

AUSTIN EXPLORATION LIMITED

ABN 35 116 249 060

Second Quarter Report

FY2008

For the Period Ended

December 31, 2007

REVIEW OF OPERATIONS AND ACTIVITIES

As announced at the Annual General Meeting on 29 November 2007 the company made a significant decision to shift the strategic focus of the company from exclusively Oil and Gas Exploration toward a less risky and more predictable “Development of Known Resources” business model. This strategic shift in focus has been most dramatic in the U.S.A. based operations of the company. This business unit saw a series of high risk, moderate cost exploration plays result in five dry holes in calendar year 2007. However, the U.S.A. based operations have also produced a multi thousand acre Gas Development opportunity in the state of Kentucky that could give the company 10 years of production from proven gas reserves. The company has exercised its option to acquire the prospect and is continuing its due diligence on this opportunity.

Our Australian Operation continues to see potential within the PEL 73 and PEL 105 licence areas. The renewal of these licence areas and subsequent work plans provide the company with valuable assets that will be further explored over the next few years. The heavy company focus on U.S. based Development should provide opportunities for further investment into both the PEL 73 and PEL 105 efforts.

Q2 HIGHLIGHTS

- **PEL 73** – DMS Partners LP, as operator, has renewed the licence on PEL 73 and will make a recommendation as how to proceed with exploration. The structure is very large and additional seismic data and geologic studies need to be acquired before any new wells are proposed.
- **PEL 105** – Adelaide Energy has executed a farmin agreement with Austin whereby it has the right to earn a 50% interest in PEL 105 by funding 100% of the cost of the first commitment well. A new work program has been proposed and accepted by PIRSA.
- **St. Gabriel I** – Drillmar Oil and Gas, LLC has taken over operations of the well and deepened the well to 10,790 ft. The “W” sand was encountered at 10,500 ft as predicted; the well was cased to TD. The initial zone tested proved to be non-commercial. The operator is currently testing an additional zone.
- **St. Gabriel II** – Production logs were run through casing and six zones appeared to be potentially productive. These zones were perforated and tested but all proved to be non-commercial.
- **Polecat Creek** – Production has declined on this well and Aus-tex’s share of the wells net revenues are at approximately break –even. We are talking with the operator to see what can be done to change this situation.
- **SW Edwards** – A final total depth of 12,494 ft. was reached on August 8, 2007. The well was logged, casing was set to 12,494 ft., and a completion attempt was made by perforating and testing a zone from 12,180 -12,210 ft. The zone proved to be non-commercial so the operator decided to plug the well.
- **Jeter Branch** – Aus-Tex tested a zone from 5,512 ft. to 5,529 ft. that looked potentially productive based on the electric logs and core samples. The zone proved to be non-commercial so the operator decided to plug the well.
- **Lil’ Bit Prospect** – The well was named the Ameristate Exploration, LLC Kenedy Ranch No.11 and drilled to a total depth of 7,100 ft. on November 3, 2007. The well was logged and consequently a zone was tested at 6,939 ft. that proved to be non-commercial. The operator plugged and abandoned the well.

Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

Austin Exploration Limited

ABN

98 114 198 471

Quarter ended ("current quarter")

31 December 2007

Consolidated statement of cash flows

Cash flows related to operating activities		Current quarter \$A	Year to date (6 Mths) \$A
1.1	Receipts from product sales and related debtors	70,365	80,200
1.2	Payments for (a) exploration and Evaluation	(146,639)	(3,159,709)
	(b) development	(169,662)	(169,662)
	(c) production	(43,653)	(43,653)
	(d) administration	(513,989)	(1,026,350)
1.3	Dividends received		
1.4	Interest and other items of a similar nature received	29,005	83,124
1.5	Interest and other costs of finance paid		
1.6	Income taxes paid		
1.7	Other (provide details if material)		
Net Operating Cash Flows		(774,573)	(4,236,050)
Cash flows related to investing activities			
1.8	Payment for purchases of: (a) prospects	(1,153,620)	(1,398,491)
	(b) development	38,038	38,038
	(c) equity Investments		
	(d) other fixed assets	(50,338)	437
1.9	Proceeds from sale of: (a) prospects		
	(b) equity investments		
	(c) other fixed assets		
1.10	Loans to other entities		
1.11	Loans repaid by other entities		
1.12	Other (provide details if material) Deposit	(60)	(4,568)
Net investing cash flows		(1,165,980)	(1,364,584)
1.13	Total operating and investing cash flows (carried forward)	(1,940,553)	(5,600,634)

1.13	Total operating and investing cash flows (brought forward)	(1,940,553)	(5,600,634)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.		
1.15	Proceeds from sale of forfeited shares		
1.16	Proceeds from borrowings		
1.17	Repayment of borrowings		
1.18	Dividends paid		
1.19	Other (provide details if material)		
	Net financing cash flows	0	0
	Net increase (decrease) in cash held	(1,940,553)	(5,600,634)
1.20	Cash at beginning of quarter/year to date	3,898,068	7,802,664
1.21	Exchange rate adjustments to item 1.20	83,674	(160,841)
1.22	Cash at end of quarter	\$2,041,189	\$2,041,189

Payments to directors of the entity and associates of the directors

Payments to related entities of the entity and associates of the related entities

		Current quarter \$A
1.23	Aggregate amount of payments to the parties included in item 1.2	21,743
1.24	Aggregate amount of loans to the parties included in item 1.10	
1.25	Explanation necessary for an understanding of the transactions	
	Directors fees	\$16,546
	Legal fees to Firm of director	\$ 5,197

Non-cash financing and investing activities

- 2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

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- 2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

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Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A	Amount used \$A
3.1 Loan facilities		
3.2 Credit standby arrangements		

Estimated cash outflows for next quarter

	\$A
4.1 Exploration and evaluation	976,000
4.2 Development	0
Total	976,000

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current quarter \$A	Previous quarter \$A
5.1 Cash on hand and at bank	2,041,189	7,802,664
5.2 Deposits at call		
5.3 Bank overdraft		
5.4 Other (provide details)		
Total: cash at end of quarter (item 1.22)	2,041,189	7,802,664

Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed			
6.2	Interests in mining tenements acquired or increased			

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

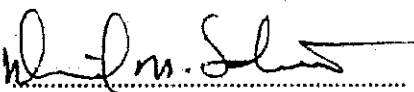
		Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1	Preference securities (description)				
7.2	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3	*Ordinary securities	112,193,125	61,381,995		
7.4	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs				
7.5	*Convertible debt securities (description)				
7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7	Options (description and conversion factor)	5,400,000 "2011 A Class Options" 12,600,000 "2011 B Class Options" 12,600,000 "2011 C Class Options"		Exercise price \$.30 \$.50 \$.75	Expiry date 30 June 2011 30 June 2011 30 June 2011
7.8	Issued during quarter				
7.9	Exercised during quarter				

Appendix 5B
Mining exploration entity quarterly report

7.9	Exercised during quarter				
7.10	Expired during quarter				
7.11	Debentures (totals only)				
7.12	Unsecured notes (totals only)				

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement does ~~not~~ ^{not} (delete one) give a true and fair view of the matters disclosed.

Sign here:  Date: 11/28/08
 (Director/Company secretary)

Print name: David M Schuette, Director & CEO

Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

+ See chapter 19 for defined terms.