is to be conducted by or under the supervision of the Board, and by those other officers and employees to whom the management function is properly delegated by the Board.

The Board will adopt appropriate structures and procedures to ensure that the Board functions independently of management. Appropriate procedures may involve the Board meeting on a regular basis without management present, or may involve expressly assigning the responsibility for administering the Board's relationship to management to a Committee of the Board.

Information is formally presented to the Board at Board meetings by way of Board reports and review of performance to date. When directors are providing information about opportunities for the Company, this should always be through the Board.

Council Principle 2: Structure the board to add value

The Company presently has two executive directors and one non-executive Chairman (Mr Gordon Sklenka), who is not independent in terms of the ASX Corporate Governance Council's definition of an independent director, because of his relevant interest in the Company's securities. The Board believes that the Chairman is able and does bring quality and independent judgment to all relevant issues falling within the scope of the role of a Chairman. Therefore no director is independent in accordance with Council Principle 2. However the Board considers that its structure has been and continues to be appropriate in the context of the company's current projects and operations. The Company considers that each director possesses skills and experience suitable for building the Company. Furthermore, the Board considers that in the current phase of the Company's growth, the Company's shareholders are better served by directors who have a vested interest in the Company. The Board intends to reconsider its composition as the Company's operations evolve, and appoint independent directors as appropriate.

CORPORATE GOVERNANCE (Cont)

The Company has not established a nomination committee, believing that the Company is not currently of a size to justify its formation.

Council Principle 3: Promote ethical and responsible decision-making

The Company complies with this recommendation. The company has adopted a code of conduct incorporating all corporate executives. It requires all business affairs to be conducted legally, ethically and with integrity. The code provides for reporting of breach of the code by others. The code of conduct has been made available on the company's website.

The Board has adopted a policy and procedure on dealing in the Company's securities by directors, officers and employees which:

- Prohibits dealing in the Company's securities whilst in possession of insider information;
- Prevents short term trading in the Company's securities;
- Requires the company secretary or a director (other than the director trading, if applicable) to be notified upon a trade occurring; and
- Prevents dealing in the Company's securities during specified blackout periods.

Council Principle 4: Safeguard integrity in financial reporting

The Company's Managing Director and Chief Financial Officer report in writing to the Board that the consolidated financial statements of the Company and its controlled entities for each half and full year present a true and fair view, in all material aspects, of the Company's financial condition and operational results and are in accordance with accounting standards.

The Company has not established an audit committee believing that the Company is not of a size, nor are its financial affairs of such complexity to warrant its establishment. The Board as a whole fulfils the role of an audit committee by:

- Monitoring the integrity of the financial statements of the Company, and reviewing significant financial reporting judgments.
- Reviewing the Company's internal financial control system and risk management systems.
- Reviewing the appointment of the external auditor and approving the remuneration and terms of engagement.
- Monitoring and reviewing the external auditor's independence, objectivity and effectiveness, taking into consideration relevant professional and regulatory requirements.

Council Principle 5: Make timely and balanced disclosure

Compliance procedures for ASX Listing Rule disclosure requirements have been adopted by the Company. It has appointed an officer of the Company to be responsible for compliance.

Council Principle 6: Respect the rights of shareholders

Information will be communicated to shareholders as follows:

- The annual report is distributed to all shareholders. The Board ensures that the annual report includes relevant information about the operations of the consolidated entity during the year, changes in the state of affairs of the consolidated entity and details of future developments, in addition to the other disclosures required by the Corporations Act. The annual report is made available on the Company's website, and is provided in hard copy format to any shareholder who requests it.

- The half-yearly report contains summarised financial information and a review of the operations of the consolidated entity during the year. The half-year audited financial report is prepared in accordance with the requirements of applicable Accounting Standards and the Corporations Act and is lodged with the Australian Securities Exchange. The half-yearly report is made available on the Company's website, and is sent to any shareholder who requests it.

- The quarterly report contains summarised cash flow financial information and details about the Company's activities during the quarter. The quarterly report is made available on the Company's website, and is sent to any shareholder who requests it.

- Proposed major changes in the consolidated entity which may impact on share ownership rights are submitted to a general meeting of shareholders.

CORPORATE GOVERNANCE (Cont)

- The Company's website is well promoted to shareholders and shareholders may register to receive updates, either by email or in hard copy.

The Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and identification with the consolidated entity's strategy and goals. Important issues are presented to the shareholders as resolutions.

The shareholders are requested to vote on the appointment and aggregate remuneration of directors, the granting of options and shares to directors and changes to the constitution. Copies of the constitution are available to any shareholder who requests it.

Company's website

The Company maintains a website at www.kilgoreoilandgasltd.com.au.

On its website, the Company makes the following information available on a regular and up to date basis:
- company announcements;
- latest information briefings;
- notices of meetings and explanatory materials; and
- quarterly, half yearly and annual reports.

The website is being continuously updated with any information the directors and management may feel is material. The Company also ensures that the audit partner attends the Annual General Meeting.

Council Principle 7: Recognise and manage risk

The Company has developed a framework for risk management and internal compliance and control systems which covers organisational, financial and operational aspects of the Company's affairs. It appoints the managing director as being responsible for ensuring that the systems are maintained and complied with.

Council Principle 8: Remunerate fairly and responsibly

The Board believes 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 as a whole is responsible for the remuneration arrangements for Directors and executives of the Company and considers it more appropriate to set time aside at board meetings to specifically address matters that would ordinarily fall to the remuneration committee.

DIRECTORS' REPORT

Your Directors present their report on the consolidated entity (Group) for the year ended 30 June 2010.

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.

G. Sklenka
B. Ayers
A. Short

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 2010 after income tax amounted to $4,793,575(2009: Loss $8,188,910).

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 number 4 of this annual report.

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 year end 42,550,000 ordinary fully paid shares and 14,000 convertible performance shares were released from escrow
- 5,000,000 fully paid ordinary shares with 2,500,000 attaching options were issued at 1cent to raise $50,000.
- Since the year end, installation and commissioning of the Galveston 307 production facilities and sales pipes has been completed and first gas sales have occurred. The Seacrest Pipeline System, into which the Galveston 307 pipeline flows, was shut down for scheduled maintenance on 17 August 2010. The operator advises that it expects the pipeline to be back online in early October.

Loan and Debt Facilities

The Company has a loan facility of $1.5 million in loan funds of which $782,881 was drawdown at 30 June 2010 (note 12). This loan now attracts interest at 12% per annum.

Likely developments

Once the Seacrest Pipeline is back on stream and the Galveston 307 wells are no longer shut-in, the Operator plans to increase production steadily to ensure sustainable . It aims to sustain production at or close to the production test level of 10,000 mcfpd (450 mcfp net to Kilgore). Once the field has demonstrated several months of consistent production, Kilgore will decide whether to retain the asset and produce cash flow or to divest part or all of its interests.

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 will not be in commercial production until the last quarter of 2010 so no measurements have been recorded. The Group intends to implement system and process for the collection and calculation of the data required in financial year 2011.

Information on Directors and Secretary

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

Anthony Short, BPE, B.Comm, Grad Dip Fin, MAICD
Managing Director (Executive), Age 51

Mr Short has 18 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. He was a founding director of Amadeus Energy Ltd and Advance Energy Ltd and has a very strong working relationship with strategic partners in the US.

Current Directorship and date of appointment:

He is currently the managing director of Advance Energy Ltd since 16/11/04 and Vector Resources Ltd (director since 06/01/05)

Other Directorships within the last three years:

Odin Energy Ltd – appointed on 23/03/07 and resigned on 23/02/2009.

Special Responsibilities:

Managing Director

Brian Ayers, B.Geophs, MBA
Exploration Director (Executive), Age 53

Mr. Ayers is an E&P executive with over 28 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 Senior Vice President and Houston Division Manager for America Capital Energy Corporation. 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

Special Responsibilities:

Exploration and Development Director

Gordon Sklenka, B.Com, (UWA)
Chairman (Non-Executive Director), Age 49

Mr Sklenka began his career in Chartered Accounting in Sydney and Perth. He has more than 15 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),Vector Resources Ltd (director since 06/01/05), 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)

Special Responsibilities:

Chairman / Non Executive Director

David Ballantyne - Company Secretary MA (Hons) University of Edinburgh, ACA
Company Secretary, Age 50

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. Mr Ballantyne has also had extensive experience in the corporate management, directorship and company secretary roles of small mineral exploration and production companies and has completed listings on AIM and the ASX.

Current Directorship and date of appointment:
Odin Energy Ltd (appointed on 15/06/2010)

Special Responsibilities:
Company Secretary

Meetings of Directors

The number of meetings held by the company's board of directors during the year ended 30 June 2010 and the number of meeting attended by each director were:

Director	Board meetings held	Board meetings attended
G. Sklenka	15	15
B. Ayers	15	10
A. Short	15	15

Securities held and controlled by Directors

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

Ordinary shares

Holder	Held at beginning of the year	Acquired	Sold	Converted from CPS	Balance at end of the year
Brian Ayers - Direct	3,000,000	-	-	-	3,000,000
Gordon Sklenka -Indirect	6,000,001	18,000,000	-	-	24,000,001
Anthony Short -Indirect	6,000,001	17,709,436	-	-	23,709,437

Converting Performance shares (CPS)

Holder	Held at beginning of the year	Acquired	Sold	Converted to shares	Balance at end of the year
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 21.

Options

Holder	Held at beginning of the year	Acquired	Sold	Balance at end of the year
Brian Ayers - Direct	-	-	-	-
Gordon Sklenka - Indirect	-	8,000,000	-	8,000,000
Anthony Short - Indirect	-	7,854,718	-	7,854,718

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 Annual 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, no termination date;
- Consulting fees (including directors' fees) for the year ended 30 June 2010 of $139,999.98 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 2010 of $ 28,623.77 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, no termination date;
- Consulting fees (including directors' fees) for the year ended 30 June 2010 of $102,000 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.

Key Management Personnel Remuneration

Mr D Ballantyne, Company Secretary

- Term of agreement commencing 1 June 2008, no termination date;
- 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 2010 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 2010 and 2009:

		Short-term employee benefits		Post -employment benefits	Equity Performance related	
		Salary, consulting fees AU$	Bonus AU$	Superannuation AU$	Performance share based payments AU$	Total AU$
Executive directors						
B Ayers	2010	28,624	-	-	-	28,624
	2009	32,471	-	-	-	32,471
A Short	2010	140,000	-	-	-	140,000
	2009	220,000	-	-	-	220,000
Non-executive directors						
G Sklenka	2010	102,000	-	-	-	102,000
	2009	144,000	-	-	-	144,000
Total directors' compensation	2010	270,624	-	-	-	270,624
	2009	396,471	-	-	-	396,471
Other key management personnel						
D Ballantyne	2010	18,750	-	-	-	18,750
(Company Secretary 6/06/08)	2009	69,548	-	-	-	69,548
Total other key management compensation	2010	18,750	-	-	-	18,750
	2009	69,548	-	-	-	69,548
TOTAL COMPENSATION	2010	289,374	-	-	-	289,374
	2009	466,019	-	-	-	466,019

D. Share-based Compensation

No share based compensation issued during the year ended 30 June 2010.

CPS

Holder		Held at beginning of period	Acquired	Sold	Converted to shares	Balance at end of period
Brian Ayers-Direct	2010	2,000	-	-	-	2,000
	2009	8,000	-	-	6,000	2,000
David Ballantyne	2010	-	-	-	-	-
-Direct/Indirect	2009	-	-	-	-	-
Gordon Sklenka-Indirect	2010	2,000	-	-	2,000	2,000
	2009	8,000	-	-	6,000	2,000
Anthony Short-Indirect	2010	2,000	-	-	2,000	2,000
	2009	8,000	-	-	6,000	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 may 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	2010AU$	2009AU$
- Audit and assurance services	42,416	47,713
- Tax and other advices	-	5,326
Total Remuneration	42,416	53,039

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 2009 has been received and can be found on page 18.

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

A. Short
Managing Director
West Perth, W.A.
29 September 2010

BDO

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38 Station Street
Subiaco, WA 6008
PO Box 700 West Perth WA 6872
Australia

29th September 2010

To the Directors
Kilgore Oil and Gas Ltd
Suite 4, 16 Ord Street
WEST PERTH WA 6005

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 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 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.

Glyn O'Brien
Director

BDO Audit (WA) Pty Ltd
Perth, Western Australia

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2010

		Consolidated	
	Notes	Year End 30/06/2010 AU$	Year End 30/06/2009 AU$
Revenue from continuing operations	5	21,963	139,416
Lease operating expense		(183,562)	(38,062)
Depreciation	6,10	(87,530)	(2,583)
Accounting and audit		(144,004)	(170,584)
Consultancy		(542,451)	(827,786)
Staff costs		-	(4,045)
Travel expenses		(200,142)	(311,681)
Rent		(14,875)	(50,647)
Legal fees		(38,585)	(34,038)
Marketing and advertising		(1,155)	(90,774)
Regulatory expenses		(17,428)	(64,378)
Administrative expenses		(213,261)	(162,108)
Finance Costs		(273,845)	(91,275)
Exploration write off	11	(2,939,450)	(6,410,751)
Other Expenses		-	(69,614)
Impairment expenses		(159,250)	-
Loss before income tax		(4,793,575)	(8,188,910)
Income tax (expense)/benefit	7	-	-
Loss for the year		(4,793,575)	(8,188,910)
Loss attributable to members		(4,793,575)	(8,188,910)
Other comprehensive income for the year			
Exchange differences on translation of foreign operations		(284,953)	238,828
Investment revaluation		(97,500)	97,500
Total comprehensive income for the year		(5,176,028)	(7,852,582)
Total comprehensive income for the year is attributed to:			
Owners of Kilgore Oil and Gas Ltd		(5,176,028)	(7,852,582)
Earnings per share for loss from continuing operations attributable to the ordinary equity holders of the company: Basic earnings per share/ Diluted earnings per share	16	(0.015)	(0.078)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30th June 2010

		Consolidated	
	Notes	Year End 30/06/2010 AU$	Year End 30/06/2009 AU$
Current Assets			
Cash and cash equivalents	8	31,585	58,560
Receivables	9	251,301	493,428
Total current assets		282,886	551,988
Non current Assets			
Property, plant and equipment	10	8,518	12,721
Oil and gas properties	11	2,890,184	4,799,141
Other financial assets	9	32,500	320,000
Deferred Tax Assets	7	-	29,250
Total non current assets		2,931,202	5,161,112
Total Assets		3,214,088	5,713,100
Current Liabilities			
Payables	12	1,415,814	1,901,392
Borrowings	12	1,013,243	2,162,328
Total Liabilities		2,429,057	4,063,720
Net Assets		785,031	1,649,380
Equity			
Issued share capital	13	14,354,527	10,592,848
Options Reserve		550,000	-
Reserves	14	(136,021)	246,432
Accumulated Losses	15	(13,983,475)	(9,189,900)
Total Equity		785,031	1,649,380

The above 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 2010

	Notes	Consolidated	
		Year End 30/06/2010 AU$	Year End 30/06/2009 AU$
Cash flows from operating activities			
Payments to suppliers and consultants		(1,683,512)	(1,890,725)
Interest received		21,963	94,375
Net cash outflow from operating activities	18	(1,661,549)	(1,796,350)
Cash flows from investing activities			
Exploration costs		-	(213,767)
Acquisition of oil and gas properties		-	-
Development – intangible assets		-	(1,749,119)
Development – other tangible assets		(1,183,175)	(6,563,890)
Purchase of plant and equipment		-	(9,000)
Acquisition of investment	9	-	(260,000)
Loans to third parties		-	(122,957)
Bond to related company		-	(60,000)
Net cash outflow from investing activities		(1,183,175)	(8,978,733)
Cash flows from financing activities			
Proceeds from issues of shares		3,608,000	-
Option Issued		550,000	-
Oversubscription of shares		(71,000)	-
Borrowing cost		(10,000)	-
Borrowings		(942,929)	2,111,053
Advance to subsidiary		-	-
Capital raising costs		(316,321)	(93)
Net cash inflow from financing activities		2,817,750	2,110,960
Net increase or (decrease) in cash and cash equivalents		(26,975)	(8,664,123)
Cash and cash equivalents at the beginning of the financial year		58,560	8,722,683
Cash and cash equivalents at the end of the financial year	8	31,585	58,560

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Consolidated	30/06/2010 (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
Loss for the year	-	-	(4,793,575)	-	-	-	(4,793,575)
Other equity reserve difference	-	-	-	-	(97,500)	-	(97,500)
Currency translation difference	-	-	-	-	-	(284,953)	(284,953)
Total comprehensive income for the year	-	-	(4,793,575)	-	(97,500)	(284,953)	(5,176,028)
Transactions with equity holders in their capacity as equity holders							
Issues of share capital	4,078,000	-	-	-	-	-	4,078,000
Options Issued	-	550,000	-	-	-	-	550,000
Capital raising costs	(316,321)	-	-	-	-	-	(316,321)
Balance at end of the year	14,354,527	550,000	(13,983,475)	80	-	(136,101)	785,031

Consolidated	30/06/2009 (AU$)					
	Issued Capital	Accumulated Losses	Equity Reserve	Investment Revaluation Reserve	Foreign Currency Reserve	Total Equity
Balance at beginning of year	10,592,861	(1,000,990)	160	-	(89,976)	9,502,055
Loss for the year	-	(8,188,910)	-	-	-	(8,188,910)
Other equity reserve difference	-	-	-	97,500	-	97,500
Currency translation difference	-	-	-	-	238,828	238,828
Total comprehensive income for the year	-	(8,188,910)	-	97,500	238,828	(7,852,582)
Transactions with equity holders in their capacity as equity holders						
Issues of share capital	80	-	(80)	-	-	-
Options Issued	-	-	-	-	-	-
Capital raising costs	(93)	-	-	-	-	(93)
Balance at end of the year	10,592,848	(9,189,900)	80	97,500	148,852	1,649,380

The 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 2010

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) Going concern

The financial statement has 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 year ended 30 June 2010 of $4,793,575 (2009: $8,188,910) and experienced net cash outflow of $26,975 (2009 net outflow: $8,664,123). As at 30 June 2010 the Consolidated Entity had a net current asset deficiency of $2,146,171 (2008 net current assets: $3,511,732).

During the year to 30 June 2010 and the year to the date of this report, the Directors have taken steps to ensure the Consolidated Entity continues as a going concern. These steps have included:

(i) Drawdown facility from Odin Energy Ltd for up to $1.5 million; which does not fall due untill 31 October 2011.

(ii) Progressing the Galveston 307 project to facilitate increased production such that available cash flows in the year to 30 June 2011 will ensure the company's ability to meet all necessary expenses.

(iii) A review of the quantum and timing of all discretionary expenditures including exploration and development costs and wherever necessary these costs will be minimised or deferred to suit the Consolidated Entity's cash flow from operations ; and

(iv) A review of new projects for the company. It is anticipated that a new project and capital raising will take place during the current financial 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, the maintenance of production and output at commodity prices of greater than USD$3.00/MCF for gas and the ongoing support of related parties (note 12 and 20). In this regard the company notes that there are no further cash calls in respect of the Galveston 307 gas project.

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

ii) 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).

iii) 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.

iv) 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 (refer note 3).

(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 2010 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 balance sheet.

(c) Segment reporting

Change in Accounting Policy - Segment Reporting

The Group has applied AASB 8 Operating Segments from 1 July 2009. AASB 8 requires a management approach under which segment information is presented on the same basis as that used for internal reporting purposes. Operating segments are now reported in a manner that is consistent with the internal reporting to the chief operating decision maker ("CODM"), which has been identified by the company as the board.

(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$.

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.

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 balance sheet 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 recongnised in other comprehensive income.

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 balance sheet.

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 profit or loss.

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) 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 balance sheet date which are classified as non-current assets. Loans and receivables are included in receivables in the balance sheet (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.

(k) 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.

(l) 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 follows, 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.

(m) 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.

(n) 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 balance sheet date.

(o) 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.

(p) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance 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 balance sheet 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 balance sheet 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 profit or loss.

(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 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.

(aa) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2010 reporting periods. The gorup's assessment of the impact of these new standards and interpretations is set out below:

1) AASB 2009-8 Amendments to Australian Accounting Standards – Group Cash –Settled Share- based payment Transactions (AASB 2) (effective from 1 January 2010)
   The amendments made by the AASB to AASB 2 confirm that an entity receiving goods or services in a group share-based payment arrangement must recognise an expense for those goods or services regardless of which entity in the group settles the transaction or whether the transaction is settled in shares or cash. They also clarify how the group share-based payment

arrangement should be measured, that is, whether it is measured as equity or a cash settled transaction. The group will apply these amendments retrospectively for the financial reporting period commencing on 1 July 2010. There will be no impact on the group's financial statements.

2) AASB 2009-10 Amendments to Australian Accounting Standards- Classification of Rights Issues (AASB 132) (Effective from 1 February 2010)

   In October 2009 the AASB issued an amendment to AASB 132 Financial Instruments: Presentation which addresses the accounting for rights issues that are denominated in a currency other than the functional currency o the issuer. Provided certain conditions are met such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities. The amendment must be applied retrospectively in accordance with AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors. The group will apply the amended standards from 1 July 2010. There will be no impact on group.

3) AASB 9 Financial Instruments and AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 (effective from 1 January 2013)

   AASB 9 Financial Instruments addresses the classification and measurement of financial assets and is likely to affect the group's accounting for its financial assets. The standard is not applicable untill 1 January 2013 but is available for early adoption. The group is yet to assess its full impact. However, initial indicators are that it may affect the group's accounting for its available-for-sale financial assets, since AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available- for- sale debt investment, for example, will therefore have to be recognised directly in profit or loss. The group has not yet decided when to adopt AASB 9.

4) Revised AASB 124 Related Party Disclosure and AASB 2009-12 Amendments to Australian Accounting Standards (effective from 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 removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities and clarifies and simplifies the definition of a related party. The group 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.

5) AASB Interpretation 19 Extinguishing financial liabilities with equity instruments and AASB 2009-13 Amendments to Australian Accounting Standards arising from Interpretation 19 (effective from 1 July 2010)

   AASB interpretation 19 clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished by the debtor issuing its own equity instruments to the creditor (debt for equity swap). It requires a gain or loss to be recognised in profit or loss which is measured in profit or loss which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. The group will apply the interpretation from 1 July 2010. It is not expected to have any impact on the group financial statements since it is only retrospectively applied from the beginning of the earliest period presented (1 July 2009) and the group has not entered into any debt for equity swaps since that date.

6) AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project

   The amendment to AASB 107 explicitly states that only expenditure that results in a recognised asset can be classified as a cash flow from investing activities. There will be no impact on group.

   The amendment to AASB 136 clarifies that the largest unit permitted for allocating goodwill acquired in a business combination is the operating segment, as defined in IFRS 8 before aggregation for reporting purposes

7) AASB 2010-3 Amendments to Australian Accounting Standards arising from the Annual Improvements Project (AASB 3, AASB 7, AASB 121, AASB 128, AASB 131, AASB 132 & AASB 139)

   The revised Standard introduces a number of changes to the accounting for financial assets, the most significant of which includes:

   - Measurement of non controlling interests
   - Un replaced and voluntarily replaced share based payment awards
   - Transaction requirements for contingent consideration from a business combination that occurred before the effective date of the revised AASB 3 (2008)
   - Transaction required for amendments arising as a result of AASB 127 Consolidated and Separate Financial Statements

   It has been determined by the Group that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change is necessary to Group accounting policies.

8) AASB 2010-4 Further Amendments to Australian Accounting Standards Arising from the Annual Improvements Project (AASB 1, AASB 7, AASB 101 & AASB 134 and Interpretation 13)

   The revised Standard introduces a number of changes to the accounting for financial assets, the most significant of which includes:

   - Accounting policy changes in the year of adoption

- Revaluation basis as deemed cost
- Use of deemed cost for operations subject to rate regulation
- Clarification of disclosures
- Clarification of statement of changes in equity
- Significant events and transactions
- Fair value of award credits

It has been determined by the Group that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change is necessary to Group accounting policies.

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 aeging analysis for credit risk.

Risk management is carried out by the Board of Directors.

(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

Interest rate risk arises from both short and long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. During the year the Company has no exposure to long-term borrowings. The short term fixed rate borrowings are managed by limiting borrowings of this nature to the years of no more than two years, or if longer, to interest rate reviews every two years.

The Group has interest rate risk arising from cash funds on deposits. It seeks to maximise interest earned on these funds by benchmarking to USD LIBON rates as majority of cash is in subsidiary.

Group sensitivity

At 30 June 2010, if interest rates had changed by -/+ 10% (estimated historical volatility of USD LIBON rate over the last 5 years) from the year-end rates with all other variables held constant, post-tax loss for the year would have been $1,000 lower/ $1,000 higher (2009:$46,841 lower/ $46,841 higher), mainly as a result of lower/higher interest income from funds on deposit.

(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 20010.

		Consolidated	
	Note	2010	2009
		AU$	AU$
Financial Liabilities			
Trade Creditors and Borrowings payable within 6 months	12	1,415,814	1,901,392
Fixed Rate Barrowings payables between 6 to 12 months	12	1,013,243	2,162,328
Other Long term Borrowings payable between 1 and 2 years		-	-
Total Financial Liabilities		2,429,057	4,063,720

(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 balance sheet.

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 balance 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.

(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 Income Statement by assuming the probability of conversion equal to the 50% of agreed performance achieved. In 2009, 42,000 CPS converted to 21,000,000 fully paid ordinary shares (note 21(b)) and $80 recorded to issued share capital (note 14(2)).

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	2010 (AU$)			2009 (AU$)		
	USA	Australia	Consolidated	USA	Australia	Consolidated
Revenues from continuing operations	7,609	568,560	576,169	28,972	110,444	139,416
Segment result (loss)	(1,080,471)	(6,389,113)	(7,469,584)	(918,636)	(8,079,349)	(8,997,985)
Depreciation	(87,530)	-	(87,530)	(2,583)	-	(2,583)
Impairment of assets	(2,939,450)	(5,350,032)	(2,939,450)	0	(7,478,727)	-
Total segment assets	6,064,556	804,967	6,869,523	13,346,064	11,773,935	25,119,999
Total segment liabilities	(14,263,612)	(1,974,534)	(16,238,146)	(14,458,361)	(2,645,829)	(17,104,190)

1) Revenue from continuing operations

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

	Consolidated 2010 AU$	Consolidated 2009 AU$
Total segment revenue	576,169	139,416
Intersegment eliminations- intercompany loan interest	(554,206)	-
Total revenue from continuing operations (Note 5)	21,963	139,416

2) Segment results

Segment result reconciles to total comprehensive income as follows:

	Consolidated 2010 AU$	Consolidated 2009 AU$
Total segment result	(7,469,584)	(8,997,985)
Intersegment eliminations	2,676,009	809,075
Loss before income tax	(4,793,575)	(8,188,910)

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 2010 AU$	Consolidated 2009 AU$
Total segment assets	6,869,523	25,119,999

Intersegment eliminations	(3,655,435)	(19,406,899)
Total assets	3,214,088	5,713,101

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	
	2010 AU$	2009 AU$
Total segment liabilities	(16,238,146)	(17,104,190)
Intersegment eliminations	13,809,089	13,040,470
Total liabilities	(2,429,057)	(4,063,720)

5. REVENUE

	Group	
	2010 AU$	2009 AU$
Interest Received	14,354	110,444
Other Revenue	7,609	28,972
	21,963	139,416

6. EXPENSES

	Group	
	2010 AU$	2009 AU$
Loss from continuing operations before income tax has been determined after		
(a) Depreciation and depletion		
Depreciation of plant and equipment	6,039	2,583
Depreciation on oil and gas properties	81,491	-
Total Depreciation	87,530	2,583
(b) Employee/consultant benefit expense		
Directors/key management remuneration	289,374	466,019
Share/option based payments	-	-

7. INCOME TAX

Income tax recognised in profit or loss	Group	
	2010	2009
	AU$	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	-	-
Total tax expense/(income)	-	-

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	
	2010	2009
	AU$	AU$
Loss before tax	(4,793,575)	(8,188,910)
Income tax expense/(income) calculated at 30%	(1,438,073)	(2,456,673)
Effect of revenue that is not assessable in determining taxable profit	-	-
Effect of expenses that are not deductible in determining taxable profit	807,974	1,861,919
Effect of unused tax losses and tax offsets not recognised as deferred tax assets	345,775	2,292,135
Effect of different tax rates of subsidiaries operating in other jurisdictions	519,043	67,533
Other	(234,719)	(1,764,914)
	-	-

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	
	2010	2009
	AU$	AU$
Deferred Tax Assets		
Arising on income and expenses taken directly to equity:		
Impairment of assets	-	29,250
	-	29,250

Unrecognised deferred tax balances

	Group	
	2010	2009
	AU$	AU$
Deferred tax assets/(liabilities) un-recognised:		
Tax losses:		
Australian tax losses – revenue	885,184	743,357
Foreign tax losses - revenue	2,044,754	1,810,452
Temporary differences:		
Australian - Other	81,913	10,343
Foreign subsidiaries - Capitalised exploration and evaluation	(171,160)	(457,503)
Foreign subsidiaries - Other	(30,447)	(19,884)
Un-recognised deferred tax assets	2,810,244	2,117,119

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	
	2010	2009
	AU$	AU$
Cash at bank	31,585	58,560

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	
	2010	2009
	AU$	AU$
Current		
Other receivables (1)	251,301	493,428
Non current		
Bond to AAG Management Pty Ltd	-	60,000
Other financial assets (2)	32,500	260,000
Total Non Current Receivables	32,500	320,000

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.

(1) Other receivables include GST receivables and prepayments.
(2) Other financial assets are investment made by subsidiary (Jet Strike Pty Ltd) in 2009 which are impaired in 2010.

10. PROPERTY, PLANT AND EQUIPMENT

	GROUP	
	2010	2009
	AU$	AU$
Plant and equipment – cost	14,557	15,304
Less accumulated depreciation	(6,039)	(2,583)
	8,518	12,721
Movements in carrying amounts are reconciled as follows:		
Balance at the beginning of period	12,721	6,305
Additions	1,836	8,999
Disposals	-	-
Depreciation expense	(6,039)	(2,583)
	8,518	12,721

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	
	2010	2009
	AU$	AU$
Oil and gas properties – cost	2,971,675	4,799,141
Less accumulated depletion	(81,491)	-
	2,890,184	4,799,141
Movements in carrying amounts are reconciled as follows:		
Opening balance	4,799,141	1,786,283
Acquired during period	1,111,984	9,423,609
Depreciation expense	(81,491)	-
Disposal/Write off during period*	(2,939,450)	(6,410,751)
	2,890,184	4,799,141

* Costs on the five prospects (Joshua/Alford, Yoakum Gorge, Sarco Creek, Lake Salvador and Upmack) which were either plugged or abandoned, or had hydrocarbon shows which it was decided not to pursue further at the time.

12. TRADE PAYABLES AND BORROWINGS

	GROUP	
	2010	2009
TRADE AND OTHER PAYABLES	AU$	AU$
Trade creditors	1,349,477	1,773,550
Accruals	67,337	72,982
GST Receivables	-	(15,140)
Other payables/short term borrowings	(1,000)	70,000
	1,415,814	1,901,392
BORROWINGS- RELATED PARTIES		
Loan from Odin Energy Ltd	782,881	1,752,738
Loan from AXG Mining Ltd	115,181	204,795
Loan from Palace Resources Ltd	115,181	204,795
	1,013,243	2,162,328

- 15% interest was charged on the loan from Odin Energy Ltd up to 22 June 2010. The current interest rate is 12%. During the year, $1,975,000 is repaid out of which $470,000 is repaid by issuing fully paid ordinary shares.
- AXG Mining Ltd is charging 6.25% interest to the company. During the year $100,000 was paid to cover interest and principal.
- Palace Resources Ltd is charging 6.25% interest to the company. $100,000 was paid to cover interest and principal.
- Refer to Note 2 for foreign currency exposure.
- Refer to Note 20 for Related Borrowings.

13. ISSUED CAPITAL

13.1 Ordinary Shares

Ordinary shares	GROUP	
	2010	2009
	AU$	AU$
518,600,006 fully paid ordinary shares(2009: 110,800,003)	14,354,527	10,592,848
Movements in shares on issue		
Beginning of year	10,592,848	10,592,861
Shares issued during the year		
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	-
Total shares issued	14,670,848	-
Less: capital raising costs	(316,321)	(93)
CPS reserve	-	80
42,000 CPS converted to 21,000,000 fully paid ordinary shares		
End of the year	14,354,527	10,592,848

Movements in options issued		
Beginning of year	-	-
Options issued during the year		
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	-
End of the year	550,000	-

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.

During the year 275,000,000 options were issued at $0.002. No options exercised during the year.

13.2 Converting Performance Shares

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

14. RESERVES

	GROUP	
	2010 AU$	2009 AU$
Foreign currency translation reserve [1]	(136,101)	148,852
Equity reserve [2]	80	80
Investment Revaluation Reserve [3]	-	97,500
	(136,021)	246,432
(1) Foreign currency translation		
Opening balance	148,852	(89,975)
Currency translation differences arising during the year	(284,953)	238,827
	(136,101)	148,852
(2) Equity reserve		
Opening balance	80	160
Issue of CPS	-	-
Conversion into ordinary shares	-	(80)
Value of conversion right convertible note	-	-
Deferred tax component	-	-

	80	80
(3) Investment Revaluation Reserve		
Opening balance	97,500	-
Investment Revaluation Reserve during the year	(97,500)	97,500
	-	97,500

Nature and purpose of reserves

(1) 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.

(2) 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.

(3) Investment Revaluation Reserve

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

15. ACCUMULATED LOSSES

	GROUP	
	2010	2009
	AU$	AU$
Accumulated losses at the beginning of the year	(9,189,900)	(1,000,990)
Net loss attributable to the members of the parent entity	(4,793,575)	(8,188,910)
Accumulated losses at the end of the financial year	(13,983,475)	(9,189,900)

16. LOSS PER SHARE

	GROUP	
	2010	2009
	AU$	AU$
Reconciliation of earnings to net loss		
Net loss	(4,793,575)	(8,189,910)
Earnings/(loss) used in the calculation of basic and dilutive EPS	(0.015)	(0.078)
Weighted average number of ordinary shares outstanding during the year used in calculation of basic and dilutive EPS	Number	Number
	319,895,858	104,432,880

Details of the shares issued are included under notes 13 and 14. Dilutive EPS is not reflected as the CPS would result in the reduction of the loss per share.

17. 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	
	2010	2009
	AU$	AU$
Current Assets	53,003	373,761
Non Current Assets	719,464	3,921,448
Total Assets	772,467	4,295,209
Current Liabilities	1,714,534	2,645,829
Non Current Liabilities	-	-
Total Liabilities	1,714,534	2,645,829
Issued Capital	14,354,527	10,592,848
Options Issued	550,000	-
Accumulated Losses	(15,846,674)	(8,943,548)
Equity Reserve	80	80
Investment Revaluation Reserve	-	-
Foreign Currency Reserve	-	-
Total Equity	(942,067)	1,649,380
Loss for the Year	(6,903,126)	(8,079,348)
Other Comprehensive income for the year	-	-
Total Comprehensive income for the year	(6,903,126)	(8,079,348)

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

18. CASH FLOW INFORMATION

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

	GROUP	
	2010	2009
	AU$	AU$
Loss after income tax	(4,793,575)	(8,188,910)
Non cash flows in loss		
Depreciation	87,530	2,583
Investment revaluation reserve	-	97,500
Exploration Write off	2,939,450	6,410,751
Bond offset against payables	60,000	
Changes in assets and liabilities		
Increase/(decrease) in trade creditors and accruals	159,250	91,275
(Increase)/decrease in trade and other receivables	26,528	(135,259)
(Increase)/decrease in other assets	(140,733)	(45,040)
(Increase)/decrease in deferred tax	-	(29,250)
Cash flows from (used in) operations	(1,661,549)	(1,796,350)

Non – cash investing and financing activities

	GROUP	
	2010 AU$	2009 AU$
Loan repayment by issuing fully paid ordinary shares	470,000	-

19. SUBSIDIARIES

The Company has the following Subsidiaries at all times during the year.

Name of Subsidiary	Place of Incorporation	Percentage held 2010	Percentage held 2009
Kilgore Exploration, Inc.	Texas USA	100%	100%
Jetstrike Pty Ltd	Perth Australia	100%	100%

Kilgore Exploration, Inc was incorporated on 26 September 2007 with initial issued capital of US$1,000 (A$1,081).There is no movement during the year.

20. 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 Owing/ (Owed) AU$	Relationship
AAG Management Pty Ltd	2010	91,401	AAG Management Pty Ltd is a management company which provides facilities, human resources, and other administration and consulting services. During the period a bond of $60,000 receivable was offsetted against outstanding invoices. AAG Management is a related party because David Ballantyne, the company secretary of Kilgore Oil and Gas limited is the sole director and shareholder of AAG Management. The outstanding balance is included in trade creditors/other payables.
	2009	142,149	
Odin Energy Ltd	2010	782,881	During the reporting year the company has paid $1,975,000 out of which $470,000 was paid by issuing fully paid ordinary shares to Glory Run Pty Ltd, a fully owned subsidiary of Odin Energy Ltd. The remaining balance is payable at the rate of 12% per annum by 30 June 2011. 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.
	2009	1,752,739	

AXG Mining Ltd	2010	115,181	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.
	2009	204,795	
Palace Resources Ltd	2010	115,181	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. Interest is payable at the rate of 6.25% per annum.
	2009	204,795	

(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.	714,902	A wholly owned subsidiary.
Jet Strike Pty Ltd	-	A wholly owned subsidiary.

Jet Strike acquired $260,000 in shares in Advance Energy Ltd which are carried at fair value on balance sheet (note 9). Mr Short and Mr Sklenka are directors of Advance Energy Ltd.

Details of interests in wholly owned controlled entities are set out in Note 19.

Loans between entities in the wholly owned group are denominated in US$, bear interest at prime +1%, are unsecured and are repayable upon reasonable notice having regard to the financial stability of the Company. During the year advances of $2,583,625 (2009: $7,785,947) were made, and interest of $554,205 (2009: $452,264) was charged and unrealised FX loss of $673,263 (2009:$148,851) was brought to account. In 2010 and 2009 there were no repayments.

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	Transaction	Note	2010 AU$	2009 AU$
Bryan Ayers	Consulting fees	(i)	8,587	7,603
David Ballantyne	Consulting fees	(ii)	-	4,950
Gordon Sklenka	Consulting fees	(iii)	102,000	66,000
Anthony Short	Consulting fees	(iv)	140,000	121,000

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.

iv. The Company used the management consulting services of Cumberland Investment Pty Ltd, a company for which Mr Anthony Short is a director.

(d) Share and Option holdings

Refer to page 17 of the Directors' Report for further information.

(e) Loan from related parties

Loans from related parties -2010	AAG Management Pty Ltd AU$	Odin Energy Ltd	AXG Mining Ltd	Palace Resources Ltd	ADVANCE ENERGY 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
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

Loans from/to related parties -2009	AAG Management Pty Ltd AU$	Odin Energy Ltd	AXG Mining Ltd	Palace Resources Ltd	ADVANCE ENERGY LTD
Beginning of the year	0	0	0	0	(150,000)
Loans/purchases	519,454	1,778,885	200,000	200,000	(750,000)
Loan / Interest repayments	(377,305)	(97,832)	-	-	628,731
Interest charged	-	71,686	4,794	4,794	(45,041)
End of the year	142,149	1,752,739	204,794	204,794	(316,310)

f) AAG Management Expense Reimbursement

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

DIRECTORS/CONSULTANTS	REIMBURSEMENT FOR TRAVEL AND ACCOMMODATION
Mr. A Short	$134,551
Mr. G Sklenka	$82,174
Mr. A Bajada	$6,220
Total	$238,915

	REIMBURSEMENT FOR ADMINISTRATIVE EXPENSE
AAG Management Pty Ltd	$231,191

In 2009, AAG Management Pty Ltd has charged $699,454 for travel and administrative expenses out of which $557,305 was paid in 2009 and the outstanding balance of $142,149 was paid in 2010.

21. 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 2010 AU$	Summary for consulting 2009 AU$
Mr B Ayers	-	Director	28,624	32,471
Mr D Ballantyne	Sandgropers Pty Ltd	Company Secretary	18,750	69,548
Mr G Sklenka	Formaine Pty Ltd	Chairman	102,000	144,000
Mr A Short	Cumberland Investments Pty Ltd	Managing Director	140,000	220,000
			289,374	466,019

No post employment, long term or termination benefits provided in year 2010 and 2009. Share base payments are explained in note 21(b).

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

Ordinary Shares

Holder		Held at beginning of period	Acquired	Sold	Converted CPS	Balance at end of period
Brian Ayers -Direct	2010	3,000,000	-	-	-	3,000,000
	2009	-	-	-	3,000,000	3,000,000
David Ballantyne - Direct/Indirect	2010	200,000	6,189,500	-	-	6,389,500
	2009	-	200,000	-	-	200,000
Gordon Sklenka -Indirect	2010	6,000,001	18,000,000	-	-	24,000,001
	2009	3,000,001	-	-	3,000,000	6,000,001
Anthony Short-Indirect	2010	6,000,001	17,709,436	-	-	23,709,437
	2009	3,000,001	-	-	3,000,000	6,000,001

Converting Performance shares (CPS)

Holder		Held at beginning of period	Acquired	Sold	Converted to shares	Balance at end of period
Brian Ayers-Direct	2010	2,000	-	-	-	2,000
	2009	8,000	-	-	6,000	2,000
David Ballantyne	2010	-	-	-	-	-
-Direct/Indirect	2009	-	-	-	-	-
Gordon Sklenka-Indirect	2010	2,000	-	-	2,000	2,000
	2009	8,000	-	-	6,000	2,000
Anthony Short-Indirect	2010	2,000	-	-	2,000	2,000
	2009	8,000	-	-	6,000	2,000

Options Issued

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

No options were issued to Directors or Key personnel in year 2009.

22. REMUNERATION OF AUDITORS

	GROUP	
	2010	2009
	AU$	AU$
Amounts received or due and receivable by BDO Audit (WA) Pty Ltd for:		
Audit and audit review services of the year end financial reports	42,416	47,713
Tax and other advices	-	5,326
	42,416	53,039
Amounts received or due and receivable by FCP CPA in relation to the US based subsidiary companies for:	2010	2009
	US$	US$
Audit and audit review services of the financial reports	30,879	29,883
Other non audit charges	4,250	-
	35,129	29,883
	77,545	82,923

23. COMMITMENTS

The company had no commitments other than those mentioned in Note 24.

24. JOINT VENTURE OPERATIONS

	GROUP	
	2010	2009
	AU$	AU$
The Group holds interests in a number of unincorporated joint ventures, in Texas, USA.		
Other joint venture information		
Oil and gas revenues	7,609	28,792
Contingent liabilities	-	-
Capital commitments	-	909,596

The principal activities of these joint ventures are oil and gas exploration, development and production.

There are no commitments in regards to these investments.

The assets and liabilities of the group include the following items which represent the group's interest in the assets and liabilities employed in unincorporated joint ventures, recorded in accordance with the accounting policies described in note 1 to these financial statements.

	GROUP	
	2010	2009
	$'000	$'000
Current assets		
Trade and other receivables	224,772	173,638
Non-current assets		
Property, plant and equipment	8,518	12,721
Oil and gas properties	2,890,184	4,799,141
	2,898,702	4,811,862
	3,123,474	4,985,500
Current liabilities		
Payables	714,523	1,379,388
	714,523	1,379,388
Net investment in joint venture operations	2,408,951	1,058,915

Summary of Drilling Prospects -Kilgore Oil and Gas Ltd

Prospect	Net Revenue Interest
Snipe*	4.500%
Sandpiper*	4.500%
UpMach	16.425%
Stary	25.310%
Joshua-Alford	50.625%
Egret*	4.500%
Total	

*4.5% post Odin Energy Ltd earn-in

25. EVENTS SUBSEQUENT TO BALANCE SHEET DATE

- Subsequent to year end 42,550,000 ordinary fully paid shares and 14,000 convertible performance shares were released from escrow
- 5,000,000 fully paid ordinary shares attaching 2,500,000 options were issued at 1cent to raise $50,000.
- Since the year end, installation and commissioning of the Galveston 307 production facilities and sales pipes has been completed and first gas sales have occured. The Seacrest Pipeline System, into which the Galveston 307 pipeline flows, was shut down for scheduled maintenance on 17 August 2010. The operator advises that it expects the pipeline to be back online in early October.

26. CONTINGENCIES

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 30 June 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. Kilgore Exploration Inc has requested an audit of these billings. As at 30 the June 2010, the outcome of the matter is not determinable and full cost have been included in financial statements.

27. SHARE BASED PAYMENTS

Other than referred in note13, there were no share or option based payments during the year.

28. 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 51, 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 2010 and of the performance for the year ended on that date of the company and Group;

2) The Directors have declared that:

   a) the financial records of the company for the financial period have been properly maintained in accordance with section 286 of the Corporations Act 2001

   b) the financial statements and notes for the financial period comply with the Accounting Standards; and

   c) the financial statements and notes for the financial period give a true and fair view.

3) The remuneration disclosures included in the Directors' Report (as part of the audited Remuneration Report); for the year ended 30 June 2009, comply with section 300A of the Corporations Act 2001.

4) 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.

5) The financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board

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

A Short
Managing Director
West Perth, Western Australia
29 September 2010

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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 statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes 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 and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. 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. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance 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 and fair presentation of the financial report 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 opinions.

BDO

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* would be in the same terms if it had been given to the directors at the time that this auditor's report was made.

Auditor's 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 2010 and of its performance for the year ended on that date; and
  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

(b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Material Uncertainty Regarding Continuation as a Going Concern

Without qualifying our opinion, we draw attention to Note 1 in the financial report which indicates that the consolidated entity incurred a net loss of $4,793,575 for the year ended 30 June 2010 and, as of that date the consolidated entity's current liabilities exceeded its current assets by $2,146,171. These conditions, along with other matters as set forth in Note 1, indicate the existence of material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2010. 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.

Auditor's Opinion

In our opinion, the Remuneration Report of Kilgore Oil and Gas Limited for the year ended 30 June 2010, complies with section 300A of the *Corporations Act 2001.*

BDO Audit (WA) Pty Ltd

BDO

Glyn O'Brien

Glyn O'Brien
Director

Perth, Western Australia
Dated this 29th day of September 2010