

US gas suits Aussie junior

An opportunity exists in the United States for junior oil and gas explorers to hop on the fast track to production if Aurora Oil & Gas is any guide.

The moral of considered investment is a vital one for public companies and one that has certainly not been lost on Aurora Oil & Gas.

At the end of last year, the board and management of Tony Barlow Australia had changed significantly and what was a suit hire business had turned its hand to oil and gas exploration in the United States.

After thoroughly investigating several options and acquiring the services of corporate finance expert Jon Stewart in December 2004, the company took its \$2 million and acquired a 12.5% interest in a US gas project, becoming Aurora Oil & Gas in April this year.

Shares in the company rose from about 6c in October of 2004 to 35c after the name change and a 1:5 share

consolidation, to a high of 45c in September — a fair return for those punters still clinging to their shares from the Tony Barlow days.

The project that refreshed the corporate future of the company, and which standing board members used to lure Stewart's services (and his individual investment of \$1.35 million), was the Flour Bluff gas play near Texas, which Aurora has now confirmed hosts 3P (proved, probable and possible) reserves of 127.8 billion cubic feet compared to pre-drilling estimates of 90.5Bcf.

Gas production from the project is supported by infrastructure already in place and tapped by a hungry US market.

It has so far proved a very wise investment and as **RESOURCESTOCKS** went to print the company was completing a \$5 million equity raising at 38c, a slight discount to market, to provide a more robust working capital facility.

That facility is destined primarily for securing new projects but would also be used in part for the developing Flour Bluff project, and the recently farmed into Sugarloaf gas prospect (also on the Texas Gulf Coast) in which Aurora acquired a 12.5% interest.

The 15% placement to "sophisticated investors" was managed by eastern states brokers Tricom Securities and Bell Potter. The funds will also allow Aurora to push forward with its strategy of growth through the pursuit of "conventional gas plays, ideally large in potential size, in which (it) can secure meaningful equity positions and participate alongside local operators", according to Stewart.

He is talking about similar ventures to the Sugarloaf prospect, which he considers to be world class and for which Aurora paid \$280,000 in past costs and has committed to its share of a first well on a 100 for 80 promote basis.

"It's much easier at the negotiating table to get new projects if you're already financed for what you want to do next —



Managing director Jon Stewart: "We think at this time it makes sense to try to identify exploration projects that can significant value to our shareholders — and that's exactly what Sugarloaf is".

the process of raising capital is relatively slow in Australia so in a strong oil and gas market you need to be on the front foot," Stewart said.

But he is not jumping the gun. Stewart has, in just under a year, found himself with a large piece of a development project that will soon be at cash flow positive status and it would be folly to take his eye off the ball by stretching Aurora's resources too thinly.

Stewart said the company's focus, for the meanwhile at least, would remain on playing its part in the opportunities presented at Flour Bluff and Sugarloaf.

Aurora is in partnership at Flour Bluff with two other West Australian firms, Sun Resources and Victoria Petroleum (who have similar interests to Aurora), with US investors holding the balance of which operator Texas Crude Energy is the largest stakeholder.

TCE is an experienced gas explorer and producer in a region of ready-made gas markets.

The project consists of the adjacent West Flour Bluff and East Flour Bluff fields. The "giant" Flour Bluff gas field in the south of Texas historically delivered gas from shallow reservoirs between 1980m and 2600m deep that are now largely depleted. The aim of the current project was principally to test for deeper potential and develop those reserves — a tactic that proved successful in other similar US gas fields, according to Stewart.

The initial program in 2005 has involved drilling three wells to test reserves — BG Webb-1 in the West Flour Bluff area, and EFB D-24 and EFB D-10 in East Flour Bluff. All three having been drilled and cased for production.

The second and third wells are of particular interest to Aurora with the company upping its stake in the East Flour Bluff portion of the project to 16.667% in May.

BG Webb-1 is producing at about 1.7mmcf with 26 barrels of condensate a



The BG Webb-1 well is drilled.

day, while EFB D-24 is producing about 1mmcf and is expected to be fracture stimulated. EFB D-10 was still being completed for production at the time of writing.

A "work over" program of three previous wells — EFB 17-D, D-19 D and D-19 F — was scheduled for October as the final part of the Phase 1 redevelopment program.

Stewart said more wells would need to be drilled over the next few years as the company progressed from current production of about 5mmcf per day to peak production of between 40 and 50mmcf per day.

He said peak production would generate \$US10 million net to Aurora annually, assuming long term gas prices of \$US6.50, and remain near that level for about four years — depending on Aurora's ability to identify further reserves. Economic production would last about 15 years.

With gas prices hovering around record levels — currently at \$US13 per thousand cubic feet — production from Flour Bluff will generate further funds to embrace other exploration opportunities, as it has at Sugarloaf.

After the initial success at Flour Bluff, Stewart had considered the pros and cons of acquiring production projects as opposed to exploration projects. With top dollar on offer currently for production or near production oil and gas projects he saw little obvious upside and preferred to expose shareholders to potential discoveries through advanced exploration plays.

"We think at this time it makes sense to try to identify exploration projects that can add significant value to our shareholders — and that's exactly what Sugarloaf is," he said.

Aurora announced its farm-in agreement at Sugarloaf (also operated by TCE) in September, claiming it had the potential to host several trillion cubic feet of gas.

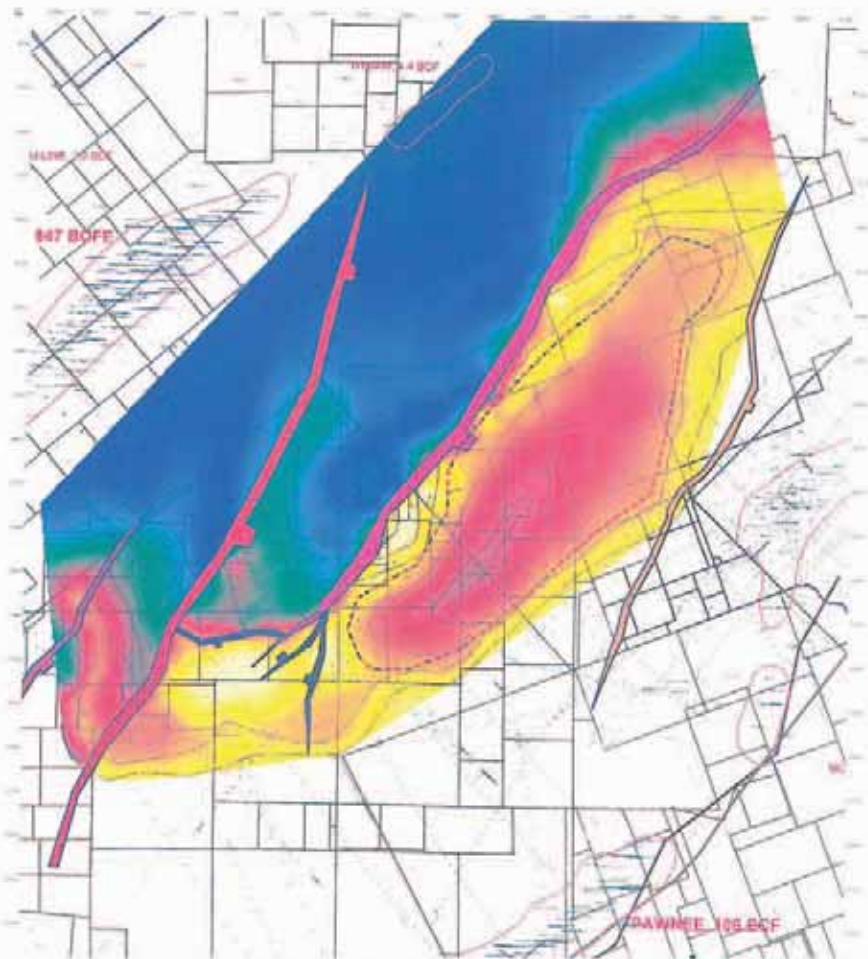
"By any standard in the prolific Gulf Coast hydrocarbon production region, this is a major undrilled structure and represents an outstanding opportunity for Aurora to participate in a company-making prospect in on-shore USA," Stewart said.

A well to test the prospect is anticipated to be spudded by January 2006 when long lead time items such as high-pressure casing and a suitable rig are available.

"That well is predicted to take about three months to reach target depth (5200-6400m) and will cost \$US5.8 million dry hole and a further \$US2 million to complete the well for production," Stewart said.

Aurora's share will be just under \$US1.242 million but has the potential to add "dollars rather than cents" to the share price.

Stewart said Aurora would be patient with future acquisitions and make sure they met the company criteria but was doubtful whether an opportunity of



The potentially company making sugarloaf area.

Sugarloaf's size and quality would present itself again.

However he is committed to the strategy and sees strength in the company's focus on on-shore gas in the US, particularly when compared to other gas producing environments like Australia.

"The US market is the world's largest with annual consumption of more than 22 trillion cubic feet of gas representing about a quarter of all US energy and it is forecast to grow further," Stewart said.

"US domestic gas production for 2005 and 2006 is expected to remain level despite an expected 12% increase in natural gas directed well completions. This is principally because production from a number of the largest US gas fields has peaked and is now in decline.

"US gas prices have typically been up to 3-4 times flat Australian prices (\$US6-9 compared with \$US2-2.25) and more recently even stronger at record highs above \$US13 per thousand cubic feet."

Stewart said the gap between supply and demand within the US market would continue to widen until the shortfall was alleviated by LNG imports, which would incur high costs through the liquefaction, transport and re-gasification processes.

He said that would underpin a floor in the gas price at around \$US5-6 per thousand cubic feet, and at that price, onshore US operations would enjoy healthy margins long term.

"We are currently in a period of exceptionally high gas prices in the 'States that we will continue to enjoy

through our production. You can perhaps look at our commitment to Sugarloaf as us taking a bit of the exceptional cash flow or profits that we will generate from production over the next year and putting it into a huge upside play — it is really a fantastic value adding opportunity for our shareholders from that perspective." **RS**



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MARKET CAPITALISATION

\$42 million (at press time)

MAJOR SHAREHOLDERS

Directors and associates 20%