

**Austin Exploration Ltd and Controlled Entities ABN 98 114 198 471**

Annual Report and Financial Statement

For the year ended 30 June 2010

# Austin Exploration Ltd and Controlled Entities ABN 98 114 198 471

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# Austin Exploration Ltd and Controlled Entities ABN 98 114 198 471

## CHAIRMAN'S REPORT

It is with a great deal of satisfaction that I am writing this report for the year ended 30 June 2010.

By the end of June 2009, the issues with Park City operations in Kentucky, US, had not been resolved and the company's preferred development program had all but stopped.

However, during the first half of this year under review, we were able to undertake a significant and successful capital raising which established the base for the company to move forward confidently with its proposed exploration and development program.

The early targets have been to undertake programs in qualified areas of oil and gas reserves in the US and in conjunction with quality partners with proven track records.

The first of the new developments for the company was the Sebree well in Kentucky in January 2010, followed by the Armstrong well in Mississippi in May and the North Carrizo well in Texas in July 2010.

All of these wells have been successful with the result that the US operations are now cash flow positive. This has meant that the company is now able to move forward with confidence in the US and is able to target areas which are more prospective than might otherwise have been necessary in a purely exploration program.

The Park City Kentucky prospect continues to produce small volumes of oil whilst the company remains positive for a near-term resolution which will facilitate the delivery and sale of gas through the Atmos Gas Gathering plant located in close proximity to the company's acreage. . The company will further review its priorities in relation to Park City in the context of the overall opportunities for exploration and development in the US.

The big disappointment for us has been the delay with the drilling of our Pirie 1 well in PEL 105 in the Cooper Basin in Australia. Due to an unprecedented amount of flooding in the area access to the drill site has not been possible. The water remains and until the area dries out enough to allow access, we are unable to finalize exploration programs. In conjunction with our JV partner Adelaide Energy Ltd the company continues to monitor the status of the site and will update our shareholders once a more precise timeline for drilling has been reached.

In conclusion, we intend to continue to bring value to our shareholders by focusing on the delivery of a predictable income stream, expanding our targeted operations with carefully selected potential exploration and development projects. we will work diligently to get the Pirie 1 well drill underway as soon as possible and demonstrate our ability to execute our plans through a re-vitalised board and management.

On behalf of the Board of directors, our management team, employees and business partners I would like to sincerely thank our shareholders and private investors for their patience and continued support of the company.

*Yours Sincerely,*



**Dominic Pellicano**  
**Chairman of the Board**  
[www.austinexploration.com](http://www.austinexploration.com)

## OVERVIEW OF OPERATIONS AND ACTIVITIES

### Progress at principal oil and gas projects

#### *Exploration and Production through August, 2010*

Austin Exploration Limited (ASX: "AKK") currently maintains working interests and net revenue interests in five key oil and gas assets in Australia and the United States.

These assets, which are in varying stages of development and production, all hold estimated or proven reserves that provide Austin with continuing income opportunities going forward.

Other projects meeting a stringent set of acquisition guidelines will be brought into the Company's portfolio as they are reviewed and approved by the Board of Directors.

#### **Australian Assets (Austin Exploration Limited)**

Austin Exploration ("AKK") currently holds one oil and gas asset in Australia.

#### **Cooper Basin - PEL 105 oil and gas project**

- › AKK holds a 50% working interest
- › P10 reserves estimated at 23 Million barrels of oil
- › Estimated recovery of 1 Million barrels of oil per well
- › Estimated well life of nine years
- › Estimated spacing allows for five additional wells on the licence
- › Due to extensive flooding in the well area, anticipated spud date for the first well has been reset to the beginning of calendar year 2011

The Petroleum Exploration Licence (PEL) 105 prospect is surrounded by producing oil and gas fields, some of which are the largest in the Cooper Basin – Australia's most prolific onshore oil and gas province. 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).

The initial Pirie-1 well holds un-risked P10 OOIP of 23 MMbbl and P50 OOIP 2 MMbbl. Estimated recovery from the initial well is 1M B/O with nearly 65% occurring during first four years. With success, five additional wells may be drilled on the licence.

The Cooper Basin is a large sedimentary basin covering some 130,000 km<sup>2</sup> and is located in north east South Australia and south west Queensland. Hydrocarbons were first discovered in the Cooper Basin in 1963 and today it hosts some 160 gas fields and 75 oil fields. The Nappamerri and Patchawarra Troughs provide the source rocks for all oil and gas accumulations discovered in the Cooper Basin to date.

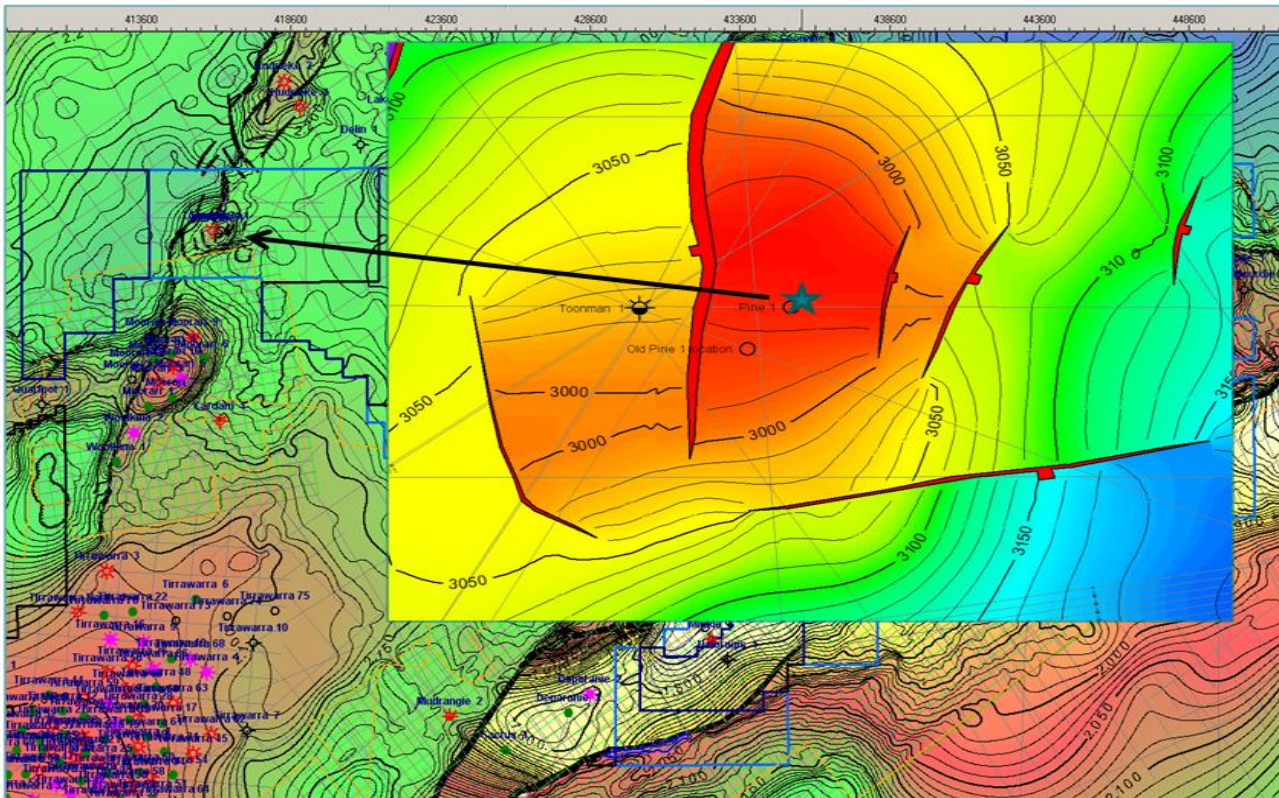
PEL 105 is an area of 437 square kilometres, located approximately 60 kilometres north of Moomba in South Australia.



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## About the Well

- Adelaide Energy (ASX: "ADE") is the operator of record for this Australian project
- Austin controls a 50% equity position for the licence area
- The Pirie-1 will be drilled up-dip of Toonman-1 (1983, P&A) well. This well had a large oil show even though it was downthrown to the fault



- Existing production is located to the northeast of the Pirie-1 (Kudrieke) and to the southwest (Moorari). Like the targeted area of the Pirie-1 well, this production is emanating from the upthrown fault traps
- Re-interpretation of geophysical data has allowed ADE to identify a large hydrocarbon target between the producing Moorari and Kudrieke fields
- The Pirie-1 exploration well:-
  - will be drilled in 2011 on a significant closure above the abandoned 1983 Toonman-1 well
  - is on a northeast - southwest structural ridge
  - is an untested upthrown fault closure at Tirrawarra and Patchawarra Time
  - is on the same seismic line as the Toonman-1 well
- A second well location has also been targeted on the licence area and will be further evaluated after the drilling assessment at Pirie-1
- Proximity to pipeline infrastructure and processing facilities high-grades all discoveries in PEL 105

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## U.S.A. Assets (Aus-Tex Exploration, Inc.)

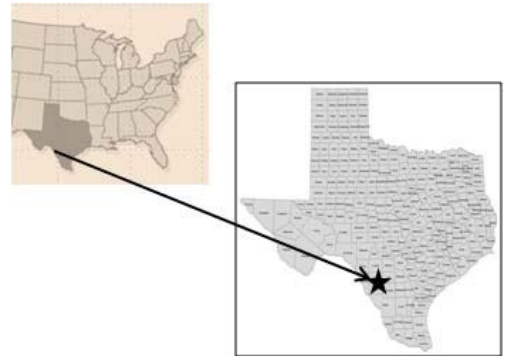
Four oil and gas assets are currently held in the USA, by AKK's 100%-owned subsidiary, Aus-Tex Exploration, Inc.

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**North Carrizo, Yolanda Villarreal #1 oil well (Dimmitt County, Texas)**

- › Aus-Tex holds a 45% BC/WI, a 36% AC/WI and a 27.36% NRI
- › Producing formation is the Austin Chalk
- › The well was completed and put on production July 31, 2010 and has been producing oil under natural pressure since that time.
- › During the month of August the well produced 4,186.4 barrels of oil
- › The highest daily production rate to date was 256.7 BOPD
- › The well will be put on pump when natural flow FTP rates decline
- › Daily production rates on pump are anticipated to be near the high IP rate
- › Estimated recovery of 200,000 – 250,000 barrels of oil is anticipated

This project is located near Carrizo Springs, Texas in the Southwest part of the state. The Company's North Carrizo Well is an Austin Chalk formation, 3D seismic supported property that was acquired in May 2010.



**About the Yolanda Villarreal #1 well**

- There are two producing zones, the B Zone (Upper Austin Chalk) & the E Zone (Lower Austin Chalk).
- The well is a dual lateral horizontal. Vertical target depth is 5,480 feet. Two horizontal laterals have been completed each at lengths of 2,500 and 2,000 feet.
- The well is located in Dimmitt County, Texas USA



**The Armstrong oil project (Natchez, Mississippi USA)**

- › Aus-Tex holds a 50% WI and a 37.5% NRI
- › Producing formation is Wilcox Sand
- › Estimated recovery of 80,000 barrels of oil per well
- › Three-well drilling program envisioned
- › First well (Armstrong #1) is completed and was put on production in May 2010
- › Daily production is currently at 62 barrels of oil

This project is located near the town of Natchez, Mississippi in the Southwest part of the state. Aus-Tex has its initial focus on the Ellislie Plantation #1 well, with the Company holding an option to drill two additional wells on the same geologic trend.

Drilling of the first well began on March 5<sup>th</sup>, 2010. The well went on pump the week of April 19<sup>th</sup>. First oil production testing began in May and Aus-Tex began receiving first income from sales in June 2010.



**About the Well**

- The initial Ellislie Plantation #1 well is a re-drill operation of a previously producing well and it is currently on pump to production.
- This well, and the two wells that Aus-Tex holds an option for, represent the 16<sup>th</sup>, 17<sup>th</sup> and 18<sup>th</sup> wells that the operator has drilled in the same Wilcox formation. All three wells each share the same essential characteristics as the previous 15. Each is a re-drill of the last producing formation; must be a structurally high well with a proven reservoir and the last measured oil cut and volume is economically viable today
- The wells in this area typically produce for three to five years



**The Sebree oil project (Northwest, Kentucky USA)**

- › Aus-Tex holds a 50% WI and a 37.5% NRI
- › Target formation is Tar Springs Sand
- › Estimated recovery of 80,000 barrels of oil
- › Five well drilling program envisioned
- › Two wells currently drilled and shut-in pending completion of a salt water disposal well
- › Production is anticipated to recommence in September
- › Three additional wells to be drilled and completed prior to end of 2010
- › Daily production estimated at 24-32 barrels of oil



This project is located near the small town of Sebree, Kentucky in the north west part of the state. It is sometimes referred to by the mineral lease names associated with the project; the Russell and Major leases. Wells in this field produce both oil and saltwater.

After several weeks of oil production during December 2009 and January 2010, Aus-Tex determined that costs associated with saltwater removal via transport trucks was too expensive to continue pumping. At that time, the Sebree project was delivering nearly \$25,000 per month of income from oil production to the 100% interest of the parties while also creating nearly the same amount of expenses due to water removal via transport truck. The operator was instructed to temporarily shut-in the two producing wells and immediately began the EPA permitting process for a saltwater disposal injection well.



The saltwater disposal well was permitted by the state of Kentucky and has passed the Environmental Protection Agency MIT test. The operator anticipates having the disposal well in full operation shortly with a recommencement of oil production scheduled for September.

At that time Aus-Tex will then complete the three remaining wells on the Russell lease. The Company intends to test the Tar Springs formation in each well. All producing wells will utilize the saltwater injection well for disposal and a common tank battery for oil storage to sales.

**About the Project**

- Aus-Tex acquired this already producing asset on December 17<sup>th</sup> 2009.
- Quality infrastructure is in place, with oil transport and sales





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contracts completed.

- The primary hydrocarbon focus of this project is oil.
- Oil production from this property prior to the December 17<sup>th</sup> 2009 acquisition was emanating from a single well at rate of six-to-10 barrels of oil per day. The well produced an oil to water cut ratio between 12% and 17% (oil) thus water removal is a requirement.
- A reserve report and cash flow model was completed by a third party, JORC qualified geologist and it was released to the market on February 4<sup>th</sup>, 2010.
- The wells are located in Webster County, Kentucky

### The Park City oil and gas project (Southwest, Kentucky USA)

- › Aus-Tex holds a 100% WI and a 78.125% NRI
- › Target formations are the Limestone and New Albany
- › Proven reserves of 298,180 barrels of oil and 120,980 Mcf of gas
- › Probable reserves of 870,110 Mcf of gas
- › PIIP reserves of 9.79 BCF of gas
- › 17 wells have been drilled
- › Four of these have been completed. Three are currently producing oil and one is capable of producing gas but has been shut-in
- › Daily production is currently averaging three-to-five barrels of oil

### About the Project

This project is located near the small town of Park City, Kentucky in the Southwest part of the state. It was acquired by Aus-Tex late in 2008 as a large multi-well, shallow gas play.

Well operations on the original 857.82 acres became the responsibility of Aus-Tex on July 1<sup>st</sup> 2009. The original mineral lease area was acquired on this date as a result of a legal settlement between Aus-Tex

Exploration Inc. and the original operator, RET of Kentucky. The company now holds 1,637.4 acres of mineral leases. Current acreage holds 17 drilled wells in various stages of completion.



Since August 2009 the project has consistently generated between 65-to-114 barrels of oil per month from three shallow oils wells.

The company anticipates these wells will stay on production at the current flow rates for the next 15 to 20 years. Gas wells are also present, however, the Company has not been able to achieve the sale of this gas due to the closure of the nearby Atmos Gathering gas processing unit. The closure of the plant is the result of a legal dispute between Atmos and several nearby landowners. When the Atmos legal matters are resolved, Aus-Tex will begin evaluating a revised work program for this asset. Aus-Tex is also

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considering a work program that envisages completion of several currently shut-in wells into oil producers. The Company's acreage is surrounded by over 60 previously producing gas wells owned by other parties. These wells are also shut-in due to the gas processing plant closure.

A reserve report and cash flow model was completed by a third party JORC qualified geologist and it was released to the market on January 7<sup>th</sup>, 2010.

### About the Project

- The Atmos Gathering and Atmos Marketing companies have an exclusive area of mutual interest for the county of Edmonson that holds these wells. Because there is no other nearby processing facility with nitrogen removal capabilities, operators holding gas wells in this county must currently deliver and sell their gas to the Atmos companies.
- The primary hydrocarbon focus of this project is natural gas with a secondary focus on oil.
- The 1,637.4 acres of mineral leases provide adequate drilling opportunities for an estimated 30 to 100 additional wells. To determine a more accurate well count further testing of the natural gas producing New Albany shale formation will occur when the Atmos facility re-opens. At that time, a more specific work plan including well count, timing and production estimates for both oil and gas will be made.



### COMPETENT PERSON'S STATEMENT

In accordance with ASX and AIM rules, the information in this release has been reviewed and approved by Mr. Stanley L. Lindsey, Chief Geologist, Austin Exploration Limited. Mr. Lindsey holds a Bachelor of Science Degree in Geology with a minor in Chemistry and has over 30 years of oil and gas experience including exploration, development, operations, acquisitions and divestitures. His background also includes mapping, utilizing integration of 2-D and 3-D seismic with subsurface data and reserve calculations. He is a Certified Petroleum Geologist and has been a member of the American Association of Petroleum Geologists and the Houston Geological Society since 1979. He also belongs to the Society of Independent Professional Earth Scientists (SIPES). He is a Certified Petroleum Geologist by The American Institute of Professional Geologists (CPG #11331) and The American Association of Petroleum Geologists (CPG# 4005). Mr. Lindsey has the relevant experience within the industry and consents to the information in the form and context in which it appears.

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## CORPORATE GOVERNANCE STATEMENT

The Board of Austin Exploration Limited (Austin) seeks to practice the highest ethical and commercial standards while executing its responsibilities in directing the business and affairs of the Company on behalf of its shareholders.

The Board of Austin has considered the principles of good corporate governance and best practice recommendations as published by the ASX Corporate Governance Council (ASXCGC) in March 2003 and as revised in 2007. ASX Listing Rule 4.10.3 requires the Company to disclose the extent to which it follows or diverges from these best practice recommendations in its Annual Report.

This report discloses corporate governance practices Directors would like to highlight to stakeholders.

Additional information relating to corporate governance practices that the company has adopted can be found on the company's web site: [www.austinexploration.com.au](http://www.austinexploration.com.au).

### The Role of the Board & Management

The company has formalised and disclosed the roles and responsibilities of the board and those delegated to senior management.

The Board of the company is responsible for the overall corporate governance of the Austin Group, including its ethical behavior, strategic direction, establishing goals for management and monitoring the achievement of those goals with a view to optimising company performance and maximising shareholder value.

The role of management is to support the Chief Executive Officer and implement the running of the general operations and financial business of the company, in accordance with the delegated authority of the Board.

Full details of the matters reserved to the board and to senior management are available on the company's web site at [www.austinexploration.com.au](http://www.austinexploration.com.au).

Scheduled meetings of the Board are held at least eight times a year and the Board meets on other occasions to deal with matters that require attention between scheduled meetings. The responsibility for the operation and administration of the consolidated entity is delegated by the Board to the Chief Executive Officer.

The Board is responsible for:

- Setting the strategic direction of the company and establishing goals to ensure these strategic objectives are met;
- Appointing the Chief Executive Officer, setting objectives for the Chief Executive Officer and reviewing performance against those objectives, ensuring appropriate policies and procedures are in place for recruitment, training, remuneration and succession planning;
- Monitoring financial performance including approval of the annual and half-yearly financial reports and liaison with the company's auditors;
- Ensuring that risks facing the company and its controlled entities have been identified ensuring that appropriate and adequate controls, monitoring and reporting mechanisms are in place;
- Receiving detailed briefings from senior management on a regular basis during the year;
- Approving the Boards of Directors of subsidiary companies; and
- Ensuring the company complies with the law and conforms to the highest standards of financial and ethical behavior.

Austin has obligations to its stakeholders to ensure the company is managed with appropriate due diligence and that all necessary processes are implemented to minimise risk and maximise business opportunities.

To this end, all commercial arrangements, capital expenditure, operational expenditure and other commitments are appropriately documented and have been authorised by either the Chief Executive Officer or the board as appropriate.

The composition of the Board is determined in accordance with the Company's constitution and the following principles and guidelines:

- The Board should comprise of at least three Directors with at least two Non-Executive Directors;
- The Board should comprise of Directors with an appropriate range of qualifications and expertise; and

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- The Board should meet formally at least eight times per annum and informally on an as required basis with all Directors being made aware of, and having available, all necessary information, to participate in an informed discussion of all agenda items.

### Directors in Office

At the date of this statement the following directors are considered independent by the Board:

Name	Position	Independent
Mr Dominic Pellicano	Chairman & Non-Executive Director	No
Dr James Edwards	Non-Executive Director	Yes
Mr Guy Goudy	Non-Executive Director	Yes
Mr William Kefalianos	Non-Executive Director	Yes
Dr Mark Hart	Non-Executive Director	Yes

The skills, experience, expertise and tenure of each director are disclosed in the Directors' Report within this Annual Report.

### Director Independence

The board considers four of Austin's directors as independent under the guidelines.

In assessing the independence of directors, the board follows the ASX guidelines as set out:

An independent director is a non-executive director (ie is not a member of management) and:

- is not a substantial shareholder of the company or an officer of, or otherwise associated directly with, a substantial shareholder of the company;
- within the last three years has not been employed in an executive capacity by the company or another group member, or been a director after ceasing to hold any such employment;
- within the last three years has not been a principal of a material professional adviser or a material consultant to the company or another group member, or an employee materially associated with the service provided;
- is not a material supplier or customer of the company or other group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- has no material contractual relationship with the company or another group member other than as a director of the company;
- has not served on the board for a period which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the company; and
- is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the company.

Mr Pellicano is not considered to be independent because of his financial interest in Newtak Pty Ltd, which has undertaken a Participation Agreement with Aus-tex Exploration Pty Ltd (a wholly owned subsidiary of Austin Exploration Limited) for a non recourse loan against the revenues from the Park City and other oil and gas projects..

Through the Nominations Committee, which has met during the current financial year to consider appointments to management and the board, directors have considered the balance of skills and experience required of board members for the size and state of development of Legend. The board believes that it has the right numbers and skill sets within its board members for the current size of the company, and is confident that each non-executive director brings independent judgement to bear on board decisions.

Where additional skills are considered necessary for specific purposes, access is made to independent professional advice at the expense of the company.

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## Chairman and Chief Executive Officer

The ASXCGC Recommendations recommend that the chairperson be independent. Mr Pellicano is not considered independent by the board under the guidelines as set out.

The roles of chairman and Chief Executive Officer are not exercised by the same individual.

## Appointment to the Board

The Board has appointed a Nomination Committee to identify and recommend potential director appointments. Where a casual vacancy arises during the year, the Committee has procedures to select the most suitable candidate with the appropriate experience and expertise to ensure a balanced and effective board. Any director appointed during the year to fill a casual vacancy or as an addition to the current board, holds office until the next Annual General Meeting and is then eligible for re-election by the shareholders.

A copy of the Nomination Committee's Charter is available on the company's web site at [www.austinexploration.com.au](http://www.austinexploration.com.au). New directors receive a letter of appointment which sets out the terms of their appointment. On appointment, an induction program is available to directors that include one-on-one sessions with members of the senior management team.

## Evaluation of Senior Executives

Senior executives, including the Chief Executive Officer have a formal job description and letter of appointment describing their term of office, duties, rights, responsibilities and entitlements upon termination.

The performance of senior executives is reviewed annually before the budgets are approved for the next financial year. This process is a formal one with the executive's performance assessed against company, division and personal benchmarks. Benchmarks are agreed with the respective senior executives and reviews are based upon the degree of achievement against those benchmarks.

Induction procedures are in place to allow new senior executives to participate fully and actively in management decision-making. The induction program includes orientation of:

- The company's financial position, strategies, operations and risk management policies; and
- The respective rights, duties, responsibilities and roles of the board and senior executives.

A performance evaluation for senior executives has taken place in the reporting period and was in accordance with the process disclosed.

## Ethical Business Practices

The Company has adopted a Code of Conduct to maintain confidence in the company's integrity, its legal obligations and the expectations of its stakeholders. The company is committed to being a socially responsible corporate citizen, using honest and fair business practices, to act in the best interests of clients so as to achieve the best outcome for shareholders.

The Board has procedures in place for reporting any matters that may give rise to unethical practices or conflicts between the interests of a director or senior executive and those of the company. These procedures are reviewed as required by the board. To this end, the company has adopted a Conflict of Interest Policy that clarifies the processes for directors and senior executives to determine and disclose when a conflict of interest exists.

The Code of Conduct is available on the company's web site at [www.austinexploration.com.au](http://www.austinexploration.com.au).

## Shareholding and Trading

The Board encourages directors and senior executives to own shares in the company to further link their interests with the interests of all shareholders. Trading of shares by directors or senior executives is prohibited under certain circumstances and as described in the ASX Listing Rules and during certain periods of the financial year. A director or senior executive must not deal in the company shares at any time when he or she has unpublished information which, if generally available, might affect the share price. Directors are required to notify the Company Secretary following dealing.

The Trading Policy is available at the company's web site at [www.austinexploration.com.au](http://www.austinexploration.com.au).

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## Safeguard Integrity

The Board has established an Audit and Risk Management Committee comprised of the four non-executive directors. This committee operates under a charter to enable it to perform its role and responsibilities. The Charter is available at the company's web site at [www.austinexploration.com.au](http://www.austinexploration.com.au). Where considered appropriate, the company's external auditors and the company's management are invited to attend meetings. The members of the Audit and Risk Management Committee are:

Mr William Kefalianos (Chair), Mr Dominic Pellicano, Dr James Edwards, and Mr Guy Goudy.

The qualifications of members of the committee together with their attendances at committee meetings is disclosed in the Directors' Report within this Annual Report.

The role of the Audit and Risk Management Committee is to assist the board fulfill its responsibilities in relation to the identification of the areas of significant business risks and the monitoring of the following:

- Effective management of financial and other business risks;
- Reliable management reporting;
- Compliance with laws and regulations in respect to financial reporting;
- Maintenance of effective and efficient audits;
- Meeting with external auditors on a twice-yearly basis and informally as circumstances require; and
- Recommending to the board the appointment, rotation, removal and remuneration of the external auditors, and review their terms of engagement, and the scope and quality of the audit. Periodically, the Audit and Risk Management Committee reviews the appointment of the external audit engagement partners using a formal process of evaluation to determine the most appropriate level of skills and experience to suit the size and complexity of the company.

The Audit and Risk Management Committee provides the board with additional assurances regarding the reliability of financial information for inclusion in the financial statements. To that extent, the Company Secretary and the Chief Financial Officer are required to declare to the board that in their opinion the Financial Statements and notes to the Accounts within the Annual Report are in accordance with the Corporations Act 2001, comply with the Accounting Standards and the Corporations Regulations 2001 and give a true and fair view of the financial position of the company and are based upon a sound system of risk management and internal compliance and control prior to the signing of the Directors' Declaration in the Annual Report.

The committee is chaired by an independent chair who is not the chairman of the board.

## Independent Advice

The Board recognises that in certain circumstances individual directors may need to seek independent professional advice, at the expense of the company. Any advice so received will be made available to other directors.

## Timely and Balanced Disclosure

The board recognises the need to comply with ASX Listing Rule 3.1 concerning continuous disclosure.

At each meeting of directors, consideration is given as to whether notice of material information concerning the company, including its financial position, performance, ownership and governance has been made available to all investors.

The Continuous Disclosure Policy also requires senior executives in possession of disclosable information to comply with that policy.

The Continuous Disclosure Policy is available on the company's web site at [www.austinexploration.com.au](http://www.austinexploration.com.au).

## Communication with Shareholders

The board aims to ensure that shareholders, on behalf of whom they act, are informed of all major developments affecting the company's activities and its state of affairs, including information necessary to assess the performance of the directors.

Communication with shareholders is achieved through the distribution of the following information:

- The Annual Report distributed to shareholders;

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- The Half Yearly Report which is available on the company's web site;
- The Annual General Meeting and other meetings called to obtain shareholder approval for board action as appropriate. Shareholders are encouraged to attend and participate at the company's Annual General Meeting and other General Meetings;
- Letters to shareholders when considered to be appropriate and informative;
- Announcements to the Australian Securities Exchange; and
- Investor information through the Company's internet portal at [www.austinexploration.com.au](http://www.austinexploration.com.au).

The Company strives to ensure that company announcements via the ASX are made in a timely manner, are factual, do not omit material information and are expressed in a clear and objective manner.

The Communications Policy is available at the company's web site at [www.austinexploration.com.au](http://www.austinexploration.com.au).

### Shareholders' Role

The shareholders of the Company are responsible for voting on the election of directors at the Annual General Meeting in accordance with the constitution.

All directors (other than the Chief Executive Officer) are subject to re-election by rotation, no later than every three years.

The Annual General Meeting also provides shareholders with the opportunity to express their views on matters concerning the company and to vote on other items of business for resolution by shareholders.

The company's auditor, Grant Thornton SA Partnership, make available a partner of the firm (Mr Simon Gray or other), to be in attendance at the Annual General Meeting and to be available to answer shareholder questions in relation to the audit.

### Risk Management

The entire board is responsible for overseeing the risk management function. The company believes that it is crucial for all board members to be a part of the process and as such has established risk management as a component of the Audit and Risk Management Committee.

The board is responsible for ensuring the risks and opportunities are identified on a timely basis.

The board has a number of mechanisms in place to ensure the management's objectives and activities are aligned with the risks identified by the Committee. These include the following:

- Implementation of board approved operating plans and budgets;
- Board monitoring of progress against these budgets, including the monitoring of key performance indicators of both a financial and non financial nature; and
- The establishment of committees to report on specific risk as identified.

### Internal Risk Management System Compliance

Management is accountable to the Chief Executive Officer to ensure that operating efficiency, effectiveness of risk management procedures, internal compliance control systems and controls and policies are all being monitored. Management has designed and implemented a risk management and internal control system to manage the company's material business risks and reports to the board at each meeting on the effective management of those risks. The company has developed a series of operational risks which the company believes to be inherent in the industry in which the company operates. These include:

- Changed operating, market or regulatory environments;
- Fluctuations in demand volumes;
- Fluctuations in exchange rates; and
- Increasing costs of operations.

These risk areas are provided here to assist investors better understand the nature of the significant risks faced by the company.

The board requires the Company Secretary and Chief Financial Officer every half year to provide a statement confirming that a sound system of risk management and internal control is in place and that the system is operating effectively in all material respects in relation to financial risks. The board has received that assurance. The Risk Management Policy is available at the company's web site at [www.austinexploration.com.au](http://www.austinexploration.com.au).

# Austin Exploration Ltd and Controlled Entities ABN 98 114 198 471

## Monitoring Performance

The Board and senior management monitor the performance of all divisions through the preparation of monthly management accounts. The monthly management accounts are prepared using accrual accounting techniques and report each business unit's result as contribution after overhead allocation. These monthly management accounts are compared to monthly budgets, which have been set allowing for the seasonality of anticipated revenues and costs in each of the divisions.

The monitoring of the company's performance by the board and management assists in identifying the correct allocation of resources and staff to maximize the overall return to shareholders.

A performance evaluation for senior management was undertaken during the year and was in accordance with the process developed by the board for that purpose.

Details of the structure of non-executive directors' and senior executives' remuneration are included in the Remuneration Report within the Directors' Report in this Annual Report.

During the year the board undertook an informal performance review of the board, its committees and its directors, managed by the chair of the Remuneration Committee. The conclusions of the self assessment of the board's performance during the previous year and any recommendations for improvement which become apparent from that review, are discussed by the board.

The performance evaluation was undertaken using the process disclosed above.

## Nomination and Remuneration

### *Nomination Committee*

The Board has a Nomination Committee comprising the four non-executive Directors, Mr Dominic Pellicano (Chairman), Dr James Edwards, Mr William Kefalianos and Mr Guy Goudy. Their attendances at committee meetings is disclosed in the Directors' Report within this Annual Report.

The role of the Nomination Committee is to make recommendations to the board on the following matters:

- Determine the appropriate size and composition of the board;
- Determine the terms and conditions of appointment to and retirement from the board;
- Develop appropriate criteria for board membership;
- Reviewing membership of the board and proposing candidates for consideration by the board; and
- Arranging a review of the board's own performance.

The committee met during the year and considered that for the size of the company and the state of its development, the number of directors and their level of skills and experience was appropriate.

The Nomination Committee Charter is available at the company's web site at [www.austinexploration.com.au](http://www.austinexploration.com.au).

### *Remuneration Committee*

The Board has a Remuneration Committee comprising the four non-executive Directors, Mr Dominic Pellicano (Chairman), Dr James Edwards, Mr William Kefalianos, and Mr Guy Goudy

Details of the attendance of directors at committee meetings is disclosed in the Directors' Report in this Annual Report.

The role of the Remuneration Committee is to determine the company's remuneration plans, policies and practices, including compensation arrangements for the non-executive directors, executive directors, Chief Executive Officer and senior executives. It is also responsible for considering general remuneration policies and practices, recruitment and termination policies and superannuation requirements.

The company does not have a policy to preclude its executives from entering into transactions to limit their economic risk from investing in company shares, options or rights and has made executives aware of their obligations in relation to financial commitments against shares issued under the executive securities plan and has requested that they take sufficient professional advice in relation to their individual financial position.

The Remuneration Committee Charter is available at the company's web site at [www.austinexploration.com.au](http://www.austinexploration.com.au).

There are no retirement schemes or retirement benefits other than statutory benefits for non-executive directors.



# Austin Exploration Ltd and Controlled Entities ABN 98 114 198 471

## Directors' Report

The Directors of Austin Exploration Limited ("Austin") present their report, together with the financial statements of the Group, being the Company and its controlled entities, for the financial year ended 30 June 2010.

### Directors

Directors in office during the year and to the date of this report are:

#### **Dominic Pellicano**

Non-executive director and Chairman

(appointed a director on 25 July 2008. Appointed chairman on 10 February 2009)

Dominic has been in private practice as a Certified Practising Accountant (CPA) and a Legal Practitioner for over 30 years. He is currently the senior partner in the Accounting firm of Pellicano & Giovannucci which he founded in 1970. He is a Fellow of the Taxation Institute of Australia, a member of the Law Institute of Victoria and a CPA, Australia. Dominic has extensive experience in financial management and corporate governance and specialises in Taxation Law and Estate Planning.

#### **Dr. James Michael Edwards**

Non-executive director

(appointed a director on 14 March 2006)

Dr. Edwards has been actively engaged in USA and international oil exploration and exploitation for more than 30 years. He has participated in oil and gas discoveries in Australia, Columbia, Equatorial Guinea, France, Norway, Trinidad, Thailand, the United Kingdom and the United States of America. Dr. Edwards has held senior executive positions with Tenneco Oil Company, Triton Corporation, and Daytona Energy Corporation.

#### **Guy Thomas Goudy**

Non-executive director

(appointed a director on 13 July 2009)

Guy trained at the University of Technology, Sydney (UTS) where he holds various formal qualifications in Business Studies. For the last three years Guy has been employed in the financial services sector and has been an authorised representative with a leading stock broking and financial advisory firm.

#### **William Kefalianos**

Non-executive director

(appointed a director on 30 July 2009)

William graduated in 1975 from Monash University with a Bachelor of Economics degree. He is a Fellow of the Taxation Institute of Australia, a registered tax agent and a member of the National Institute of Accountants. William is currently the principal of accounting firm MMI Financial Partners Pty Ltd. Over the last 20 years, he has held many and varied management consultancy roles including commercial systems development, dispute resolution and corporate and private planning.

#### **Dr. William Mark Hart**

Non-executive director

(appointed 3 June 2010)

Dr. Hart has more than 30 years of executive experience across the world in a number of major mining and energy companies, including Newmont Mining Company, Cyprus Coal Australia, and leading clean-energy power generation company, NRG Energy Inc. and American Electric Power Fuel Supply Company.

President of Colorado-based energy consultancy, MATH Energy 1, Dr. Hart also serves as a Visiting Professor at the Colorado School of Mines, where he teaches classes in carbeneous fuels-to-liquids, gas and power, and is an Adjunct Professor.

Dr. Hart has successfully led organizations of between 200 and 10,000 employees in a variety of executive capacities in the United States, Australia, Italy, Canada, Latin America, Europe and the Middle East.

#### **David Max Schuette**

Managing Director

(appointed Managing Director on 3 June 2005, resigned 5 August 2009)

David is the founder of DMS Exploration, an independent Texas oil and gas exploration company. Prior to founding DMS Exploration, he held executive positions with French Petroleum and Torch Energy Advisors in Houston, Texas. He has been an advisor to and investor in the oil and gas industry and brings over 25 years of experience to Austin Exploration.

### Director Independence

The board considers non-executive directors James Edwards, Guy Goudy and William Kefalianos as independent as defined under the guidelines of the ASX Corporate Governance Council. Dominic Pellicano is not considered independent.

# Austin Exploration Ltd and Controlled Entities ABN 98 114 198 471

## Directors' Report

### Performance of Directors

In accordance with Principle 8(1) of the ASX Corporate Governance Principles and Recommendations (2<sup>nd</sup> Edition) the board is required to conduct a review of the performance of its directors and the board's function as a whole during the period. The evaluation of directors was undertaken informally in this year because of the retirement and replacement of directors during the year. The principle of director performance review in accordance with the process established by the board, led by the chairman of the Remuneration committee will be re-instated and will be assessed in June 2011.

### Company Secretary

Graham Allan Seppelt (appointed 17 July 2007)

Mr Seppelt is a Certified Practising Accountant (CPA) and has had extensive experience as a contract accountant and in corporate advisory roles. He is currently the company secretary for ASX listed BSA Limited, Strzelecki Metals Limited, Legend Corporation Limited, Mesbon China Nylon Limited and Uranium Exploration Australia Limited.

### Directors' Meetings

The number of directors meetings and number of meetings attended by each of the directors of the company during the financial year are:

Director	Director's Meetings		Audit Committee Meetings		Remuneration Meetings	
	A	B	A	B	A	B
Dominic Pellicano	11	12	2	2	1	1
David Schuette	1	3	*	*	0	0
James Edwards	8	12	1	2	0	1
Guy Goudy	10	12	2	2	1	1
William Kefalianos	10	10	2	2	1	1
William Hart	0	0	0	0	0	0

A Number of Meetings attended

B Number of Meetings held while the director was in office

\* Not a member of the Committee

### Principal Activities

The principal activities of the Consolidated Group during the year consisted of the accumulation and acquisition of mineral prospective areas and the exploration for oil and gas in both the United States of America and Australia.

### Financial Position

The net loss after income tax of the Consolidated Entity for the year ended 30 June 2010 was \$4,078,186.

### Dividends Paid or Recommended

No dividends were paid or declared since the start of the year. No recommendation for payments of dividend have been made.

## Austin Exploration Ltd and Controlled Entities ABN 98 114 198 471 Directors' Report

### Review of Operations

A review of the operations of the economic entity during the financial year and the results of those operations are as follows:

a) *Exploration*

UNITED STATES				
Prospect Name	Park City	North Carrizo	Sebree	Armstrong
Well Name(s)	Listed on company web site	Yolanda Villarreal No. 1-H	Russel 1A	Ellislie Plantation #1
Location	Edmonson County, Kentucky USA	Dimmitt County, Texas USA	Webster County, Kentucky USA	Natchez, Mississippi USA
Ownership Interest	Working Interest 100% - Revenue Interest 78.25%	Working Interest BCP = 45% ACP=36% NRI= 27.6%	Working Interest 50% Revenue Interest 37.5%	Working Interest 50% Revenue Interest 37.5%
Partners / Operators	Operator of record No JV Partner	Alamo Operating Company	KOS Energy Ltd	Dow Tate Energy LLC
Objective / Focus	Sallow low cost long life oil wells	Oil Dual Lateral Austin-Chalk	Oil Shallow long life targeting Tar Springs	Re-entry of once uncommercial Well targeting Wilcox formation
Independent Evaluations	Several	Ameritex, San Antonio Texas	BARRY L. WHELAN, P.Ge., F.G.A.C. Vancouver, B.C. V6C1G8	BARRY L. WHELAN, P.Ge., F.G.A.C. Vancouver, B.C. V6C1G8
Current Status	17 wells drilled to date, 4 of those completed as oil wells and now on production	In production- Natural flow	Water disposal well nearing completion. EPA approved. 4 wells scheduled for completion	In production- On pump
Next Steps	Geographical and Geologic study	Wait for natural pressure to decline and put on pump	Complete 4 wells into production	Monitor daily production

# Austin Exploration Ltd and Controlled Entities ABN 98 114 198 471

## Directors' Report

### b) Corporate Matters

#### Capital Raising

- On 14 July 2009 the company made a placement of 16,000,000 ordinary shares at \$0.04 per share to sophisticated investors to raise \$640,000.
- On 12 October 2009 the company made a placement of 1,900,000 ordinary shares at \$0.04 per share to sophisticated investors to raise \$76,000.
- On 8 October 2009 the company announced a fully underwritten non-renounceable 1:1 Rights Issue of shares at \$0.05 per share together with a 1:2 free attaching Option with an exercise price of \$0.10 per option before 19 November 2011. The 143,025,859 shares which were issued raised \$7,151,293 before costs.
- On 22 December 2009, the company issued 9,000,000 ordinary shares to directors and consultants for no value (but with an imputed value of \$0.05 per share) together with 9,000,000 free attaching options with an exercise price of \$0.10 per option before 30 November 2011.
- On 29 January 2011, the company issued 75,000,000 options to the underwriter of the 1:1 Rights Issue for \$0.002 per Option to raise \$150,000 and with an exercise price of \$0.10 before 19 November 2011

#### Modification of Officers and Directors

On 5 August 2009 Mr David Schuette was terminated from the Board of Directors of Austin Exploration Limited under the terms of his employment and consultancy agreements.

On 3 June 2010 Dr. William Hart joined the Board of Directors of Austin Exploration Limited.

#### Significant Changes in the State of Affairs

The following significant changes in the state of affairs of the consolidated group occurred during the financial year:

Net increase in issued capital to \$21,412,224 (2009: \$13,993,049) as a result of the following:

- Issue of 143,025,859 fully paid ordinary shares at \$0.05 per share to raise \$7,151,293; and
- Issue of 17,900,000 fully paid ordinary shares at \$0.04 per share to raise \$716,000.

#### After Balance Date Events

There has been no significant events after reporting date.

#### Future Developments

The likely future developments of the Consolidated Group during the next financial year will involve the ongoing principal activity of oil and gas exploration. The Group anticipates the establishment of revenues from its portfolio of prospects and will continue to pursue new prospects in line with its financial resources and ability to acquire appropriate funding.

#### Environmental Regulations and Performance

The Consolidated Entity is subject to significant environmental regulations under Federal and/or State and/or Territory laws in both Australia and the USA. The Consolidated Entity has not been advised of any environmental breaches during the year.

#### Proceedings on Behalf of Company

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or part of those proceedings. The Company was not a party to any such proceedings during the year.

# Austin Exploration Ltd and Controlled Entities ABN 98 114 198 471

## Directors' Report

### REMUNERATION REPORT - AUDITED

This report details the nature and amount of emoluments for each key management person of the group, and for the executives receiving the highest remuneration.

#### Remuneration policy

The Groups's remuneration policy has been designed to align director and executive objectives with shareholder and business objectives, by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the consolidated group's financial results. The Board believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best executives and directors to run and manage the consolidated group, as well as create goal congruence between directors, executives and shareholders.

The Board's policy for determining the nature and amount of remuneration for Board members and senior executives of the consolidated entity is as follows:

- The remuneration policy, setting the terms and conditions for the executive directors and other senior executives, was developed and approved by the Board;
- All executives may receive a base salary (which is based on factors such as length of service and experience), superannuation, fringe benefits, options and performance incentives;
- The Board reviews executive packages annually by reference to the consolidated group's performance, executive performance and comparable information from industry sectors.

The performance of executives is measured against criteria agreed annually with each executive and is based predominantly on the forecast growth of shareholders' value. The Board may, however, exercise its discretion in relation to approving incentives, bonuses and options, and can recommend changes to the committee's recommendations. The policy is designed to attract the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth.

Executives are also entitled to participate in the employee share and option arrangements.

Any Australian executive directors and executives receive a superannuation guarantee contribution required by the government, which is currently 9%, and do not receive any other retirement benefits.

All remuneration paid to directors and executives is valued at the cost to the Company and is expensed. Shares given to directors and executives are valued as the difference between the market price of those shares and the amount paid by the director or executive. Options are valued using the Black-Scholes methodology.

The Board's intention is to remunerate non-executive directors at market rates for time, commitment and responsibilities. The Remuneration Committee determines payments to the non-executive Directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting and currently stands at \$500,000 in total. Fees for non-executive directors are not linked to the performance of the consolidated group. However, to align Directors' interests with shareholder interests, the directors are encouraged to hold shares in the Company (but not trade in them) and have been granted options.

# Austin Exploration Ltd and Controlled Entities ABN 98 114 198 471

## Directors' Report

### Remuneration Details

Details of the remuneration of the directors, the key management personnel of the Group (as defined in AASB 124 Related Party Disclosures) and specified executives of the company and the Group are set out in the following tables.

<b>Group Key Management Personnel</b>	<b>Position held at 30 June 2009 and any changes during the year</b>	<b>Contract Details (Duration &amp; Termination)</b>	<b>Proportions of elements of remuneration not related to performance</b>
Dominic Pellicano	Chairman.	Retirement by Rotation	100%
Dr. James Edwards	Non-executive Director	Retirement by Rotation	100%
Mr. Guy Goudy	Non-executive Director. Appointed 13 July 2009	Retirement by Rotation	100%
Mr. William Kefalianos	Non-executive Director. Appointed 30 July 2009	Retirement by Rotation	100%
Dr. William Hart	Non-executive Director. Appointed 3 June 2010	Retirement by Rotation	100%
<b>Group Key Management Personnel</b>	<b>Position held at 30 June 2009 and any changes during the year</b>	<b>Contract Details (Duration &amp; Termination)</b>	<b>Proportions of elements of remuneration not related to performance</b>
Kenneth Hill	VP Operations& Investor Relations	No fixed term	100%
Stanley Lindsey	Chief Geologist	No fixed term	100%
Graham Seppelt	Company Secretary	No fixed term	100%

**Austin Exploration Ltd and Controlled Entities ABN 98 114 198 471**  
**Directors' Report**

2010	Short-term benefits		Post employment	Equity-settled share-based payments		Total
	Salary, Fees and Commissions Paid	Salary, Fees and Commissions Accrued & Payable	Super-annuation Contributions	Options	Shares	
	\$	\$	\$	\$	\$	\$
Directors						
Dominic Pellicano	70,000	-	-	13,492	250,000	333,492
David Schuette	-	-	-	-	-	-
Dr. James Edwards	40,030	-	-	2,698	50,000	92,728
Mr. Guy Goudy	38,333	-	-	2,698	50,000	91,031
Mr. William Kefalianos	36,667	-	-	2,698	50,000	89,365
Dr. William Hart	3,667	-	-	-	-	3,667
Key Management Personnel						
Kenneth Hill	155,878	-	-	-	-	155,878
Stanley Lindsey	168,089	-	-	-	-	168,089
Graham Seppelt	53,418	2,750	-	2,698	50,000	108,866
	<b>566,082</b>	<b>2,750</b>	<b>-</b>	<b>24,284</b>	<b>450,000</b>	<b>1,043,116</b>

2009	Short-term benefits		Post employment	Equity-settled share-based payments		Total
	Salary, Fees and Commissions Paid	Salary, Fees and Commissions Accrued &	Super-annuation Contributions	Options	Shares	
	\$	\$	\$	\$	\$	\$
Directors						
Dominic Pellicano	13,333	43,334	-	-	-	56,667
David Schuette	127,533	-	-	-	-	127,533
Dr. James Edwards	8,502	25,507	-	-	-	34,009
Paul Teisseire	44,000	-	-	-	-	44,000
Key Management Personnel						
Kenneth Hill	115,631	133,769	-	6,556	-	255,956
Stanley Lindsey	187,048	-	-	11,753	-	198,801
Graham Seppelt	32,472	8,910	-	-	-	41,382
	<b>528,519</b>	<b>211,520</b>	<b>-</b>	<b>18,309</b>	<b>-</b>	<b>758,348</b>

# Austin Exploration Ltd and Controlled Entities ABN 98 114 198 471

## Directors' Report

### Service Agreements

During the year the company had service agreements with Messrs David Schuette and Kenneth Hill. A summary of the terms of those agreements are as follows:

#### **David Schuette – Managing Director (Since terminated on 5 August 2009)**

Under an agreement dated 12 May 2006 which expired on 12 May 2008 and was extended for two years from that date, between David Max Schuette and the Company, Schuette was appointed as Managing Director (Managing Director) of the Company. As part of the agreement, the Managing Director is required to manage and supervise the day to-day operations of the Company in accordance with the Company's business plans and budgets and will be based partly in Austin, Texas, USA and partly in Adelaide, South Australia, Australia.

The Managing Director was granted at the commencement of the term of employment 2,000,000 A class options to acquire one share each in the Company at AUD\$0.30 per share. All options must be exercised no later than 4.00pm on 31 December 2011.

The Managing Director may terminate his employment, without cause, at any time by 90 days written notice. The Company may not terminate without cause during the two year term of the employment, but it may then do so if the term is extended by a further period (or periods) of 1 year. In that event, the Company must make a severance payment equal to 3 months remuneration. The Company may terminate the Managing Director's employment for reasons which include:

- (a) if the Managing Director fails to carry out the agreed services in a competent and satisfactory manner; or
- (b) if the Managing Director engages in serious and wilful misconduct or gross neglect in discharging the duties under the agreement.

The Company may also terminate the Managing Director's employment if he is no longer able to perform his services for a consecutive period of 150 days or more (or an aggregate of 200 days in any 12 month period) due to illness, incapacity or accident.

The Managing Director is restrained from involvement with other organisations which may compete with the Company in places where it conducts operation, but is otherwise unrestrained from other unrelated activities. The Managing Director may spend no more than 25% of his available time on independent business activities not related to the Company.

In addition to the above, under an agreement dated 12 May 2006 which expired on 12 May 2008 and was extended for two years from that date, between David Max Schuette and AUS-TEX, Mr Schuette was contracted as a Consultant to AUS-TEX. The Consultant is appointed as AUS-TEX's President and Chief Executive Officer, and to provide strategic technical and business development services in accordance with that company's business plans and budgets (from time to time). The consultancy will require services to be performed partly in Adelaide, South Australia, Austin, Texas, USA and other locations in which AUS-TEX presently conducts, or in the future may conduct, operations.

The Consultant is contracted for a term of 2 years, unless the consultancy is terminated earlier in accordance with the consultancy agreement, in which case the agreement may be terminated by giving 90 days notice by either party. AUS-TEX may extend the consultancy beyond that term for a further period (or periods) of 1 year each. The Consultant will receive an annual consultancy fee of USD\$150,000.00. In June 2008, the directors extended the agreement for a further 2 years and increased Mr. Schuette's total annual compensation to \$225,000. AUS-TEX also reimburses the Consultant for all reasonable and necessary business expenses properly incurred in the performance of the Consultant's services, including travel expenses to and from Australia and the USA and other destinations directed by AUS-TEX from time to time.

The services of David Schuette were terminated under the terms of the employment and consultancy agreements on 5 August 2009.

#### **Kenneth Hill – VP Operations and Investor Relations**

Kenneth Hill was contracted as a Consultant to AUS-TEX.

Under the consulting agreement, the Consultant was appointed as AUS-TEX's Chief information officer to provide information technology support to the company and to its investors. A secondary responsibility of this position is focused on the company's information technology infrastructure build-out and the support services needed to keep the system operational. He also assists the Managing Director with the day to day management of operations and business processes of the company, in accordance with its business plans and budgets.

The consultancy required services to be performed partly in Adelaide, South Australia, Texas, USA and other locations in which AUS-TEX presently conducts, or in the future may conduct, operations.

The Consultancy agreement was initially for a term of 2 years, and thereafter was renewable annually. The consultancy agreement was not renewed in 2010. The Consultant received an annual consultancy fee of USD\$150,000 at the commencement of the consultancy. In February 2008, Mr Hill received 1,000,000 D class options to acquire one share each in the Company at AUD\$0.24 per share. The issue of 125,000 of those options have not vested as at 30 June 2010.



# Austin Exploration Ltd and Controlled Entities ABN 98 114 198 471

## Directors' Report

### Share-based Compensation

Options over ordinary shares in Austin Exploration Limited were granted to the Board and Key Management Personal in November 2009 as reward for services rendered to the company.

The terms and conditions of each grant of options affecting remuneration in the current and future reporting periods are as follows:

Name	Grant Date	Date vested and exercisable	Expiry Date	Exercise Price	Value per option at grant date
Dominic Pellicano	22/12/2009	31/05/2010	30/11/2011	\$0.10	nil
Dr. James Edward	22/12/2009	31/05/2010	30/11/2011	\$0.10	nil
Mr. Guy Gould	22/12/2009	31/05/2010	30/11/2011	\$0.10	nil
Mr. William Kefalianos	22/12/2009	31/05/2010	30/11/2011	\$0.10	nil
Mr. Graham Seppelt	22/12/2009	31/05/2010	30/11/2011	\$0.10	nil

Options granted carry no dividend or voting rights.

The incremental options vest monthly during the continuation of services provided by Kenneth Hill and will lapse if services cease to be provided.

Details of options over ordinary shares in the group provided as remuneration are set out below. When exercised, each option is converted into one ordinary share of Austin Exploration Limited. Further information on the options is set out in note 26 to the financial statements.

Name	Number of options granted during the year		Number of options vested during the year	
	2010	2009	2010	2009
Dominic Pellicano	5,000,000	-	5,000,000	-
Dr. James Edward	1,000,000	-	1,000,000	-
Mr. Guy Gould	1,000,000	-	1,000,000	-
Mr. William Kefalianos	1,000,000	-	1,000,000	-
Mr. Graham Seppelt	1,000,000	-	1,000,000	-
Kenneth Hill	-	-	-	208,333
Stanley Lindsey	-	500,000	-	500,000

The assessed fair value at grant date of options granted to the individuals is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables above. Fair values at grant date are independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

### **Shares provided on exercise of remuneration options**

No options were exercised during the year ended 30 June 2010

### **Directors Interests in Shares and Options**

The information on directors' interests in shares and options is set out in note 6 of the financial statements.

### **End of audited Remuneration Report.**

### **Retirement, Election and Continuation in Office of Directors**

Directors are subject to retirement by rotation and election by shareholders at a general meeting. No director other than the Managing Director, may remain on the Board for more than three years without reelection. Where a director is appointed during the year, the director will hold office until the next Annual General Meeting and then be eligible for election.

# Austin Exploration Ltd and Controlled Entities ABN 98 114 198 471

## Directors' Report

William Hart was appointed as director on 3 June 2010 and in accordance with the constitution retire as directors at the annual general meeting. Being eligible, Dr. Hart will offer himself for re-election.

Dominic Pellicano is the director retiring by rotation who, being eligible, offers himself for re-election.

### Indemnifying Officers and Auditors

The Company has entered into Deeds of Indemnity with each of the Directors and Company Secretary and has taken out Directors and Officers Insurance (D&O) on behalf of each of the Directors and Company Secretary.

No liability has arisen under this indemnity as at the date of this report.

### Options

As at the date of this report, the unissued ordinary shares of Austin Exploration Limited under option are as follows:

Grant Date	Date of Expiry	Exercise Price	Number under Option	Class
19/5/2007	30/6/2011	\$0.30	5,400,000	A
12/5/2007	30/6/2011	\$0.50	12,600,000	B
12/5/2007	30/6/2011	\$0.75	12,600,000	C
28/2/2008	28/2/2013	\$0.24	1,000,000	D
28/1/2009	15/10/2011	\$0.20	500,000	F
08/10/2009	19/11/2011	\$0.10	71,512,930	Listed
22/12/2009	19/11/2011	\$0.10	9,000,000	G
09/01/2010	19/11/2011	\$0.10	75,000,000	Listed

No ordinary shares of Austin Exploration Limited were issued on the exercise of options during the reporting year. No further shares have been issued since that date. No amounts are unpaid on any of the shares.

No person entitled to exercise the option had or has any right by virtue of the option to participate in any share issue of any other body corporate.

### Non Audit Services

The company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the company and/or group are important.

The board of directors has considered the position and, in accordance with advice received from the audit committee, is satisfied that the provision of the non audit services is compatible with the general standards of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the provision of non audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- All non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor;
- None of the services undermine the general principles relating to auditor independence as set out in APES Code of Ethics for Professional Accountants.

# Austin Exploration Ltd and Controlled Entities ABN 98 114 198 471

## Directors' Report

Details of the amounts paid or payable to the auditor for non-audit services during the year are set out below.

### Auditor's Remuneration

	Consolidated	
	2010	2009
	\$	\$
Amounts paid/payable to Grant Thornton for:		
- taxation services	24,310	5,100
<b>Total</b>	<b>24,310</b>	<b>5,100</b>

### Auditors Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 has been included.

Signed in accordance with a resolution of the Board of Directors:



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Dominic Pellicano  
Director

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**AUDITOR'S INDEPENDENCE DECLARATION  
TO THE DIRECTORS OF AUSTIN EXPLORATION LIMITED**

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Austin Exploration Limited for the year ended 30 June 2010, I declare that, to the best of my knowledge and belief, there have been:

- a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b no contraventions of any applicable code of professional conduct in relation to the audit.

Yours faithfully  
GRANT THORNTON  
South Australian Partnership  
Chartered Accountants



S J Gray  
Partner

Adelaide, 30 September 2010

**Austin Exploration Ltd and Controlled Entities ABN 98 114 198 471**  
**Statement of Comprehensive Income**  
**For the year ended 30 June 2010**

	Note	Consolidated Group 2010 \$	2009 \$
Revenues from ordinary activities	3	461,385	53,730
Directors Fees		(188,697)	(156,080)
Share based payments		(474,286)	-
Employee benefits expense		(409,873)	(886,180)
Borrowing costs expense	4	(1,026,247)	(1,275,172)
Impairment charges		(1,187,796)	(520,053)
Depreciation and amortisation expenses	4	(78,368)	(59,042)
Other expenses from ordinary activities		(1,667,590)	(1,401,283)
<b>Loss from ordinary activities before income tax</b>		<b>(4,571,472)</b>	<b>(4,244,080)</b>
<b>Income tax expense</b>	<b>5</b>	<b>(185,135)</b>	<b>-</b>
<b>Net loss for the year</b>		<b>(4,756,607)</b>	<b>(4,244,080)</b>
<b>Other comprehensive income</b>			
Exchange rate difference on transacting foreign controlled entities		(63,880)	279,635
<b>Other comprehensive income for year</b>			
<b>Net of tax</b>		<b>(63,880)</b>	<b>279,635</b>
<b>Total comprehensive income for year</b>		<b>(4,820,487)</b>	<b>(3,964,445)</b>
<b>Loss attributed to:</b>			
Members of the parent entity		(4,756,607)	(4,244,080)
Non controlling interest		-	-
		<b>(4,756,607)</b>	<b>(4,244,080)</b>
<b>Total comprehensive income attributed to:</b>			
Members of the parent entity		(4,820,487)	(3,964,445)
Non controlling interest		-	-
		<b>(4,820,487)</b>	<b>(3,964,445)</b>
<b>Overall operations:</b>			
Basic earnings per share (cents per share)	8	(2.06)	(3.44)

**Austin Exploration Ltd and Controlled Entities ABN 98 114 198 471**  
**Statement Financial Position As At 30 June 2010**

	Note	Consolidated Group 2010 \$	2009 \$
<b>Current Assets</b>			
Cash and cash equivalents	9	3,599,437	296,580
Trade and other receivables	10	93,849	4,737
Other current assets	11	25,121	20,956
<b>Total Current Assets</b>		<b>3,718,407</b>	<b>322,273</b>
<b>Non-Current Assets</b>			
Financial assets	19	32,377	8,582
Property, plant and equipment	12	27,479	75,282
Development and producing assets	13	1,809,925	-
Exploration and evaluation assets	14	3,651,722	4,574,682
<b>Total Non-Current Assets</b>		<b>5,521,503</b>	<b>4,658,546</b>
<b>Total Assets</b>		<b>9,239,910</b>	<b>4,980,819</b>
<b>Current Liabilities</b>			
Trade and other payables	15	469,470	311,845
Short term borrowings	16	3,971,484	2,796,750
<b>Total Current Liabilities</b>		<b>4,440,954</b>	<b>3,108,595</b>
<b>Non-Current Liabilities</b>			
Long term borrowings	16	993,934	1,325,312
<b>Total Non-Current Liabilities</b>		<b>993,934</b>	<b>1,325,312</b>
<b>Total Liabilities</b>		<b>5,434,888</b>	<b>4,433,907</b>
<b>Net Assets</b>		<b>3,805,022</b>	<b>546,912</b>
<b>Equity</b>			
Issued Capital	17	21,897,359	13,993,049
Reserves		162,309	51,902
Retained profits / (Accumulated losses)		(18,254,646)	(13,498,039)
<b>Total Equity</b>		<b>3,805,022</b>	<b>546,912</b>

**Austin Exploration Ltd and Controlled Entities ABN 98 114 198 471**  
**Statement of Changes in Equity**

**CONSOLIDATED GROUP**

	Issued Capital \$	Share options Premium Reserve	Share-based Payments Reserve \$	Foreign Currency Reserve \$	Retained Profits/ (losses) \$	Total \$
<b>Balance at 1 July 2008</b>	12,993,049	-	55,492	(294,978)	(9,253,959)	3,499,604
Share issued during the year	1,000,000	-	-	-	-	1,000,000
Options Reserve on recognition of the bonus element of options	-	-	11,753	-	-	11,753
Total comprehensive income for the year	-	-	-	279,635	(4,244,080)	(3,964,445)
<b>Balance at 30 June 2009</b>	13,993,049	-	67,245	(15,343)	(13,498,039)	546,912
Share issued during the year	8,336,293	-	-	-	-	8,336,293
Transaction costs	(431,983)	-	-	-	-	(431,983)
Options Reserve on recognition of the bonus element of options	-	-	24,287	-	-	24,287
Premium on share options issued	-	150,000	-	-	-	150,000
Total comprehensive income for the year	-	-	-	(63,880)	(4,756,607)	(4,820,487)
<b>Balance at 30 June 2010</b>	21,897,359	150,000	91,532	(79,223)	(18,254,646)	3,805,022

**Austin Exploration Ltd and Controlled Entities ABN 98 114 198 471**  
**Statement of Cash Flows for Year Ended 30 June 2010**

	Note	Consolidated Group 2010 \$	2009 \$
<b>Cash Flow From Operating Activities</b>			
Receipts from customers		290,371	49,884
Payments to Suppliers and employees		(2,165,532)	(2,333,895)
Interest received		105,790	35,048
<b>Net cash used in operating activities</b>	22	<b>(1,769,371)</b>	<b>(2,248,963)</b>
<b>Cash Flow From Investing Activities</b>			
Payments for plant and equipment		-	(47,206)
Payments for development activities		(1,848,151)	(60,907)
Payments for explorations activities		(472,968)	(276,546)
Proceeds for disposal of plant		-	870
<b>Net cash used in investing activities</b>		<b>(2,321,119)</b>	<b>(383,789)</b>
<b>Cash Flow From Financing Activities</b>			
Proceeds of issue of shares		8,036,293	479,947
Payment for capitalised costs of capital raising		(617,118)	-
<b>Net cash provided by (used in) financing activities</b>		<b>7,419,175</b>	<b>479,947</b>
<b>Net increase (decrease) in cash held</b>		<b>3,328,685</b>	<b>(2,152,805)</b>
Cash at the beginning of the year		296,580	2,340,000
Foreign currency movement		(25,828)	109,385
<b>Cash at the end of the year</b>	9	<b>3,599,437</b>	<b>296,580</b>



**Austin Exploration Ltd and Controlled Entities ABN 98 114 198 471**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2010**

The financial report includes the consolidated financial statements and notes of Austin Exploration Limited and controlled entities (Group) of Austin Exploration Limited which is a listed public company, incorporated and domiciled in Australia.

**Note 1: Statement of Significant Accounting Policies**

**Basis of preparation**

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, including Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions to which they apply. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Reporting Standards. Material accounting policies adopted in the preparation of this financial report are presented below and have been consistently applied unless otherwise stated.

The financial report of Austin Exploration Limited for the year ended 30 June 2010 was authorised for issue in accordance with a resolution of the directors on 30 September 2010.

The financial report has been prepared on an accruals basis and is based on historical costs modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

The following is a summary of the material accounting policies adopted by the company in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

**Accounting Policies**

**a. Principles of consolidation**

A controlled entity is any entity over which Austin Exploration Limited has the power to govern the financial and operating policies so as to obtain benefits from its activities. In assessing the power to govern, the existence and effect of holdings of actual and potential voting rights are considered.

A list of controlled entities is contained in Note 20 to the financial statements. All controlled entities have a June financial year end.

As at the reporting date, the assets and liabilities of all controlled entities have been incorporated into the consolidated financial statements as well as their results for the year then ended. Where controlled entities have entered/(left) the consolidated group during the year, their operating results have been included/(excluded) from the date control was gained/(ceased).

All inter-group balances and transactions between entities in the consolidated group, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those adopted by the parent entity.

Investments in subsidiaries are accounted for at cost in the individual financial statements of Austin Exploration Limited.

**b. Revenue**

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Revenue from the rendering of a service is recognised upon the delivery of the service to the customers.

Revenue from sale of oil and gas is recognised in the period in which the sale of gas and oil occurs.

All revenue is stated net of the amount of goods and services tax (GST).

**Austin Exploration Ltd and Controlled Entities ABN 98 114 198 471**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2010**

**c. Income tax**

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted or are substantially enacted as at reporting date. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authorities.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are recognised for all temporary differences, between carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases, at the tax rates expected to apply when the assets are recovered or liabilities settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. Exceptions are made for certain temporary differences arising on initial recognition of an asset or a liability if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which the benefits of the deferred tax asset can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the Consolidated entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

**d. Trade receivables**

Trade receivables and other receivables are carried at amounts due less any provision for specific doubtful debts.

**e. Impairment of assets**

At each reporting date, the group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the statement of comprehensive income.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

**f. Interests in joint ventures**

The consolidated group's share of the assets, liabilities, revenue and expenses of joint venture operations are included in the appropriate items of the consolidated financial statements. Details of the consolidated group's interests are shown at Note 20b.

The consolidated group's interests in joint venture entities are brought to account using the equity method of accounting in the consolidated financial statements.

**g. Exploration, evaluation and development expenditure and restoration provisions**

Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves. A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

**Austin Exploration Ltd and Controlled Entities ABN 98 114 198 471**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2010**

Costs of site restoration are provided over the life of the facility from when exploration commences and are included in the costs of that stage. Site restoration costs include the dismantling and removal of mining plant, equipment and building structures, waste removal, and rehabilitation of the site in accordance with clauses of the mining permits. Such costs have been determined using estimates of future costs, current legal requirements and technology on an undiscounted basis.

Any changes in the estimates for the costs are accounted on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly the costs have been determined on the basis that the restoration will be completed within one year of abandoning the site.

**h. Amortisation of mineral development expenditures**

The group amortises its development assets over the effective useful life of those assets. At each reporting date, the group reviews the carrying value of its production assets to ensure that the expected proceeds from revenue associated with those assets will recover the carrying value of the assets held.

**i. Property, plant and equipment**

Each class of property, plant and equipment are carried at cost less, where applicable, any accumulated depreciation and impairment losses.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The net expected cash flows have been discounted to their present values in determining recoverable amounts.

**j. Depreciation**

Items of property, plant and equipment, are depreciated over their estimated useful lives ranging from 3 to 40 years to write off the net cost of each asset during its expected useful life to the group. The straight line method of depreciation is used.

Assets are depreciated from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and held ready for use.

The assets residual values and useful lives are reviewed and adjusted if appropriate at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses are determined by comparing proceeds received with the asset's carrying amount. These gains and losses are included in the statement of comprehensive income.

**k. Leases**

Leases of plant and equipment are classified as operating leases where the lessor retains substantially all of the risks and benefits of ownership. Minimum lease payments are charged against profits over the accounting periods covered by the lease terms except where an alternative basis would be more representative of the pattern of benefits to be derived from the leased assets.

**l. Foreign currency transactions and balances**

*Functional and presentation currency*

The functional currency of each of the group's entities is measured using the currency of the primary economic environment in which the entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

**Austin Exploration Ltd and Controlled Entities ABN 98 114 198 471**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2010**

*Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the year-end exchange rate.

Exchange differences arising on the translation of monetary items are recognised in statement of comprehensive income except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange difference arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised, otherwise the exchange difference is recognised in the statement of comprehensive income.

**Group companies**

The financial results and position of foreign subsidiaries whose functional currency is different from the group's presentation currency are translated as follows:

- assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;
- income and expenses are translated at average exchange rates for the period; and
- retained earnings are translated at the exchange rate prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the group's foreign currency translation reserve in the statement of financial position. These differences are recognised in the income statement in the period in which the operation is disposed.

**m. Employee benefits**

Provision is made for the company's liability for employee benefits arising from services rendered by employees to reporting date in respect of wages and salaries, annual leave, long service leave and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled.

Employee benefits payable later than one year are measured as the present value of the estimated future cash outflows to be made for those benefits. Those cash flows are discounted using market yields on national government bonds with terms to maturity which match the expected timing of cash flows.

Contributions made by the consolidated entity to employee superannuation funds are charged to expenses as incurred.

**n. Equity-settled compensation**

The group operates equity-settled share-based payment employee option schemes. The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase in an equity account. The fair value of options is determined by an independent valuer using a Black-Scholes option pricing model which incorporates all vesting conditions. In determining fair value, no account is taken of any performance conditions other than those related to market conditions. The cumulative expense recognised between grant date and vesting date is adjusted to reflect the directors' best estimate of the number of options that will ultimately vest because of internal conditions of the options, such as the employees having to remain with the company until vesting date, or such that employees are required to meet internal sales targets. No expense is recognised for options that do not ultimately vest because internal conditions were not met. An expense is still recognised for options that do not ultimately vest because a market condition was not met.

**o. Accounts Payable**

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether or not billed to the consolidated entity.

**Austin Exploration Ltd and Controlled Entities ABN 98 114 198 471**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2010**

**p. Financial assets and liabilities**

***Classification***

The Group classifies its financial assets in the following categories: financial assets at fair value through profit and loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at each reporting date.

*Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets. Loans and receivables are included in the balance sheet.

*Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intention and ability to hold-to-maturity. If the Group were to sell other than an insignificant amount of held-to-maturity investments, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the reporting date, which are classified as current assets.

*Available-for sale-financial assets*

Available-for-sale financial assets comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified as any other category, and are classified as non-current assets unless management intends to dispose of the investment within 12 months of the reporting date. Investments are designated as available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long term.

***Recognition and derecognition***

Regular purchases and sales of financial assets are recognised as trade-date — the date on which the Group commits to purchase or sell an asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are originally recognised at fair value and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or been transferred and the Group has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses from investment securities.

***Subsequent measurement***

Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Available-for-sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Gains or losses arising from changes in the 'fair value of the financial asset through profit or loss' category are presented in the income statement within other income or other expenses in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of the revenue from continuing operations when the Group's right to receive payments is established.

Changes in the value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in equity. Changes in the fair value of other monetary and non-monetary securities classified as available for sale are recognised in equity.

**Austin Exploration Ltd and Controlled Entities ABN 98 114 198 471**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2010**

***Impairment***

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss — is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments classified as available-for-sale are not reversed through the income statement.

**q. Cash and cash equivalents**

For the purpose of the statement of cash flows, cash includes;

- cash on hand and at call in banks net of overdrafts; and
- investments in short term deposits

**r. Borrowing Costs**

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in income in the period in which they are incurred.

**s. Issued Capital**

Ordinary share capital is recognised at the fair value of the consideration received. Any transaction costs arising on the issue of shares are recognised (net of tax) directly in equity as a reduction in the share proceeds received.

**t. Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST. Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

**u. Critical Accounting Estimates and Judgments**

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the group.

*Key Estimates — Impairment*

The group assesses impairment at each reporting date by evaluating conditions specific to the group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

*Exploration and evaluation*

The consolidated entity's policy for exploration and evaluation is discussed at note 1(g). The application of this policy requires management to make certain estimates and assumptions as to future events and circumstances.

Any such estimates and assumptions may change as new information becomes available. If, after having capitalised exploration and evaluation expenditure, management concludes that the capitalised expenditure is unlikely to be recovered by future sales or exploitation, then the relevant capitalised amount will be written off through the income statement.

**v. Adoption of new and revised Accounting Standards**

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period.

***AASB 8: Operating Segments***

In February 2007 the Australian Accounting Standards Board issued AASB 8 which replaced AASB 114: Segment Reporting. As a result, some of the required operating segment disclosures have changed with the addition of a

**Austin Exploration Ltd and Controlled Entities ABN 98 114 198 471**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2010**

possible impact on the impairment testing of goodwill allocated to the cash generating unit (CGUs) of the entity. Below is an overview of the key changes and the impact on the Group's financial statements.

*Measurement impact*

Identification and measurement of segments – AASB 8 requires the 'management approach' to the identification measurement and disclosure of operating segments be identified on the basis of internal reports that are regularly reviewed by the entity's chief operating decision maker, for the purpose of allocating resources and assessing performance. This could also include the identification of operating segments which sell primarily or exclusively to other internal operating segments. Under AASB 114, segments were identified by business and geographical areas, and only segments deriving revenue from external sources were considered.

The adoption of the 'management approach' to segment reporting has resulted in the identification of reportable segments largely consistent with the prior year.

Under AASB 8, operating segments are determined based on management reports using the 'management approach', whereas under AASB 114 financial results of such segments were recognised and measured in accordance with Australian Accounting Standards. This has resulted in changes to the presentation of segment results, with inter-segment sales and expenses such as depreciation and impairment now being reported for each segment rather than in aggregate for total group operations, as this is how they are reviewed by the chief operating decision maker.

*Disclosure impact*

AASB 8 requires a number of additional quantitative and qualitative disclosures, not previously required under AASB 114, where such information is utilised by the chief operating decision maker. This information is now disclosed as part of the financial statements.

**AASB 101: Presentation of Financial Statements**

In September 2007 the Australian Accounting Standards Board revised AASB 101 and as a result, there have been changes to the presentation and disclosure of certain information within the financial statements. Below is an overview of the key changes and the impact on the Group's financial statements.

*Disclosure impact*

Terminology changes – The revised version of AASB 101 contains a number of terminology changes, including the amendment of the names of the primary financial statements.

Reporting changes in equity – The revised AASB 101 requires all changes in equity arising from transactions with owners, in their capacity as owners, to be presented separately from non-owner changes in equity, with non-owner changes in equity presented in the statement of comprehensive income. The previous version of AASB 101 required that owner changes in equity and other comprehensive income be presented in the statement of changes in equity.

Statement of comprehensive income – The revised AASB 101 requires all income and expenses to be presented in either on statement, the statement of comprehensive income, or two statements, a separate income statement and a statement of comprehensive income. The previous version of AASB 101 required only the presentation of a single income statement.

The Group's financial statements now contain a statement of comprehensive income.

Other comprehensive income – The revised AASB 101 introduces the concept of 'other comprehensive income' which comprises of income and expenses that are not recognised in profit or loss as required by other Australian Accounting Standards. Items of other comprehensive income are to be disclosed in the statement of comprehensive income. Entities are required to disclose the income tax relating to each component of other comprehensive income. The previous version of AASB 101 did not contain an equivalent concept.

**w. Standards and interpretation issued not yet effective**

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2010 reporting periods. Austin Explorations Limited assessment of the impact of these new standards and interpretations are detailed in Note 29.

**x. Comparative Figures**

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

**Austin Exploration Ltd and Controlled Entities ABN 98 114 198 471**  
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**Note 2: Parent entity information**

	2010 \$	2009 \$
<b>Statement of financial position</b>		
Total current assets	6,976,129	160,578
Total non current assets	68,426	1,048,118
<b>Total assets</b>	<b>7,044,555</b>	<b>1,158,696</b>
Total current liabilities	155,469	92,897
Total non current liabilities	-	-
<b>Total liabilities</b>	<b>155,469</b>	<b>92,897</b>
Share capital	21,897,359	13,993,049
Reserves	241,531	67,245
Accumulated losses	(15,299,805)	(12,994,494)
<b>Total Equity</b>	<b>6,839,086</b>	<b>1,065,800</b>
<b>Statement of comprehensive income</b>		
Loss for the year after tax	(2,305,310)	(3,445,557)
Total comprehensive income	(2,305,310)	(3,445,557)

**Note 3: Revenue**

**Operating Activities:**

	2010 \$	2009 \$
Gas and Oil Sales	100,838	18,682
Interest received from other parties	105,790	35,048
Other operating revenue:		
Other income	254,757	-
<b>Total Revenue</b>	<b>461,385</b>	<b>53,730</b>

**Note 4: Loss For The Year**

Losses from ordinary activities before income tax has been determined after:

Employment Expenses	409,874	874,427
Share based payments	474,268	11,753
<b>Total employment expenses</b>	<b>884,142</b>	<b>886,180</b>
Depreciation expense	41,859	59,042
Impairment of Asset - provision	1,187,796	520,053
Amortisation expense	36,509	
Finance Costs	1,026,247	1,275,172
Directors fees	188,697	156,080



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Other Expenses:		
Insurance	141,233	46,836
IT Expenses	21,830	19,408
Marketing	9,246	8,300
Printing & stationery	26,465	33,656
Professional Fees	1,234,580	581,774
Rates & land taxes	2,081	280
Rent on land & buildings	58,271	192,277
Registration & insurance	15,117	58,767
Subscriptions	-	15,508
Sundry expenses	101,643	106,480
Telephone	19,329	30,140
Travel, accom & conference	37,795	307,857
	<b>1,667,590</b>	<b>1,401,283</b>

**Note 5: Income Tax Expense**

	<b>2010</b>	<b>2009</b>
	\$	\$
(a) The components of income tax expense comprise:		
Current Tax	185,135	-
Deferred Tax	-	-
	<u>185,135</u>	<u>-</u>
<b>(b) The prima facie tax benefit on loss from ordinary activities is reconciled to the income tax as follows:</b>		
<b>Net Loss</b>	<b>(4,571,472)</b>	<b>(4,244,080)</b>
Prima facie tax benefit on loss from ordinary activities before income tax at 30%	(1,371,441)	(1,273,224)
Add/(less) the tax effect of:		
- Differences in tax rate for US controlled entities	(111,903)	(212,204)
- Other allowable / (non allowable) items	498,625	-
Tax portion of share issue costs	185,135	-
Tax effect of tax losses and temporary differences not brought to account as they do not meet the recognition criteria	984,719	1,485,428
Income tax attributable to operating loss	<u>185,135</u>	<u>-</u>
(c) Unused tax losses and temporary differences for which no deferred tax asset has been recognised		
- In Australia at 30%	417,711	216,312
- In USA at 35%	4,483,763	3,700,442
	<u>4,901,474</u>	<u>3,916,754</u>

**Austin Exploration Ltd and Controlled Entities ABN 98 114 198 471**  
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**Note 6: Interest of Key Management Personnel (KMP)**

Refer to the remuneration report contained in the Directors' Report for details of the remuneration paid or payable to each member of the group's key management personnel for the year ended 30 June 2010.

The totals of remuneration paid to KMP of the company and the group during the year are as follows:

	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
Short term employee benefits	568,832	740,039
Share based payments	474,284	18,309
	1,043,116	758,348

**KMP Options and Rights Holdings**

The number of options over ordinary shares held by each KMP of the group during the financial year is as follows:

	<b>2010</b>		Balance 01.07.09	Options Exercised	Options Granted	Balance 30.6.10	Vested during the year	Vested and Exercisable	Vested and un- Exercisable
	Type								
David Schuette	A		2,000,000	-	-	2,000,000	-	2,000,000	-
David Schuette	B		6,300,000	-	-	6,300,000	-	6,300,000	-
David Schuette	C		6,300,000	-	-	6,300,000	-	6,300,000	-
Dr. James Edwards	A		350,000	-	1,000,000	1,350,000	1,000,000	1,350,000	-
Kenneth Hill**	D		1,000,000	(100,000)	-	900,000	-	1,000,000	-
Stan Lindsey	F		500,000	-	-	500,000	-	500,000	-
Neville Martin	A		350,000	-	-	350,000	-	350,000	-
Dominic Pellicano	G		-	-	5,000,000	5,000,000	5,000,000	5,000,000	-
Guy Goudy	G		-	-	1,000,000	1,000,000	1,000,000	1,000,000	-
Willam Kefalianos	G		-	-	1,000,000	1,000,000	1,000,000	1,000,000	-
Graham Seppelt	G		-	-	1,000,000	1,000,000	1,000,000	1,000,000	-
Total*			16,300,000	(100,000)	9,000,000	25,700,000	9,000,000	25,800,000	-

\* Paul Teisseire ceased employment with the group in 2009 and accordingly has not been reported as key management personnel for reporting purposes in 2010.

\*\* Kenneth Hill transfer 100,000 options to a non-related party.

	<b>2009</b>		Balance 01.07.08	Options Exercised	Options Granted	Balance 30.6.09	Vested during the year	Vested and Exercisable	Vested and un- Exercisable
	Type								
Paul Teisseire	A		350,000	-	-	350,000	-	350,000	-
David Schuette	A		2,000,000	-	-	2,000,000	-	2,000,000	-
David Schuette	B		6,300,000	-	-	6,300,000	-	6,300,000	-
David Schuette	C		6,300,000	-	-	6,300,000	-	6,300,000	-
Dr. James Edwards	A		350,000	-	-	350,000	-	350,000	-
Neville Martin	A		350,000	-	-	350,000	-	350,000	-
Kenneth Hill	D		1,000,000	-	-	1,000,000	208,333	875,000	125,000
Stan Lindsey	F		-	-	500,000	500,000	500,000	500,000	-
Total			16,650,000	-	500,000	17,150,000	708,333	17,025,000	125,000

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**KMP Shareholdings**

The number of ordinary shares in Austin Exploration Limited held by each KMP of the group during the financial year is as follows:

2010	Note	Balance 30.6.09	Net Change Other*	Balance 30.6.10
Dominic Pellicano	(d)	737,198	5,000,000	5,737,198
David Max Schuette		7,900,000	(7,900,000)	-
Kenneth Hill		-	-	-
James Edwards		-	1,000,000	1,000,000
Guy Goudy		-	1,000,000	1,000,000
William Kefalianos		-	1,200,000	1,200,000
Graham Seppelt		-	1,000,000	1,000,000
<b>Total*</b>		<b>8,637,198</b>	<b>1,300,000</b>	<b>9,937,198</b>

2009	Note	Balance 30.6.08	Net Change Other*	Balance 30.6.09
Dominic Pellicano	(d)	-	737,198	737,198
Paul Desmond Teisseire	(a)	350,000	(350,000)	-
David Max Schuette		7,900,000	-	7,900,000
Neville Martin**	(b)	800,000	-	800,000
Neville Martin**	(b)	900,000	-	900,000
Neville Martin**	(c)	630,000	-	630,000
<b>Total</b>		<b>10,580,000</b>	<b>387,198</b>	<b>10,967,198</b>

\* Net Change other refers to shares issued as promoter and founder shares or purchased or sold during the financial year.

\*\* Neville Martin ceased employment with the group in 2009 and accordingly have not been reported as key management personnel for reporting purposes in 2010.

**Notes**

- (a) Interest relates to Shares held by the spouse of Mr. Teisseire
- (b) Interest relates to shares held by Chaffey Consulting Pty Ltd. Mr. Martin is a director of Chaffey Consulting Pty Ltd which holds the shares on behalf of Mr. Martin and partners of the Adelaide office of Minter Ellison.
- (c) Interest relates to Shares held by the Houmar Nominees Pty Ltd as trustee of the Martin Superannuation Fund. Mr. Martin is a beneficiary of that fund. Mr. Martin is also a director of Houmar Nominees Pty Ltd
- (d) Interest relates to shares held by Essential Superannuation Limited and Benford Pty Ltd of which Mr. Pellicano is a director.

**Note 7: Auditors' remuneration**

	<b>2010</b>	<b>2009</b>
Remuneration of auditor of the parent entity for:	\$	\$
- auditing or reviewing the financial report	26,500	24,500
- taxation services	24,310	5,100
	<u>50,810</u>	<u>29,600</u>

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**Note 8: Earnings Per Share**

	2010	2009
Net loss attributed to ordinary equity holders	(4,756,607)	(4,244,080)
Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS	230,776,504	123,372,434
Basic Earnings per share	(\$0.0206)	(\$0.0344)

**Consolidated Group**

2010	2009
\$	\$

**Note 9: Cash and cash equivalents**

Bank accounts:		
Cash At Bank and in hand	3,549,437	246,580
Term Deposit	50,000	50,000
	<u>3,599,437</u>	<u>296,580</u>

**Note 10: Trade and Other Receivables**

**Current**

Other receivables	65,224	-
GST Receivable	28,625	4,737
	<u>93,849</u>	<u>4,737</u>

The effective interest rate on cash at bank was 3.3% pa (2009; 2.5% pa.) This amount is at call.

**Note 11: Other Current Assets**

Prepayments	25,121	20,956
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**Note 12: Property, Plant and Equipment**

Plant and equipment:

- At cost	158,264	158,264
- Less: Accumulated depreciation	(130,785)	(82,982)
	<u>27,479</u>	<u>75,282</u>

**Note 13: Development and Producing Assets**

**Development Expenditure Capitalised**

Development assets at cost	1,848,151	3,899,893
Accumulated amortisation	(36,509)	(232,106)
Provision for impairment	-	(852,907)
Exchange rate difference	(1,717)	525,288
Transfer to exploration and evaluation	-	(3,340,168)
	<u>1,809,925</u>	<u>-</u>

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**Movement in Carrying Amounts:** Movement in the carrying amounts for development expenditure capitalised

Balance at beginning of year	-	2,753,670
Additions	1,848,151	60,907
Exchange rate difference	(1,717)	525,288
Transfer to exploration and evaluation	-	(3,340,168)
Amortisation expense	(36,509)	-
	<u>1,809,925</u>	<u>-</u>

**Note 14: Exploration and Evaluation Expenditure**

**Exploration and Evaluation Capitalised**

Exploration and evaluation assets at cost	5,047,650	4,574,682
Provision for impairment	(1,187,796)	-
Exchange rate difference	(208,132)	-
	<u>3,651,722</u>	<u>4,574,682</u>

**Movement in Carrying Amounts:** Movement in the carrying amounts for exploration and evaluation expenditure capitalised

Balance at beginning of year	4,574,682	957,968
Additions	472,968	276,546
Exchange rate difference	(208,132)	-
Transfer from development and producing	-	3,340,168
Impairment expense	(1,187,796)	-
	<u>3,651,722</u>	<u>4,574,682</u>

The ultimate recoupment of costs carried forward is dependent on the successful development and commercial exploration or sale of the respective areas.

**Impairment Losses**

During the 2009 financial year no impairment loss was recognised.

During the current financial year, the total impairment loss recognised is \$1,187,796. The basis of this decision is as follows:

**The Stansbury Basin PEL 73 prospect – York Peninsula**

The Company has been notified by the operator DMS Exploration that it intends to offer the license to another operator. Based on the results of a series of technical and financial investigations, the Board of Directors resolved to approve the impairment of the asset as at June 30, 2010.

**Burleson prospect:**

Based on the results of a series of technical and financial investigations which concluded that the prospect was uneconomic, the Board of Directors resolved to approve the impairment of the asset as at June 30, 2010.

**Note 15: Trade and Other Payables**

Unsecured:		
- Trade payables	469,470	87,506
- Accruals	-	224,339
	<u>469,470</u>	<u>311,845</u>

**Note 16: Borrowings**

- Current Portion of Drilling Advance		
Repayable	3,971,484	2,796,750
- Non-current portion of drilling advance due	993,934	1,325,312
	<u>4,965,418</u>	<u>4,122,062</u>

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On March 24, 2008, the Company executed a Participation Agreement ("PA") to provide the Company with capital resources to develop the initial drilling phases of the Park City, Kentucky project. At 30 June 2010 the company had evaluation assets at Park City, Kentucky against which it is carrying a liability for the repayment of borrowings to fund the purchase of those assets.

The loans are non-recourse loans against the sale of oil and gas from the Park City gas field. The Participation Agreement in relation to Park City had been superceded by a Settlement Agreement with Newtak Pty Ltd, that was announced to the market on 30 October 2009 in relation to a dispute with Newtak Pty Ltd. The cash payment and share issue contemplated by the settlement agreement were both subject to obtaining shareholder approval by 31 January 2010. Shareholder approval was not obtained by that date. Negotiations with Newtak are continuing to reach a mutually agreed settlement. In the absence of a new agreement the liability is being accounted for under the terms of the original agreement.

The company has recognised borrowing costs at a rate of 34% per annum on the anticipated repayment of these drilling advances.

	<b>Consolidated Group</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
<b>Note 17: Issued Capital</b>		
295,051,781 (2009: 125,125,859) fully paid ordinary shares		
<b>a. Ordinary shares</b>		
At the beginning of reporting period	13,993,049	12,993,049
Shares issued during the year		
- Share Purchase Plan	-	1,000,000
- Placement 14 July 2009	640,000	-
- Placement 12 October 2009	95,000	-
- Issue 8 October 2009	7,151,293	-
- Issue 22 December 2009	450,000	-
	22,479,342	13,993,049
- Less: Cost of capital raising	431,983	-
	<b>21,897,359</b>	<b>13,993,049</b>
	Number	Number
At the beginning of reporting period	125,125,859	120,125,859
Shares issued during the year		
- Share Purchase Plan	-	5,000,000
- Placement 14 July 2009	16,000,000	-
- Placement 12 October 2009	1,900,000	-
- Issue 8 October 2009	143,025,859	-
- Issue 22 December 2009	9,000,000	-
<b>At the end of the reporting period</b>	<b>295,051,718</b>	<b>125,125,859</b>

**Austin Exploration Ltd and Controlled Entities ABN 98 114 198 471**  
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At shareholder meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

<b>b. Options</b>	<b>2010 Number</b>	<b>2009 Number</b>
Class		
At the beginning of the reporting period	32,100,000	31,600,000
Options issued during the year		
- Issued to key personnel of the company	F	500,000
- Listed Options 8 October 2009	Listed	-
1 Issued to key personnel 22 Dec 2009	G	-
- Listed Options 29 January 2010	Listed	-
	<b>187,612,930</b>	<b>32,100,000</b>
At the end of the reporting period		

Class A	These options have an exercise price of \$0.30 per share;
Class B	These options have an exercise price of \$0.50 per share;
Class C	These options have an exercise price of \$0.75 per share;
Class D	These options have an exercise price of \$0.24 per share;
Class F	These options have an exercise price of \$0.20 per share;
Class G	These options have an exercise price of \$0.10 per share;
Listed	These options have an exercise price of \$0.10 per share.

**c. Capital management**

Management controls the capital of the group in order to maintain a good debt to equity ratio, provide the shareholders with adequate returns and ensure the group continues as a going concern.

The group's debt and capital includes ordinary share capital, share options and drilling advances re-payable. There are no externally imposed capital requirements. Management effectively manages the group's capital by assessing the financial risks and adjusting the capital structure in response to those risks. These responses include share issues.

**Austin Exploration Ltd and Controlled Entities ABN 98 114 198 471**  
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**Note 18: Segment Reporting**

**Identification of reportable segments**

The group has identified its operating segments based on the internal reports that are reviewed and used by the board of directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

The Group is managed primarily on the basis of geographical location since the diversification of the Group's operations have notably different risk profiles and performance assessment criteria. Operating segments are therefore determined on the same basis.

**Basis of accounting for purposes of reporting by operating segments**

*Accounting policies adopted* Unless stated otherwise, all amounts reported to the Board of Directors as the chief decision maker with respect to operating segments are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group.

*Segment assets*

Where an asset is used across multiple segments, the asset is allocated to the segment that receives the majority of economic value from the asset. In the majority of instances, segment assets are clearly identifiable on the basis of their nature and physical location.

*Segment liabilities*

Liabilities are allocated to segments where there is direct nexus between the incurrence of the liability and the operations of the segment.

*Comparative information*

This is the first reporting period in which AASB 8: Operating Segments has been adopted. Comparative information has been restated to conform to the requirements of the Standard.

**(i) Segment Performance**

	<b>Australia 2010</b>	<b>USA 2010</b>	<b>Total</b>
	\$	\$	\$
Total segment revenue	355,788	105,597	461,385
Segment net loss before tax	(2,120,175)	(2,451,297)	(4,571,472)

	<b>Australia 2009</b>	<b>USA 2009</b>	<b>Total</b>
	\$	\$	\$
Total segment revenue	35,048	18,682	53,730
Segment net loss before tax	(851,291)	(3,392,789)	(4,244,080)

**(ii) Segment assets**

	<b>Australia 2010</b>	<b>USA 2010</b>	<b>Total</b>
	\$	\$	\$
Segment assets	7,044,554	5,782,847	12,827,401
Inter-segment elimination	(3,587,491)	-	(3,587,491)
	<u>3,507,063</u>	<u>5,782,847</u>	<u>9,239,910</u>

Segment asset increase for period:

- capital expenditure	-	-	-
- exploration expenditure	-	2,321,119	2,321,119
	<u>-</u>	<u>2,321,119</u>	<u>2,321,119</u>



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	Australia 2009 \$	USA 2009 \$	Total \$
Segment assets	1,158,696	3,822,123	4,980,819
Segment asset increase for period:			
- capital expenditure	-	47,206	47,206
- exploration expenditure	40,017	297,436	337,453
	40,017	344,642	384,659

**(iii) Segment liabilities**

	Australia 2010 \$	USA 2010 \$	Total \$
Segment liabilities	155,469	8,866,910	9,022,379
Inter-segment elimination	-	(3,587,491)	(13,206,975)
	155,469	5,279,419	5,434,888

	Australia 2009 \$	USA 2009 \$	Total \$
Segment liabilities	92,897	4,341,010	4,433,907

**Note 19: Financial Assets**

	2010 \$	2009 \$
NON CURRENT Deposits	32,377	8,582
	<b>32,377</b>	<b>8,582</b>

**Note 20 : Controlled Entities**

a. Controlled Entities	Country of incorporation	Percentage Owned	
		2010	2009
<b>Parent Entity:</b>			
Austin Exploration Limited	Australia		
<b>Subsidiaries of Austin Explorations Limited:</b>			
AUS TEX Exploration Inc.	USA	100%	100%

**b. Joint Venture interests**

The group has interests in joint venture operations in oil and gas blocks in Australia and USA as follows:

AUSTRALIA	
<b>Prospect Name</b>	PEL 105
Well Name(s)	The Pirie-1
Location	Cooper Basin, South Australia

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Ownership Interest	Working Interest 100% - Revenue Interest 100%
Partners / Operators	Adelaide Energy Limited earns a 50% NRI after the initial well
Objective / Focus	High Grade drilling targets validated by 2D seismic
Independent Evaluations	Mulready Consulting Services Pty Ltd
Current Status	Drill Ready. Waiting on rig. Waiting for flooding caused by recent rain in Cooper to subside. Site not accessible
Next Steps	Drilling operations to commence subject to weather conditions and site access

<b>UNITED STATES</b>				
<b>Prospect Name</b>	<b>Park City</b>	<b>North Carrizo</b>	<b>Sebree</b>	<b>Armstrong</b>
Well Name(s)	Listed on company web site	Yolanda Villarreal No. 1-H	Russel 1A	Ellislie Plantation #1
Location	Edmonson County, Kentucky USA	Dimmitt County, Texas USA	Webster County, Kentucky USA	Natchez, Mississippi USA
Ownership Interest	Working Interest 100% - Revenue Interest 78.25%	Working Interest BCP = 45% ACP=36% NRI= 27.6%	Working Interest 50% Revenue Interest 37.5%	Working Interest 50% Revenue Interest 37.5%
Partners / Operators	Operator of record No JV Partner	Alamo Operating Company	KOS Energy Ltd	Dow Tate Energy LLC
Objective / Focus	Shallow low cost long life oil wells	Oil Dual Lateral Austin- Chalk	Oil Shallow long life targeting Tar Springs	Re-entry of once uncommercial Well targeting Wilcox formation
Independent Evaluations	Several	Ameritex Minerals & Exploration Limited	BARRY L. WHELAN, P.Geo., F.G.A.C. Vancouver, B.C. V6C 1G8	BARRY L. WHELAN, P.Geo., F.G.A.C. Vancouver, B.C. V6C 1G8
Current Status	17 wells drilled to date, 4 of those completed as oil wells and now on production	In production- Natural flow	Water disposal well nearing completion. EPA approved. 4 wells scheduled for completion	In production- On pump
Next Steps	Geographical and Geologic study	Wait for natural pressure to decline and put on pump	Complete 4 wells into production	Monitor daily production

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The group has accumulated acreage in a number of oil and gas projects comprising mineral leases in the USA. The mineral leases that have producing wells drilled on them during the primary lease term will be held as producing leases. Mineral leases that are drilled and produce a dry hole, or not drilled at all, will expire at the end of the primary term unless re-leased for a further term. The exploration of the leases is managed by operators who make cash calls, hire contractors and pay all accounts.

**Note 21 : Lease Commitments**

The company leases its office space and certain equipment under non-cancellable operating leases which require regular monthly payments with varying terms ranging from 1-5 years.

Future minimum lease commitments under non-cancellable leases at 30 June 2010 are as follows:

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	\$	\$
Payables (Note)		
- due within one year	19,270	97,827
- due within 1-5 years	761	32,609
	<b>20,031</b>	<b>130,436</b>

**Note 22: Cash Flow information**

Reconciliation of Cash Flow from Operations with Loss from Ordinary Activities after Income Tax

	<b>2010</b>	<b>2009</b>
Loss from ordinary activities after income tax	(4,756,607)	(4,244,080)
Non-cash flows in loss from ordinary activities		
Share issue expenses	474,268	11,753
Income tax expenses	185,153	
Unrealised foreign exchange gain (loss)	(5,148)	710
Depreciation expense	41,859	59,042
Amortisation	36,509	-
Finance Charges	1,026,247	1,275,172
Impairment expense	1,187,796	520,053
Changes in assets and liabilities		
(Increase)/decrease in receivables	(89,113)	36,211
(Increase)/decrease in other assets	(27,960)	20,582
Increase/(decrease) in trade payables	157,625	71,594
Cash flow from operations	(1,769,371)	(2,248,963)

**Note 23: Financial Instruments**

**a. Financial Risk Management Policies**

The group's financial instruments consist mainly of deposits with banks, accounts receivable and payable, and borrowings.

The main purpose of non-derivative financial instruments is to raise finance for group operations.

i. Treasury Risk Management

The board meets on a regular basis and analyses financial risk exposure and evaluates treasury management strategies in the context of the most recent economic conditions and forecasts. The board's overall risk management strategy seeks to assist the consolidated group in meeting its financial targets whilst minimising potential adverse

**Austin Exploration Ltd and Controlled Entities ABN 98 114 198 471**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2010**

effects on financial performance. Risk management is reviewed by the board on a regular basis and includes review of the group's cash flow requirements.

ii. Financial Risk Exposures and Management

The main risks the group is exposed to through its financial instruments are foreign currency risk, liquidity risk and credit risk.

*Foreign currency risk*

The group is exposed to fluctuations in foreign currencies arising from the activities in currencies other than the group's measurement currency.

*Liquidity risk*

The group manages liquidity risk by monitoring forecast cash flows.

*Credit risk*

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balanced date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets as disclosed in the balance sheet and notes to the accounts.

There are no material amounts of collateral held as security at 30 June 2010.

The consolidated group does not have any material credit risk exposure to any single receivable or group of receivables under financial instruments entered into by the consolidated group.

**b. Financial instrument composition and maturity analysis**

The tables below reflect the undiscounted contractual settlement terms for financial instruments of a fixed period of maturity, as well as management's expectations of the settlement period for all other financial instruments. As such, the amounts may not reconcile to the statement of financial position.

	Weighted Average Effective Interest Rate	Floating Interest Rate	Fixed Interest Rate	Non-interest Bearing	Total
	2010 %	2010 \$	2010 \$	2010 \$	2010 \$
<b>Financial Assets:</b>					
Cash and cash equivalents	3.3	2,541,467	1,057,970	-	3,599,437
Receivables		-	-	93,849	93,849
Deposits		-	-	32,377	32,377
<b>Total Financial Assets</b>		<b>2,541,467</b>	<b>1,057,970</b>	<b>125,226</b>	<b>3,725,663</b>
<b>Financial Liabilities:</b>					
Trade and sundry payables		-	-	469,470	469,470
Borrowings	34	4,965,418	-	-	4,965,418
<b>Total Financial Liabilities</b>		<b>4,965,418</b>		<b>450,470</b>	<b>5,434,888</b>
<b>Net Financial Liabilities</b>					<b>(1,709,225)</b>
	2009 %	2009 \$	2009 \$	2009 \$	2009 \$
<b>Financial Assets:</b>					
Cash and cash equivalents	2.5	296,580	-	-	296,580
Receivables	-	-	-	4,737	4,737
Deposits	-	-	-	8,582	8,582
<b>Total Financial Assets</b>		<b>296,580</b>	<b>-</b>	<b>13,319</b>	<b>309,899</b>
<b>Financial Liabilities:</b>					
Trade and sundry payables	-	-	-	311,845	311,845
Borrowings	34	-	4,122,062	-	4,122,062
<b>Total Financial Liabilities</b>		<b>-</b>	<b>4,122,062</b>	<b>311,354</b>	<b>4,433,907</b>
<b>Net Financial Liabilities</b>					<b>(4,124,008)</b>

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Trade and sundry payables are expected to be paid within two months.

	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
<b>Reconciliation of Net Financial Assets to Net assets</b>		
Net financial liabilities (as above)	(1,709,225)	(4,124,008)
Non Financial assets and liabilities:		
Development and producing assets	1,809,925	-
Exploration expenditure	3,651,722	4,575,682
Plant & Equipment	27,479	75,282
Other current assets	25,125	20,956
<b>Net Assets per Financial Statement of Position</b>	<b>3,805,022</b>	<b>546,912</b>

**c. Net Fair Values**

The net fair value of cash and cash equivalent and non interest bearing monetary financial assets and financial liabilities of the consolidated entity approximate their carrying value.

The net fair value of other monetary financial assets and financial liabilities is based on discounting future cash flows by the current interest rates for assets and liabilities with similar risk profiles. The balances are not materially different from those disclosed in the balance sheet of the consolidated entity.

No financial assets and financial liabilities are readily traded on organised markets in standardised form.

Financial assets, where the carrying value exceeds net fair values have not been written down as the consolidated group intends to hold these assets to maturity.

**d. Sensitivity analysis**

The group has performed a sensitivity analysis relating to its exposure to interest rate risk and foreign currency risk.

***Interest rate sensitivity analysis***

At 30 June 2010, the effect on profit and equity as a result of changes in the interest rate, with all other variables remaining constant would be as follows:

	<b>2010</b>	<b>2009</b>
Change in profit		
Increase in interest rate by 2%	91,429	5,932
Decrease in interest rate by 2%	(91,429)	(5,932)
Change in equity		
Increase in interest rate by 2%	91,429	5,932
Decrease in interest rate by 2%	(91,429)	(5,932)

***Foreign currency sensitivity***

At 30 June 2010, the effect on profit and equity as a result of changes in the value of the Australian Dollar (AUD) to the United States dollar (USD), with all other variables remaining constant would be as follows:

	<b>2010</b>	<b>2009</b>
Change in profit		
Improvement in AUD to USD by 10%	(19,026)	(14,074)
Decline in AUD to USD by 10%	19,026	14,074
Change in equity		
Improvement in AUD to USD by 10%	(19,026)	(14,074)
Decline in AUD to USD by 10%	19,026	14,074

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**Notes to the Financial Statements**  
**For the year ended 30 June 2010**

**Note 24: Related Parties**

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

Transactions with related parties:

i. Directors and specified executives

Disclosures relating to key management personnel are set out in Note 6.

ii. Transactions with Director-related Entities

- During the year the company utilised the services of MMI Financial Partners Pty Ltd for the provision of accounting advise at commercial rates. To the reporting date the costs of these services was \$79,500. Mr William Kefalianos is a director of MMI Financial Partners Pty Ltd.
- During the year the company utilised the services of GTG Consulting Services Pty Ltd for the provision of consulting services at commercial rates. To the reporting date the costs of these services was \$80,000. Mr Guy Goudy is a director of GTG Consulting Services Pty Ltd.
- As at the 30 June 2010 the company owed to Newtak Pty Ltd, a company for which Dominic Pellicano is a director, \$4,965,419. The funds assisted in the development of the Park City Kentucky Oil and Gas sites. Total interest charged on this loan for the 2010 financial year \$1,026,247.

**Note 25: Capital Commitments Relating to Joint Ventures and Tenements**

The company is required to meet minimum expenditure requirements of various Government bodies and joint venture agreements.

These obligations may be subject to re-negotiation, may be farmed out or may be relinquished and have not been provided for in the financial statements.

	2010	2009
	\$	\$
Payables (Note)		
- due within one year	875,000	-
- due within 1 — 3 years	1,750,000	3,000,000
	<b>2,625,000</b>	<b>3,000,000</b>

**Note 26: Share Based Payments**

The following share based payment arrangements existed at 30 June 2010.

On 11 November 2005, 5,400,000 share options were granted to directors to accept ordinary shares at an exercise price of \$0.30. The options are exercisable before 30 June 2011. The options hold no voting or dividend rights. At the reporting date, no share option has been exercised.

On 11 November 2005, 12,600,000 share options were granted to promoters and seed capitalists to accept ordinary shares at an exercise price of \$0.50. The options are exercisable before 30 June 2011. The options hold no voting or dividend rights. At the reporting date, no share option has been exercised.

On 11 November 2005, 5,400,000 share options were granted to promoters and seed capitalists to accept ordinary shares at an exercise price of \$0.75. The options are exercisable before 30 June 2011. The options hold no voting or dividend rights. At the reporting date, no share option has been exercised.

On 28 February 2008, 1,000,000 options were granted to Mr Kenneth Hill. The options will not vest if certain conditions are not met. The options are exercisable before 28 February 2013. The options are to be expensed over the vesting period. At 30 June 2008, 666,667 options had vested to Mr Hill. At 30 June 2009 a further 208,333 options had vested. The exercise price is \$0.24. The options hold no voting or dividend rights. At the reporting date, no share option has been exercised.

On 28 January 2009, 500,000 share options were granted to Mr Stanley Lindsey to accept ordinary shares at an exercise price of \$0.20. The options are exercisable before 15 October 2011. The options hold no voting or dividend rights. At the reporting date, no share option has been exercised.

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On 22 December 2009, 5,000,000 shares and 5,000,000 options were granted to Mr Dominic Pellicano. The shares were issued at nil value but with an imputed value of 5 Cents per share. The options were granted with an exercise price of \$0.10 exercisable before 30 November 2011. The options hold no voting or dividend rights. At balance date, no share options had been exercised. On 22 December 2009, 1,000,000 shares and 1,000,000 options were granted to Mr James Edwards. The shares were issued at nil value but with an imputed value of 5 Cents per share. The options were granted with an exercise price of \$0.10 exercisable before 30 November 2011. The options hold no voting or dividend rights. At balance date, no share options had been exercised.

On 22 December 2009, 1,000,000 shares and 1,000,000 options were granted to Mr Guy Goudy. The shares were issued at nil value but with an imputed value of 5 Cents per share. The options were granted with an exercise price of \$0.10 exercisable before 30 November 2011. The options hold no voting or dividend rights. At balance date, no share options had been exercised.

On 22 December 2009, 1,000,000 shares and 1,000,000 options were granted to Mr William Kefalianos. The shares were issued at nil value but with an imputed value of 5 Cents per share. The options were granted with an exercise price of \$0.10 exercisable before 30 November 2011. The options hold no voting or dividend rights. At balance date, no share options had been exercised.

All options granted to key management personnel are ordinary shares in Austin Exploration Limited, which confer a right of one ordinary share for every option held.

	2010		2009	
	Number of Options	Weight Average Exercise cents	Number of Options	Weight Average Exercise cents
Balance at beginning of year	32,100,000	55.17	31,600,000	55.73
Granted	9,000,000	10.00	500,000	20.00
Forfeited	-		-	
Outstanding at year end	41,100,000	45.28	32,100,000	55.17
Exercisable at year end	40,975,000	45.28	31,975,000	55.17

The options outstanding at 30 June 2010 had a weighted average exercise price of \$0.4528 and a weighted average remaining contractual life of 1.0 year

The weighted average fair value of options granted during the year was \$0.0027.

The price was calculated by using a Black-Scholes option pricing model applying the following inputs:

Weighted average exercise price	\$0.4528
Weighted average life of the options	1.06
Underlying share price	0.028
Expected share price volatility	85.91%
Risk free interest rate	4.50 %

Historical volatility has been the basis for determining expected share price volatility as it is assumed that this is indicative of future tender, which may not eventuate.

The life of the options is based on the historical exercise patterns which may not eventuate in the future.

Included under employee benefits expense in the statement of comprehensive income is \$667,264 (2009: \$11,753) and relates, in full, to the equity-settled share-based payment transactions.

**Note 27: Contingent Liabilities**

The company is currently a co-defendant in a lawsuit in the state of Texas brought by Mr David Schuette. Mr Schuette alleges wrongful dismissal and that the company owes it money against loans made.

The company believes the case is without merit and is vigorously defending its position in this matter and making a counter claim against Mr Schuette. No provision has been made in the accompanying financial statements based on the company's belief the case will be settled without any additional costs.

**Austin Exploration Ltd and Controlled Entities ABN 98 114 198 471**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2010**

**Note 28: Events after the reporting sheet date**

There have been no significant events after the reporting date

**Note 29: New Accounting Standards for Application in Future Periods**

The AASB has issued new, revised and amended standards and interpretations that have mandatory application dates for future reporting periods. The Group has decided against early adoption of these standards. A discussion of those future requirements and their impact on the Group follows:

New/revised pronouncement	Explanation of amendments	Effective date (i.e. annual reporting periods ending on or after)	Standard Effected	Likely impact
AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139]	Makes various amendments to a number of standards and interpretations in line with the IASB annual improvements project	31 December 2010	Related standard where applicable	This amendment is not expected to materially affect the Group.
AASB 2009-8 Amendments to Australian Accounting Standards - Group Cash-settled Share-based Payment Transactions [AASB 2]	The amendments clarify the accounting for group cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when the entity has no obligation to settle the share-based payment transaction.  The amendments clarify the scope of AASB 2 by requiring an entity that receives goods or services in a share-based payment arrangement to account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash.	31 December 2010	AASB 2009-8	Unlikely to have significant impact on Group.
AASB 2009-9 Amendments to Australian Accounting Standards - Additional Exemptions for First-time Adopters	AASB 2009-9 makes amendments to ensure that entities applying Australian Accounting Standards for the first time will not face undue cost or effort in the transition process in particular situations.	31 December 2010	AASB 1	No impact on the Group



**Austin Exploration Ltd and Controlled Entities ABN 98 114 198 471**  
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New/revised pronouncement	Explanation of amendments	Effective date (i.e. annual reporting periods ending on or after)	Standard Effected	Likely impact
AASB 2009-10 Amendments to Australian Accounting Standards – Classification of Rights Issues	AASB 2009-10 makes amendments which clarify that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all existing owners of the same class of its non-derivative equity instruments.	31 January 2011	AASB 132	As the entity does not have any rights, options or warrants to acquire their own equity instruments, these amendments will not have any impact on the entity's financial report.
AASB 9 Financial Instruments AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9	AASB 9 introduces new requirements for the classification and measurement of financial assets. AASB 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in AASB 139 and removes the impairment requirement for financial assets held at fair value.	31 December 2013	AASB 9	Depending on assets held, there may be significant movement of assets between fair value and cost categories and ceasing of impairment testing on available for sale assets.
AASB 124 Related Party Disclosures  AASB 2009-12 Amendments to Australian Accounting Standards arising from AASB 124.	This revision amends the disclosure requirements for government related entities and the definition of a related party.	31 December 2011	AASB 2009-12	Since the entity is not a government related entity, there is not expected to be any changes arising from this standard.
AASB 2009-13 Amendments to AASB 1 arising from Interpretation 19	This standard amends AASB 1 to allow a first-time adopter to use the transitional provisions in Interpretation 19 as identified in AASB 1048.	30 June 2011	AASB 2009-13	As the entity is not a first-time adopter of IFRS, this standard will not have any impact.
AASB 2009-14 Prepayments of a Minimum Funding Requirement (Amendments to Interpretation 14)	This amendment to Interpretation 14 addresses the unintended consequences that can arise from the previous requirements when an entity prepays future contributions into a defined benefit pension plan.	31 December 2011	None	As the entity does not have a defined benefit pension plan this amendment to Interpretation 14 is not expected to have any impact on the entity's financial report.

**Austin Exploration Ltd and Controlled Entities ABN 98 114 198 471**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2010**

New/revised pronouncement	Explanation of amendments	Effective date (i.e. annual reporting periods ending on or after)	Standard Effected	Likely impact
AASB 2010-01 Limited exemption from comparative AASB 7 disclosures for first time adopters (Amendments to AASB 1 and AASB 7)	These amendments principally give effect to extending the transition provisions of AASB 2009-2 Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments to first-time adopters of Australian Accounting Standards.	30 June 2011	None	As the entity is not a first-time adopter of IFRS, this standard will not have any impact.
AASB 2010-2 Amendments to Australian Accounting Standards arising from reduced disclosure requirements	This Standard gives effect to Australian Accounting Standards - Reduced Disclosure Requirements. AASB 1053 provides further information regarding the differential reporting framework and the two tiers of reporting requirements for preparing general purpose financial statements.	30 June 2014	AASB 2010-2	Reduced note disclosures in the following main areas: AASB 7 Financial Instruments; Disclosures
AASB 2010-3 Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 3, AASB 7, AASB 121, AASB 128, AASB 131, AASB 132 & AASB 139]	<p>Limits the scope of the measurement choices of non-controlling interest at proportionate share of net assets in the event of liquidation. Other components of NCI are measured at fair value.</p> <p>Requires an entity (in a business combination) to account for the replacement of the acquiree's share-based payment transactions (whether obliged or voluntarily), i.e. split between consideration and post combination expenses. Clarifies that contingent consideration from a business combination that occurred before the effective date of AASB 3 Revised is not restated.</p> <p>Eliminates the requirement to restate financial statements for a reporting period when significant influence or joint control is lost and the reporting entity accounts for the remaining investment under AASB 139. This includes the effect on accumulated foreign exchange differences on such investments.</p>	30 June 2011	AASB 2010-3	Varies depending on relevance, however impact is unlikely to be significant.

**Austin Exploration Ltd and Controlled Entities ABN 98 114 198 471**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2010**

New/revised pronouncement	Explanation of amendments	Effective date (i.e. annual reporting periods ending on or after)	Standard Effected	Likely impact
<p>AASB 2010-4 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101, AASB 134 and Interpretation 13]</p>	<p>Emphasises the interaction between quantitative and qualitative AASB 7 disclosures and the nature and extent of risks associated with financial instruments.</p> <p>Clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements.</p> <p>Provides guidance to illustrate how to apply disclosure principles in AASB 134 for significant events and transactions.</p> <p>Clarify that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme, is to be taken in account.</p>	<p>31 December 2011</p>	<p>AASB 2010-4</p>	<p>Varies depending on relevance however impact is unlikely to be significant.</p>
<p>Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments</p>	<p>This interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability are 'consideration paid' in accordance with AASB 139. As a result, the financial liability is derecognised and the equity instruments issued are treated as consideration paid to extinguish that financial liability.</p> <p>The interpretation states that equity instruments issued in a debt for equity swap should be measured at the fair value of the equity instruments issued, if this can be determined reliably. If the fair value of the equity instruments issued is not reliably determinable, the equity instruments should be measured by reference to the fair value of the financial liability extinguished as of the date of extinguishment.</p>	<p>30 June 2011</p>	<p>Interpretation 19</p>	<p>Unlikely to have significant impact.</p>

**Austin Exploration Ltd and Controlled Entities ABN 98 114 198 471**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2010**

New/revised pronouncement	Explanation of amendments	Effective date (i.e. annual reporting periods ending on or after)	Standard Effected	Likely impact
AASB 1053 Application of Tiers of Australian Accounting Standards	<p>This Standard establishes a differential financial reporting framework consisting of two Tiers of reporting requirements for preparing general purpose financial statements:</p> <p>a. Tier 1: Australian Accounting Standards; and</p> <p>b. Tier 2: Australian Accounting Standards - Reduced Disclosure Requirements.</p> <p>Tier 2 comprises the recognition, measurement and presentation requirements of Tier 1 and substantially reduced disclosures corresponding to those requirements.</p> <p>The following entities apply Tier 1 requirements in preparing general purpose financial statements:</p> <p>a. for-profit entities in the private sector that have public accountability (as defined in this Standard); and</p> <p>b. the Australian Government and State, Territory and Local Governments.</p> <p>The following entities apply either Tier 2 or Tier 1 requirements in preparing general purpose financial statements:</p> <p>a. for-profit private sector entities that do not have public accountability;</p> <p>b. all not-for-profit private sector entities; and</p> <p>c. public sector entities other than Australian Government and State, Territory and Local Governments.</p>	30 June 2014	AACB 1053	Reduced disclosures. Refer to comments in AASB 2010-2 above.

**Austin Exploration Ltd and Controlled Entities ABN 98 114 198 471**  
**Directors' Declaration**  
**For the year ended 30 June 2010**

**DIRECTORS' DECLARATION**

The directors of the company declare that:

1. The financial statements and notes, as set out on pages 29 to 60 are in accordance with the *Corporations Act 2001*:
  - a comply with Accounting Standards and the *Corporations Regulations 2001*; and
  - b give a true and fair view of the financial position as at 30 June 2010 and of the performance for the year ended on that date of the company and consolidated entity;
2. In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
3. The directors have been given the declarations by the Chief Financial Officer and Company Secretary required by Sec 295(a) of the *Corporations Act 2001*.

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



Director

Dated this 30th day of September 2010

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## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AUSTIN EXPLORATION LIMITED**

### **Report on the financial report**

We have audited the accompanying financial report of Austin Exploration Limited (the "Company"), which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes to the financial report and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

### **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 Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that are 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. The directors also state, in the notes to the financial report, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

### **Auditor's responsibility**

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards which require us to 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.

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**INDEPENDENT AUDITOR'S REPORT  
TO THE MEMBERS OF AUSTIN EXPLORATION LIMITED Cont**

**Auditor's responsibility Cont**

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 judgement, 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**

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

**Auditor's opinion**

In our opinion,

- a the financial report of Austin Exploration Limited is in accordance with the Corporations Act 2001, including:
  - i giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
  - ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- b the financial report also complies with International Financial Reporting Standards as disclosed in the notes to the financial statements.

**Report on the remuneration report**

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2010. The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

**INDEPENDENT AUDITOR'S REPORT  
TO THE MEMBERS OF AUSTIN EXPLORATION LIMITED Cont**

**Auditor's opinion on the remuneration report**

In our opinion, the Remuneration Report of Austin Exploration Limited for the year ended 30 June 2010, complies with section 300A of the Corporations Act 2001.

Yours faithfully  
GRANT THORNTON  
South Australian Partnership  
Chartered Accountants



S J Gray  
Partner

Adelaide, 30 September 2010



**Austin Exploration Ltd and Controlled Entities ABN 98 114 198 471**  
**Shareholder Information**  
**For the year ended 30 June 2010**

Additional Information required by the Australian Stock Exchange Limited Listing Rules and not disclosed elsewhere in this report is set out below.

**Shareholdings as at 9 September 2010**

**a. Distribution of Shareholders**

Category	Holders of Ordinary Shares	% of Issued Capital	Unquoted options
1 – 1000	57	0.02	-
1,001 – 5,000	253	0.57	-
5,001 – 10,000	246	1.43	-
10,001 – 100,000	800	20.54	-
100,001 – and over	198	77.43	100.00
<b>Total number of security holders</b>	<b>1,554</b>	<b>100.00</b>	<b>100.00</b>

**b. Unmarketable Parcels**

	Minimum Parcel Size	Number of Holders	Units
Ordinary Shares	\$500.00 at \$0.056/unit	438	1,695,655

**c. Substantial shareholders**

The names of the substantial shareholders listed in the holding company's register as at 9 September 2010 are:

Name	Number of fully paid ordinary shares held	% held
Assam Co Ltd	12,500,000	11.14
A I L Holdings Ltd	6,650,000	5.93
Cromwell Securities Ltd	6,250,000	5.57

**d. Voting Rights**

Fully paid ordinary shares

Subject to any rights or restrictions attached to any class of shares, at a meeting of members, on a show of hands, each member present (in person, by proxy, attorney or representative) has one vote and on a poll, each member present (in person, by proxy, attorney or representative) has one vote for each fully paid share they hold.

Options

Option holders will be entitled on the payment of the exercise price shown below to be allotted one ordinary fully paid share in the company for each Option exercised. Options are exercisable in whole or in part at various times until 30 June 2013. Any Options not exercised before expiry will lapse.

**Austin Exploration Ltd and Controlled Entities ABN 98 114 198 471**  
**Shareholder Information**  
**For the year ended 30 June 2010**

**e. Twenty largest shareholders**

The names of the 20 largest holders of fully paid ordinary shares constituting a class of quoted equity securities on the Australian Stock Exchange Limited including the number and percentage held by those at 9 September 2010 are as follows:

<b>Name</b>	<b>Number of fully paid ordinary shares held</b>	<b>% held</b>
National Nominees Limited	25,187,999	17.85
Mr Robert Anthony Healy	6,216,000	4.40
Mr Anthony Norris Goudy	5,750,000	4.07
Citicorp Nominees Pty Limited	4,973,212	3.52
Merrill Lynch (Australia) Nominees Pty Limited	3,120,811	2.21
Mr Garry John Widdup	2,000,000	1.42
Synergy Pacific Australia Pty Ltd	1,894,000	1.34
Esse Vision Pty Ltd	1,835,000	1.30
Pellicano Pty Ltd	1,500,000	1.06
Pelrus Pty Ltd	1,400,000	0.99
Dr Kuen Seng Chan	1,341,131	0.95
ANZ Nominees Limited Cash Income Account	1,010,000	0.72
Mr Zaccaria Rossi & Mrs Thelma Rossi	1,000,000	0.83
Mr George Karagounis & Mrs Helen Karagounis	925,000	0.66
Mr Charalambos Georgakis	920,000	0.65
Mr Seng Tan & Mrs Wan Neo Tan	758,577	0.54
Chaffey Consulting Pty Ltd	750,000	0.53
Mr Nigel Marris Simpson	724,403	0.51
John Lagogianis Nominees Pty Ltd	714,000	0.51
Mr Jeremy Michael Rosenthal	712,581	0.50
<b>TOTAL</b>	<b>62,732,714</b>	<b>44.44</b>

**Austin Exploration Ltd and Controlled Entities ABN 98 114 198 471**  
**Shareholder Information**  
**For the year ended 30 June 2010**

**f. Unquoted Securities**

**Options over Unissued Shares**

**Twenty largest option holders – Unquoted ordinary options**

The names of the largest holders of unquoted ordinary options constituting a class of quoted equity securities on the Australian Stock Exchange Limited including the number and percentage held by those at 9 September 2010 are as follows:

Name	Number of unlisted options held	% held
Klepco Pty Ltd	21,056,035	14.37
Mr Robert Anthony Healy	9,500,000	6.48
Mr Gary Widdup + Mrs Beverley Widdup<G J Widdup Super Fund A/C>	6,500,000	4.44
HSBC Custody Nominees (Australia) Limited	5,997,450	4.09
Australia Trade Access Pty Ltd	4,466,694	3.05
C M C Ryan Pty Ltd	4,412,500	3.01
Clark Properties Pty Ltd	4,223,500	2.88
Levcon Constructions Pty Ltd <The Georgakis Family A/C>	3,500,000	2.39
NIST Enterprises Pty Ltd	3,350,000	2.29
Mr Leo Ilias Radiotis <LA Radiotis Family A/C>	3,286,567	2.24
Mr Jia Jian Chen + Mrs Zhang Ping	3,000,000	2.05
Shared Portfolio Strategy Pty Ltd	2,451,420	1.67
Sacco Developments Australia Pty Ltd <The Sacco Family A/C>	2,137,500	1.46
The Brand Connection Pty Ltd	2,135,565	1.46
Esse Business Group Pty Ltd <Angelopoulos Family A/C>	2,051,000	1.40
Jesabi Pty Ltd <J & S Branicki Family A/C>	2,018,333	1.38
Confadent Limited	2,000,000	1.37
Heelco Holdings Pty Ltd <Deed Blue A/C>	2,000,000	1.37
Heelco Holdings Pty Ltd <Rowbottam Super Fund A/C>	2,000,000	1.37
Edilan Investments Pty Ltd <Clark Superannuation A/C>	1,702,500	1.16
<b>TOTAL</b>	<b>87,789,064</b>	<b>59.92</b>

The exercise price for each class of option described in note 17 is:

Class A	These options have an exercise price of \$0.30 per share;
Class B	These options have an exercise price of \$0.50 per share;
Class C	These options have an exercise price of \$0.75 per share;
Class D	These options have an exercise price of \$0.24 per share;
Class F	These options have an exercise price of \$0.20 per share;
Class G	These options have an exercise price of \$0.10 per share;
Listed	These options have an exercise price of \$0.10 per share.

## **CORPORATE DIRECTORY**

### **DIRECTORS**

Dominic Pellicano	Non Executive Director and Chairman
Dr. James Edwards	Non Executive Director
Guy Goudy	Non Executive Director
William Kefalianos	Non Executive Director
Dr Mark Hart	Non Executive Director

### **COMPANY SECRETARY**

Graham Seppelt

### **REGISTERED OFFICE**

25 Peel Street  
Adelaide SA 5000

Phone : 61 (0)419 035 297

Fax : 61 8 8339 7909

Website: [www.austinexploration.com.au](http://www.austinexploration.com.au)

### **PRINCIPAL ADMINISTRATIVE OFFICES**

25 Peel Street  
Adelaide SA 5000

Aus-Tex Exploration Inc,  
3355 Bee Caves Road, Suite 607  
Austin, Texas 78746 USA

### **SHARE REGISTRY**

Computershare Investor Services Pty. Ltd.  
Level 5, 115 Grenfell Street  
ADELAIDE, SA 500  
Phone (inside Australia): 1300 556 161  
Phone (outside Australia): 61 3 9615 4000

### **AUDITORS**

Grant Thornton South Australian Partnership  
Chartered Accountants  
Level 1, 67 Greenhill Road  
WAYVILLE S.A. 5034

### **AUSTRALIAN LEGAL ADVISORS**

Blake Dawson  
181 William Street  
Melbourne VIC 3000 Australia

### **AUSTRALIAN SECURITIES EXCHANGE**

The company is listed on the Australian Securities Exchange Limited.

The home exchange is Adelaide.

**ASX Codes:** Shares: AKK