austinengineering LTD
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5 December 2007

Ms Frances Finucan
Senior Advisor
Issuers (Brisbane) Australian Securities Exchange
PO Box 7055
RIVERSIDE CENTRE BRISBANE QLD 4001
By email frances.finucan@asx.com.au

Dear Ms Finucan

Price and Volume Query

We refer to your letter dated 3 December 2007 in which you query increases in the price and volume of trading in the Company's securities between Monday 24 November and close of trade on Thursday 27 November 2007. We respond to your questions as follows:

1 *"Whether the Company considers the information contained in the Announcement concerning the acquisition of Western Technology Services International Inc. ("Westech") ("Information") was material to the Company."*

Yes.

2 *"If the answer to question 1 is "no" please advise the basis on which the Company does not consider the Information to be material."*

Not applicable.

3 *"If the answer to question 1 is "yes", please advise when the Company became aware of the Information and specifically:*

3.1 When the Company first commenced the negotiations that led to the acquisition of Westech;

3.2 When any agreement was signed by each of Westech and the Company concerning the acquisition of Westech by the Company."

The Company first commenced negotiations that ultimately led to the acquisition of Westech during September 2007.

As negotiations reached the final stages, the Company requested a trading halt which was implemented by way of an ASX market release at 10.22am EDST on Friday, 30 November 2007 (**Trading Halt**).

The Company received final signed documents from the Westech vendors at 12:42pm EDST on Friday 30 November 2007. Those signed documents constituted an offer open for the Company to accept by contemporaneous execution and payment of the purchase price.

The Company signed the documents at 13:05pm EDST and returned them to its US attorneys to be held in escrow pending transmission of funds to be available at completion. The offer by the Westech vendors was accepted and the contract formed when the executed documents were released from escrow and the purchase price was paid at approximately 8:00am EDST Saturday, 1 December 2007 (approximately 3:00pm, Friday local time in Wyoming).

(Cont'd Over)

4 *"If the Company became aware of the Information prior to the Trading Halt, please identify any earlier announcement by the Company which disclosed the Information."*

Not applicable.

5 *"If there was no earlier announcement, and the Company became aware of the Information prior to the Trading Halt, please advise why the Company did not release the Information to the market at an earlier time, or request a Trading Halt before Friday, 30 November 2007, pending the release of the Announcement.'*
Please comment specifically on the application of listing rule 3.1 and the exceptions to the rule in listing rule 3.1A, and whether the increase in the Company's share price and the volume of securities traded in days prior to the Trading Halt, indicated that confidentiality in relation to the information had been lost."

As set out under paragraph 3 above, the proposed Westech acquisition was incomplete until approximately 8.00am EDST on Saturday, 1 December 2007. The Company believed that the proposed acquisition was confidential and had no reason to suspect there had been any breach of confidentiality, having regard to the concept of confidentiality described in paragraphs 34 and 35 of Guidance Note 8.

While the Company was aware there had been some increase in the price and volume of the securities traded on ASX it attributed that increase to a continuing re-rating of the Company arising from its continuing improved financial performance and greater appreciation and understanding by the market of its acquisition strategy.

In particular the Company announced to ASX:

- the acquisition of Austbore Pty Ltd on 2 April 2007 and indicative earnings arising from that acquisition, which with previous announcements enabled to market to estimate the Company's likely earnings for the full financial year
- 29 May 2007, that the Directors are forecasting EBIT for 2006/2007 would exceed $10 million.

Similarly, during its AGM on 23 November 2007, the Company upgraded its market guidance by stating that it was now forecasting EBIT in excess of $6 million for the first half of this financial year with a further forecast of a strong second half (refer to the announcement made to ASX on 23 November 2007).

The Company is also aware of positive research released by Veritas Securities Limited and Bell Potter Securities Limited on 23 November 2007 and Southern Cross Equities on 26 November 2007 that may have affected the market's view of the Company's prospects and value. Accordingly, while the Company was aware of a continuing upward trend in its share price, it attributed that trend to the above announcements and analysis and did not suspect (and does not now suspect) any breach of confidentiality.

6 *"Please confirm that the Company is in compliance with the listing rules and, in particular, listing rule 3.1.*

The Company is in compliance with the listing rules and, in particular, listing rule 3.1.

Yours Sincerely

Colin Anderson
Chief Financial Officer and Company Secretary

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3 December 2007

Mr Colin Anderson
Company Secretary
Austin Engineering Ltd
173 Cobalt Street
CAROLE PARK QLD 4300

By email: colina@austineng.com.au

Dear Mr Anderson

Austin Engineering Ltd (the "Company")

ASX Limited ("ASX") refers to the following:

1. The Company's trading halt implemented by way of ASX market release released to the market at 10.22am EDST on Friday, 30 November 2007 ("Trading Halt").

2. The announcement released to the market at 11.07am EDST on Monday, 3 December 2007 entitled, "Austin Expands into International Resources Market with $US19m Westech Acquisition" ("Announcement").

3. The increase in the Company's share price from a close of $2.44 on Friday, 23 November 2007 to a high of $3.00 on Thursday, 29 November 2007 being the four trading days immediately prior to the Trading Halt, and to an increase in the number of securities traded during this period.

As you are aware, listing rule 3.1 requires an entity, once it becomes *aware* of any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities, to immediately tell ASX that information. The exceptions to this requirement are set out in listing rule 3.1A.

I would also like to draw your attention to the definition of "aware" in Chapter 19 of the listing rules. This definition states that:

> *"an entity becomes aware of information if a director or executive director (in the case of a trust, director or executive officer of the responsible entity or management company) has, or ought reasonably to have, come into possession of the information in the course of the performance of their duties as a director or executive officer of that entity."*

Furthermore, paragraph 17 of Guidance Note 8 states:

> *"Once a director or executive officer becomes aware of information, he or she must immediately consider whether that information should be given to ASX. An entity cannot delay giving information to ASX pending formal sign-off or adoption by the board, for example."*

Listing rule 3.1A sets out an exception from the requirement to make immediate disclosure, provided that each of the following are satisfied.

> *"3.1A.1 A reasonable person would not expect the information to be disclosed.*
>
> *3.1A.2 The information is confidential and ASX has not formed the view that the information has ceased to be confidential.*
>
> *3.1A.3 One or more of the following applies.*
>
> - *It would be a breach of a law to disclose the information.*
> - *The information concerns an incomplete proposal or negotiation.*
> - *The information comprises matters of supposition or is insufficiently definite to warrant disclosure.*
> - *The information is generated for the internal management purposes of the entity.*
> - *The information is a trade secret."*

Finally, I would like to draw your attention to ASX's policy position on the concept of "confidentiality" which is detailed in paragraphs 33 to 39 of Guidance Note 8. In particular, paragraphs 34 and 35 of the Guidance Note state that:

> *"'Confidential' in this context has the sense of 'secret'…"* and *"Loss of confidentiality may be indicated by otherwise unexplained changes to the price of the entity's securities, or by reference to the information in the media or analysts reports".*

Having regard to the above definition, listing rule 3.1 and Guidance Note 8 - Continuous Disclosure, ASX asks that you answer the following questions, in a format suitable for release to the market, in accordance with listing rule 18.7A.

1. Whether the Company considers that the information contained in the Announcement concerning the acquisition of Western Technology Services International Inc. ("Westech") ("Information") was material to the Company?

2. If the answer to question 1 is "no", please advise the basis on which the Company does not consider the Information to be material.

3. If the answer to question 1 is "yes", please advise when the Company became aware of the Information, and specifically:

3.1 When the Company first commenced the negotiations that led to the acquisition of Westech.

3.2 When any agreement was signed by each of Westech and the Company concerning the acquisition of Westech by the Company.

4. If the Company became aware of the Information prior to the Trading Halt, please identify any earlier announcement from the Company which disclosed the Information.

5. If there was no earlier announcement, and the Company became aware of the Information prior to the Trading Halt, please advise why the Company did not release the Information to the market at an earlier time, or request a trading halt before Friday, 30 November 2007, pending the release of the Announcement.

   Please comment specifically on the application of listing rule 3.1 and the exceptions to the rule in listing rule 3.1A, and whether the increase in the Company's share price and the volume of securities traded in the days prior to the Trading Halt, indicated that confidentiality in relation to the Information had been lost.

6. Please confirm that the Company is in compliance with the listing rules and, in particular, listing rule 3.1.

Your responsibility under listing rule 3.1 is not confined to, or necessarily satisfied by, answering the questions set out in this letter. If the information requested by this letter is information required to be given to ASX under listing rule 3.1 your obligation is to disclose the information immediately.

If you are unable to respond by the time requested, you should consider a request for a trading halt in the Company's securities. As set out in listing rule 17.1 and Guidance Note 16 - Trading Halts, we may grant a trading halt at your request. We may require the request to be in writing. We are not required to act on your request. You must tell ASX each of the following.

- The reasons for the trading halt.
- How long you want the trading halt to last.
- The event you expect to happen that will end the trading halt.
- That you are not aware of any reason why the trading halt should not be granted.
- Any other information necessary to inform the market about the trading halt, or that we may ask for.

The trading halt cannot extend past the commencement of normal trading on the second day after the day on which it is granted. If a trading halt is requested and granted and you are still unable to reply to this letter before the expiry of the trading halt at the commencement of trading on Monday, 10 December 2007, suspension from quotation would normally be imposed by us from the commencement of trading if not previously requested by you. The same applies if you have requested a trading halt because you are unable to release information to the market, and are still unable to do so before the commencement of trading.

Your response should be sent to me by e-mail at frances.finucan@asx.com.au or by facsimile on facsimile number (07) 3832 4114. It should not be sent to the Company Announcements Office. Unless the information is required immediately under listing rule 3.1, a response is requested as soon as possible, and in any event, not later than 9.30am EDST (8.30am Brisbane time) on Thursday, 6 December 2007.

Please note that ASX reserves the right, under listing rule 18.7A, to release this letter and the Company's response to the market if it considers it necessary for an informed market. Accordingly, it would be appreciated if you would prepare your response in a format suitable for release to the market and separately address each of the questions asked.

If you have any concerns about release of your response, or any queries in relation to this matter, please contact me immediately.

Yours sincerely,

Frances Finucan
<u>Senior Adviser, Issuers (Brisbane)</u>

Direct line (07) 3835 4017