



ABN 90 008 787 988

Financial Report

For The Year Ended

30 June 2006

Aurora Oil & Gas Limited ABN 90 008 787 988
Financial Report – 30 June 2006

Contents

	Page
Corporate directory	1
Directors' report	2
Remuneration report	8
Auditors' independence declaration	15
Independent audit report to members	16
Financial Report	
Income statement	18
Balance sheet	19
Cash flow statement	20
Statement of changes in equity	21
Notes to the financial statements	22
Directors' declaration	55

Corporate directory

Directors

Mr Jonathan Stewart – Executive Chairman
Mr Michael Blakiston – Non-Executive Director
Mr Graham Dowland – Non-Executive Director
Mr Gren Schoch – Non-Executive Director

Company Secretary

Mr Alex Neuling

Registered and Principal Office

Level 20, Allendale Square
77 St Georges Terrace
Perth WA 6000
Australia

Telephone: (61 8) 9440 2626

Facsimile: (61 8) 9440 2699

Share Register

Security Transfer Registrars Pty Ltd
770 Canning Highway, Applecross WA 6153
Telephone: (61 8) 9315 2333
Facsimile: (61 8) 9315 2233
email: registrar@securitytransfer.com.au

Solicitors

Blakiston & Crabb
1202 Hay Street
Perth WA 6005

Auditor

Horwath Audit (WA) Pty Ltd
128 Hay Street
Perth WA 6008

Bankers

Australia and New Zealand Banking
Group Limited

Stock Exchange Listing

Aurora Oil & Gas Limited shares
are listed on the Australian Stock
Exchange (Symbol: AUT).

Website and Email

www.auroraoag.com.au
info@auroraoag.com.au

Directors' Report

30 June 2006

The Directors of Aurora Oil & Gas Limited present their report on the Consolidated Entity consisting of Aurora Oil & Gas Limited ("the Company" or "Aurora") and the entities it controlled at the end of, or during, the year ended 30 June 2006 ("Consolidated Entity" or "Group").

Directors

The names of directors in office at any time during the financial year or since the end of the financial year are:

Mr Jonathan Stewart
Mr Michael Blakiston
Mr Graham Dowland
Mr Gren Schoch

Each director held their office from 1 July 2005 until the date of this report.

Current Directors

Mr Jonathan Stewart – executive chairman

Qualifications - B.Com, CA

Mr Stewart was appointed a director of the Company on 22 February 2005. He is a qualified chartered accountant. Since leaving the profession he has held executive management positions in a number of industries including extensive international oil & gas experience.

Other current directorships of Australian Listed Public Companies

None.

Former directorships in last three years

None.

Mr Graham Dowland - non-executive director

Qualifications - B.Com, CA

Mr Dowland was appointed a director on 22 February 2005. He is a qualified chartered accountant who has for the past 18 years been involved as a director or senior consultant / advisor with a number of public companies listed on stock exchanges in Australia, Canada and the United Kingdom in various industries.

Other current directorships of Australian Listed Public Companies

Imugene Limited
Eureka Energy Limited

Former directorships in last three years

None.

Directors' Report

30 June 2006 (continued)

Current Directors (continued)

Mr Michael Blakiston - non-executive director

Qualifications - B. Juris LLB

Mr Blakiston was appointed a director of the Company on 7 November 2003. He is a partner of law firm Blakiston & Crabb.

Other current directorships of Australian Listed Public Companies

Axiom Properties Limited
Platinum Australia Limited
Rox Resources Limited
Vulcan Resources Limited

Former directorships in last three years

Alcaston Mining NL
Australian Development Capital Limited
Black Range Minerals Limited 1994-2004
Colltech Australia Limited
GFB Limited 2002-2005

Mr Gren Schoch

Qualifications - B.Sc. M.Sc. P.Eng.

Mr Schoch was appointed a director on 4 April 2005 and has extensive international oil & gas experience, primarily in Canada.

Other current directorships of Australian Listed Public Companies

None

Former directorships in last three years

None

Company Secretary

Mr Alex Neuling

Qualifications – BSc (Hons) ACA (ICAEW)

The Company Secretary, Mr Alex Neuling was appointed to the position during the previous financial year. Before joining Aurora, he worked at a major international accounting firm in London (1998-2002) and in Perth (2002-2004). He holds an honours degree in Chemistry from the University of Leeds in the United Kingdom and is a member of the Institute of Chartered Accountants of England and Wales.

Directors' Report
30 June 2006 (continued)

Principal activities

The principal activity of the Consolidated Entity during the financial year was oil & gas exploration, development and production. No significant change in the nature of this activity occurred during the financial year.

Employees

	2006	2005
The number of full time equivalent people employed by the Consolidated Entity at balance date	2	2

Dividends

No dividends have been declared, provided for or paid in respect of the financial year ended 30 June 2006.

Consolidated results

	2006 \$'000	2005 \$'000
Consolidated loss before income tax expense	(1,360)	(3,063)
Income tax expense	-	-
Net loss	(1,360)	(3,063)

Post balance date events

Since 30 June 2006 the following significant developments have occurred (as announced by Aurora to the Australian Stock Exchange):

Date	Event
17 August 2006	Commencement of drilling at Sugarloaf Gas Prospect, USA
31 August 2006	Finalisation US\$10m project finance facility
14 September 2006	North Belridge and West Black Lake completion results
20 September 2006	Gas shows encountered in Sugarloaf secondary target

Directors' Report

30 June 2006 (continued)

Post balance date events

Other than as disclosed, at the date of this report there are no matters or circumstances, which have arisen since 30 June 2006 that have significantly affected or may significantly affect:

- (a) the operations, in financial years subsequent to 30 June 2006, of the Consolidated Entity constituted by Aurora Oil & Gas Limited and the entities it controls from time to time;
- (b) the results of those operations; or
- (c) the state of affairs, in financial years subsequent to 30 June 2006, of the Consolidated Entity.

Significant changes in the state of affairs

The following significant changes in the state of affairs of the Consolidated Entity occurred during the financial year and to the date of this report:

Date	Event
18 October 2005	Placement of 13.3m shares at \$0.38 per share
9 November 2005	Acquisition of an additional 7.5% interest in the Flour Bluff Gas project, USA
8 December 2005	Placement of 11.2m shares at \$0.45 per share
23 December 2005	Acquisition of an initial interest in the West Black Lake Gas project, USA
14 February 2006	Acquisition of an additional 7.5% interest in the Sugarloaf Prospect, USA
19 May 2006	Acquisition of an initial interest in the North Belridge Oil Project, USA
6 June 2006	Placement of 15m shares at \$0.53 per share
17 August 2006	Commencement of drilling at Sugarloaf Gas Prospect, USA
31 August 2006	Finalisation US\$10m project finance facility

Environmental regulation

The Consolidated Entity's environmental obligations are regulated under US State and Federal laws. The Company has a policy of exceeding or at least complying with its environmental performance obligations.

During the financial year, the Consolidated Entity did not materially breach any particular or significant Commonwealth, State or Territory regulation in respect to environmental management.

Likely developments

Due to the nature of the Consolidated Entity's business activities, the Directors are not able to state:

- (a) likely developments in the entities' operations; or
- (b) the expected results of these operations,

as to do so would result in unreasonable prejudice to the Consolidated Entity.

Directors' Report
30 June 2006 (continued)

Information on directors' interests in securities of Aurora

Options

	Balance at 1 July	Granted during the year as compensation	Exercised during the year	Other changes during the year	Balance at 30 June	Vested and exercisable at 30 June
Jonathan Stewart	9,400,000	-	-	-	9,400,000	9,400,000
Michael Blakiston	1,190,000	-	-	-	1,190,000	1,190,000
Graham Dowland	1,300,000	-	-	-	1,300,000	1,300,000
Gren Schoch	1,293,651	-	-	-	1,293,651	1,293,651

Shares

	Balance at 1 July	Exercise of options	Net Other changes	Balance at 30 June
Jonathan Stewart	7,560,000	-	-	7,560,000
Michael Blakiston	4,684,363	-	-	4,684,363
Graham Dowland	800,000	-	-	800,000
Gren Schoch	2,380,953	-	-	2,380,953

No shares or options were issued or granted to directors during the year.

Meetings of Directors

The following table sets out the number of meetings of the Company's directors held during the year ended 30 June 2006, and the number of meetings attended by each director.

	No. eligible to attend	No. attended
<i>Full board meetings</i>		
Jonathan Stewart	7	7
Michael Blakiston	7	5
Graham Dowland	7	7
Gren Schoch	7	3
<i>Audit committee meetings</i>		
Jonathan Stewart	2	2
Michael Blakiston	2	2
Graham Dowland	2	2
Gren Schoch	2	2

Directors' Report
30 June 2006 (continued)
Share options

At the date of this report the following unlisted options have been granted over unissued capital:

	ASX code	2006 Number	2005 Number	Exercise Price	Expiry
Type 1	AUTAO	8,000,000	8,000,000	\$ 0.20	22-Feb-10
Type 2	AUTAK	4,365,079	4,365,079	\$ 0.25	28-Apr-10
Type 3	AUTAK	2,875,000	3,335,000	\$ 0.20	28-Apr-10
Type 4	AUTAM	805,000	805,000	\$ 0.20	28-Apr-10
Type 5	AUTAM	1,000,000	1,000,000	\$ 0.30	28-Apr-10
Type 6	AUTAM	2,500,000	2,500,000	\$ 0.30	28-Apr-10
Type 7	AUTAM	2,700,000	2,700,000	\$ 0.20	22-Feb-08
Type 8	AUTAQ	500,000	-	\$ 0.51	30-Mar-11
Total		22,745,079	22,705,079		

460,000 new fully paid ordinary shares were issued during the financial year on exercise of share options (2005: nil).

Directors' Report

30 June 2006 (continued) – Remuneration report

This remuneration report is set out under the following main headings:

A	Principles used to determine the nature and amount of remuneration
B	Details of remuneration
C	Service agreements
D	Share-based compensation
E	Additional information

The information provided under headings A-D includes remuneration disclosures that are required under Accounting Standard AASB 124 - *Related Party Disclosures*. These disclosures have been transferred from the financial report and have been audited. The disclosures in Section E are additional disclosures required by the *Corporations Act 2001* and the Corporations Regulations 2001 and are not subject to audit.

A. Principles used to determine the nature and amount of remuneration (audited)

At present the functions of the remuneration committee in relation to the remuneration of the Company's executives (including share and benefit plans) are carried out by the full board. No directors are present at meetings of the board in this capacity when their own remuneration is being considered. Issues of remuneration are considered annually or otherwise as required.

The objective of the remuneration committee is to ensure that pay and rewards are competitive and appropriate for the results delivered. The charter adopted by the remuneration committee aims to align rewards with achievement of strategic objectives. The remuneration framework applied provides a mixture of fixed and variable pay and a blend of short and long term incentives as appropriate. Where considered likely to be of benefit, advice may sought from independent consultants to ensure that these objectives of the remuneration committee are being met.

Non-executive directors

The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at General Meeting. The Company's policy is to remunerate non-executive directors at market rates (for comparable companies) for time, commitment and responsibilities. Fees for non-executive directors are not linked to the performance of the Company, however to align directors' interests with shareholders' interests, directors are encouraged to hold shares in the Company and may be granted options over shares in the Company at the sole discretion of the board acting in its capacity as remuneration committee.

Retirement benefits and allowances

No retirement benefits or allowances are paid or payable to directors of the Company.

Other benefits

No motor vehicle, health insurance or other similar allowances are made available to directors.

Executives

➤ *Base pay*

Executives are offered a competitive level of base pay which comprises the fixed (unrisky) component of their pay and rewards. Base pay for senior executives is reviewed annually to ensure market competitiveness. There are no guaranteed base pay increases included in any senior executives' contracts.

Directors' Report

30 June 2006 (continued) – Remuneration report

A. Principles used to determine the nature and amount of remuneration (audited) (continued)

Executives (continued)

➤ *Short term incentives*

Payment of short term incentives is dependent on the achievement of key performance milestones as determined by the board in its function as the Company's remuneration committee. For the year ended 30 June 2006, these milestones required performance in relation to key strategic, non-financial measures linked to drivers of performance in future reporting periods.

Short-term bonus payments may be adjusted up or down in line with under or over achievement relative to target performance levels at the discretion of the remuneration committee. For the year ended 30 June 2006, no short term incentives were paid or payable to Key Management Personnel of the Company / Group.

➤ *Long term incentives*

The remuneration committee may at its sole discretion (except where shareholder approval is required by law) grant options over shares in the Company as a means of incentivising its executives, other directors and key consultants to the Company. This is considered a valuable means of aligning the interest of shareholders and the individuals to whom such long-term incentives are provided. The number of options granted and their terms and conditions are determined by the board on an ad-hoc basis in order to best match such awards with the actual circumstances of the Company at a given point in time.

B. Details of remuneration (audited)

Amounts of remuneration

Details of the remuneration of the directors and Key Management Personnel (as defined in AASB 124 *Related Party Disclosures*) of Aurora Oil & Gas Limited and the Group are set out in the following tables.

The Key Management Personnel of Aurora Oil & Gas Limited (and of the Group) includes the directors (as named elsewhere in this report) and the Company Secretary, Mr Alex Neuling. These individuals are also the highest paid executives of the Company and Group.

Directors' Report

30 June 2006 (continued) – Remuneration report

B. Details of remuneration (audited) (continued)

Amounts paid or payable to Key Management Personnel of the Company / Group

2006	Short-term benefits			Post-employment benefits		Share-based payment	Total \$
	Cash salary and fees \$	Cash bonus \$	Non-monetary benefits \$	Super-annuation \$	Retirement benefits \$	Options \$	
<i>Non-executive directors</i>							
Graham Dowland	27,250	-	-	-	-	-	27,250
Michael Blakiston	18,750	-	-	8,500	-	-	27,250
Gren Schoch	30,000	-	-	-	-	-	30,000
<i>Company secretary</i>							
Alex Neuling *	-	-	-	-	-	76,625	76,625
Sub-Total non-executive directors	76,000	-	-	8,500	-	76,625	161,125
<i>Executive directors</i>							
Jonathan Stewart	175,000	-	-	-	-	-	175,000
Totals	251,000	-	-	8,500	-	76,625	336,125

2005	Short-term benefits			Post-employment benefits		Share-based payment	Total \$
	Cash salary and fees \$	Cash bonus \$	Non-monetary benefits \$	Super-annuation \$	Retirement benefits \$	Options \$	
<i>Non-executive directors</i>							
Graham Dowland	8,814	-	-	793	-	78,100	87,707
Michael Blakiston	16,333	-	-	1,470	-	119,750	137,553
Gren Schoch	7,000	-	-	-	-	119,750	126,750
Tony Barlow (Resigned 4 Apr 2005)	9,000	-	-	810	-	-	9,810
John Kenny (Resigned 22 Feb 2005)	7,680	-	-	691	-	-	8,371
<i>Company secretary</i>							
Alex Neuling (appointed 28 February 2005)*	-	-	-	-	-	-	-
Sub-Total non-executive directors	48,827	-	-	3,764	-	317,600	370,191
<i>Executive directors</i>							
Jonathan Stewart	87,500	-	-	-	-	343,640	431,140
Totals	136,327	-	-	3,764	-	661,240	801,331

* Alex Neuling is not employed or remunerated by the Company. Fees for Company Secretarial services are included within amounts paid to Epicure Administration Pty Ltd for serviced office costs (Note 24).

Directors' Report

30 June 2006 (continued) – Remuneration report

B. Details of remuneration (audited) (continued)

Amounts of remuneration (continued)

No remuneration was paid to directors or other Key Management Personnel of the Group by member companies other than Aurora Oil & Gas Limited, accordingly remuneration paid to Key Management Personnel of the Group is the same as that paid to Key Management Personnel of the Company.

Cash bonuses are dependent on the satisfaction of performance conditions (as detailed under *Short Term Incentives* above). Other elements of remuneration are not directly related to performance.

C. Service agreements (audited)

Remuneration and other terms of agreement for the Executive Chairman are formalised in a consultancy agreement with Epicure Capital Pty Ltd an associated company of Mr Stewart. Remuneration and other terms of agreement with other named executives are not formalised in service agreements.

Material terms of the contract with Epicure Capital Pty Ltd are as follows:

- Term of agreement – two years from 22 February 2005
- Consultancy fee inclusive of superannuation and taxes, but excluding GST of \$175,000 per annum, to be reviewed annually by the board
- Payment of a termination benefit on early termination by the Company, other than for gross misconduct, equal to three months consultancy fees

D. Share-based compensation (audited)

No options were granted to directors in the year ended 30 June 2006.

The terms and conditions of each grant of options affecting remuneration in the previous, this or future reporting periods are as follows:

Granted in current financial year

	Grant Date	Number	Exercise Price	Expiry Date	Value per option at grant date	Vesting Date
Directors						
None						
Other Executives						
Mr Alex Neuling	30-Mar-06	100,000	\$ 0.51	30-Mar-11	\$ 0.30	Grant date
	30-Mar-06	150,000	\$ 0.51	30-Mar-11	\$ 0.30	Anniversary of grant date

Directors' Report

30 June 2006 (continued) – Remuneration report

D. Share-based compensation (audited) (continued)

Granted in previous financial year

	Grant Date	Number	Exercise Price	Expiry Date	Value per option at grant date	Vesting Date
Directors						
Mr Jonathan Stewart	22-Feb-05	2,200,000	\$ 0.20	22-Feb-08	\$ 0.16	Grant date
Mr Graham Dowland	22-Feb-05	500,000	\$ 0.20	22-Feb-08	\$ 0.16	Grant date
Mr Michael Blakiston	04-Apr-05	500,000	\$ 0.30	28-Apr-10	\$ 0.24	Grant date
Mr Gren Schoch	04-Apr-05	500,000	\$ 0.30	28-Apr-10	\$ 0.24	Grant date

Other Executives

None

Fair Value of Options

The fair value of each option is estimated on the date of grant using the Black-Scholes Option Valuation Model with the following assumptions:

	2006	2005
Dividend yield	-	-
Expected volatility	65%	65%
Historical volatility	65%	65%
Risk-free interest rate	6.0%	6.0%
Expected life of option	5 years	4 years

Options granted carry no dividend or voting rights. Upon exercise, each option is convertible into one fully paid ordinary share to rank pari passu with fully paid ordinary shares then on issue.

No options provided as remuneration to directors or Key Management Personnel as remuneration were exercised during the year (2005: none).

E. Additional Information (unaudited)

As detailed under headings A & B, remuneration of executives consists of an unrisks element (base pay) and cash bonuses based on performance in relation to key strategic, non-financial measures linked to drivers of performance in future reporting periods. As such, remuneration is not linked to the financial performance of the Company in the current or previous reporting periods.

No cash bonuses were forfeited during the year by directors or Key Management Personnel or remained unvested at year-end.

Directors' Report

30 June 2006 (continued) – Remuneration report

E. Additional Information (unaudited) (continued)

Additional information required by s300A (1) of the *Corporations Act 2001* in relation to share-based compensation is set out below.

	A	B	C	D	Total of columns B-D
	Remuneration consisting of options	Value at grant date	Value at exercise date	Value at lapse date	D
	%	\$	\$	\$	\$
Directors					
Jonathan Stewart	0%	-	-	-	-
Michael Blakiston	0%	-	-	-	-
Graham Dowland	0%	-	-	-	-
Gren Schoch	0%	-	-	-	-
Company Secretary					
Alex Neuling	100%	76,625	-	-	76,625

A = The percentage of the value of remuneration consisting of options, based on the value at grant date set out in column B

B = The value at grant date calculated in accordance with AASB2 Share-based Payment of options granted / cancelled during the year as part of remuneration

C = The value at exercise date of options that were granted as part of remuneration and were exercised during the year

D = The value at lapse date of options that were granted as part of remuneration and were exercised during the year

Directors' Report

30 June 2006 (continued)

Auditor's Independence Declaration

The auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is included on page 15 of the financial report.

Non-Audit Services

No non-audit services were provided to the group by the auditor during the year (or by another person or firm on the auditor's behalf) and accordingly the directors are satisfied that the provision of non-audit services, during the year, by the auditor is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

Rounding off of amounts

The Company is of the kind referred to in ASIC class Order 98/0100, dated 10 July 1998 and in accordance with that Class Order amounts in the Directors' Report and the Financial Report are rounded off to the nearest thousand dollars, unless otherwise indicated.

Insurance of Officers and Auditors

Since the end of the year, the Company has paid a premium in respect of a contract insuring the directors of the Company (as named above) and the Company Secretary Mr Alexander Neuling against liabilities incurred as such a director, secretary or executive officer to the extent permitted by the *Corporations Act 2001*. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium. The Company has not otherwise, during or since the financial year, indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate against a liability incurred as such an officer or auditor.

This report is made in accordance with a resolution of the directors.



JONATHAN STEWART
Executive Chairman
Melbourne, Victoria

29 September 2006



Horwath Audit (WA) Pty Ltd

ABN 79 112 284 787

Chartered Accountants

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29 September 2006

The Board of Directors
Aurora Oil & Gas Ltd
Level 20, 77 St Georges Terrace
PERTH WA 6000

AUDITOR'S INDEPENDENCE DECLARATION

This declaration is made in connection with my audit of the financial report of Aurora Oil and Gas Ltd for the year ended 30 June 2006 and in accordance with the provisions of the Corporations Act 2001.

As lead auditor I declare that, to the best of my knowledge and belief, there have been:

- No contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to this audit;
- No contraventions of the Code of Professional Conduct of the Institute of Chartered Accountants in Australia in relation to this audit.

HORWATH AUDIT (WA) PTY LTD

HORWATH.

A handwritten signature in black ink that reads "GLYN O'BRIEN".

GLYN O'BRIEN

Director

**Independent audit report on the financial report
to the members of Aurora Oil and Gas Limited**

We have audited the accompanying financial report of Aurora Oil and Gas Limited (the company) and the consolidated entity for the year ended 30 June 2006. The financial report comprises the balance sheet at 30 June 2006, and the income statement, statement of changes in equity, cash flow statement, summary of significant accounting policies and other explanatory notes, and the directors' declaration for the year then ended.

We have also audited the information about the remuneration of directors and executives ("remuneration disclosures"), the company has disclosed in accordance with Accounting Standard AASB 124 Related Party Disclosures, under the heading "remuneration report" in pages 8 to 12 of the directors' report, as permitted by the Corporations Regulations 2001.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Accounting Standards in Australia and the *Corporations Act 2001*. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report and the remuneration disclosure based on our audit. We conducted our audit in accordance with Auditing Standards in Australia. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Independence

We are independent of the company and the group, and have met the independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001. We have given to the directors of the company a written Auditors' Independence Declaration, a copy of which is included following the Directors' Report.


Auditor's Opinion

In our opinion:

1. The financial reports of Aurora Oil and Gas Limited and the consolidated entity are in accordance with the Corporations Act 2001, including:
 - (a) giving a true and fair view of the company's and the group's financial position as at 30 June 2006 and of its performance for the year ended on that date; and
 - (b) complying with Accounting Standards in Australia including the Australian Accounting Interpretations and the Corporations Regulations 2001.
2. The remuneration disclosures that are contained in pages 8 to 12 of the directors' report comply with Accounting Standard AASB 124 and the Corporations Regulations 2001.

Dated the 29th day of September 2006.

HORWATH AUDIT (WA) PTY LTD

HORWATH.


GLYN O'BRIEN
Director

Income Statement
For the financial year ended 30 June 2006

	Note	Consolidated		Parent entity	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Revenue from continuing operations	(5)	1,937	372	868	153
Other income	(6)	158	-	-	-
Production and operating expenses		(460)	(93)	-	-
Administrative expenses		(969)	(428)	(900)	(427)
Depreciation and amortisation expense		(1,469)	(414)	(2)	-
Employee benefits		(27)	(168)	(27)	(168)
Consultancy fees		(230)	(1,036)	(222)	(1,036)
Exploration and evaluation costs written off		(250)	(256)	(233)	(256)
Finance costs		(50)	(1,167)	-	(1,167)
	(7)	(3,455)	(3,562)	(1,384)	(3,055)
Loss from continuing operations before income tax expense		(1,360)	(3,190)	(516)	(2,901)
Income tax (expense) / benefit	(8)	-	-	-	-
Loss from continuing operations		(1,360)	(3,190)	(516)	(2,901)
Profit / (loss) from discontinued operations	(28)	-	103	-	(114)
Loss for the year		(1,360)	(3,087)	(516)	(3,015)
Loss attributable to minority interest		-	24	-	-
Net loss attributable to members of Company		(1,360)	(3,063)	(516)	(3,015)
Earnings / (loss) per share					
Basic loss per share (cents per share)	(21)	(1.3)	(5.0)		
Diluted loss per share (cents per share)	(21)	(1.3)	(5.0)		

The above income statement should be read in conjunction with the accompanying notes.

Balance Sheet As at 30 June 2006

	Note	Consolidated		Parent entity	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Current assets					
Cash and cash equivalents		8,248	3,077	8,073	2,925
Trade and other receivables	(9)	440	185	113	46
Total current assets		8,688	3,262	8,186	2,971
Non-current assets					
Receivables	(10)	-	-	18,440	6,317
Other financial assets	(11)	-	-	1	-
Property, plant and equipment	(12)	2	3	2	3
Oil and gas properties	(13)	17,960	6,478	-	-
Total non-current assets		17,962	6,481	18,443	6,320
Total assets		26,650	9,743	26,629	9,291
Current liabilities					
Trade and other payables	(14)	456	306	236	222
Total current liabilities		456	306	236	222
Non-current					
Provisions	(15)	933	656	-	-
Total current liabilities		933	656	-	-
Total Liabilities		1,389	962	236	222
Net assets		25,261	8,781	26,393	9,069
Equity					
Contributed equity	(16)	38,590	21,153	38,590	21,153
Reserves	(17)	2,431	2,028	2,431	2,028
Accumulated losses	(17)	(15,760)	(14,400)	(14,628)	(14,112)
Total equity		25,261	8,781	26,393	9,069

The above balance sheet should be read in conjunction with the accompanying notes.

Cash flow statement

For the financial year ended 30 June 2006

	Note	Consolidated		Parent entity	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Cash flows from operating activities					
Receipts from oil & gas sales		1,514	162	-	-
Payments to suppliers and employees		(1,542)	(889)	(1,036)	(760)
Net cash outflow from operating activities	(19)	(28)	(727)	(1,036)	(760)
Cash flows from investing activities					
Payments for capitalised oil & gas assets		(12,456)	(6,234)	-	-
Payments for plant & equipment		-	(3)	-	(3)
Advances to controlled entities		-	-	(11,497)	(6,317)
Interest received		218	70	244	70
Sale of discontinued operation		-	69	-	90
Net cash outflow from investing activities		(12,238)	(6,098)	(11,253)	(6,160)
Cash flows from financing activities					
Proceeds from issues of shares		18,461	5,008	18,461	5,008
Share issue costs		(1,024)	(427)	(1,024)	(427)
Proceeds from borrowings		-	6,450	-	6,450
Repayment of borrowings		-	(2,200)	-	(2,200)
Net cash inflow from financing activities		17,437	8,831	17,437	8,831
Net increase (decrease) in cash and cash equivalents					
		5,171	2,006	5,148	1,911
Cash and cash equivalents at the beginning of the financial year		3,077	1,071	2,925	1,014
Cash and cash equivalents at the end of the financial year		8,248	3,077	8,073	2,925

The above cash flow statement should be read in conjunction with the accompanying notes.

Statement of changes in equity
For the financial year ended 30 June 2006

	Note	Consolidated		Parent entity	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Share capital					
At the beginning of the year		21,153	12,322	21,153	12,322
Share issues		18,461	9,258	18,461	9,258
Costs of issue		(1,024)	(427)	(1,024)	(427)
At the end of the year	(16)	38,590	21,153	38,590	21,153
Share based payment reserve					
At the beginning of the year		2,028	-	2,028	-
Consultant options		403	2,028	403	2,028
At the end of the year	(17)	2,431	2,028	2,431	2,028
Accumulated losses					
At the beginning of the year		(14,400)	(11,337)	(14,112)	(11,097)
Loss for the year		(1,360)	(3,063)	(516)	(3,015)
Total income / expense recognised directly in equity		-	-	-	-
Total expense for the year		(1,360)	(3,063)	(516)	(3,015)
At the end of the year	(17)	(15,760)	(14,400)	(14,628)	(14,112)
Total equity					
At the beginning of the year		8,781	985	9,069	1,225
At the end of the year		25,261	8,781	26,393	9,069

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Notes to the financial statements

1. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been applied consistently to all the years presented, unless otherwise stated. The financial report includes separate financial statements for Aurora Oil & Gas Limited as an individual entity (Company) and the consolidated entity comprised by Aurora Oil & Gas Limited and its subsidiaries (Group or Consolidated Entity).

This general purpose financial report has been prepared in accordance with Australian equivalents to International Financial Reporting Standards ("AIFRS"), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

Compliance with International Financial Reporting Standards

Australian Accounting Standards include AIFRSs, Compliance with AIFRSs ensures that the consolidated financial statements and notes thereto prepared by the Consolidated Entity comply with International Financial Reporting Standards (IFRSs). The parent entity financial statements and notes thereto also comply with IFRSs except that it has elected to apply the relief provided to parent entities in respect of certain disclosure requirements contained in *AASB 132 financial Instruments: Presentation and Disclosure*.

Application of AASB 1 First Time Adoption of Australian equivalents to International Financial Reporting Standards

The Consolidated Entity changed its accounting policies on 1 July 2005 to comply with Australian equivalents to International Financial Reporting Standards ("AIFRS"). The transition to AIFRS is accounted for in accordance with Accounting Standard AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards', with 1 July 2004 as the date of transition. An explanation of how the transition from superseded policies to AIFRS has affected the Consolidated Entity's financial position, financial performance and cash flows is discussed in note 29.

The accounting policies set out below have been applied in preparing the financial statements for the financial year ended 30 June 2006, the comparative information presented in these financial statements, and in the preparation of the opening AIFRS balance sheet at 1 July 2004 (as described in note 29), the Consolidated Entity's date of transition.

Certain Australian Accounting Standards and UIG interpretations have recently been issued or amended but are not yet effective and have not been adopted by the group for the annual reporting period ended 30 June 2006. The directors' have not yet assessed the impact of these new or amended standards (to the extent relevant to the group) and interpretations.

(a) Borrowing costs

Borrowing costs are expensed in the period in which they are incurred, except to the extent which they are directly attributable to the acquisition, construction or production of an asset when it is probable that they will result in future economic benefits to the entity and the costs can be measured reliably.

(b) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash in banks and investments in money market instruments, net of outstanding bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

(c) Employee benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave and sick leave when it is probable that settlement will be required and these benefits can be measured reliably.

Provisions made in respect of employee benefits expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the consolidated entity in respect of services provided by employees up to reporting date.

Defined contribution superannuation plans

Contributions to defined contribution superannuation plans are expensed when incurred.

Notes to the financial statements

1. Summary of significant accounting policies (continued)

(d) Financial assets

Investments are recognised and derecognised on trade date where purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs.

Subsequent to initial recognition, investments in associates are accounted for under the equity method in the consolidated financial statements. Other financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss', 'held-to-maturity' investments, 'available for- sale' financial assets, and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Held-to-maturity investments

Bills of exchange and debentures are recorded at amortised cost using the effective interest method less impairment, with revenue recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Loans and receivables

Trade receivables, loans, and other receivables are recorded at amortised cost less impairment.

(e) Financial instruments issued by the company

Debt and equity instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

Transaction costs on the issue of equity instruments

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

(f) Foreign currency

Foreign currency transactions

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction.

Foreign currency monetary items at reporting date are translated at the exchange rate existing at reporting date.

Exchange differences are recognised in profit or loss in the period in which they arise.

The functional currency of Aurora Oil & Gas Limited and all of its subsidiary entities is Australian dollars.

(g) Good and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- i. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- ii. for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables. Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

Notes to the financial statements

1. Summary of significant accounting policies (continued)

(h) Impairment of assets

At each reporting date, the consolidated entity reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the consolidated entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Intangible assets with indefinite useful lives or not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately. Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in the income statement immediately.

(i) Income tax

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Notes to the financial statements

1. Summary of significant accounting policies (continued)

(i) Income tax (continued)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, branches, associates and joint ventures except where the consolidated entity is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Consolidated Entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company/Consolidated Entity intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

(j) Joint ventures

Jointly controlled assets and operations

Interests in jointly controlled assets and operations are reported in the financial statements by including the Consolidated Entity's share of assets employed in the joint ventures, the share of liabilities incurred in relation to the joint ventures and the share of any expenses incurred in relation to the joint ventures in their respective classification categories.

(k) Non-operator interests in Oil & Gas Properties

Exploration & evaluation expenditure

Aurora's accounting policy for the cost of exploring and of evaluating discoveries is based on the "successful efforts" approach of the US Generally Accepted Accounting Principles or US GAAP.

This approach is strongly linked to the Company's oil and gas reserves determination and reporting process and is considered to most fairly reflect the results of the Company's exploration and evaluation activity because only assets with demonstrable value are carried on the balance sheet.

Once a decision has been made to develop an oil or gas prospect, accumulated exploration and evaluation costs for that prospect are transferred from "undeveloped" (Oil & Gas Properties - Exploration and Evaluation) to "under development" (Oil & Gas Properties – Development Projects). Once production commences, costs are transferred to Oil & Gas Properties – Producing Projects and amortisation commences.

This method allows the costs of discovery, evaluation and development of a prospect to be aggregated on the balance sheet and matched against the benefits derived from production once this commences.

Notes to the financial statements

1. Summary of significant accounting policies (continued)

(k) Non-operator interests in Oil & Gas Properties (continued)

Costs

Exploration and evaluation expenditure is accounted for in accordance with the area of interest method. Exploration licence acquisition costs relating to greenfields oil and gas exploration provinces are expensed as incurred while these costs incurred in relation to established or recognised oil and gas exploration provinces are initially capitalised and then amortised over the shorter term of the licence or the expected life of the project.

All other exploration and evaluation costs, including general permit activity, geological and geophysical costs and new venture activity costs are charged as expenses as incurred except where:

- The expenditure related to an exploration discovery that, at balance date, has not been recognised as an area of interest as assessment of the existence or otherwise of economically recoverable reserves is not yet complete; or
- An area of interest is recognised, and it is expected that the expenditure will be recouped through successful exploitation of the area of interest, or alternatively, by its sale.

Each potential or recognised area of interest is reviewed at least bi-annually to determine whether economic quantities of reserves have been found or whether further exploration and evaluation work is underway or planned to support the continued carry forward of capitalised costs.

The costs of drilling exploration wells are initially capitalised pending the results of the well. Costs are expensed where the well does not result in the successful discovery of economically recoverable hydrocarbons and the recognition of an area of interest. Areas of interest are recognised at the field level. Subsequent to the recognition of an area of interest, all further costs relating to the area of interest are capitalised.

To the extent it is considered that the relevant expenditure will not be recovered, it is written off.

Transfer to Development Projects

Upon a decision being made to commercially develop an area of interest, accumulated expenditure for the area of interest is transferred to Oil & Gas Properties as Transferred Exploration and Evaluation – Development Projects.

Producing Projects

Exploration, evaluation and development costs are initially capitalised against Exploration & Evaluation and / or Development Projects and are transferred to Producing Projects upon commencement of commercial operations. Operating costs of projects in commercial production are expensed as incurred.

Prepaid drilling and completion costs

Where the Company has a non-operator interest in an oil or gas property, it may periodically be required to make a cash contribution for its share of the operator's drilling and / or completion costs, in advance of these operations taking place.

Where these contributions relate to a prepayment for exploratory or early stage drilling activity, prior to a decision on the commerciality of a well having been made, the costs are capitalised as prepaid drilling costs within Exploration and Evaluation Projects.

Where these contributions relate to a prepayment for well completion, these costs are capitalised as prepaid completion costs within Exploration and Evaluation or Development Projects depending on whether a decision has already been made as to the commercial viability of the well.

As the operator notifies the Company as to how funds have been expended, the costs are reclassified from prepaid costs to Oil & Gas Properties - Interests in Land & Buildings, Plant & Equipment or Intangible costs as appropriate.

Once a decision has been made to proceed with completion of a well, all costs are transferred to Development Projects, including any prepaid amounts.

Notes to the financial statements

1. Summary of significant accounting policies (continued)

(k) Non-operator interests in Oil & Gas Properties (continued)

Amortisation of producing projects

Aurora uses the “units of production” (UOP) approach when depreciating and amortising field-specific assets. Amortisation of Producing Projects for the year to 30 June 2005 was calculated based on Proven, Producing reserves.

Following an independent reserves upgrade during the year, the risk profile of the project is considered to have changed such that, in order to match the amortisation of interests in Land & Buildings with expected cash flow generation over the life of the project it is now more appropriate to use Proven reserves as determined by our reserves determination and reporting process (rather than Proven, Producing). Interests in Plant & Equipment and Intangible Drilling costs are amortised using Proven, Producing reserves. This basis is considered to best reflect the generation of cash flows from relevant classes of producing assets, and hence to provide the most appropriate method of matching capital costs with these cash flows.

Had the superseded basis of estimation been used for the year to 30 June 2006, the effect would have been to increase amortisation charged by \$1,965,170.

It is not considered practicable to estimate the effect of this change in the basis of estimation on future periods.

Transferred Development, Exploration and Evaluation costs are amortised on the relevant UOP basis for each area of interest. The reserves used in these calculations are updated at least annually. The rates are reviewed periodically to reflect technical and economic developments.

Future restoration costs

Aurora’s aim is to avoid or minimise environmental impact resulting from its operations where possible.

Work scope and cost estimates for restoration are reviewed annually and updated at least every three years.

Provision is made in the Statement of Financial Position for restoration of operating locations. The estimated costs are capitalised as part of the cost of the related project where recognition occurs upon acquisition of an interest in the operating locations. The costs are then recognised as an expense on a Units of Production (UOP) basis over time as the assets are amortised.

The costs are based on the latest estimated future costs, determined on a discounted basis, which are re-assessed regularly and exclude any allowance for potential changes in technology or material changes in legislative requirements.

The Group accounts for changes in cost estimates on a prospective basis.

(l) Payables

Trade payables and other accounts payable are recognised when the Consolidated Entity becomes obliged to make future payments resulting from the purchase of goods and services.

Notes to the financial statements

1. Summary of significant accounting policies (continued)

(m) Principles of consolidation

The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the Consolidated Entity, being the Company (the Parent Entity) and its controlled entities as defined in Accounting Standard AASB 127 "Consolidated and Separate Financial Statements". Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If, after reassessment, the fair values of the identifiable net assets acquired exceeds the cost of acquisition, the deficiency is credited to profit and loss in the period of acquisition.

The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised.

The consolidated financial statements include the information and results of each controlled entity from the date on which the company obtains control and until such time as the company ceases to control such entity.

In preparing the consolidated financial statements, all intercompany balances and transactions, and unrealised profits arising within the Consolidated Entity are eliminated in full.

(n) Property, plant and equipment (other than Oil & Gas Properties)

Plant and equipment and fixtures & fittings are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land. Depreciation is calculated on a straight line basis so as to write off the net cost or other revalued amount of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method.

The estimated useful lives, residual values and depreciation method is reviewed at the end of each annual reporting period.

The following estimated useful lives are used in the calculation of depreciation:

Fixtures and fittings	5 years
Plant and equipment	5 - 15 years

Notes to the financial statements

1. Summary of significant accounting policies (continued)

(o) Provisions

Provisions are recognised when the Consolidated Entity has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is probable that recovery will be received and the amount of the receivable can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cashflows estimated to settle the present obligation, its carrying amount is the present value of those cashflows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

An onerous contract is considered to exist where the Consolidated Entity has a contract under which the unavoidable cost of meeting the contractual obligations exceed the economic benefits estimated to be received. Present obligations arising under onerous contracts are recognised as a provision to the extent that the present obligation exceeds the economic benefits estimated to be received.

(p) Revenue recognition

Sale of goods

Revenue from the sale of goods and disposal of other assets is recognised when the Consolidated Entity has transferred to the buyer the significant risks and rewards of ownership of the goods.

Dividend and interest revenue

Dividend revenue is recognised on a receivable basis. Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

(q) Share-based payments

Equity-settled share-based payments granted after 7 November 2002 that were unvested as of 1 January 2005, are measured at fair value at the date of grant. Fair value is measured by use of the Black-Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Consolidated Entity's estimate of shares that will eventually vest.

Notes to the financial statements

2. Financial risk management

Aurora's board of directors (Board) performs the duties of a risk management committee in identifying and evaluating sources of financial and other risks. The Board seeks to balance the potential adverse effects of financial risks on Aurora's financial performance and position with the "upside" potential made possible by exposure to these risks and by taking into account the costs and expected benefits of the various methods available to manage them.

AASB 132 Financial Instruments Presentation and Disclosure requires the disclosure of information to assist users of the financial report in assessing the extent of risks related to financial instruments faced by the Group. These risks include financial risks such as market risks (including currency risk, fair value interest rate risk and commodity price risk), credit risk & liquidity risk. These disclosures are not nor are they intended to be an exhaustive list of risks to which Aurora is exposed.

(a) Market risk

i. Commodity price risk

As a result of its operations the Group is exposed to commodity price risk arising due to fluctuations in the prices of natural gas and crude oil. The demand for, and prices of, natural gas and crude oil are dependent on a variety of factors, including:

- Supply and demand;
- The level of consumer product demand;
- Weather conditions;
- The price and availability of alternative fuels;
- Actions taken by governments and international cartels; and,
- Global economic and political developments.

As at balance date, the board has formed the view that it would not be beneficial for the Group to purchase forward contracts or other derivative financial instruments to hedge this commodity price risk. Factors which the board considered in arriving at this position included the expense of purchasing such instruments and the inherent difficulties associated with forecasting future production levels while the Group is primarily at the development stage of realising the value of its oil & gas assets. As development of these assets progresses and it becomes possible to forecast future production levels with a greater degree of certainty, the board may reconsider its position with regard to hedging against commodity price risk in the future.

ii. Foreign exchange risk

Aurora Oil & Gas Limited is based in Australia, its shares are listed on the Australian Stock Exchange and the Consolidated Entity reports its financial performance and position in Australian dollars (A\$). Given that the Group's activities are focussed in the oil & gas exploration, development and production sector, it has significant United States dollar (US\$) denominated cashflows. As a result of these factors, the Group is exposed to foreign exchange risk arising from fluctuations in the A\$ / US\$ exchange rate.

As at balance date, the board has formed the view that it would not be beneficial for the Group to purchase forward contracts or other derivative financial instruments to hedge this foreign exchange risk. Factors which the board considered in arriving at this position included: The expense of purchasing such instruments; the inherent difficulties associated with forecasting the timing and quantum of US\$ cash inflows and outflows at a time when the Consolidated Entity is primarily at the development stage of realising the value of its oil & gas assets and the possibility that these assets may be project-financed in US\$ once development has progressed sufficiently. The board may reconsider its position with regard to hedging against foreign exchange risk in the future as the Group's activities evolve and / or in response to industry or macro-economic factors.

Notes to the financial statements

2. Financial risk management (continued)

iii. Interest rate risk

As at and during the year ended on balance date the Group had no significant interest-bearing assets or liabilities other than liquid funds on deposit. As such, the Group's income and operating cash flows (other than interest income from funds on deposit) are substantially independent of changes in market interest rates. The Group's exposure to interest rate risk and the effective weighted average interest rate for each class of financial assets and liabilities is set out below.

Consolidated entity

2006	Note	Weighted Average Effective Interest Rate \$'000	Variable Rate \$'000	Non-Interest Bearing \$'000	Total \$'000
Financial Assets					
Cash and deposits		5.5%	8,248	-	8,248
Other	(9)		-	440	440
Total Financial Assets			8,248	440	8,688
Financial Liabilities					
Payables	(14)		-	456	456
Total Financial Liabilities			-	456	456

2005

Financial Assets					
Cash and deposits		5.5%	3,077	-	3,077
Other	(9)		-	185	185
Total Financial Assets			3,077	185	3,262
Financial Liabilities					
Payables	(14)		-	306	306
Total Financial Liabilities			-	306	306

Company

2006	Note	Weighted Average Effective Interest Rate \$'000	Variable Rate \$'000	Non-Interest Bearing \$'000	Total \$'000
Financial Assets					
Cash and deposits		5.5%	8,073	-	8,073
Other	(9), (10)		-	18,553	18,553
Total Financial Assets			8,073	18,553	26,626
Financial Liabilities					
Payables	(14)		-	236	236
Total Financial Liabilities			-	236	236

2005

Financial Assets					
Cash and deposits		5.5%	2,925	-	2,925
Other	(9), (10)		-	6,363	6,363
Total Financial Assets			2,925	6,363	9,288
Financial Liabilities					
Payables	(14)		-	222	222
Total Financial Liabilities			-	222	222

Notes to the financial statements

2. Financial risk management (continued)

(b) Credit risk

The Group trades only with recognised, trustworthy third parties and it is the Group's policy to perform credit verification procedures in relation to any customers wishing to trade on credit terms with the Group.

Notwithstanding the above, the Group is exposed to level of credit risk arising from the fact that a large proportion of its receivables and non-current oil & gas assets relate to its interests in projects operated by a single US private company.

The Board are of the opinion that the credit risk arising as a result of this concentration of the Group's assets is more than offset by the potential benefits to be gained through continuing to build on the Group's relationship with the operator of its existing projects.

(c) Liquidity risk

Prudent liquidity management involves the maintenance of sufficient cash, marketable securities, committed credit facilities and access to capital markets. It is the policy of the board to ensure that the Group is able to meet its financial obligations and maintain the flexibility to pursue attractive investment opportunities through keeping committed credit lines available where possible, ensuring the Group has sufficient working capital and preserving the 15% share issue limit available to the Company under the ASX Listing Rules.

3. Critical accounting estimates & judgements

In preparing this Financial Report the Group has been required to make certain estimates and assumptions concerning future occurrences. There is an inherent risk that the resulting accounting estimates will not equate exactly with actual events and results.

(a) Significant accounting judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Functional currency of US-based subsidiary operations

The Group's US based subsidiaries are at this stage financed primarily by means of A\$ denominated loans and/or equity contributions. As such, the functional currency of these subsidiaries has been determined to be A\$, notwithstanding that they also conduct significant US\$ denominated transactions.

Exploration, evaluation and development expenditure (Oil & Gas Properties)

The Group's accounting policy for exploration, evaluation and development is set out at Note 1 (k). Application of this policy necessarily requires management to make certain estimates and assumptions as to future events and circumstances, in particular, the assessment of whether economic quantities of reserves have been found. Any such estimates and assumptions may change as new information becomes available. If, after having capitalised expenditure under our policy, we conclude that we are unlikely to recover the expenditure by future exploitation or sale, then the relevant capitalised amount will be written off to the Income Statement. As at 30 June 2006 the carrying amount of Oil & Gas Properties is \$17,960,000 (2005: \$6,478,000).

Notes to the financial statements

3. Critical accounting estimates & judgements (continued)

(a) Significant accounting judgements (continued)

Deferred tax assets

The Group has carried forward tax losses which have not been recognised as deferred tax assets as it is not considered sufficiently probable that these losses will be recouped by means of future profits taxable in the appropriate jurisdictions.

In addition, the Group's interests in jointly controlled oil & gas operations are held through the Company's wholly-owned US subsidiary entities (refer Note 11 (b)). Taxation of oil & gas activities in the US allows a number of alternative treatments which are not available under Australian Taxation Legislation. In particular, companies may elect to:

- (i) claim an immediate deduction for Intangible Drilling Costs ("IDC"); and / or,
- (ii) elect to apply the "Percentage Depletion" method of depreciation to Oil & Gas Properties.

The Percentage Depletion method permits certain taxpayers with economic interests in oil and gas operation to deduct a specified percentage (15%) of the gross income from these operations instead of cost depletion. An election as to whether to apply Percentage Depletion or Cost Depletion is made each year on a well-by-well basis and accordingly, application of the method can result in an effective tax base for the oil & gas operations which is significantly in excess of their actual cost. The directors have not recognised or disclosed a deferred tax asset in respect of this potential increase in the tax base of these assets as they do not believe it is capable of being reliably estimated at this stage.

Claiming an immediate deduction for IDC for the year ended 30 June 2006 would result in an accelerated deduction of the tax base of the Group's jointly controlled oil and gas operations. This accelerated deduction would result in recognition of a deferred tax liability and an offsetting deferred tax asset in relation to the losses claimed. There would be no effect on either gross or net assets or on the income statement for the year. As at the date of this report, the directors have not yet finalised which alternatives will be adopted by the Group's US subsidiary entities for the year ended 30 June 2006 and accordingly have not recognised or disclosed a deferred tax asset or liability in respect of immediate IDC deductions which may be claimed in the future.

(b) Critical accounting estimates

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees and consultants by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using a Black-Scholes model, using the assumptions detailed in note 19.

Rehabilitation obligations

The Group estimates its share of the future removal and remediation costs of oil and gas platforms, production facilities, wells and pipelines at the time of acquisition or installation of the assets. In most instances, removal of assets occurs many years into the future. This requires judgemental assumptions regarding removal date, future environmental legislation, the extent of remediation activities required, the engineering methodology for estimating cost, future removal technologies in determining the removal cost, and asset specific discount rates to determine the present value of these cash flows. For more detail regarding the policy in respect of provision for rehabilitation refer to Note 1(o). As at 30 June 2006 rehabilitation obligations have a carrying value of \$933,000 (2005: \$656,000).

Impairment of assets

In the absence of readily available market prices, the recoverable amounts of assets are determined using estimations of the present value of future cashflows using asset-specific discount rates. For Oil & Gas Properties, these estimates are based on assumptions concerning reserves, future production profiles and costs.

As at 30 June 2006, the carrying value of Oil & Gas Properties is \$17,960,000 (2005: \$6,478,000).

Notes to the financial statements

4. Segment information

The Group operates in one geographical and business segment, being Oil & Gas Exploration, Development and Production in the United States of America.

In the prior year the Group also operated a menswear formal hire business, which was disposed of effective 31 December 2004. As this is a discontinued business, revenues, expenses and assets from this segment are not included in 2005 comparatives under AIFRS. Disclosures relating to the discontinued operations are shown in note 28.

5. Revenue from continuing operations

	Consolidated		Parent entity	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Sales revenue				
Oil and gas sales	1,695	302	-	-
Services	-	-	626	83
	<u>1,695</u>	<u>302</u>	<u>626</u>	<u>83</u>
Other revenue				
Interest	242	70	242	70
	<u>242</u>	<u>70</u>	<u>242</u>	<u>70</u>
	<u>1,937</u>	<u>372</u>	<u>868</u>	<u>153</u>

6. Other income

	Consolidated		Parent entity	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Net foreign exchange gains	158	-	-	-
	<u>158</u>	<u>-</u>	<u>-</u>	<u>-</u>

7. Expenses

	Consolidated		Parent entity	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Amortisation of oil & gas properties	1,467	414	-	-
Depreciation of plant and equipment	2	-	2	-
Borrowing costs				
Interest expense	-	60	-	39
Share-based settlement of borrowings	-	1,107	-	1,107
Other	50	-	-	-
	<u>1,469</u>	<u>1,581</u>	<u>2</u>	<u>1,146</u>

Notes to the financial statements

8. Income tax

	Consolidated		Parent entity	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Current tax	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

A reconciliation between tax expense and the product of accounting profit / (loss) before income tax multiplied by the Group's applicable income tax rate is as follows:

Accounting loss before tax from continuing operations	(1,360)	(3,087)	(516)	(2,902)
Tax at the Australian statutory income tax rate of 30% (2005: 30%)	(408)	(926)	(155)	(871)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income				
Overseas payments	-	-	-	167
Share-based payment expense	121	608	121	608
Sundry other	33	138	10	93
Tax effect of timing differences in relation to unrecognised deferred tax assets / liabilities:				
Net effect	(17)	5	41	5
	<u>(272)</u>	<u>(175)</u>	<u>17</u>	<u>2</u>
Less tax losses not recognised (ii)	272	175	(17)	(2)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Income tax expense / (benefit)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

(i) Deferred tax liability arising from temporary differences attributable to:

Amounts recognised in profit or loss	(280)	(197)	(46)	(5)
Less set off of deferred tax assets under set-off provisions	280	197	46	5
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

(ii) Deferred tax assets not recognised Arising from temporary differences attributable to:

Amounts recognised in profit or loss	46	-	-	(5)
Amounts recognised directly in equity	307	-	-	-
Carried forward tax losses	477	206	17	12
	<u>477</u>	<u>206</u>	<u>17</u>	<u>12</u>

Notes to the financial statements

9. Current assets – trade and other receivables

	Consolidated		Parent entity	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
Trade and other receivables				
Trade receivables	393	139	66	-
Other	47	46	47	46
	440	185	113	46

10. Non-current assets – receivables

	Consolidated		Parent entity	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
Receivables from wholly-owned subsidiaries				
At cost	-	-	18,440	6,317

In determining the recoverable amount of receivables from controlled entities, the expected future cashflows associated with the investment, based on the projected dividend stream and value at expected sale date, have been discounted to their net present value using a discount rate of 10%.

11. Non-current assets – investments in controlled entities

	Consolidated		Parent entity	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
Investments in wholly-owned subsidiaries				
At cost	-	-	1	-

(a) Wholly-owned Group

Details of interests in wholly-owned controlled entities are set out at part (b) of this note. Details of dealings with controlled entities are as follows:

Inter-company Account

Aurora Oil & Gas Limited provides working capital to its controlled entities. Transactions between Aurora Oil & Gas Limited and other controlled entities in the wholly owned Group during the year ended 30 June 2006 consisted of:

- (i) Working capital advanced by Aurora Oil & Gas Limited;
- (ii) Provision of services by Aurora Oil & Gas Limited, and
- (iii) Expenses paid by Aurora Oil & Gas Limited on behalf of its controlled entities

The above transactions were made interest free with no fixed terms for the repayment of principal on the working capital advanced by Aurora Oil & Gas Limited.

Notes to the financial statements

11. Non-current assets – investments in controlled entities (continued)

(a) Wholly-owned Group (continued)

Details of transactions with controlled entities during the year are as follows:

	Consolidated		Parent entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
Sales of goods and services				
Management fees & recharges to subsidiaries	-	-	625,904	83,067
<i>Loans to subsidiaries</i>				
Beginning of the year	-	-	6,317,059	-
Loans advanced	-	-	11,496,776	6,233,992
Loan repayments received	-	-	-	-
Interest charged	-	-	-	-
Interest received	-	-	-	-
End of year	-	-	17,813,835	6,233,992

At balance date amounts receivable from controlled entities totalled \$18,439,739 (2005: \$6,317,059).

(b) Investments in Controlled Entities

	Country of Incorporation	Class of Shares	Equity Holding	
			2006 %	2005 %
Corpus Christi Gas, Inc	USA	Ordinary	100	100
Corpus Christi Gas General, LLC	USA	Ordinary	100	100
Corpus Christi Gas Limited, LLC	USA	Ordinary	100	100
Corpus Christi Gas, LP	USA	Ordinary	100	100
Sugarloaf Oil & Gas, Inc	USA	Ordinary	100	n/a*
Sugarloaf Oil & Gas General, LLC	USA	Ordinary	100	n/a*
Sugarloaf Oil & Gas Limited, LLC	USA	Ordinary	100	n/a*
Sugarloaf Oil & Gas, LP	USA	Ordinary	100	n/a*
West Black Lake Oil & Gas, Inc	USA	Ordinary	100	n/a*
West Black Lake Oil & Gas General, LLC	USA	Ordinary	100	n/a*
West Black Lake Oil & Gas Limited, LLC	USA	Ordinary	100	n/a*
West Black Lake Oil & Gas, LP	USA	Ordinary	100	n/a*
Aurora West Coast Oil, Inc	USA	Ordinary	100	n/a*

* Incorporated during the current financial year.

(c) Ultimate Parent Company

Aurora Oil & Gas Limited, a listed public company incorporated and domiciled in Australia is the parent entity, ultimate Australian parent and ultimate controlling party of the Group.

Notes to the financial statements

12. Non-current assets – property, plant & equipment

	Consolidated		Parent entity	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
Continuing operations				
At cost	3	3	3	3
Accumulated depreciation	(1)	-	(1)	-
Total property, plant and equipment	2	3	2	3

A reconciliation of movements in plant and equipment during the current and prior financial years is as follows:

	Consolidated		Parent entity	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
<i>Plant and Equipment</i>				
Opening balance	3	-	3	-
Additions	-	3	-	3
Depreciation expense	(1)	-	(1)	-
Total plant & equipment	2	3	2	3

13. Non-current assets – Oil & Gas Properties

	Consolidated		Parent entity	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
Producing projects				
At cost	12,407	5,399	-	-
Accumulated amortisation	(1,880)	(414)	-	-
Net carrying value	10,527	4,985	-	-
Development projects				
At cost	4,878	1,354	-	-
Exploration & evaluation projects				
At cost	2,555	139	-	-
Total	17,960	6,478	-	-

Notes to the financial statements

13. Non-current assets – Oil & Gas Properties (continued)

A reconciliation of movements in Oil & Gas Properties during the year is as follows:

	Interest in Land & Buildings \$'000	Interest in Plant & Equipment \$'000	Drilling & Workover Costs \$'000	Prepaid Drilling & Completion Costs \$'000	Total \$'000
Producing projects					
Cost					
At 1 July 2005	3,176	963	493	110	4,742
Additions	3,495	916	455	-	4,866
Transfers from Exploration / Development projects	-	275	1,701	-	1,976
Net movement in prepaid	-	-	-	(110)	(110)
Associated future restoration costs (capitalised)					
At 1 July 2005	525	131	-	-	656
Additions	222	55	-	-	277
At 30 June 2006	7,418	2,340	2,649	-	12,407
Accumulated amortisation					
At 1 July 2005	(331)	(82)	-	-	(413)
Charge for the Year	(198)	(780)	(489)	-	(1,467)
At 30 June 2006	(529)	(862)	(489)	-	(1,880)
Net book value					
At 1 July 2005	3,370	1,012	493	110	4,985
At 30 June 2006	6,889	1,478	2,160	-	10,527
Development Projects					
Cost					
At 1 July 2005	-	162	448	743	1,353
Additions	56	563	1,539	-	2,158
Transfers to Producing Projects	-	(274)	(1,701)	-	(1,975)
Net movement in prepaid	-	-	-	3,342	3,342
At 30 June 2006	56	451	286	4,085	4,878
Exploration & Evaluation Projects					
Cost					
At 1 July 2005	-	-	-	139	139
Additions	1,022	-	-	-	1,022
Net movement in prepaid	-	-	-	1,394	1,394
At 30 June 2006	1,022	-	-	1,533	2,555

The ultimate recoupment of exploration expenditure carried forward is dependent on successful development and exploitation, or alternatively sale, of the respective area of interest.

Notes to the financial statements

14. Current liabilities – trade and other payables

	Consolidated		Parent entity	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
Trade payables	<u>456</u>	<u>306</u>	<u>236</u>	<u>222</u>
	456	306	236	222

15. Provisions

	Consolidated		Parent entity	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
Provision for restoration	<u>933</u>	<u>656</u>	<u>-</u>	<u>-</u>

The Group's policy with regard to providing for its share of future restoration costs for jointly controlled assets is documented in Notes 3(b) and 1 (j). Movement in this provision during the current and prior year is as follows:

	Consolidated		Parent entity	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
Opening balance	656	-	-	-
Increase on acquisition of an initial or additional interest in jointly controlled oil and gas operations	277	656	-	-
Closing balance	<u>933</u>	<u>656</u>	<u>-</u>	<u>-</u>

Notes to the financial statements

16. Contributed equity

	Parent & Group		Parent & Group	
	2006	2005	2006	2005
	Shares	Shares	\$'000	\$'000
Share capital				
Ordinary shares	129,461,140	88,795,133	38,590	21,153

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held. On a show of hands every holder of ordinary shares present at a meeting or by proxy, is entitled to one vote. Upon a poll every holder is entitled to one vote per share held.

Movements in contributed equity during the current and prior financial years are as follows:

	Date	Number of shares	Issue Price	\$'000
Opening balance	1-Jul-04	239,999,890		12,322
Share placement	17-Dec-04	36,000,000	\$0.03	1,008
Note conversion	22-Feb-05	40,000,000	\$0.04	1,500
Consolidation of capital (1:5)	5-Apr-05	(252,799,995)		-
Note conversion	18-Apr-05	13,095,238	\$0.21	2,750
Share placement	18-Apr-05	12,500,000	\$0.32	4,000
Share issue costs				(427)
Balance	30-Jun-05	88,795,133		21,153
Share placement	5-Oct-05	13,259,000	\$0.38	5,038
Share placement	20-Oct-05	41,000	\$0.38	16
Share placement	21-Dec-05	11,811,667	\$0.45	5,315
Option exercise	20-Jan-05	460,000	\$0.20	92
Share placement	14-Jun-06	15,094,340	\$0.53	8,000
Share issue costs				(1,024)
Closing balance	30-Jun-06	129,461,140		38,590

Notes to the financial statements

17. Reserves and accumulated losses

	Consolidated		Parent entity	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
(a) Share-based payment reserve				
Balance 1 July	2,028	-	2,028	-
Option expense	403	2,028	403	2,028
Balance 30 June	<u>2,431</u>	<u>2,028</u>	<u>2,431</u>	<u>2,028</u>
(b) Accumulated losses				
Balance 1 July	(14,400)	(11,337)	(14,112)	(11,097)
Net loss for the year	(1,360)	(3,063)	(516)	(3,015)
Balance 30 June	<u>(15,760)</u>	<u>(14,400)</u>	<u>(14,628)</u>	<u>(14,112)</u>

The share-based payment reserve is used to record the fair value of share-based payments.

With respect to the payment of dividends (if any) by Aurora Oil & Gas Limited in subsequent financial years, no franking credits are currently available, or are likely to become available in the next 12 months.

18. Options

As at balance date, the Company and Consolidated Entity has the following classes of options on issue:

	ASX code	2006	2005	Exercise	Expiry
		Number	Number	Price	
Type 1	AUTAO	8,000,000	8,000,000	\$ 0.20	22-Feb-10
Type 2	AUTAK	4,365,079	4,365,079	\$ 0.25	28-Apr-10
Type 3	AUTAK	2,875,000	3,335,000	\$ 0.20	28-Apr-10
Type 4	AUTAM	805,000	805,000	\$ 0.20	28-Apr-10
Type 5	AUTAM	1,000,000	1,000,000	\$ 0.30	28-Apr-10
Type 6	AUTAM	2,500,000	2,500,000	\$ 0.30	28-Apr-10
Type 7	AUTAM	2,700,000	2,700,000	\$ 0.20	22-Feb-08
Type 8	AUTAQ	500,000	-	\$ 0.51	30-Mar-11
Total		<u>22,745,079</u>	<u>22,705,079</u>		

The options are not listed and carry no dividend or voting rights. Upon exercise, each option is convertible into one ordinary share to rank pari passu in all respects with the Company's existing fully paid ordinary shares.

Notes to the financial statements

18. Options (continued)

Movements in the number of options on issue during the year are as follows:

Grant date	ASX code	Number
At 1 July 2005		22,705,079
Granted during the year		
Type 8 30-Mar-06	AUTAQ	500,000
Exercised during the year		
Type 3 20-Jan-05	AUTAK	(460,000)
At 30 June 2006		<u>22,745,079</u>

19. Share-based payment

The fair value of options granted (see note above) during the year was calculated using the Black-Scholes option pricing model. Expense has been apportioned pro-rata to reporting periods where vesting periods apply.

The weighted average fair value of options granted during the year was \$0.30 per option (2005: \$0.19). Key inputs to the model used in the calculation were as follows (see also Directors' Report):

Expected price volatility – 65% (2005: 65% (based on the historical volatility adjusted for any expected changes to future volatility due to publicly available information))
 Exercise price - \$0.51
 Expiry dates – 30 March 2011
 Share price at grant date - \$0.51

20. Reconciliation of loss after income tax to net cash outflow from operating activities

	Consolidated		Parent entity	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Loss for the year	(1,360)	(3,087)	(516)	(3,015)
Depreciation and amortisation	1,469	414	(2)	-
Share based payment	403	2,028	403	2,028
Interest income	(242)	(70)	(242)	(70)
(Gain) / loss on disposal of subsidiary	-	(151)	-	114
Unrealised foreign exchange gain	(193)	-	-	-
(Increase) / decrease in working capital	(105)	139	(679)	183
Net cash inflow / (outflow) from operating activities	<u>(28)</u>	<u>(727)</u>	<u>(1,036)</u>	<u>(760)</u>

Notes to the financial statements

21. Earnings / (Loss) per share

	Consolidated 2006	2005
	Cents	Cents
Basic / diluted loss per share		
Loss attributable to the ordinary equity holders of the company	(1.3)	(5.0)
Loss used in calculation of basic / diluted loss per share	\$'000	\$'000
Loss	(1,360)	(3,063)
Weighted average number of ordinary shares used as the denominator in calculating basic / diluted loss per share	106,064,401	60,849,424

The options on issue (Note 18) represent potential ordinary shares but are not dilutive as they would decrease the loss per share. Accordingly they have been excluded from the weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share.

22. Jointly controlled assets

At balance date, the Group has non-operating working interests in joint operating agreements for the following projects:

Project	Activity	Working Interest*
Flour Bluff	Gas field development and production project (USA)	20 - 24.7%
North Belridge	Oil field, development project (USA)	32.5%
Sugarloaf	Gas prospect, exploration (USA)	20%
West Black Lake	Gas field, development project (USA)	40.1%

*Working Interest denotes the percentage share of costs to be borne by the Group in drilling the initial wells in these projects. Net Revenue Interests in the initial wells and interests in any subsequent wells are subject to varying clauses in the relevant agreements. The total carrying value of Aurora's interest in assets held by these projects as at balance date is \$17,960,000 (2005: \$6,478,000).

Notes to the financial statements

23. Key management personnel disclosures

(a) The directors of Aurora Oil Gas Limited during the year were:

	2006	2005
Mr Jonathan Stewart		Mr Jonathan Stewart (appointed 22 February 2005)
Mr Graham Dowland		Mr Graham Dowland (appointed 22 February 2005)
Mr Michael Blakiston		Mr Michael Blakiston
Mr Gren Schoch		Mr Gren Schoch (appointed 4 April 2005)
		Mr John Kenny (resigned 22 February 2005)
		Mr Tony Barlow (resigned 4 April 2005)

Other than the directors and the Company Secretary, Mr Alex Neuling, no other persons had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly during the current or prior financial years.

(b) Key management personnel compensation

	Consolidated		Parent entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
Short term employee benefits	251,000	136,327	251,000	136,327
Post-employment benefits	8,500	3,764	8,500	3,764
Share-based payments	76,625	661,240	76,625	661,240
	336,125	801,331	336,125	801,331

The Company has taken advantage of the relief provided by ASIC Class order 06/50 and has transferred the detailed remuneration disclosures to the directors' report. The relevant information can be found in sections A to D of the remuneration report on pages 8 to 12.

Notes to the financial statements

23. Key management personnel disclosures (continued)

(c) Equity instrument disclosures relating to Key Management Personnel

(i) Option holdings

The numbers of options over ordinary shares in the Company held during the financial year by each director of Aurora Oil & Gas Limited and other Key Management Personnel of the Group, including their personally related parties, are set out below.

	Balance at 1 July	Granted during the year as compensation	Exercised during the year	Other changes during the year	Balance at 30 June	Vested and exercisable at 30 June
2006						
Directors of Aurora Oil & Gas Limited						
Jonathan Stewart	9,400,000	-	-	-	9,400,000	9,400,000
Michael Blakiston	1,190,000	-	-	-	1,190,000	1,190,000
Graham Dowland	1,300,000	-	-	-	1,300,000	1,300,000
Gren Schoch	1,293,651	-	-	-	1,293,651	1,293,651
Other Key Management Personnel of the Group						
Alex Neuling	-	250,000	-	-	250,000	150,000

2005						
Directors of Aurora Oil & Gas Limited						
Jonathan Stewart	-	2,200,000	-	7,200,000	9,400,000	9,400,000
Michael Blakiston	-	500,000	-	690,000	1,190,000	1,190,000
Graham Dowland	-	500,000	-	800,000	1,300,000	1,300,000
Gren Schoch	-	500,000	-	793,651	1,293,651	1,293,651
John Kenny *	-	-	-	115,000	115,000	115,000
Tony Barlow *	-	-	-	-	-	-
Other Key Management Personnel of the Group						
Alex Neuling	-	-	-	-	-	-

* Indicates balance when ceased to be a director.

Details of options provided as remuneration and shares issued on exercise of such options, together with the terms and conditions of the options, can be found in section D of the remuneration report on pages 11 to 12.

Notes to the financial statements

23. Key management personnel disclosures (continued)

(c) Equity instrument disclosures relating to Key Management Personnel (continued)

(ii) Share holdings

The numbers of shares in the Company held during the financial year by each director of Aurora Oil & Gas Limited and other Key Management Personnel of the Group, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation.

	Balance at 1 July	Exercise of options	Net Other changes	Balance at 30 June
2006				
Directors of Aurora Oil & Gas Limited				
Jonathan Stewart	7,560,000	-	-	7,560,000
Michael Blakiston	4,684,363	-	-	4,684,363
Graham Dowland	800,000	-	-	800,000
Gren Schoch	2,380,953	-	-	2,380,953
Other Key Management Personnel of the Group				
Alex Neuling	31,250	-	-	31,250

2005				
Directors of Aurora Oil & Gas Limited				
Jonathan Stewart	-	-	-	7,560,000
Michael Blakiston	7,080,146	-	(2,395,783)	4,684,363
Graham Dowland	-	-	-	800,000
Gren Schoch	-	-	2,380,953	2,380,953
John Kenny *	6,810,892	-	(2,235,659)	4,575,233
Tony Barlow *	87,500	-	-	87,500
Other Key Management Personnel of the Group				
Alex Neuling	-	-	31,250	31,250

* Indicates balance when ceased to be a director.

Notes to the financial statements

24. Related party transactions

Transactions with controlled entities are disclosed in note 11. Compensation and equity transactions with Key Management Personnel are disclosed in note 23 and in sections A to D of the Remuneration Report in the Directors' Report.

Details of other transactions with related parties during the current and prior financial year are set out below:

(a) Payments for goods and services

	Note	Consolidated		Parent entity	
		2006	2005	2006	2005
		\$	\$	\$	\$
Payments for services	(i)	250,340	268,291	250,340	268,291
Proceeds of sale of Allendale Enterprises Pty Ltd	(ii)	-	90,000	-	90,000

(i) During the year \$12,920 was paid on normal commercial terms for legal services to Blakiston & Crabb, a law firm in which Mr Michael Blakiston, a director, is a partner (2005:\$216,202).

Also, an amount of \$237,420 was paid on commercial terms for serviced office, accounting and company secretarial services during the year to Epicure Administration Pty Ltd, a company of which Mr Jonathan Stewart, Chairman, is also a director and beneficial shareholder (2005: \$52,089).

(ii) During the prior financial year, following approval by shareholders at a general meeting on 4 April 2005, the company disposed of its 51% shareholding in Allendale Enterprises Pty Ltd (Allendale) effective 31 December 2004. The shares were purchased on normal commercial terms by Mr Derek Barlow, brother of Mr Tony Barlow who was a director of the Company until his resignation on 4 April 2005. Sale proceeds were \$90,000.

(b) Loan transactions

There were no loan transactions with director-related entities during the current year. Details of loans transactions with director-related entities in the prior year are as follows:

		Consolidated		Parent entity	
		2006	2005	2006	2005
		\$	\$	\$	\$
<i>Loans from related parties</i>					
Beginning of the year	(i)	-	357,700	-	-
Loans advanced	(ii, iii)	-	2,350,000	-	2,350,000
Loan repayments made		-	(350,000)	-	(350,000)
Notes converted		-	(2,000,000)	-	(2,000,000)
Interest charged		-	49,600	-	12,100
Interest paid		-	(12,100)	-	(12,100)
Disposal of Allendale		-	(395,200)	-	-
End of year		-	-	-	-

(i) Loans from related parties (prior financial year)

As at the date of disposal of Allendale Pty Ltd (31 December 2004), loans of \$151,200 and \$206,500 were owing to Czarina Pty Ltd (a company of which Mr Derek Barlow is a director) and Edinwell Pty Ltd (a company of which Mr Tony Barlow's brother in law is a director) by Allendale Pty Ltd respectively. Interest of \$22,500 and a management fee of \$38,859 was charged by Edinwell Pty Ltd. Interest of \$15,000 and \$38,859 was charged by Czarina Pty Ltd.

Notes to the financial statements

24. Related party transactions (continued)

(b) Loan transactions (continued)

(ii) Unsecured loans from director-related entities (prior financial year)

As detailed in the explanatory memorandum accompanying the Notice of Meeting for the Company's general meeting held on 22 February 2005, in order for the Company to take advantage of the opportunity to purchase its initial 12.5% working interest in the Flour Bluff project it was required to raise US\$2,500,000 in a very limited period of time.

The funds were raised as a combination of debt and equity. Of the debt funding, \$1,800,000 was provided by a combination of related and unrelated parties on normal commercial terms for borrowings of this nature. These terms included interest charged at 3% over bank bill rates, plus the issue of 23,000 \$0.20 Loan Options to be granted for each \$10,000 borrowed (subject to approval of various resolutions by shareholders at the general meeting on 4 April 2005). A further \$400,000 was provided by way of a demand loan with interest charged at 3% above bank bill rate provided by Chatsworth Stirling Pty Ltd, a company associated with Mr Michael Blakiston.

Of the \$1,800,000 debt funding described above, \$350,000 was provided by director related entities, being Oro Resources Pty Ltd (\$300,000), a company associated with Mr Michael Blakiston and Venture Works JDK Pty Ltd (\$50,000) a company associated with Mr John Kenny who was a director until his resignation on 22 February 2005. All of the above loans were repaid by the Company on 28 February 2005 and 4,140,000 Loan Options were granted following shareholder approval at the general meeting on 4 April 2005. Total interest paid to Oro Resources Pty Ltd was \$6,050 and to Venture Works JDK Pty Ltd was \$872. Chatsworth Stirling received an interest payment of \$5,178.

(iii) Issue and conversion of convertible notes (prior financial year)

Tranche 1

In order to fund the first cash call of US\$815,000 on the Flour Bluff project and to repay \$550,000 of the unsecured loans disclosed in (ii) above, the company issued 40,000,000 convertible notes to raise \$1,500,000 in January 2005 (as detailed in the explanatory memorandum accompanying the Notice of Meeting for the general meeting held on 22 February 2005).

Tranche 2

In order to ensure the Company had adequate working capital to meet its business objectives, an additional \$2,750,000 was raised by issuing a further 13,095,238 convertible notes in February 2005. Of the \$2,750,000 of funds raised under the issue, \$500,000 was provided by Gren Schoch, prior to his appointment as a director on 4 April 2005. Following shareholder approval at the general meeting held on 4 April 2005, these notes were converted into equity on the basis of three fully paid ordinary shares and one free attaching Tranche 2 Convertible Note Option for every three convertible notes held.

Other than as disclosed in this note or elsewhere in this financial report there have been no transactions with related parties or with other Key Management Personnel (as defined in AASB 124 *Related Party Disclosures*).

Notes to the financial statements

25. Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the Parent Entity, its related practices and non-related audit firms:

	Consolidated		Parent entity	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Horwath Audit (WA) Pty Ltd for:				
an audit or review of financial reports and other audit work under the <i>Corporations Act 2001</i>	30	34	30	34
Total remuneration for audit services	30	34	30	34
Other services				
tax compliance services	-	5	-	5
investigating accountants report	-	8	-	8
Total remuneration	30	47	30	47

26. Subsequent events

Since balance date, the following significant events have taken place, as announced by the Company to the Australian Stock Exchange Limited:

Date	Event
17 August 2006	Commencement of drilling at Sugarloaf Gas Prospect, USA
31 August 2006	Finalisation US\$10m project finance facility
14 September 2006	North Belridge and West Black Lake completion results
20 September 2006	Gas shows encountered in Sugarloaf secondary target

Other than as disclosed above, no event has arisen since 30 June 2006 that would be likely to materially affect the operations of the Consolidated Entity, the results of the Consolidated Entity or the state of affairs of the Consolidated Entity not otherwise disclosed in the Consolidated Entity's financial report.

27. Contingencies

The Consolidated Entity has no contingent assets or liabilities at balance date (2005: none).

Notes to the financial statements

28. Discontinued operations

No operations were discontinued during the current financial year.

During the prior financial year shareholders formally approved a plan to dispose of the Consolidated Entity's formal suit hire business. The disposal is consistent with the Consolidated Entity's revised long-term policy to focus its activities in the oil & gas exploration and production industries. The disposal was completed on 5 April 2005 with an effective transaction date of 31 December 2004.

While not considered relevant to the current financial period, the following disclosures (all of which information was presented in the Company's 30 June 2005 Annual Report) are required to be reproduced here under AASB 5 *Non-Current Assets Held for Sale and Discontinued Operations*.

(a) Financial performance of discontinued operation

	Consolidated		Parent entity	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Revenue	-	634	-	-
Expenses	-	(678)	-	-
Loss before Income tax	-	(44)	-	-
Income tax expense	-	(3)	-	-
Loss after income tax of discontinued operations	-	(47)	-	-
Gain / (loss) on sale of the operations before income tax		150		(114)
Income tax expense	-	-	-	-
Gain / (loss) on sale of the operations after income tax	-	150	-	(114)
Profit / (loss) from discontinued operations	-	103	-	(114)

(b) Carrying amounts of assets and liabilities disposed

The carrying amounts of assets and liabilities relating to the discontinued operation as at 31 December 2004 were as follows.

	Consolidated		Parent entity	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Assets				
Investment in Allendale Pty Ltd	-	-	-	204
Other investments	-	10	-	-
Property Plant & Equipment	-	84	-	-
Cash	-	21	-	-
Inventories	-	360	-	-
Other assets	-	23	-	-
Total Assets		498		
Liabilities				
Interest-bearing liabilities	-	(438)	-	-
Payables	-	(178)	-	-
Total Liabilities	-	(616)	-	-
Net assets / (liabilities) disposed	-	(118)	-	204

Notes to the financial statements

28. Discontinued operations (continued)

(c) Details of the sale

	Consolidated		Parent entity	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
Consideration received or receivable				
Cash	-	90	-	90
Total disposal consideration	-	90	-	90
Carrying amount of net (assets) / liabilities disposed	-	118	-	(204)
Outside Equity Interests	-	(58)	-	-
Gain / (loss) on sale before income tax	-	150	-	(114)
Income tax on sale	-	-	-	-
Gain / (loss) on sale after income tax	-	150	-	(114)

29. Explanation of transition to Australian equivalents to IFRS

For all periods up to and including the year ended 30 June 2005, the Group prepared its financial statements in accordance with Australian generally accepted accounting practice (AGAAP). These financial statements for the year ended 30 June 2006 are the first the Group is required to prepare in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS).

Accordingly, the Group has adopted accounting policies that comply with AIFRS (as detailed in note 1) and has applied these policies to all financial statements for periods beginning on or after 1 January 2005. In preparing these financial statements, the Group has started from an opening balance sheet as at 1 July 2004 (the date of transition to AIFRS). This note details the principal adjustments made by the Group in restating its AGAAP balance sheet as at 1 July 2004 and its previously published AGAAP financial statements for the year ended 30 June 2005.

(a) Reconciliation of reported equity

(i) At 30 June 2004 (date of transition to AIFRS)

No adjustment to reported equity is required as at the Group's date of transition to AIFRS.

Notes to the financial statements

29. Explanation of transition to Australian equivalents to IFRS (continued)

(a) Reconciliation of reported equity (continued)

(ii) At 30 June 2005 (latest period presented in the the most recent annual financial report under AGAAP)

	Note	Consolidated AIFRS \$'000	AGAAP \$'000	Parent entity AIFRS \$'000	AGAAP \$'000
Net assets		<u>8,781</u>	8,781	<u>9,069</u>	9,069
Representing:					
Contributed equity		21,153	21,153	21,153	21,153
Share based payment reserve	(c)	2,028	-	2,028	-
Accumulated losses		<u>(14,400)</u>	<u>(12,372)</u>	<u>(14,112)</u>	<u>(12,084)</u>
		<u>8,781</u>	8,781	<u>9,069</u>	9,069

	Consolidated \$'000	Parent entity \$'000
Total equity under AGAAP	8,781	9,069
Increase in accumulated losses on application of AASB2	(c) (2,028)	(2,028)
Associated increase in share-based payment reserve	(c) 2,028	2,028
Total equity under AIFRS	<u>8,781</u>	<u>9,069</u>

(b) Reconciliation of reported loss for year to 30 June 2005

	Note	AIFRS \$'000	AGAAP \$'000
Consolidated			
Loss for the year	(c)	<u>(3,063)</u>	<u>(1,035)</u>
Parent entity			
Loss for the year	(c)	<u>(3,015)</u>	<u>(988)</u>

	Consolidated \$'000	Parent entity \$'000
Loss under AGAAP as previously reported	(1,035)	(987)
Increase in loss for the year on application of AASB2	(c) (2,028)	(2,028)
Loss under AIFRS as restated	<u>(3,063)</u>	<u>(3,015)</u>

Notes to the financial statements

29. Explanation of transition to Australian equivalents to IFRS (continued)

(c) Equity-based payments

Under AASB 2 “Share Based Payments”, the Group is required to recognise an expense for all share based remuneration, including options granted after 7 November 2002 which had not vested by 1 January 2005.

Application of this policy to the balance sheet at 30 June 2005 increases consolidated and parent entity retained losses at 30 June 2005 by \$2,028,430 with a corresponding increase in the share-based payment reserve. For the year ended 30 June 2005, consolidated and parent entity expenses are now \$2,028,430 higher, with a corresponding increase in the net movement in the share-based payment reserve.

Additional company information

Aurora Oil & Gas Limited is a listed public company, incorporated and operating in Australia.

Registered Office & Principal place of business

Level 20, Allendale Square
77 St Georges Terrace
Perth WA 6000
Western Australia

Share Registry

Security Transfer Registrars Pty Ltd
770 Canning Highway
APPLECROSS WA 6953
Western Australia

Directors' Declaration

In the directors' opinion:

- (a) The financial statements and notes set out on pages 18 to 55 are in accordance with the *Corporations Act 2001*, including:
 - (i) Complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) Giving a true and fair view of the Company's and Consolidated Entity's financial position as at 30 June 2006 and of its performance, as represented by the results of their operations, changes in equity and their cash flows, for the financial year ended on that date; and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and
- (c) the audited remuneration disclosures set out on pages 8 to 12 of the directors' report comply with Accounting Standard AASB 124 *Related Party Disclosures* and the *Corporations Regulations 2001*.

The directors have been given the declarations by the chief executive officer and chief financial officer required by s.295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the directors.



JONATHAN STEWART
Executive Chairman
Melbourne, Victoria

29 September 2006