



ASX Announcement

Date 22nd January 2009

Market Update

Current Drilling

Boettcher Prospect

The Vacek#1 well is currently drilling ahead at 14,700 feet. The main target of this prospect, a 200 foot Meek sand objective, is at 15,000 feet and planned total depth is 16,500 feet. Progress below 12,000 feet has been slow but the company expects to reach TD by mid-February 2009.

The Boettcher prospect is one of the largest in Kilgore's portfolio with the potential to add between 11.3- 16.1 BCFE net to Kilgore.

Skimmer Prospect

As announced earlier this week, the test well on the Skimmer Prospect was spudded on 20 January 2009 and it is expected this well will take 12 to 14 days to reach the planned total measured depth of 8,220 ft. This well will encounter four targets with a combined reserve potential of 1.13 to 1.35 BCF net to Kilgore.

Current Completions

Stary Prospect

The Stary # 1 well has been drilled and cased and is awaiting a connection to a pipeline. Once the pipeline is in place the well will be fracture stimulated and revenue generation should commence early in March. Once sustained production has been established from this well Kilgore intends to re-enter an offset well to re-establish production from an unstimulated zone and also plans on drilling a second well as an offset to the Stary #1

Upmach Prospect

The D.M. Rush #1 well will be completed in the main pay objective commencing later this week. It is anticipated that this well will be generating revenue in mid March. It is estimated that an additional three to five wells will be drilled on this new discovery over the course of the next 24 months.

Reserves

Kilgore recently announced that its gross reserves are now in the order of 4.5 Bcfe and expects to increase these reserves further once the Stary and UpMach fields commence production. There is also potential for further reserve upgrades in the event that commercial quantities of hydrocarbons are discovered in the Boettcher, Skimmer, Sandpiper, Snipe or Egret prospects that will be drilled in the first half of calendar 2009.

Production and Cashflow

Kilgore's first discovery, Alford#1, is currently producing at 125 MCFD (net 70 MCFD). The operator is currently loading up the well by dropping soap sticks with the aim of raising production to 250MCFD.

Anticipated revenues in the first full month of production from the existing Alford and the soon to be producing Stary and Upmach wells (April 2009) should be between US\$150,000 and US\$200,000 per month, based upon current NYMEX quoted prices for oil and gas.

Asset Values and Net Asset Backing

Kilgore currently has 110,800,003 shares on issue with a further 7,000,000 shares to be issued on conversion of the Class D Performance Shares when reserves exceed 8 BCFE. It has no issued options, convertible notes or debt.

Analysis of the value of recent publicly available transactions in the Gulf Coast indicates an average gas reserve multiple of US\$2.74/MCF and an average gas production multiple of US\$11,000/MCFD.

On the above basis, Kilgore's current reserves would be worth between US\$11m and 12.3m (A\$16.2-18.1m based upon an exchange rate to the US\$ of 0.68), equivalent to approximately A\$0.155 per share. Should the final (Class D) performance share threshold (8 BCFE) be achieved, the net asset backing per share would be equivalent (based upon 8 BCFE of reserves) to approximately A\$0.27, based upon the same gas reserve multiple price and exchange rate.

The technical information in this announcement has been provided by Brian Ayers, B.Geophs, MBA and Embry Canterbury, BSc (Petroleum Engineering), SPE. Mr Ayers has more than 28 years relevant experience in the US oil and gas industry as a geophysicist and exploration geologist, while Mr Canterbury has more than 12 years relevant experience in the practice of petroleum engineering and operations. Both Mr Ayers and Mr Canterbury consent to the inclusion in this announcement of the information in the form and context in which it appears.

Kilgore Oil & Gas LTD is an ASX listed company focused on identifying, acquiring and capturing high quality oil and gas exploration projects in the Gulf Coast area of the United States. It is our strategic objective to maximise returns on funds invested via drilling exploration targets with the highest level of technical support. Utilising the geological, engineering and transactional expertise of Kilgore's management and consultants, the company continues to build a portfolio of oil and gas exploration prospects that provide an exceptional balance of risk and reward.

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