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Aurora Farms in to Large Gas Development Project Onshore Texas

Aurora Oil and Gas Limited (ASX: AUT) is pleased to announce that it has entered into an agreement to acquire an interest in the **West Black Lake Project**, which has the potential to host approximately 600 billion cubic feet (BCF) of gas and on which development drilling will commence in early 2006.

Aurora Executive Chairman, Jon Stewart said: 'We consider the West Black Lake Project an ideal addition to Aurora's gas development project at Flour Bluff, also in Texas. West Black Lake is a low risk development project in the prolific Texas onshore Gulf Coast, Cretaceous age back reef play, with the potential to add very significantly to the production and reserves base of the Company. The application of proprietary processing of 3-D and 2-D seismic, calibrated against well data at an adjacent large gas field (also a Cretaceous back reef play), has identified extensive porous zones at West Black Lake. The first West Black Lake well drilled, discovered gas and confirmed the porous zone defined from seismic processing.

The successful initial development of West Black Lake, commencing early in 2006, would generate early cash flow in what is currently a strong domestic gas market with historically high gas prices. Subject to rig availability, an active development program through 2006 should see a rapid increase in production to about 15 million cubic feet per day (MMCFD) from West Black Lake through what is expected to be a period of continued strong gas prices. The Henry Hub Gas price is currently above US\$13 per million British Thermal Units (approximately equivalent to one thousand standard cubic feet (MCF)).

Aurora will have the opportunity to earn a 20.15% interest in five wells (15.1125% Net Revenue Interest) through the funding of a 40.3 % interest in each well until individual well payback. The Operator's estimate of potential recoverable reserves from the initial five development wells is approximately 30 BCF.

Following the completion of the initial five well development drilling program, Aurora has the option to acquire a 10% working interest in the balance of the approximately 600 BCF potential Project for the payment of US\$1 million and to participate on a 1:1 basis thereafter in respect of that interest. (Aurora would maintain its 20.15% interest in the initial five wells). Assuming successful definition of an approximately 600 BCF field, peak field production could reach approximately 160 MMCFD.

Aurora is acquiring the right to participate in an initial 5 wells and the option over the 10% interest in the full Project from Texas Crude Energy Inc (TCEI) who will operate the project. Aurora has a

good working relationship with TCEI which operates Aurora's Flour Bluff Gas Field and will operate the drilling of the large Sugarloaf exploration prospect, also in Texas.

"We are excited about the potential for West Black Lake to be a significant and long term producing asset of the Company. 2006 is set to be a very active year for Aurora with 10 development wells scheduled to be drilled at Flour Bluff and West Black Lake and a major exploration well at Sugarloaf." Mr Stewart said.

The first West Black Lake well has a proposed Total Depth of approximately 4,200 m (14,000 feet) and Aurora's share of costs is estimated to be approximately US\$1.2 million completed for production. Aurora has the right to participate in four subsequent wells scheduled to be drilled during 2006. The first well is anticipated to be spudded by March 2006. All drilling dates are subject to rig availability. In addition, Aurora will contribute approximately US\$700,000 towards new 3D seismic studies to be undertaken and the construction of a short pipeline.

Aurora has sufficient funds to meet its obligations under this agreement.

Technical details of the West Black Lake Project and key terms are provided in the attached summary which also includes a review of the US gas market and US oil and gas industry general fiscal terms.

Yours sincerely
AURORA OIL & GAS

Alex Neuling
COMPANY SECRETARY

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 35 years experience in the practice of geology and more than 5 years experience in petroleum geology.

West Black Lake Project Cretaceous Back Reef Trend Texas

Background

West Black Lake is a new gas discovery in the Cretaceous age back reef limestone trend in the on-shore Gulf Coast region of the USA. West Black Lake was defined using proprietary seismic inversion technology, which had been used to locate a number of successful development wells on an adjacent 500 BCF back reef trend gas field. The proprietary seismic technology defines porous zones (porosity and thickness of porous zone) within the normally tight Cretaceous limestone formation. The seismic porosity has been calibrated against core and well log measurements. Recoverable reserves per well estimated using the 3-D seismic porosity and thickness measurement at the adjacent gas field have an 88% correlation to actual well ultimate production. The Operator, Texas Crude Energy Inc. (TCEI), expects the same level of predictability in the West Black Lake project area. The porous zone intersected in the West Black Lake discovery well correlated closely with the seismic predicted porosity and thickness. The seismic technology is expected to provide a high degree of confidence in locating development wells and in predicting recoverable reserves and initial flow rate for each well.

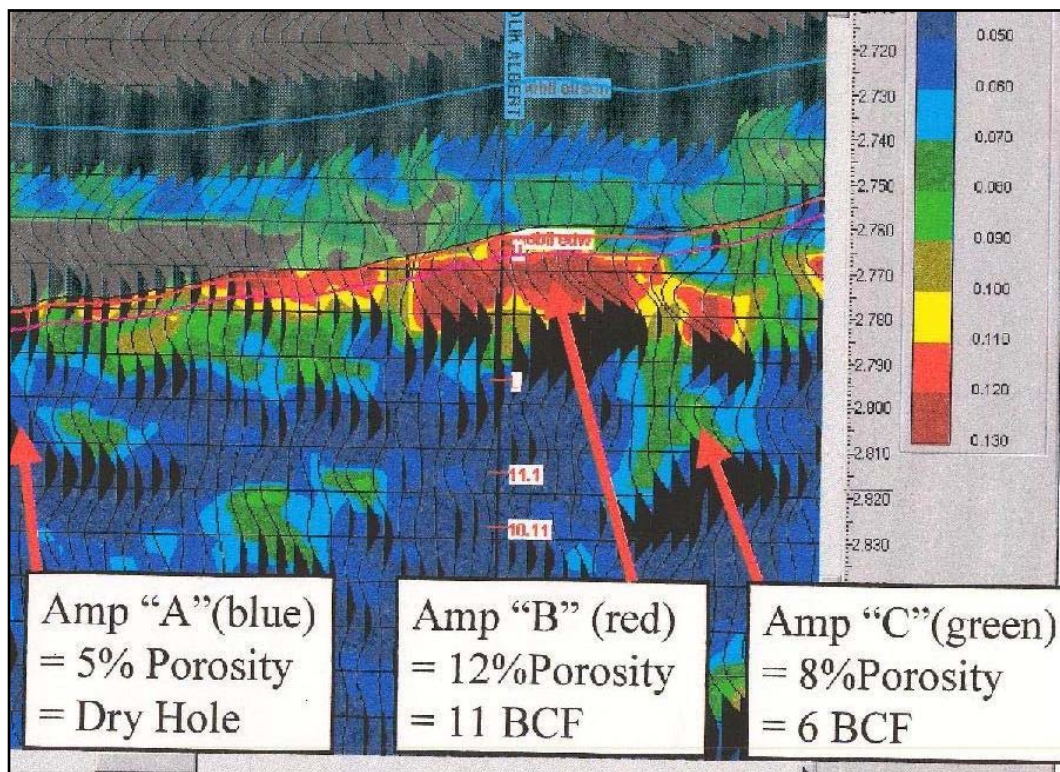
TCEI has used the same 3-D survey to identify the locations for the initial five West Black Lake wells. The remainder of the West Black Lake development area is defined by 2-D data, which will be replaced with 3-D data before expanding drilling into that area.

The Cretaceous Back Reef Gas Play

The Cretaceous Back Reef Limestone gas play is the least developed of the major (capable of producing fields larger than a trillion cubic feet [TCF]) on-shore Texas gas plays. This is primarily because gas is trapped mainly in porous back-reef stratigraphic traps, surrounded by non-porous limestone and until recently it has not been possible to define trap areas with seismic. The development of proprietary seismic processing has now enabled porous zones to be defined with impressive reliability. Calibration of the seismic against known producing wells has provided the basis for predicting potential gas reserves and initial flow rates from the seismic processing, prior to drilling. This has transformed the exploration and development of the Cretaceous back reef trend from a risky low drilling success rate play, to a much lower risk, high drilling success rate play.

Producing Cretaceous limestone gas fields are often large in terms of reserves (up to several TCF). Typical initial flow rates for individual vertical wells are in the range 3 to 4 MMCFD after routine acid stimulation. Horizontal completions have been found to significantly increase initial flow rates and this method may be applied at West Black Lake. Despite the initial flow rates producing wells are almost invariably long lived with many still producing after 30 years.

In common with many other limestone hosted gas fields, gas from this play has small amounts of deleterious gases (mainly carbon dioxide) but these are easily removed using established technology at low cost (35c/MCF contract removal cost in the West Black Lake area).



Modern processing enables the measurement of porosity which can then be used to determine reserves and productivity

West Black Lake Project

West Black Lake is immediately adjacent to a large producing gas field (about 500 BCF) and the discovery well was designed to test what was interpreted to be an extension of that field. The well location was based on 3D seismic specially processed to directly indicate porosity. As predicted, the well drilled more than 300 feet of porous Cretaceous limestone and was completed with an acid frac over the full interval. However on production test the well produced gas (2.1MMCFD) with large amounts of water. A review of the well logs showed that the interpretation of the gas water contact was incorrect and that the real water contact was higher than the contact in the adjacent gas field. This proved that a new gas field, unconnected to the adjacent field had been found but unfortunately for the owners of the well, attempts to cut off the water have so far been unsuccessful.

The next well in the area covered by 3D seismic will be the first of the initial five wells that Aurora Oil and Gas will participate in. The well is planned to be drilled vertical and updip of the initial well and completed for production by standard acid (or proppant) fracture stimulation. The seismic interpretation predicts a flow rate of about 3.5MMCFD from the zone after frac. This is a typical rate for completions in the Cretaceous limestones.

A short pipeline will be required to connect West Black Lake production to a nearby facility to process the gas. Additionally a new 3D seismic acquisition survey is being planned to define further reserves and drilling locations.

5. USA - As a Place to Do Business

Natural Gas Supply and Demand

The USA is the world's largest energy producer, consumer and net importer. According to Energy Information Administration ("EIA") (www.eia.doe.gov), as of January 2004 the USA had estimated proven natural gas reserves of 187 TCF, or 3.1% of world reserves (6th in the world). Natural gas consumption for 2004 was approximately 22.0 TCF, with gross imports of 4.1 TCF. Overall, the USA depends on natural gas for about 24% of its total primary energy requirements. Oil accounts for around 40% and coal for 23%.

From 1990 through to 2003, natural gas consumption in the USA increased by about 15%, although consumption fell about 5% during 2003 in large part as a result of high gas prices. In response to continued economic growth, natural gas demand was projected to increase by 3.7% in 2005. Natural gas is consumed in the United States mainly in the industrial (37%), electric power (23%), residential (22%), and commercial (14%) sectors.

As of 2002, the top natural-gas-producing states (in descending order) included Texas, New Mexico, Oklahoma, Wyoming, Louisiana, Colorado, Alaska, Kansas, California, and Alabama.

Natural Gas Prices

Over the past few years, natural gas wellhead prices have steadily increased from a base of around US\$2.50 per thousand cubic feet ("MCF") in the mid to late 1990's to over US\$10 / MCF at present.

The reason for the increase in natural gas prices, and why there continues to be upward price pressure can be attributed to:

- Natural gas is no longer in surplus. Previously there was a bubble of oversupply which depressed prices for 10 years.
- Economic outlook is improving and this will increase energy consumption.
- Natural gas demand in North America is increasing at about 3 % per year whereas supply is increasing at only about 1%.
- Production from many older gas wells is declining quite rapidly.
- More natural gas is being used for electricity generation. Any new electricity capacity brought on line right now is generated by natural gas, rather than oil, coal, water or nuclear.
- As the price of crude oil increases, some industries switched to natural gas. Many developed this dual fuel capability when petroleum prices increased in 2001.

According to the EIA, at the beginning of the year, natural gas prices were expected to average US\$6.18 per MCF in 2005. This has since been exceeded by recent price rises, with current gas futures suggesting a higher gas price regime for the remainder of this year and beyond.

These US gas prices compare very favourably with A\$2-3 / MCF (~US\$2 / MCF) currently achievable in Australia.

USA Fiscal Terms for the Oil and Gas Business

In the USA, mineral rights (including oil and gas rights) for any onshore resources belong to the landowner (unless sold or assigned to a third party). Therefore the first step in the oil and gas exploration process involves the acquisition of leases from the holders of mineral rights which cover the prospect. Once the leases are secured, exploration operations may commence. If a discovery is made, a negotiated royalty is payable to the mineral rights holder based on revenue earned from the lease. Additional overriding royalties to other third parties are also very common as these rights change ownership over time.

Several State and local taxes are payable based on overall production volumes and net income in addition to a federal corporate tax which is levied at 35%.

In summary, the USA provides an attractive environment for international oil and gas explorers given its proven hydrocarbon potential, well established petroleum industry infrastructure, strong domestic gas market and an overall fiscal regime that compares favourably to most other oil and gas rich countries.