

# **AUSTIN EXPLORATION LIMITED**

ABN 35 116 249 060

## **First Quarter Report FY2008**

***For the Period Ended  
September 30, 2007***

## Q1 HIGHLIGHTS

- **St. Gabriel 1** – Austin completed a farmout agreement with Drillmar Oil and Gas that gives the Company an opportunity to maintain a 20% Working Interest After Payout (WIAP0) without any exposure to the estimated AU \$1.7m of drilling costs to re-enter and deepen the well to target depth. Drilling is expected to begin the first week of November 2007.
- **PEL 73** – An 8 metre (26 ft) thick petro-physical hydrocarbon show was identified from 691 metres to 699 metres (2,266 ft to 2,292 ft an) below the surface early in the quarter. During the month of September Austin made the decision to participate in the renewal of the PEL 73 license for an additional 5 years and to formalize a work program intended to identify the next well site and begin drilling operations. The 5 year work program is planned for submission to PIRSA sometime in October, 2007.
- **PEL 105** – During the quarter, Austin finalised an agreement for the acquisition of a 100% interest in PEL 105 from Hughes & Hughes Australia Pty Ltd. and Tri-C Resources, Inc. Austin also entered into a farmin agreement with Adelaide Energy Limited under which Adelaide Energy Limited may earn a 50% interest in PEL 105 by funding the costs of one well on the licence area. ADE has been named the operator.
- **Jeter Branch** – A potential pay zone has been indentified between 5512 ft. to 5529 ft. The Company is confident enough in the log results to have increased its Working Interest to 50% and its Revenue Interest to 37%. Austin expects the test rig to arrive on-site the first week of November.
- **Lil Bit** – The Company acquired this ready to drill prospect in late September and drilling operations began on October 24, 2007. The company expects logs to be completed by mid November. The amount of natural gas believed to be potentially recoverable from the target reservoir is 6 BCFG – 9 BCFG.

## REVIEW OF OPERATIONS AND ACTIVITIES

Our exploration efforts have produced positive oil and gas shows at three (3) of our test wells. PEL 73, St. Gabriel Field, and Jeter Branch all represent value and opportunities for the Company. Our recent announcement regarding PEL 105 clearly reinforces our belief that onshore Australia represents one of the most under-explored regions of the world, particularly given its political stability. It also provides an outstanding opportunity for development both in terms of new prospects and further development of known resources.

The Company also believes that the Gulf Coast States of the USA represent an outstanding opportunity for significant development both in terms of new prospects and development of known resources in this area. With drilling operations underway at Lil' Bit, testing of the previously identified potential pay at Jeter Branch and the deepening of St. Gabriel 1 by Drillmar Oil and Gas, November should be a month full of company news.

The Company is confident that our cash reserves coupled with a solid business model and the strength of the private capital markets will give the company a strong position for the foreseeable future.



## **PRINCIPAL OIL AND GAS ASSETS DETAIL**

### **PEL 73: (Stansbury Basin, South Australia)**

DMS Partners LP (the operator of PEL 73) has performed a proprietary magnetics analysis of the entire area of the Stansbury Basin prospective for hydrocarbons (4.5 million acres). This revealed the presence of a previously unrecognized sub-basin which is believed to be the source of known oil seepage found since the 19th century on south west facing beaches and in various harbours of the Fleurieu Peninsula and Kangaroo Island in South Australia.

Gravestock-1 was spudded on 19 February 2007 and reached a total depth of 1096 metres (3596 feet) on 8 March 2007. The well was plugged and abandoned following wireline logging and the rig released on 10 March 2007. This was the initial test well of the prospect and showed the existence of hydrocarbons even though the reserves are believed to be non-economic in this location. An 8 metre (26 ft) thick petro-physical hydrocarbon show was identified from 691 metres to 699 metres (2,266 ft to 2,292 ft an) below the surface. The mapped structure is very large and additional wells and seismic will be needed to fully evaluate the prospect.

During the month of September Austin made the decision to renew the PEL 73 license for an additional 5 years and to formalize a work program intended to identify the next well site and begin drilling operations.

### **PEL 105: (Cooper Basin, South Australia)**

Petroleum Exploration License 105 (PEL 105) is an area of 437 sq km approximately 60 kms north of Moomba in South Australia and is located in the Cooper Basin. It is surrounded by producing fields, some of which are the largest in the Cooper Basin

Austin finalised an agreement for the acquisition of a 100% interest in PEL 105 from Hughes & Hughes Australia Pty Ltd. and Tri-C Resources, Inc. Austin also concluded a farmin agreement with Adelaide Energy Limited under which Adelaide Energy Limited has the right to earn a 50% interest in PEL 105 and is appointed the operator. Both agreements are subject to Ministerial approval under the Petroleum Act. Upon the granting of the Ministerial approval, the licence will require the acquisition of 150 square kilometres of 3D seismic data and the drilling of one well within the next year and three additional wells by year-end of 2009.

Within the boundaries of PEL 105, but excised from it, are the Bimbaya Field (19 BCF of gas), the Bookabourdie Field (80 BCF of gas) and the Merupa Field (1.5 BCF of gas). There are very large structures and multiple unconformities present on PEL 105, making for significant potential for accumulations of oil and gas to exist on the flanks of these regional structures.

### **St Gabriel I: (Iberville and Ascension Parishes, Louisiana, USA)**

The St. Gabriel Field is located in Iberville and Ascension Parishes, Louisiana approximately eight miles southeast of the city of Baton Rouge. Austin completed a farmout agreement with Drillmar Oil and Gas Limited that gives the Company and its investors an opportunity to maintain a 20% Working Interest After Payout (WIAPO) in this prospect without any exposure to the estimated AU \$1.7m of drilling costs to re-enter and deepen the well to target depth. Drilling is expected to begin the first

week of November 2007. Estimated potential reserves from this prospect totalled 3 MMBO and 27 BCFG from the "T" and "W" sands.

### **St Gabriel II: (Iberville and Ascension Parishes, Louisiana, USA)**

Aus-Tex began re-entry procedures on June 1, 2007 but on June 11, 2007 an obstruction in the casing was found at 9424 ft. and we could not get any deeper. Our main target zones were at 10,786 ft. and 11,153 ft. 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.

The well is temporarily abandoned pending testing of one more zone. The target reservoirs are still untested on this prospect and a new well will be needed to test these zones.

### **Polecat Creek Prospect: (Falls and Limestone Counties, Texas, USA)**

The test well, the Old Stone Exploration Ezell 4-H, was a re-entry of an existing abandoned well that was cleaned out to the top of Georgetown and was followed by drilling a 3000 ft. horizontal leg. The operator of the well is Old Stone Exploration, LLC.

Production from the Ezell 4-H initially was between 200-300 MCFD and 50-100 BOPD but declined more rapidly than expected. After almost a year of production the well is making about 100 MCFD and 1-2 BOPD. Production from the well is still fluctuating but based on the cumulative production to date the estimated ultimate recovery from this well should be about 320 MMCFG and 8,420 BO with Aus-Tex 26.25% revenue interest being 85 MMCFG and 2,200 BO. No additional drilling is planned for this prospect.

### **SW Edwards: (Hinds County, Mississippi, USA)**

Southwest Edwards prospect is a re-entry of the V. Montgomery 29-6 #1 well in Hinds County, Mississippi now called the Flex Energy V. Montgomery 29-6 #1. Flex began operations on the well on May 15, 2007 when they cleaned the old well bore out to 6469 ft. using a workover rig.

On July 10, 2007 Flex moved in a bigger rig and sidetracked the well approximately 500 ft. to the northwest. A final total depth of 12,494 ft. was reached on August 8, 2007. The well was logged and casing was set to 12,494 ft. On September 24, 2007 we confirmed the completion of the well by perforating and testing a zone from 12,180 -12,210 ft. Although the log results were encouraging, the identified zone was perforated at multiple points and no oil or gas was recovered. The Company and the operator have agreed to plug and abandon this well as a dry hole.

### **Jeter Branch: (Caddo County, Louisiana, USA)**

Jeter Branch prospect is a wildcat prospect. The test well is called the Flex Energy Lewis La. Properties #1 and as of September 5, 2007 had reached a total depth of 6300 ft. and is logged. A potential pay zone has been indentified between 5512 ft. to 5529 ft. The Company is confident enough in the log results to have increased its Working Interest to 50% and its Revenue Interest to 37%. As of October 14, 2007 we are waiting on a completion rig to perforate and test a zone from 5512 ft. to 5529 ft.



## **Lil' Bit (Kenedy Ranch #11 Well, Kenedy County, Texas, USA)**

The company has entered into a Farmin agreement for a 640 acre lease, geographically located in the most prolific oil and gas production area of South Texas, The Kenedy Ranch, Kenedy County, Texas, USA. Austin has acquired a 25% working interest and an 18.75% net revenue interest in this prospect.

Estimates of the amount of natural gas believed to be recoverable from the target reservoir is 6 BCFG – 9 BCFG for the project giving Austin between a 1.12 BCF and 1.687 BCF potential. The lease is situated in the R. Ramirez Survey, approximately 17 miles east of Sarita in Kenedy County, Texas. An approximate total depth of 7100 feet subsurface should be sufficient to adequately test the Marg Frio formation located there.

## 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")

30 September 2007

#### Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A	Year to date (3 months) \$A
1.1 Receipts from product sales and related debtors	9,835	9,835
1.2 Payments for (a) exploration and Evaluation (b) development (c) production (d) administration	(3,013,070)	(3,013,070)
1.3 Dividends received		
1.4 Interest and other items of a similar nature received	54,119	54,119
1.5 Interest and other costs of finance paid		
1.6 Income taxes paid		
1.7 Other (provide details if material)		
<b>Net Operating Cash Flows</b>	<b>(3,461,477)</b>	<b>(3,461,477)</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of: (a) prospects (b) equity investments (c) other fixed assets	(244,871)	(244,871)
1.9 Proceeds from sale of: (a) prospects (b) equity investments (c) other fixed assets	50,775	50,775
1.10 Loans to other entities		
1.11 Loans repaid by other entities		
1.12 Other (provide details if material) Deposit	(4,508)	(4,508)
<b>Net investing cash flows</b>	<b>(198,604)</b>	<b>(198,604)</b>
1.13 Total operating and investing cash flows (carried forward)	<b>(3,660,081)</b>	<b>(3,660,081)</b>

+ See chapter 19 for defined terms.

**Appendix 5B**  
**Mining exploration entity quarterly report**

1.13	Total operating and investing cash flows (brought forward)	(3,660,081)	(3,660,081)
	<b>Cash flows related to financing activities</b>		
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)		
	<b>Net financing cash flows</b>	0	0
	<b>Net increase (decrease) in cash held</b>	(3,660,081)	(3,660,081)
1.20	Cash at beginning of quarter/year to date	7,802,664	7,802,664
1.21	Exchange rate adjustments to item 1.20	(244,515)	(244,515)
1.22	<b>Cash at end of quarter</b>	\$3,898,068	\$3,898,068

**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	1,393
1.24	Aggregate amount of loans to the parties included in item 1.10	

1.25 Explanation necessary for an understanding of the transactions

**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

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

**Financing facilities available**

*Add notes as necessary for an understanding of the position.*

Amount available	Amount used
\$A	\$A

+ See chapter 19 for defined terms.

3.1	Loan facilities		
3.2	Credit standby arrangements		

**Estimated cash outflows for next quarter**

		\$A	
4.1	Exploration and evaluation	629,491	
4.2	Development	0	
<b>Total</b>		629,491	

**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	3,898,068	7,802,664
5.2 Deposits at call		
5.3 Bank overdraft		
5.4 Other (provide details)		
<b>Total: cash at end of quarter (item 1.22)</b>	3,898,068	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			
	St Gabriel I	Farm out Agreement	50%/65%	20%
	Jeter Branch	Assumed Operator role	15%/11%	50%

+ See chapter 19 for defined terms.



**Appendix 5B**  
**Mining exploration entity quarterly report**

---

PEL 105	Partnership naming new Operator	100%	50%
Lil Bit	Acquired interest in Prospect	0	50%/25%

---

+ See chapter 19 for defined terms.

### 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 <b>Preference securities</b> <i>(description)</i>				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 <b>+Ordinary securities</b>	112,193,125	52,028,125		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs				
7.5 <b>+Convertible debt securities</b> <i>(description)</i>				
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 <b>Options</b> <i>(description and conversion factor)</i>	5,400,000 "2011 A Class Options"		<i>Exercise price</i> \$.30	<i>Expiry date</i> 30 June 2011
	12,600,000 "2011 B Class Options"		\$.50	30 June 2011
	12,600,000 "2011 C Class Options"		\$.75	30 June 2011
7.8 Issued during quarter				
7.9 Exercised during quarter				

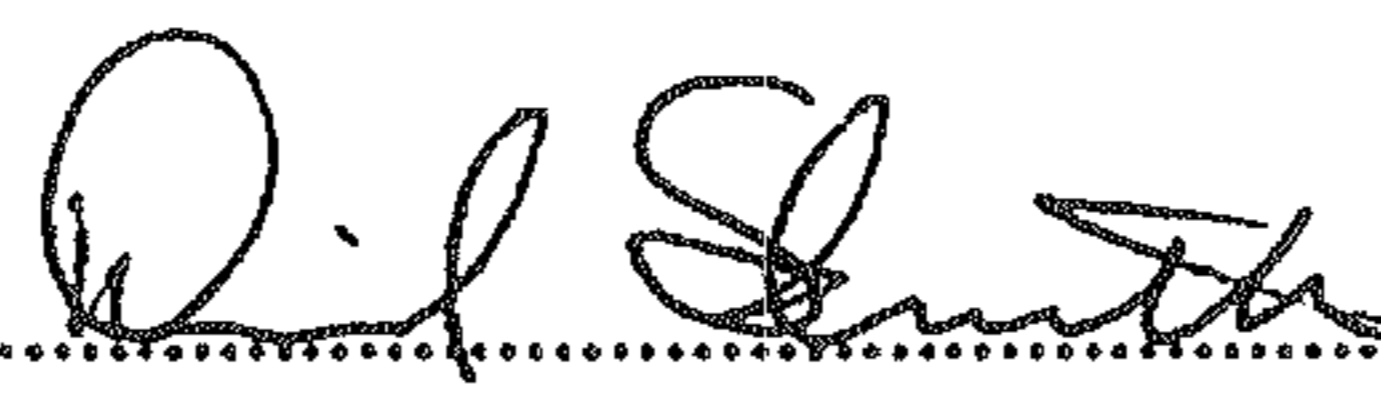
+ See chapter 19 for defined terms.

Appendix 5B  
Mining exploration entity quarterly report

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 /does not\* (*delete one*) give a true and fair view of the matters disclosed.

Sign here:  Date: *Oct 30, 2007*  
(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.