



## ASX Announcement

1<sup>st</sup> June 2011

### Significant Acquisition of Strategic Oil Asset - New Investor Syndicate

The Board of Kilgore Oil and Gas is pleased to announce it has executed a share sale agreement (“Agreement”) to acquire a 16% interest in the Rock Creek Oil Project (“Project”), an unconventional oil and condensate play located in central Alberta, Canada (“Transaction”). The Rock Creek Oil Project is a tight oil appraisal play positioned for commercial evaluation through a drilling program scheduled for September 2011, with the Project strategically located at the heart of the emerging Canadian unconventional oil and gas industry.

Pursuant to the Transaction, Kilgore will undertake a share placement to an investor syndicate led by Mr Craig Burton and Mr Charles Morgan, to raise up to \$1,500,000 before costs through the issue of 1,500,000,000 shares at 0.1 cents each. This new investor syndicate will take the lead role in driving the future strategic direction and asset focus of the Company.

#### **Rock Creek Project Highlights**

- A significant land position in a new Canadian resource zone
- Highly analogous to the Bakken and Cardium unconventional light oil plays.
- Proven Production reservoir- 20mmbbls of liquids and 1 TCF of gas.
- Participation in 123 sections of Crown land (30,000 hectares/ 75,000 acres)
- Project contains 5,000 prime hectares
- Kilgore to hold a 16% working interest in the play
- Net holdings to Kilgore of 4,800 hectares (12,000 acres)

#### **Rock Creek Oil Project**

Kilgore will acquire its 16% interest in the Rock Creek Oil Project through the acquisition of 100% of the issued capital in Warren Energy Ltd, (a company incorporated in Alberta, Canada). Kilgore’s partners in the Rock Creek Oil Project will be ASX listed Mako Energy Ltd (50% and operator) and Transerv Energy Ltd (34%).

The Rock Creek Oil Project is an oil and gas play situated in predominantly tight sandstone reservoirs which are considered highly analogous to the Bakken and Cardium unconventional

light oil plays that have been commercially successful in recent times with the development of the unconventional oil industry in North America.

The Project is situated within proven hydrocarbon bearing reservoirs with a production history from conventional horizontal wells. The Project strategy has been to acquire a large land holding then exploit with the application of modern horizontal fracture stimulation technology, based on the commercial success achieved from the same development strategy in nearby formations.

### Location of the Rock Creek Oil Project



The Rock Creek Oil Project play is based on the Rock Creek target formation, known to be hydrocarbon charged but has not yet been fully exploited. In Alberta, the nearby Cardium and Bakken formations have recently enjoyed substantial success as a result of the application of horizontal fracture stimulation technology. The target Rock Creek play is hydrocarbon-bearing along its entire length, though low permeability has limited its yield with historical cover trial drilling. As a result, the play has been not exploited in the tighter areas. Reservoir modelling indicates the same horizontal frac technology that has lead to the successful exploitation of the Cardium and Bakken is likely to enable commercial production from this play.

The play is productive along the entire trend and to date has produced over 20 mmbbl of liquids and 1 TCF of gas from several thousand wells. Almost all of this production has come from mildly stimulated vertical wells.

## Rock Creek Resource Estimate Report

The operator of the Project, Mako Energy Canada Ltd (“Operator”), a subsidiary of Mako, commissioned Sproule & Associates Ltd to undertake an estimate of the Gross Undiscovered Petroleum Initially In-Place for 100% of the Project the results of which were released to the market in March 2011 (“Sproule Report”). The Sproule Report was prepared in accordance with the Canadian Oil and Gas Evaluation Handbook (COGEH) resource definitions which are consistent with the standards of National Instrument 51-101.

<b>Rock Creek Oil Project Resource – Gross Undiscovered Petroleum Initially-in-Place</b>				
	<b>3% porosity cut-off</b>		<b>6% porosity cut-off</b>	
	<b>OOIP (MMbbl)</b>	<b>OGIP (Bcf)</b>	<b>OOIP (MMbbl)</b>	<b>OGIP (Bcf)</b>
Mako (50%)	115.25	168.25	76.3	111.55
Transerv (34%)	78.37	114.41	51.88	75.85
Kilgore (16%)	36.88	53.84	24.42	35.7
<b>All (100%)</b>	<b>230.5</b>	<b>336.5</b>	<b>152.6</b>	<b>223.1</b>

Source: Sproule & Associates

The 3% and 6% porosity cutoffs nominally equate to 0.2 and 0.05 mD permeability cutoffs respectively. Sproule uses the 6% porosity cutoff to develop low (P90) resource estimates and the 3% cutoff to develop high (P10) estimates.

The Sproule Report was based on Mako’s holding of the Project at the time (being 58,120 acres). The landholding has since been increased to approximately 75,000 acres as a result of the acquisition of a further 31 sections.

The Sproule Report also provided estimates of the Gross Prospective Resources for 12 selected prospects totaling 1,760 acres within the Project. The average Estimated Ultimate Recovery per well is 168,000 BOE.

The Operator and Kilgore plan to commence a 3-well drilling program in September 2011 comprising horizontal wells with multi-stage fracs. Kilgore anticipates drilling and completion cost of approximately C\$4.5m per well.

Horizontal wells have been used to exploit the Rock Creek gas play for the last five years with approximately 30 wells reported in the public record. However, there have been only 5 applications of horizontal wells to the Rock Creek oil play, of which two are still confidential. Horizontal techniques are typically used to exploit reservoirs within low permeability sandstones that have not been commercially produced using vertical wells.

Sproule & Associates considers the Project to be a low permeability (“tight”) sandstone play and, as such, is likely to be amenable to exploitation using horizontal wells and multi-stage fracture stimulation technology.

## Acquisition of Warren Energy- Transaction Details

The consideration payable by Kilgore for the acquisition of Warren Energy is set out below and the transaction, including related capital raisings, is subject to approval by Kilgore shareholders.

### Transaction Consideration

Kilgore will acquire 100% of the issued share capital of Warren in consideration for the issue of:

- 1,100,000 Class A Performance Shares which will shall convert into 1,100,000,000 fully paid ordinary shares in Kilgore on the approval, funding, and drilling of no less than three (3) stimulated wells upon the Project; and
- 1,100,000 Class B Performance Shares which shall convert into 1,100,000,000 Shares on achievement of the achievement of a commercial flow rate from a stimulated well drilled upon the Rock Creek Project.

### Capital Raisings

The Company will also seek shareholder approval to undertake the following capital raisings as part of the Transaction:

- a) the placement of 1,500,000,000 Shares each at an issue price of 0.1 cents to raise \$1,500,000 (before costs) ("Share Placement"); and
- b) the placement of 3,200,000,000 Options exercisable at 0.5 cents within 4 years of the date of issue at an issue price 0.01 cents each to raise \$320,000 (before costs) ("Option Placement").

As part of the Notice of Meeting to go to Kilgore shareholders to approve the Transaction, the Company will also seek approval for a future placement facility of up to 1,500,000,000 Shares at an issue price of at least 80% of the average market price on which sales in the Shares were recorded before the day on which the issue was announced. This placement would include an attaching option to acquire a Share (Option) for every 2 Shares issued exercisable at \$0.05 within 4 years of the date of issue (Capital Raising).

The indicative effect of the Transaction on the capital structure of the Company will be as follows:

	Shares	Options	Performance Shares
<b>Current issued capital</b> <sup>1,3</sup>	<b>2,695,906,280</b>	<b>478,898,748</b>	<b>14,000</b>
Consideration payable pursuant to Transaction <sup>4</sup>	Nil	Nil	2,200,000
Upon completion of Share Placement <sup>2</sup>	1,500,000,000	Nil	Nil
Upon completion of Option Placement <sup>2</sup>	Nil	3,200,000,000	Nil
<b>Total on completion of Transaction, Share Placement and Option Placement</b> <sup>2</sup>	<b>4,195,906,280</b>	<b>3,678,898,748</b>	<b>2,214,000</b>
Upon conversion of Class A Performance Shares	1,100,000,000	Nil	N/A
Upon conversion of Class B Performance Shares	1,100,000,000	Nil	N/A
<b>Total on completion of Transaction, Share Placement, Option Placement and conversion of Class A and B Performance Shares</b> <sup>2,5</sup>	<b>6,395,906,280</b>	<b>3,678,898,748</b>	<b>14,000</b>

**Notes:**

1. Assumes no further securities are issued prior to settlement of the Transaction.
2. Assumes Share Placement and Option Placement are fully subscribed. If the Company undertakes the Capital Raising up to a maximum of 1,500,000,000 Shares and 750,000,000 Options may be issued.
3. Convertible Performance Shares Class D.
4. 1,100,000 Class A Performance Shares convertible into 1,100,000,000 Shares and 1,100,000 Class B Performance Shares convertible into 1,100,000,000 Shares.
5. Assumes the Class A and B Milestones are achieved.

## Other Projects

Kilgore is continuing to review new, high impact oil and gas investment opportunities in North America and other areas that will complement its asset strategy, in addition to the recently announced Lyons Point Prospect in Louisiana. The Lyons Point Prospect is targeting 60 BCF of gas and 3 MMBC and is independently estimated to have a very high probability of commercial success at 50-66%. Kilgore is earning a 15% working interest and the well is due to spud in late August.

Kilgore has also recently undertaken a restructure in respect to the Galveston 307 Project pursuant to which Odin Energy Ltd (“Odin”) has assumed the role of managing the Galveston 307 Project interests.

As part of this restructure, Odin will acquire Kilgore Exploration, Inc (“KEI”) and will assume management responsibility for KEI's obligations in respect to the Galveston 307 Project. Kilgore will continue to be entitled to its working interest revenues received by KEI from the Galveston 307 Project after the recoupment by KEI of its operating costs.

## **Board Changes**

Subject to approval of the Transaction and capital raisings, Warren Energy will have the right to appoint 2 new Directors to the Board of Kilgore following the acquisition of Warren Energy.

On settlement, Warren intends to appoint Mr Charles Morgan and Mr Brett Mitchell to the Board of Kilgore Energy as Chairman and Director respectively. Mr Morgan is a well-known and highly experienced executive in the oil and gas industry. Mr Mitchell has worked with a number of oil and gas companies over the past 8 years. Kilgore is pleased to have a relationship with such an experienced and proven investment group as the Company moves forward with its new Rock Creek Oil acquisition in Canada and recently announced conventional Lyons Point exploration prospect in Louisiana.

## **Notice of Meeting**

A Notice of Meeting will be dispatched to shareholders in the near future seeking Kilgore shareholder approval for the Transaction and the related raisings as set out above.

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