

18 August 2006

Company Announcements Platform
Australian Stock Exchange
Level 4
20 Bridge Street
SYDNEY NSW 2000

By e-Lodgement

Dear Sir/Madam

SUGARLOAF 1 COMMENCES DRILLING

Aurora advises that the Sugarloaf-1 exploration well, located in the onshore Gulf Coast Basin in Texas, USA, commenced drilling at 0200 hours Texas time on 17 August 2006. At report time (0600 hours Texas Time 17 August), Sugarloaf-1 was drilling ahead at a measured depth of 186 feet.

The proposed total depth of Sugarloaf-1 is 21,000 feet (6,400 metres) or such other depth as agreed by the joint venture partners.

The well has a number of geologically independent targets and is being drilled in an area where there are numerous fields producing from a variety of geological horizons.

The primary target is a large four-way dip closed growth fault structure developed in the early Cretaceous aged Hosston Formation. The top of the Hosston is interpreted from seismic to be at approximately 17,000 feet (5,200 metres) and there is the potential for several different sandstones to be developed over a gross 4,000 feet (1,200 metres) thickness. Mean reserves potential for the Hosston target is 800 BCF of gas, with upside potential of several TCF.

The shallower secondary targets are in Cretaceous aged carbonate formations at depths ranging from 12,000 to 14,000 feet (3,600 - 4,300 metres). These formations are productive in adjacent areas. Reserves potential of the shallow targets is estimated at around 100 BCF equivalent.

The first secondary target of the well (12,000 – 14,000 feet) is anticipated to be reached approximately 4 weeks after spud. Given that the well is designed to be drilled to 21,000 feet, these shallower formations will be evaluated by logs and cased off, regardless of whether or not hydrocarbons are present. If potentially commercial hydrocarbons are interpreted from the logs, these will be production tested with a smaller rig as soon as practicable after the deep drilling rig is released. Definitive results from the shallow targets will therefore only be obtained after a testing program once the well is completed.

The primary Hosston target is expected to be reached in early to mid October and total depth of 21,000 feet (6,400 metres) in early November. If hydrocarbons are intersected in the Hosston Formation, they will be cased off and production tested using a smaller completion rig.

ASX releases will be made routinely every Wednesday unless there are material matters which require an earlier release.

Aurora's Executive Chairman, Jon Stewart, commented:

"We are very pleased to get drilling under way at Sugarloaf and I know our shareholders will follow this well with great interest. Clearly patience will be required given the planned drilling time for the well but the potential rewards make that more than worthwhile. The information gained from drilling through the prospective shallow zones is also of considerable interest given activity in adjacent areas. With results from our oil well in California and gas well at West Blake Lake in Texas imminent this is an exciting period for the Company. In addition, there will be more development wells drilled this year across our US portfolio."

Participants in the Sugarloaf-1 well are:

Aurora Oil & Gas Limited ¹	20.0%
Texas Crude Energy Inc (Operator) et al ²	41.5%
Eureka Energy Ltd	12.5%
Adelphi Energy Ltd	20.0%
Empyrean Energy plc	6.0%

¹ Through its wholly-owned US subsidiary Sugarloaf Oil & Gas LP

² Includes other US private companies / investors

Further details of the Sugarloaf Prospect and associated farm-in terms are summarised on our website at www.auroraog.com.au which also includes a brief review of the US gas market and fiscal terms.

For further information please do not hesitate to contact me.

Yours sincerely

AURORA OIL & GAS LIMITED

Jon Stewart
EXECUTIVE CHAIRMAN

This report contains some references to forward looking assumptions, estimates and outcomes. These are uncertain by nature and no assurance can be given by Aurora that its expectations, estimates and forecast outcomes will be achieved.

Information contained in this report was compiled from information provided by Texas Crude Energy Inc and reviewed by P D Allchurch, BSc, FAIMM, MPESA, who has had more than 35 years experience in the practice of geology and more than 5 years experience in petroleum geology. Mr Allchurch has consented to the inclusion in this report of the matters based on this information in the form and context in which it appears.