

4 June 2010

► **Price Target:** \$1.18

► **Reason For Update:** 30-day Production Data – Morgan-1H & Easely-1H

► **What we know:**

The Sugarloaf AMI JV (AUT – 10%) has released 30-day production results from their 2 most recent wells; Easely-1H and Morgan-1H.

Morgan-1H averaged 19.1mmscfe/day (vs. IP 31mmscfe/day), producing 38.5kkbls of condensate and 109mmscf of gas.

Easely-1H averaged 10.1mmscfe/day (vs. IP 17.9mmscfe/day), producing 12.2kkbls of condensate and 126mmscf of gas.

IP data from Rancho Grande-1H is expected shortly.

We understand that fracture stimulation has commenced at Turnbull-1H – the first of the Longhorn AMI (AUT 25%) – and we expect IP results within the next 3 weeks.

Turnbull-2H and 3H are cased and await fracture stimulation.

► **What we think:**

The 30-day results are excellent and continue to underscore the quality of the Sugarkane Field.

Furthermore, the Morgan well in particular, demonstrates both the proof of concept and optimization of well design are both paying dividends in terms of increased condensate yield and lower initial rates of decline.

The JV is of the view that condensate yield and (potentially) pressure regime increase further north in the Sugarloaf AMI (25%) and into the Longhorn AMI (AUT 25%): Morgan is the most northern to date in the Sugarloaf AMI.

Importantly, the well completion design (in terms of no. of frac stages, horizontal length and percentage of proppant) is being refined with each well and to date, the production data has shown benefit accordingly.

Using spot prices, the Morgan well produced gross revenues in the order of US\$3m, whilst Easely grossed US\$1.5m.

Noting well costs of between US\$6.3-8m, payback forecasts of circa 6months appears achievable given the results to date.

This has tremendously positive implications in terms of time to free-cash-flow and thus generation of sustaining capital for field development.

Should the news from the Longhorn wells serve to further highlight the favourable characteristics of the trend, AUT's higher equity position in Longhorn improves leverage to the Sugarkane Field and thus attractiveness of the AUT investment proposition.

A maiden reserve and revised resource statement is expected in July – we believe that this will serve to at the very least validate our current price target.

Our \$1.18/sh price target reflects the valuation metrics provided for by the recent bid (and target statement) for ADI.

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However, we believe that similar estimations of value may be applied to AUT's participating interests in the Ipanema and Longhorn AMLs with on-going drilling success.

This would serve to roughly double our valuation to circa \$2/sh.

Further upside can be seen with continued and heightening corporate activity in the play – most recently witnessed with Shell's 250K acre foray into the liquids-prone part of the Eagle Ford play.

▶ **Investment Case:**

These latest production results continue to firm the credentials of AUT's acreage within the Eagle Ford play. A distinct trend of improving yield, higher pressure and lower rates of decline is emerging as the drilling focus shifts further north towards the Longhorn AML. Proof-of-concept can be further enhanced via forthcoming results from Rancho Grande-1H. These will be closely followed by IPs from the suite of Turnbull wells: positive results from the Longhorn AML are a clear catalyst for the share price. In addition, with the revised resource and (potentially) maiden reserve in the Sep Q, we believe that AUT has all the elements required for a re-rating. We maintain our Buy recommendation with a revised price target of \$1.18/sh.

AURORA OIL & GAS LTD (AUT)		YEAR END 30 JUNE			
MARKET STATISTICS					
Share Price	\$0.86 A\$/sh	Directors			
Issued Capital		J. Stewart	Exec. Chair'n		
FP Ord	220.6m	I. Lusted	Tech. Dir.		
Opt (@\$0.38/sh)	3.7m	G. Dowland	Non Exec Dir		
		G. Schoch	Non Exec Dir		
		M. Blakiston	Non Exec Dir		
Total Dil. FPOrd	224.2m				
Market Capitalisation	\$190m	Shareholders			
Enterprise Value	\$182m	Dir & Management	12.0%		
Debt	\$-m	CA Stewart	8.2%		
Cash	\$9m				
ASSET VALUATION					
	A\$m	A\$/sh			
Sugarkane - Sugarloaf	50	0.18			
Sugarkane - Longhorn	160	0.58			
Sugarkane - Ipanema	44	0.16			
Exploration	1	0.00			
Corporate	(7)	(0.02)			
Unpaid Capital	27	0.10			
Debt	-	-			
Cash	9	0.03			
Total @ 10% nom	284	1.03			
<i>If RSPT adopted or abandoned, impact on valuation:</i>					
<i>If RSPT unrisks</i>	284	1.03			
<i>If RSPT excluded</i>	284	1.03			
F/CAST PRODUCTION (A\$m)					
Attrib. Prod'n (kbbls/bcf)	2010f	2011f	2012f	2013f	
Well Count	6	19	23	38	
Sugarkane - Sugarloaf	cond.	9.4	128.0	140.2	
	gas	0.1	0.9	1.6	
Sugarkane - Longhorn	cond.	80.6	430.5	653.4	
	gas	0.6	3.1	4.7	
Sugarkane - Ipanema	cond.	12.1	97.8	165.3	
	gas	0.1	0.7	1.2	
Total Attrib (mmbboe)	-	0.2	1.4	2.3	
Assumptions					
Avg Oil Price (US\$/bbl)	76.1	87.5	90.0	90.0	
Avg Oil Price Rec'd (US\$/bbl)	69.9	81.3	83.8	83.8	
Avg Gas Price Rec'd (US\$/mcf)	4.9	5.0	5.1	5.2	
US\$:A\$	0.89	0.88	0.87	0.85	
RATIO ANALYSIS (A\$m)					
	2010f	2011f	2012f	2013f	
CF (A\$m)	(3)	(22)	33	64	
CF / Sh (Ac/sh)	(1)	(8)	12	23	
CF Ratio (x)	(62.2)	(10.7)	7.3	3.7	
Earnings (A\$m)	(4)	5	44	74	
EPS (Ac/sh)	(2)	2	16	27	
EPS Growth (%)	-66%	-206%	800%	68%	
Earnings Ratio (x)	(51.7)	48.9	5.4	3.2	
E'prise Val. (A\$m)	182	224	194	131	
EV : EBITDA (x)	(83.1)	22.0	2.3	0.9	
EV : EBIT (x)	(46.2)	36.2	3.1	1.3	
Net Debt / ND+Eq (%)	-40%	-23%	-58%	-101%	
Net Debt / Eq (%)	-28%	-19%	-37%	-50%	
NTA / sh (A\$/sh)	0.14	0.23	0.42	0.76	
Interest Cover (x)	21	29	n/a	n/a	
EBIT Margin (%)	-1008%	45%	68%	70%	
ROE (%)	-12%	8%	38%	35%	
ROA (%)	-13%	10%	53%	49%	
Div. (Ac/sh)	-	-	-	-	
Div. payout ratio	-	-	-	-	
Div. Yield	-	-	-	-	
Div. Franking	-	-	-	-	

PROFIT AND LOSS (A\$m)	2010f	2011f	2012f	2013f
Sales Revenue	-	14	90	147
Hedging Revenue	-	-	-	-
Deferred Revenue	-	-	-	-
Interest Revenue	0	1	1	3
Other Revenue	0	-	-	-
TOTAL REVENUE	1	15	91	149
Operating Costs	1	1	3	4
Dep/Amort	0	3	23	37
O/H + New Bus Dev	2	2	3	3
W/O & Provisions	2	1	1	1
EBITDA	(2)	10	85	141
EBIT	(4)	6	62	103
Interest Expense	-	-	-	-
NPBT	(4)	7	63	106
Tax	-	2	19	32
NPAT	(4)	5	44	74
Minorities	-	-	-	-
NET PROFIT	(4)	5	44	74
CASH FLOW (A\$m)				
	2010f	2011f	2012f	2013f
Net Profit	(4)	5	44	74
+ Working Capital Adj.	(0)	-	-	-
+ Dep/Amort	0	3	23	37
+ Provisions	2	1	1	1
+ Tax Expense	-	2	19	32
- Tax Paid	-	-	9	11
Operating Cashflow	(2)	11	78	133
-Capex + Development	1	33	45	69
-Exploration	-	2	2	1
-Assets Purchased	-	-	-	-
+Asset Sales	-	-	-	-
+Other	0	-	-	-
Investing Cashflow	(1)	(35)	(47)	(70)
+Equity Issues	5	-	-	-
+Loan D'down/Receivable	-	-	-	-
+Other	-	28	-	-
-Loan Repayment	4	-	-	-
-Dividends	-	-	-	-
Financing Cashflow	1	28	-	-
Period Sur (Def)	(2)	3	31	63
Cash Balance	9	12	43	106
BALANCE SHEET (A\$m)				
	2010f	2011f	2012f	2013f
Assets				
Cash	9	12	43	106
Current Receivables	1	1	1	1
Other Current Assets	-	-	-	-
Non-Current Assets	22	51	73	105
Total Assets	31	64	116	211
Liabilities				
Borrowings	-	-	-	-
Current Accounts Payable	0	0	0	0
Non-Current Liabilities	-	-	-	-
Other Liabilities	-	-	-	-
Total Liabilities	0	0	0	0
Net Assets	31	64	116	211
OIL & GAS CONTINGENT RESOURCES (1C)				
	Oil	Gas	Total	
	mmbbls	bcf	mmbboe	
Sugarkane	17.0	100.0	32.2	
Total	17.0	100.0	32.2	
EV / boe (A\$)	5.6			

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