

Austin Exploration Limited ABN 35 116 249 060
and Controlled Entity

AUSTIN EXPLORATION LIMITED

ABN 35 116 249 060

ANNUAL REPORT 2007

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CHAIRMAN'S REPORT

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 continued confidence in Austin Exploration Limited (Company).

The year has seen sustained high prices in the oil and gas sector, with oil prices reaching new highs of more than US\$80 per barrel and natural gas prices in the range from US\$6 to US\$15 per mcf. These strong hydrocarbon prices offer the Company continued opportunity for growth and private investment.

The last twelve months (July 2006 to July 2007) represent Austin Exploration's first complete fiscal year. The year began with the Company holding oil and gas interests in four prospects – two in Australia and two in the United States – and concluded with three additional prospects in Austin's asset portfolio.

Austin listed on the Australian Securities Exchange (ASX code: AKK) on July 20, 2006, at AU\$0.20 and shortly followed the completion and oversubscription of a successful IPO (Initial Public Offering). Since then, we also recognize that our shareholders have seen significant volatility of the share price. Although the financial trading markets have their own methods for indicating the market value of a particular company, we continue to believe that our share price is under-valued.

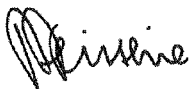
The Company also saw private investors contribute more than US\$10M of non-share diluting cash into various company projects. As a result, the Company was able to acquire additional oil and gas prospects. Each of these new prospects is 100% carried on the first well, thereby offering the Company significant shareholder value without the typical downside risk.

As always, the Company welcomes feedback and dialogue from our shareholders. The Company would like to encourage everyone to add their name to our expanding E-news distribution service.
<http://www.austinexploration.com/newsletter.asp>

Acknowledgements

I would like to thank our team for its significant efforts during the year and in particular our Managing Director, David Schuette, for his tireless efforts in bringing our portfolio together and going through the demanding task associated with our IPO. We are excited by the opportunities we have before us and are confident that we can deliver value to our shareholders.

Yours sincerely



Paul Teisseire
Chairman

REVIEW OF OPERATIONS AND ACTIVITIES

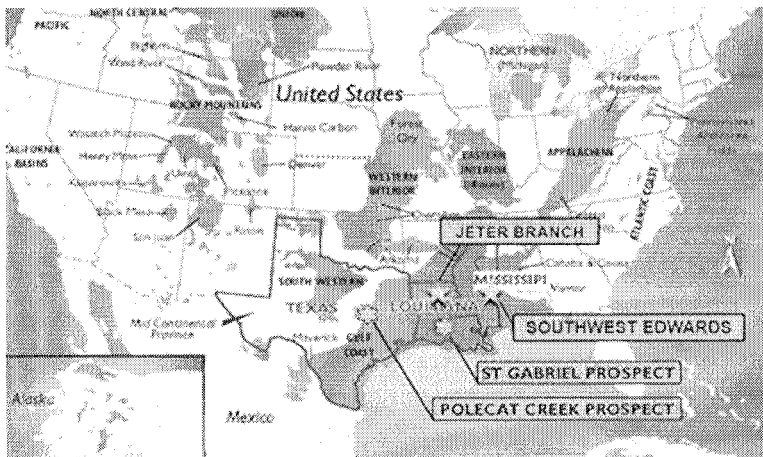
Although the PEL 73 and St Gabriel test wells contributed to significant share (AKK) price volatility over the last twelve months, the company did see the year end with a 50% gain in value from the initial IPO price in July of 2006, AUD \$.20 and AUD \$.30 respectively.

Our exploration efforts have produced positive oil and gas shows at three (3) of our test wells. PEL 73, St. Gabriel Field, and Jeter Branch all represent value and opportunities for the Company. We are currently reviewing data from the PEL 73 and St Gabriel prospect sites.

The company believes that onshore Australia represents one of the most under explored regions of the world particularly given its political stability and provides an outstanding opportunity for development both in terms of new prospects and the further development of known resources. It is this view that has driven Austin Exploration to be domiciled in Australia.

The company believes that the Gulf Coast States of the USA also represent an outstanding opportunity for significant development both in terms of new prospects and the further development of known resources in this area.

Southern U.S.A Focus



The Company is confident that our cash reserves coupled with a solid business model and the strength of the private capital markets will give the company a strong position for our second fiscal year. A snapshot of our current oil and gas assets follows.

OIL AND GAS ASSET SUMMARY

Summary Snapshot - Australia

Prospect Name	Yorktown PEL 73	PEL 105
Test Well Name	DMS Partners Gravestock #1	None
Location	Stansbury Basin, South Australia	Cooper Basin, South Australia
Ownership Interest	Working Interest 16.667% - Revenue Interest 12.5%	Working Interest 33.333% - Revenue Interest 28.66%
Partners	DMS Exploration, PIP Ltd., Private Investors	Hughes and Hughes Australia PTY LTD, Tri-C Resources Inc.
Objective / Focus	Frontier Basin - Wildcat well	Wildcat Drill Prospect
Independent Evaluations	Mulready Consulting Services Pty Ltd	Mulready Consulting Services Pty Ltd
Current Status	Initial well plugged and abandoned. Hydrocarbon show encountering at 691 m.	Establishing Farmin arrangements and drilling schedule
Next Steps	Planning on shooting new seismic data	Renegotiating work plan with PIRSA

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Summary Snapshot – Louisiana

Prospect Name	St. Gabriel 1	St Gabriel II	Jeter Branch
Test Well Name	Aus-Tex Exploration Ltd. VUA; Bourque #1	Aus-Tex Exploration Gueymard #1	Flex Energy LLC, Lewis La. Properties #1
Location	Iberville Parish, Louisiana	Iberville Parish, Louisiana	Caddo Parish, Louisiana
Ownership Interest		40% WI	Working Interest 50% - Revenue Interest 37%
Partners	Rio-Bravo Energy Partners, Verus Investments Limited, Private Investors	Rio-Bravo Energy Partners, Verus Investments Limited, Private Investors	Private Investors
Objective / Focus	Wildcat Prospect within a Currently Producing Field	Well Re-entry	Wild Cat Prospect - close to producing Fields
Independent Evaluations	Mulready Consulting Services Pty Ltd		
Current Status	Temporarily Plugged	One more zone to test	Drilled waiting on completion rig
Next Steps	Drillmar to take over operations and deepen well - Aus-Tex 20% BI after PO	Depends on testing of the well	Depends on testing of the well

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Summary Snapshot – Texas & Mississippi

Prospect Name	Polecat Creek	Southwest Edwards
Test Well Name	Old Stone Exploration Ezell 4-H	Flex Energy LLC, V. Montgomery 29-6 #1
Location	Falls and Limestone Counties, Texas	Hinds County, Mississippi
Ownership Interest	Working Interest 35% Revenue Interest 26.25%	Working Interest 25% Revenue Interest 19%
Partners	Old Stone Exploration, LLC	Verus Investments Limited, Private Investors
Objective / Focus	Well Re-entry	Re-entry and sidetrack 800 ft
Independent Evaluations	Multiready Consulting Services Pty Ltd	
Current Status	Currently producing 100 MCFPD and 1 BOPD	Testing Completed
Next Steps	Continue Production	Plugged and Abandoned

PRINCIPAL OIL AND GAS ASSETS DETAIL

PEL 73: Yorktown Prospect PEL 73 (Stansbury Basin, South Australia)

History and Status – The Gravestock #1 wildcat exploration well was drilled to test a structure in the Cambrian age Stansbury Basin on Petroleum Exploration License 73 (PEL 73). The exploration play concept was to drill a previously untested structure located adjacent to a possible deep kitchen area to the south identified by Seabase studies. The Gravestock structure is a large broad anticline identified on poor quality seismic data recorded in 1969.

Although no hydrocarbons were identified on the gas chromatograph or on examination of the drill cuttings, petrophysical interpretation of the wireline electric log data indicates the presence of gas over a gross 8 metre (26 feet) interval 691m – 699m, at the base of the Parara Limestone. The reservoir rock is a dolomitic sandstone with 15 to 27% porosity.

Gravestock-1 was spudded on 19 February 2007 and reached a total depth of 1096 metres (3596 feet) on 8 March 2007. The well was plugged and abandoned following wireline logging and the rig released on 10 March 2007.

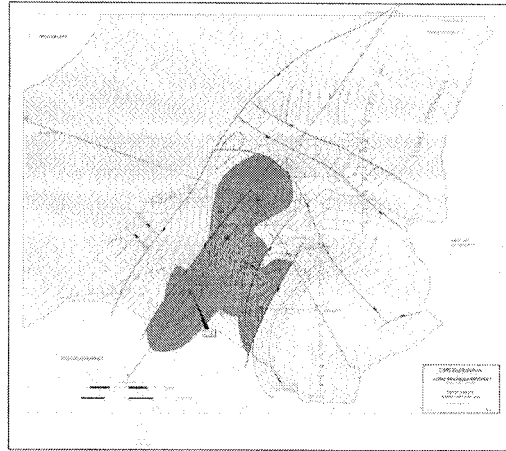
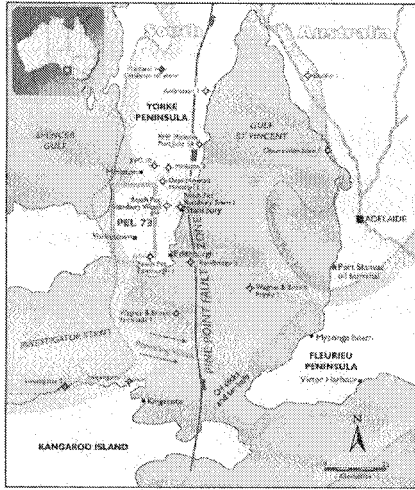
Austin Exploration was promoted on a 2 to 1 basis for this project so the company paid 33.33% of the Gravestock well to receive 16.67% working interest. Austin Exploration revenue interest is 12.5%.

DMS Exploration is currently reviewing the data collected from drilling the Gravestock well and will make a recommendation as how to proceed with exploration of PEL 73. The mapped structure is very large and additional seismic data will probably need to be acquired before new wells are proposed.

General Description - PEL 73 contains the Yorktown Prospect which is located 96 kilometres west of Adelaide and relatively close to established infrastructure. PEL 73 covers an area of 625 square kilometres and is within the Stansbury Basin, which basin has been the subject of both onshore and offshore oil and gas exploration since the 1930s. DMS Exploration has performed a proprietary magnetics analysis of the entire area of the Stansbury Basin prospective for hydrocarbons (4.5 million acres). This revealed the presence of a previously unrecognized sub-basin which is believed to be the source of known oil seepage found since the 19th century on south west facing beaches and in various harbours of the Fleurieu Peninsula and Kangaroo Island in South Australia.

The presence of an active hydrocarbon system is not in question. The Yorktown Prospect is 105 square kilometres (26,000 acres) in area, located onshore near the southern tip of Yorke Peninsula. The Prospect is estimated to have a large potential in a dolomitized limestone reservoir with good porosity.

Stansbury Basin Location Map



PEL 73 Statement of Working Interests:

PEL 73 PROSPECT SOUTH AUSTRALIA			
Party	Cost Bearing Interest of the Parties to <u>Casing Point</u>	Cost Bearing Interest of the Parties in <u>Completion Costs</u>	Cost Bearing Interest % / NRI % of the Parties upon Completion of the well & in <u>Subsequent Wells</u>
DMS Partners <i>(Operator)</i>	66.6667%	23.3334%	40%/30%
Austin Exploration	33.3333%	33.3333%	16.6667%/12.5000%
PEL 73 Investments Partners, LP (PIP)	0.0000%	25.0000%	25%/18.75%
AIL Holdings Limited	0.0000%	16.6667%	16.6667%/12.5000%
Flex Energy, LLC	0.0000%	1.6667%	1.6667%/1.2500%
TOTAL	100.0000%	100.0000%	100%/75%

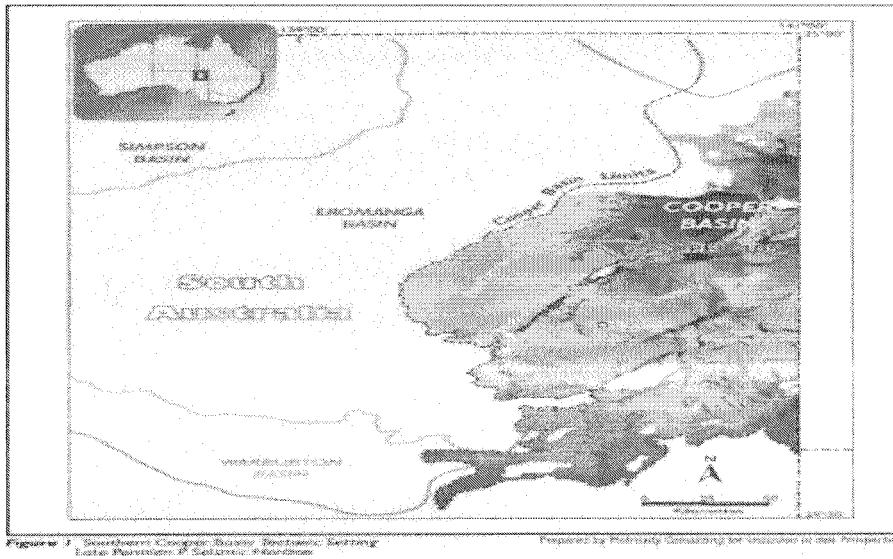
PEL 105: Tirrawarra Prospect (Cooper Basin, South Australia)

History and Status - Petroleum Exploration License 105 (PEL 105) is an area of 437 sq km approximately 60 kms north of Moomba in South Australia. The area is in the Cooper Basin and is surrounded by both oil and gas fields. Hughes and Hughes Australia PTY LTD and Tri-C Resources Inc. are the current license holders and Austin Exploration will participate on a 2 to 1 promote on the first well for a 33.3% working interest and a 28.3% revenue interest.

The current work program consists of drilling two wells before October 23, 2007, shooting 100 km of 2D seismic next year, and drilling a third well the following year. We are currently negotiating a new work program with PIRSA that would give us more time to generate prospects and get them drilled.

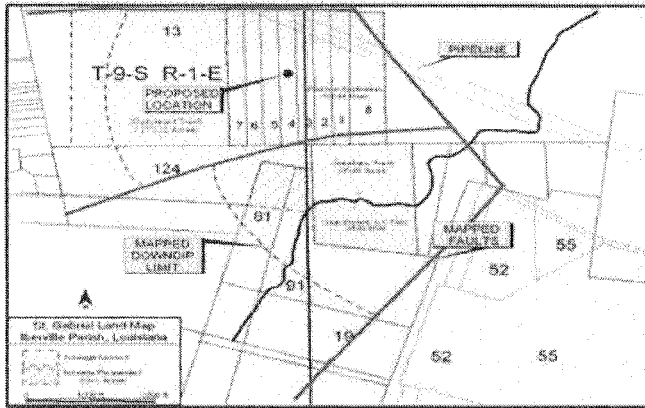
General Description - PEL 105 is surrounded by producing fields, some of which are the largest in the Cooper Basin. For instance, within the Cooper Basin, the Tirrawarra Field has a cumulative production of over 178 BCF and 26 million barrels of oil, and is approximately 5 kilometres south east of PEL 105. Within the boundaries of PEL 105, but excised from it, are the Bimbaya Field (19 BCF of gas), the Bookabourdie Field (80 BCF of gas) and the Merupa Field (1.5 BCF of gas). There are very large structures and multiple unconformities present on PEL 105, making for significant potential for accumulations of oil and gas to exist on the flanks of these regional structures. Additionally, the Paleozoic Warburton Basin has the potential to contain large accumulations of hydrocarbons in the area. There also is potential for the development of low risk field extension prospects. Currently 1 oil prospect and 2 leads are mapped. Prospect 'A' is a structural-stratigraphic trap mapped on the eastern flank of the Merrimelia High. A lead, located in a similar structural position as Prospect 'A', is mapped some 10kms to the northeast. The second lead is an elongate anticline which straddles the boundary with the neighbouring block PEL 101 where the recent Ginko 1 well [2005] discovered gas in the Permian section.

Cooper-Eromanga Basin Tectonic Setting:



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

History and Status – The St. Gabriel Field is located in Iberville and Ascension Parishes, Louisiana approximately eight miles southeast of the city of Baton Rouge. Aus-Tex Exploration operated the first test well, the Aus-Tex Exploration Inc. VUA; Bourque #1, which was designed to test a previously un-drilled fault block within the St Gabriel Field which had a seismic anomaly at approximately 10,500 ft. Estimated potential reserves from this prospect totalled 3 MMBO and 27 BCFG from the “T” and “W” sands.



The AFE for the Aus-Tex Bourque#1 was US\$4,053,000 drilled and completed to a depth of 10,800 ft. The well encountered unexpected high pressures and gas shows from about 8000 ft. to 10,292 ft. At that point it was decided that we could not drill any deeper without setting another casing string. Austin did not reach the target reservoir, the “W” sand, which also generated the seismic anomaly and was the primary target of

the well. No significant reservoir sands were found on the petrophysical analysis of the logs so the well was temporarily plugged. Drillmar Oil and Gas (USA) has taken over operations of the well and plans to deepen the well to test the “W” sand. If Drillmar is successful in establishing production Aus-Tex will back in for 20% after Drillmar gets back their drilling costs.

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

History and Status – The St Gabriel II prospect was a re-entry of an existing well bore, the Shell Oil Co. Gueymard #10, which was drilled to a depth of 11,174 ft. in the St. Gabriel Field. The well tested 5.8 MMCFGPD from the “W” sand and 1MMCFGPD from the “U” sand but neither zone was ever produced. These two zones have potential reserves of 8 BCFG and 260,000 BO. The well was completed in the “P” sand in 1947 and plugged and abandoned in the 1960s.

The well was renamed the Aus-Tex Gueymard#1 when Aus-Tex took over operations of the well. Aus-Tex began re-entry procedures on June 1, 2007 but on June 11, 2007 an obstruction in the casing was found at 9424 ft. and we could not get any deeper. Our main target zones were at 10,786 ft. and 11,153 ft. Production logs were run through casing and six zones appeared to be potentially productive. These zones were perforated and tested but all proved to be non-commercial.

The AFE for this well was US\$2,485,000 drilled and completed to the total depth of 11,170 ft. As of July 20, 2007, the last testing we did on the well, the drilling costs are \$2,031,749.00. Aus-Tex is 100% carried through the drilling and completion of this well and at that point will have a 40% working interest.

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

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General Description - The Aus-Tex Gueymard #1 well is within the St. Gabriel Field located over a salt dome in Ascension and Iberville Parishes, Louisiana (USA), approximately 12 miles south east of the city of Baton Rouge. The company has the opportunity to drill more than one well in the St. Gabriel Field.

Company efforts to exploit un-produced reserves in this previously producing oil and gas well have yet to be tested at targeted depth. As outlined within existing farmin agreements the next planned phase is to drill a new well and reach the targeted depth. The new well will be drilled from the same drill platform. Target depth includes the prospective zones that were shown to be productive by drill stem tests and or produced by Shell Oil Company; the P, T, U and W sands.

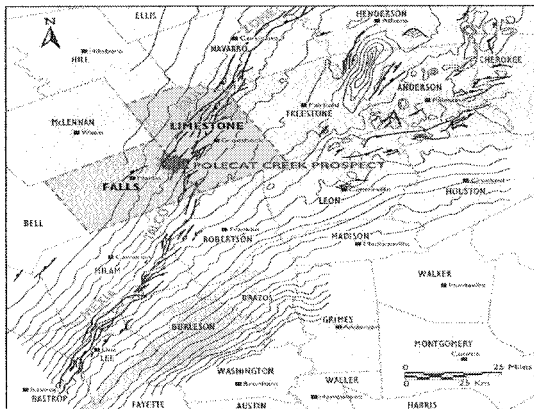
Statement of Working Interests:

St. Gabriel 2 (Gueymard #1)		
Party	Cost Bearing Interest / NRI % (BPO)	Cost Bearing Interest / NRI % (APO) & all subsequent wells
Aus-Tex Exploration Limited	0.00% / 37.50%	40% / 30%
Verus Investments Limited	50% / 18.75%	20% / 15%
Rio Bravo Exploration	0.0000%	20% / 15%
Private Investors	50% / 18.75%	20% / 15%
TOTAL	100% / 75%	100% / 75%

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

History and Status – The Polecat Creek Prospect is located in Falls County, Texas. The initial well was a horizontal test in the Georgetown Limestone reservoir in the Denny Field. The test well, the Old Stone Exploration Ezell 4-H, was a re-entry of an existing abandoned well where it was cleaned out to the top of Georgetown and was followed by drilling a 3000 ft. horizontal leg. Initial rates of 200 BOPD to 400 BOPD and 200 MCF/D were expected with reserves of up to 100,000 BO and 200 MMCFG estimated for each well. Completed well costs were expected to be US\$650,000 and up to five wells could be drilled on the prospect with a total reserve estimate of 500,000 BO and 1 BCFG.

The operator of the well was Old Stone Exploration, LLC and the cost of drilling and completing the Ezell 4-H was over twice what the original AFE stated. Aus-Tex paid a prospect fee of US\$35,000, the cost of the leases, and 46.7% of the cost of drilling the first well to earn a 35% working interest. Aus-Tex Revenue Interest in the Ezell 4-H is 26.25%.



Production from the Ezell 4-H initially was between 200-300 MCFD and 50-100 BOPD but declined more rapidly than expected so after almost a year of production the well is making about 100 MCFD and 1-2 BOPD. Production from the well is still fluctuating but based on the cumulative production to date the estimated ultimate recovery from this well should be about 320 MMCFG and 8,420 BO with Aus-Tex 26.25%

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revenue interest being 85 MMCFG and 2,200 BO. No additional drilling is planned for this prospect.

General Description - This well represents the first prospect drilled by the company. Polecat Creek was started and completed at the beginning of the current fiscal year.

Statement of Working Interests:

Polecat Creek (Texas)		
Party	Cost Bearing Interest Through Completion to First Sales	Cost Bearing Interest / NRI % After Completion to First Sales & all subsequent wells
Aus-Tex Exploration Limited	46.6667%	35% / 26.25%
Old Stone Exploration, LLC	53.3333%	65% / 48.75%
TOTAL	100.000%	100% / 75%

SW Edwards: (Hinds County, Mississippi, USA)

History and Status - SW Edwards prospect is a re-entry of the V. Montgomery 29-6 #1 well in Hinds County, Mississippi now called the Flex Energy V. Montgomery 29-6 #1. Flex began operations on the well on May 15, 2007 when they cleaned the old well bore out to 6469 ft. using a workover rig. On July 10, 2007 Flex moved in a bigger rig and sidetracked the well approximately 500 ft. to the northwest. A final total depth of 12,494 ft. was reached on August 8, 2007. The well was logged and casing was set to 12,494 ft. On September 24, 2007 we confirmed the completion of the well by perforating and testing a zone from 12,180 -12,210 ft. Although the log results were encouraging, the identified zone was perforated at multiple points and no oil or gas was recovered.

The AFE for SW Edwards is for US\$2,257,500 drilled and completed to a depth of 13,300 ft. We are currently over budget with the drilling costs at US\$2,884,412 as of Sept 9, 2007. Aus-Tex has a working interest of 25% and revenue interest of 19% in this well but are 100% carried through drilling and completion.

General Description - The prospect is substantiated by subsurface control, 2-D seismic lines, and a 3-D seismic survey and will involve re-entering a previously drilled well and sidetracking 600-800 feet northwest. The well is designed to test apparent logged pay in two Rodessa Sands at a total depth of 13,250 feet.

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Statement of Working Interests:

Southwest Edwards (Hinds County, MS. USA)			
Party	Cost Bearing Interests through Casing Point	Cost Bearing Interest of the Parties in Completion Costs	Cost Bearing interests %/NRI% of the Parties After Completion, to First Sales & all Subsequent Wells
Aus-Tex Exploration Inc	* 0%	* 0%	25% / 19%
Flex Energy LLC	37.5000%	41.1750%	50% / 38%
Private Australian Investor	31.2500%	29.4125%	12.5% / 9.5%
Verus Investments Limited	0.0000%	16.6667%	16.6667% / 12.5000%
TOTAL	68.750%		100% / 76%
<p>* Aus-Tex Interest Aus-Tex, by agreement with private investors will be carried through completion and to first sales in the Test Well</p>			

Jeter Branch: (Caddo County, Louisiana, USA)

History and Status – Jeter Branch prospect is a wildcat prospect in Caddo Parish, Louisiana. The test well is called the Flex Energy Lewis La. Properties #1 and as of September 5, 2007 has reached a total depth of 6300 ft. and is logged. On August 25, 2007 Flex Energy, and all the rest of the participants in the well except Aus-Tex Exploration, decided they did not want to complete the well so Aus-Tex took over operations. Aus-Tex, using Flex as a contract operator, continued operations of the well by setting casing to 6300 ft. As of September 14, 2007 we are waiting on a completion rig to perforate and test a zone from 5512 ft. to 5529 ft.

The AFE for the Lewis La. Properties #1 is US\$1,056,000 drilled and completed to 5450 ft. Currently we have drilled to 6300 ft logged and cased the well at a cost of US\$589,281. We will have additional costs associated with perforating, testing and completion equipment assuming we make a successful well. Aus-Tex originally had a carried working interest of 15% and a revenue interest of 11.1% in this well until we elected to take over operatorship. Now Aus-Tex will pay 50% of the completion costs and have a 37% revenue interest.

General Description - The well is substantiated by good subsurface control and two 2-D seismic lines. The prospect is surrounded by production less than 2 miles away and the drill site is a high, dry, land location. Gas pipelines are located approximately 7000 feet from the well location.

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Statement of Working Interests:

Jeter Branch Prospect (Caddo County, Louisiana, USA)		
Party	Cost Bearing interests through completion to First Sales	NRI% of the Parties After Completions & all <u>Subsequent Wells</u>
Austin Exploration*	50.0000%	37.000%
Flex Energy LLC	** 0%	1.000%
Private Australian Investor	50.0000%	37.000%
TOTAL	100.000%	76.000%
** Aus-Tex Interest	Aus-Tex, has chosen to acquire the Flex Energy working interest after Flex offered the interest in exchange for cover completion costs	

CORPORATE GOVERNANCE STATEMENT

Corporate Governance

The Directors are committed to the principles underpinning the best practice in corporate governance and the Company has adopted, to the extent that they are relevant to the organisation, the Ten Corporate Governance Principles and Best Practice Recommendations as published by the ASX Corporate Governance Council.

Unless disclosed below, all the best practice recommendations of the ASX Corporate Governance Council have been progressively adopted and applied since listing on 20 July 2006.

A description of the Company's main corporate governance practices is set out below.

Board responsibility

The Board of Directors ultimately takes responsibility for corporate governance and operates in accordance with the Company's Constitution. The company's framework is designed to enable the board to provide strategic guidance for the company and effective oversight of management. It nominates the respective roles and responsibilities of board members and senior executives in order to facilitate board and management accountability to both the company and its shareholders. The Board develops strategies for the company, reviews strategic objectives and monitors performance against those objectives. The goals of the corporate governance process are to:

- Drive shareholder value;
- Ensure a prudent and ethical base to the Company's conduct and activities; and
- Ensure compliance with the Company's legal and regulatory obligations.

Consistent with these goals, the Board assumes the following responsibilities:

- Oversight of the company including its control and accountability systems;
- Input into and final approval of management's development of corporate strategy and performance objectives;
- Reviewing and ratifying systems of risk management and internal compliance and control, codes of conduct and legal compliance;
- Approving and monitoring the progress of major capital expenditure, capital management and acquisitions and divestitures;
- Approving and monitoring financial and other reporting;
- Monitoring senior management's performance and implementation of strategy and ensuring appropriate resources are available;
- Appointing and removing the general manager; and
- Ratifying the appointment and where appropriate, the removal of the chief financial officer (or equivalent) and company secretary.

Board Composition

One third of the Board will retire and be subject to election at the next annual general meeting of the Company. Subsequent Directors will be appointed initially by the Board, subject to election by Shareholders at the next annual general meeting.

The Board is to be composed of a majority of non-executive Directors, including the Chairman. The Chairman of the Board is to be elected by the Board and the performance of Directors is to be reviewed on an ongoing basis. The chairman is an independent director and is responsible for the leadership of the board, for the efficient organisation and conduct of the board's function and for the briefing of all directors in relation to issues arising at board meetings. He also reviews the performance of each director. The board considers that each of the non-executive directors was an independent director at the date of the Annual Report.

Directors have the right, in connection with their duties and responsibility as Directors, to seek independent professional advice at the Company's expense. Prior approval of the Chairman is required, which will not be unreasonably withheld.

The Board accepts that it has the responsibility for internal control procedures within the Company. Compliance with these procedures covering financial reporting, quality and integrity of personnel and operational control is to be regularly monitored.

All Directors, managers and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Company.

The external auditor will be requested to attend annual general meetings and be available to answer questions from the shareholders in relation to the conduct of the audit.

The skills, experience and expertise relevant to the position of each director who is in office at the date of the annual report and their term in office are detailed in the directors' report.

The names of the directors of the Company are:

Director	Position	Independent
Paul Teisseire	Chairman and Non Executive Director	Yes
David Schuette	Executive Director	No
Paul Davies	Non Executive Director	Yes
James Edwards	Non Executive Director	Yes
Neville Martin	Non Executive Director	Yes
Donald Reck	Executive Director	No

Trading Policy

Introduction

This policy applies to all directors, officers, employees and contractors of the Company and the companies in the group (collectively called Directors and Employees).

This policy:

- includes a brief summary of the laws that govern dealings in the Company's securities (this includes its shares, options, warrants and other financial products traded on a financial market) when Directors and Employees have inside information about the Company (called insider trading);
- gives guidance to Directors and Employees who may contemplate dealing in the Company's securities; and
- states the Company's position on Directors and Employees dealing in the securities of other companies where they are in possession of inside information because of their position in the Company.

Insider Trading Prohibited for Dealings in Company Securities

Directors and Employees who are in possession of inside information about the Company's securities must not:

- deal in those securities;
- procure another person such as a family member, friend or associate to deal with those securities; or
- communicate the inside information to another person who is likely to deal in the Company's securities or procure another person to do so.

Inside information is information that is not generally available, but if it were a reasonable person would expect it to have a *material effect* on the price or value of the particular security. Information that would have a *material effect* on the price or value of a particular security is determined if and only if it would or would be likely to influence persons who usually acquire such securities in deciding whether to sell or buy those securities.

There may be significant criminal and civil liability and penalties (including imprisonment) imposed on those who breach the law concerning insider trading.

When Dealings in Company Securities are Not Permitted

In addition to the specific prohibition set out under the heading Insider Trading Prohibited for Dealings in Company Securities, Directors and Employees are prohibited from dealing in the Company's securities in the following circumstances:

- in the eight week period preceding the lodgement of the Company's half year and annual profit announcements with the ASX;
- where the dealing would be regarded as 'short term dealing'; and

- where the Board has resolved that there is a prohibition on dealing in the Company's securities which will be notified to Directors and Employees by the Managing Director or Company Secretary by email or facsimile.

Audit and Risk Management Committee

The Board has overall responsibility for the Company's system of risk oversight and management. The Company has put in place certain procedures to ensure effective and efficient operations to assist to identify, analyse and measure risks and to manage the risk of failure to achieve its business objectives in order to

protect its assets and interests and to ensure the integrity of reporting. While these procedures minimize losses and maximise opportunities, those procedures cannot however guarantee assurance against a risk of material loss.

To assist in discharging its responsibility for risk management, the Board has a framework comprising various policies and practices. The policies and practices fall into a number of categories that include:

- Financial budgeting and management reporting: The Company presents financial statements to the ASX half yearly. A detailed financial budget is put forward to the Board by management and is approved and adopted as the annual budget. Regular management accounts are prepared to compare actual results against budget. Forecasts are prepared and revised on a regular basis.

The Audit Committee reports on its activities to the Board;

- Limits of authority: The Company has policies and practices in place specifying delegated authority and limits of authority in areas such as its hedging activities and capital expenditure;

- Operational reporting: The Board receives regular reports on the Company's main operations including operations, production and development, exploration and appraisal, corporate and corporate opportunities;

- Special reporting: The Board receives regular reports on issues concerning occupational health and safety, environment and cultural heritage, corporate risk and insurance, human resources and administration; and

- Corporate opportunity reviews: The Company has practices in place to review new corporate opportunities. They include, in the case of new acquisitions detailed due diligence exercises and budgeting.

The Company also engages specialised contractors and external advisers including external auditors to assist with identifying and managing risk issues for the Company.

In accordance with best practice, for the annual and half- yearly financial statements, the Managing Director and the Chief Financial Officer provide to the Board a written certificate stating that:

- the integrity of the financial statements are founded on a sound system of risk management and internal compliance and control, which in all material respects, implements the policies and arrangements assumed by the Board; and

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- the risk management and internal compliance and control systems of the Company are operating efficiently and effectively, in all material respects, based on criteria for effective internal control established in the Company's policies and procedures manual.

The Company reviews regularly and at least annually, and where required, makes improvements to its risk management and internal compliance and control systems.

Performance Evaluation

Introduction

The Board has a process to review the performance of the Board, its committees and that of the individual directors and key executives. If the Board considers it necessary, an independent adviser may be used to facilitate the review process or aspects of it.

The Board, its Committees, Chairman and Individual Members

The Chairman is responsible for ensuring that regular reviews of the Board, its committees and individual member's takes place.

The reviews are intended to:

- examine ways of assisting the Board to perform its duties more effectively;
- assess if the Board is working harmoniously;
- identify any areas of performance with scope for improvement or which may require increased attention by the Board;
- identify those areas of skill, experience or competencies which may need strengthening by the Board;
- take account of any succession planning issues or strategies for the ongoing effective performance of the Board as a whole; and
- identify improvements to the Boards processes and procedures so that the Board can consider what, if any, action should be taken in response to the results of the reviews.

An annual review of the performance of the Board and its committees will be conducted with each director and committee giving feedback to the Chairman.

The roles, responsibilities and functions as set out in the relevant charters, as well as any additional agreed criteria will be used in this process.

The constitution of the Company and the ASX Listing Rules require that at each annual general meeting one third of the directors (excluding the Managing Director) together with any director appointed since the last annual general meeting, retire from office. Retiring directors are eligible for re-election.

The Chairman will report to the Board on the outcome of all Board and committee reviews. The Chairman will decide how to communicate the outcomes of the reviews to the Board, although the details of individual reviews will be treated confidentially.

Key Executives

The Managing Director conducts annual performance reviews for key executives. Executive directors will participate in performance reviews for the Board in addition to the Managing Director's review.

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The performance of the Managing Director is assessed by the Board yearly against key performance indicators determined by the Board. The key performance indicators include overall Company performance, individual performance and other relevant criteria. The review will be facilitated by the Chairman and one other non-executive director.

Remuneration Committee

The following are intended to form part of the usual procedures for the committee's purpose:

- review and make recommendations to the Board for approval, on the advice of the Managing Director, of the

remuneration amounts and packages for executives and senior managers, other than the Managing Director;

- review and make recommendations to the Board for approval of the Managing Director's remuneration amount and package;
- review remuneration policies and practices generally including incentive schemes for employees and performance targets as submitted by the Managing Director and, where necessary for approval by the Board;
- review and ensure compliance with the Company's obligations in relation to employee benefits and entitlements, superannuation and termination payments;
- review and make recommendations to the Board on the Company's recruitment, retention and termination policies for senior management;
- review, formulate policy and monitor progress of succession planning generally in the Company and make recommendations to the Board for approval;

Reporting

The committee chairman will usually provide an oral report to the Board of any material matters arising out of the previous meeting of the committee. The minutes of any meetings will be provided to the Board with its Board papers for information.

Review

The Board will, at least once a year review the membership and charter of the committee to determine its adequacy and effectiveness for current circumstances. The committee may make recommendations to the Board in relation to the committee's membership, purpose and responsibilities.

Safety and Environmental Committee

The Company recognises the importance of environmental and occupational health and safety issues. The Company is committed to compliance with all relevant laws and regulations and continually assesses its operations to ensure the protection of the environment, the community and the health and safety of its employees. The Company intends to use contractors extensively. Contractors will be required to submit their safety, environmental and disaster recovery procedure as part of the due diligence to be conducted prior to the awarding of a contract.

The main role of the Safety and Environmental Committee is to:

- review the adequacy of compliance with all regulatory requirements in respect of the environment and occupational health and safety;
- monitor the management of identified risks, highlight new risks and review the actions to be taken for their control;
- support the culture of safe working practices and concern for the environment throughout the Company;
- review any serious injury or major environmental incident; and
- review proper practices are followed by all contractors.

Ethical standards

Introduction

It is the Company's objective to appropriately balance, protect and enhance the interests of its key stakeholders. Proper behaviour by the Company's directors, officers, employees and those the Company contracts to do work for it is essential in achieving this objective.

This Code of Conduct:

- sets out the standards of behaviour to apply to every aspect of the Company's dealings and relationships both inside and outside of the Company;
- refers to policies, practices and procedures adopted by the Company to assist and guide the Company and its people to meet those standards;
- applies to the directors, officers and employees and where relevant and to the degree to which it is able, the contractors of the Company.

Meeting the standards means that each person who this Code applies to will take responsibility for conducting themselves in accordance with this Code in the context of their role in the Company.

Standards of Behaviour

The following standards of behaviour apply:

- Comply with the laws that govern the Company and its operations.
- Act honestly and with integrity and fairness in all dealings with others and each other.
- Avoid or manage conflicts of interest.
- Use Company assets properly and efficiently for the Company's benefit.
- Contribute to the well being of the Company's key stakeholders.
- Seek to be an exemplary corporate citizen.

Comply with the laws that govern the Company and its operations

This means:

- The Company aims to act in each place it operates, in a manner which complies with both the letter and the spirit of the law.

- Directors, officers and employees need to be familiar with the duties and responsibilities applying to them under the laws relevant to the Company and in the context of their role in the Company.
- Directors, officers and employees are encouraged to:
 - (a) ask for clarification and assistance about the application and interpretation of any law;
 - (b) regularly update their knowledge of the law as it applies to their role with the Company and undertake relevant training or professional development as necessary.

Continuous disclosure

Introduction

The Company must continuously advise the ASX of information to keep the market informed of events and developments relating to the Company as they occur. If it does not, then there may be significant criminal and civil penalties imposed on the Company and its officers.

This policy sets out the rules for disclosing information to the ASX, the obligations on the Company and its people and the procedures put in place by the Company to comply with the rule.

This policy is in addition to the rules the Company must comply with for routine disclosures to the ASX, such as quarterly and annual reporting.

Disclosure Obligations on the Company

Listing Rule 3.1 requires the Company to immediately disclose to the ASX information concerning the Company that it is or becomes aware of that a reasonable person would expect to have a material effect in the price or value of the Company's securities.

This rule does not apply to particular information, if and only if each of the following applies:

- a reasonable person would not expect the information to be disclosed; and
- the information is confidential and the ASX has not formed a view that the information has ceased to be confidential; and
- one or more of the following applies:
 - i. it would be a breach of a law to disclose the information.
 - ii. the information concerns an incomplete proposal or negotiation.
 - iii. the information comprises matters of supposition or is insufficiently definite to warrant disclosure.
 - iv. the information is generated for the internal management purposes of the Company.
 - v. the information is a trade secret.

If the ASX considers there is or is likely to be a false market in the Company's securities, ASX may ask the Company to disclose information or make a statement to correct or prevent the false market. This may occur where there is market speculation or media reports arising from a leakage of confidential information concerning a proposal or negotiations that have not been disclosed by the Company because the exception to Listing Rule 3.1 applies.

Information must not be selectively disclosed to others such as prospective shareholders, the media or analysts, before it is disclosed to the ASX.

Obligations on individuals in the Company

It is the responsibility of each director, officer and employee to advise the Managing Director and/or the Company Secretary/Chief Financial Officer immediately of any information about the Company that has not been released to the ASX and that might be price sensitive, that is, it might influence someone to buy or sell the Company's securities.

If a person is unsure about the importance or relevance of the information which has become known, the information should be reported to the Managing Director and/or the Company Secretary/Chief Financial Officer so that a decision may be made about whether or not to disclose the information to the ASX.

Related party matters

Directors and senior management will be required to advise the Chairman of any related party contract or potential contract. The Chairman will inform the Board, and the reporting party will be required to remove himself/herself from all discussions and decisions involving the matter.

Shareholder relations

In order to keep shareholders informed about the affairs of the Company and its important developments, the Company:

- should establish a website containing information about the Company including details about its assets and activities, media releases, research reports and some of its key policies. The website may also include the latest financial reports and annual report of the Company;
- should place all new ASX releases and other relevant information it has given to the ASX on its website once the releases and information have been received by the ASX;
- encourages its shareholders to attend the annual general meeting and to discuss and question its Board and management. The Company's external auditor will also be invited to attend each annual general meeting to answer questions from shareholders as appropriate;
- in addition to encouraging attendance at annual general meetings, the Company should invite shareholders to direct general comments and queries to the Company using the "Investor Contact" page of its website;
- may send letters to its shareholders from the Managing Director or Chairman specifically to inform shareholders of key matters of interest.

Summary

The Board will consider on an ongoing basis its corporate governance procedures and whether they are sufficient given the nature of the Company's operations and its size.

To the extent that any existing policy requires modifications in order to comply with the *'Principles of Good Corporate Governance and Best Practice Recommendations'* published by the ASX Corporate Governance Council, the Company will make such modifications and amendments as may be required from time to time.

DIRECTORS' REPORT

Your Directors present this report on the Company and its controlled entity for the financial year ended 30 June 2007.

Directors

The names of each person who has been a director during the year and to the date of this report are:

Paul Desmond Teisseire (appointed Chairman 18 October 2006)
David Max Schuette
Dr. James Michael Edwards
Neville Wayne Martin
Donald Frederick Reck Jr.
Paul Joseph Davies (Appointed director 10 November 2006)
Kenneth David Goughnour (Resigned 10 April 2007)
Dr Krishna Kumar Jajodia (Resigned 10 November 2006)
Right Hon. Kenneth Peter Lyle Mackay - The Earl of Inchcape (Resigned 10 November 2006)
Aditya Kumar Jajodia (Resigned 10 November 2006)

Company Secretary

The following persons held the position of company secretary at the end of the financial year or subsequently:

Paul Joseph Davies (resigned 17 July 2007)
Mr Graham Allan Seppelt (appointed 17 July 2007)

Principal Activities

Since its incorporation, the Company has identified oil and gas exploration opportunities to pursue in both the United States of America and Australia.

Operating Results

The net loss of the Consolidated Entity for the year ended 30 June 2007 was \$1,450,447.

Review of Operations and Activities

Exploration

The Company has identified and acquired assets that are in line with the business strategy and focus of the Company. All prospects have ready access to infrastructure.

Prospect Summary and Status

PEL 73:

Gravestock-1 wildcat exploration well was drilled to test a structure in the Cambrian age Stansbury Basin on Petroleum Exploration License 73 (PEL 73). The exploration play concept was to drill a previously untested structure located adjacent to a possible deep kitchen area to the south identified by Seabase

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studies. The Gravestock structure is a large broad anticline identified on poor quality seismic data recorded in 1969.

Although no hydrocarbons were identified on the gas chromatograph or on examination of the drill cuttings, petrophysical interpretation of the wireline electric log data indicates the presence of gas over a gross 8 metre (26 feet) interval 691m – 699m, at the base of the Parara Limestone. The reservoir rock is dolomitic sandstone with 15 to 27% porosity.

Gravestock-1 was spudded on 19 February 2007 and reached a total depth of 1096 meters (3596 feet) on 8 March 2007. The well was plugged and abandoned following wireline logging and the rig released on 10 March 2007.

Austin Exploration was promoted on a 2 to 1 basis for this project so the company paid 33.33% of the Gravestock well to receive 16.67% working interest. Austin revenue interest is 12.5%.

DMS Exploration is currently reviewing the data collected from drilling the Gravestock well and will make a recommendation as how to proceed with exploration of PEL 73. The mapped structure is very large and additional seismic data will probably need to be acquired before new wells are proposed.

PEL 105:

Petroleum Exploration License 105 (PEL 105) is an area of 437 sq km approximately 60 kms north of Moomba in South Australia. The area is in the Cooper Basin and is surrounded by both oil and gas fields. Hughes and Hughes Australia PTY LTD and Tri-C Resources Inc. are the current license holders and Austin Exploration will participate on a 2 to 1 promote on the first well for a 33.3% working interest and a 28.66% revenue interest.

The current work program consists of drilling two wells before October 23, 2007, shooting 100 km of 2D seismic next year, and drilling a third well the following year. We are currently negotiating a new work program with PIRSA that would give us more time to generate prospects and get them drilled. We also are in negotiations with Adelaide Energy to participate in this prospect.

St Gabriel I:

The St. Gabriel Field is located in Iberville and Ascension Parishes, Louisiana approximately eight miles southeast of the city of Baton Rouge. Aus-Tex Exploration operated the first test well, the Aus-Tex Exploration Inc. VUA; Bourque #1, which was designed to test a previously un-drilled fault block within the St Gabriel Field which had a seismic anomaly at approximately 10,500 ft. Estimated potential reserves from this prospect totalled 3 MMBO and 27 BCFG from the "T" and "W" sands.

The AFE for the Aus-Tex Bourque#1 was drilled and completed to a depth of 10,800 ft. The well encountered unexpected high pressures and gas shows from about 8000 ft. to 10,292 ft. At that point it was decided that we could not drill any deeper without setting another casing string. Austin did not reach the target reservoir, the "W" sand, which also generated the seismic anomaly and was the primary target of the well. No significant reservoir sands were found on the petrophysical analysis of the logs so the well was temporarily plugged.

Drillmar has taken over operations of the well and plans to deepen the well to test the "W" sand. If Drillmar is successful in establishing production Aus-Tex will back in for 20% after Drillmar gets back their drilling costs.

St Gabriel II:

The St Gabriel II prospect was a re-entry of an existing well bore, the Shell Oil Co. Gueymard #10, which was drilled to a depth of 11,174 ft. in the St. Gabriel Field. The well tested 5.8 MMCFGPD from the "W"

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sand and 1MMCFGPD from the "U" sand but neither zone was ever produced. These two zones have potential reserves of 8 BCFG and 260,000 BO. The well was completed in the "P" sand in 1947 and plugged and abandoned in the 1960s.

The well was renamed the Aus-Tex Gueymard#1 when Aus-Tex took over operations of the well. Aus-Tex began re-entry procedures on June 1, 2007 but on June 11, 2007 an obstruction in the casing was found at 9424 ft. and we could not get any deeper. Our main target zones were at 10,786 ft. and 11,153 ft. Production logs were run through casing and six zones appeared to be potentially productive. These zones were perforated and tested but all proved to be non-commercial.

The AFE for this well was drilled and completed to the total depth of 11,170 ft. Aus-Tex is 100% carried through the drilling and completion of this well and at that point will have a 40% working interest. There are additional costs such as board rental while we wait to complete the well.

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

SW Edwards:

SW Edwards prospect is a re-entry of the V. Montgomery 29-6 #1 well in Hinds County, Mississippi now called the Flex Energy V. Montgomery 29-6 #1. Flex began operations on the well on May 15, 2007 when they cleaned the old well bore out to 6469 ft. using a workover rig. On July 10, 2007 Flex moved in a bigger rig and sidetracked the well approximately 500 ft. to the northwest. A final total depth of 12,494 ft. was reached on August 8, 2007. The well was logged and casing was set to 12,494 ft. On September 24, 2007 we confirmed the completion of the well by perforating and testing a zone from 12,180 -12,210 ft. Although the log results were encouraging, the identified zone was perforated at multiple points and no oil or gas was recovered.

The AFE for SW Edwards is drilled and completed to a depth of 13,300 ft. Aus-Tex has a working interest of 25% and revenue interest of 19% in this well but are 100% carried through drilling and completion.

Jeter Branch:

Jeter Branch prospect is a wildcat prospect in Caddo Parish, Louisiana. The test well is called the Flex Energy Lewis La. Properties #1 and as of September 5, 2007 has reached a total depth of 6300 ft. and is logged. On August 25, 2007 Flex Energy, and all the rest of the participants in the well except Aus-Tex Exploration, decided they did not want to complete the well so Aus-Tex took over operations. Aus-Tex, using Flex as a contract operator, continued operations of the well by setting casing to 6300 ft. As of September 14, 2007 we are waiting on a completion rig to perforate and test a zone from 5512 ft. to 5529 ft.

The AFE for the Lewis La. Properties #1 is drilled and completed to 5450 ft. Currently we have drilled to 6300 ft logged and cased the well. We will have additional costs associated with perforating, testing and completion equipment assuming we make a successful well. Aus-Tex originally had a carried working interest of 15% and a revenue interest of 11.1% in this well until we elected to take over operatorship. Now Aus-Tex will pay 50% of the completion costs and have a 37% revenue interest.

Polecat Creek Prospect:

The Polecat Creek Prospect is located in Falls County, Texas. The initial well was a horizontal test in the Georgetown Limestone reservoir in the Denny Field. The test well, the Old Stone Exploration Ezell 4-H, was a re-entry of an existing abandoned well where it was cleaned out to the top of Georgetown and was followed by drilling a 3000 ft. horizontal leg. Initial rates of 200 BOPD to 400 BOPD and 200 MCF/D were

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expected with reserves of up to 100,000 BO and 200 MMCFG estimated for each well. Up to five wells could be drilled on the prospect with a total reserve estimate of 500,000 BO and 1 BCFG.

The operator of the well was Old Stone Exploration and the cost of drilling and completing the Ezell 4-H was over twice what the original AFE stated. Aus-Tex paid a prospect fee of the cost of the leases, and 46.7% of the cost of drilling the first well to earn a 35% working interest. Aus-Tex Revenue Interest in the Ezell 4-H is 26.25%.

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

Corporate Matters

Capital Raising

The Company successfully completed its Initial Public Offering and was admitted to the Australian Securities Exchange on July 20th 2006. The Company closed its offering to the public with subscriptions worth \$10,405,000 after initially announcing an intended raising of \$10,000,000.

Modification of Officers and Directors

Mr. Paul Davies retired as Chief Financial Officer with the company during the September quarter 2007 and has handed the company secretarial role to Mr. Graham Allan Seppelt of Adelaide, South Australia as its new Corporate Secretary. We thank Mr. Davies for fulfilling these essential roles and assisting the company in our early development stages.

Significant Changes in State of Affairs

There were no significant changes in the state of affairs of the Consolidated Entity during the year.

Subsequent Events

Since 30 June 2007, the company has continued to develop its interests and has achieved the following:

- Completed a thorough wireline log analysis of the Gravestock #1 well in the PEL 73 prospect. Analysis indicates a possibility of having producible hydrocarbons in that zone.
- Announced a farm-out agreement for the St. Gabriel #1 well with oil and gas explorer and producer, Drillmar Oil and Gas to enable Drillmar to pursue the re-entry and deepening of the well in an attempt to reach the targeted depth.
- Became the official operator of the Lewis Louisiana Properties #1 (Jeter Branch) well and increased its working interest from 30% to 50%.
- Entered into a farm-in agreement in the Lil' Bit (Kenedy Ranch #11 well, Kenedy County, Texas, US)

Future Developments

The likely future developments of the Consolidated Entity during the next financial year will involve the ongoing principal activity of oil and gas exploration. The Company 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.

Key Business Strategies and Future Prospects

The company's business strategies and prospect for growth in future financial years have not been included in this report as the inclusion of this information is likely to result in an unreasonable prejudice to the company.

Environmental Issues

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.

Options

No Options were granted over un-issued shares or interests during or since the end of the financial year by the company to directors or any of the company officers as part of their remuneration.

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.

Information on Directors

Paul Desmond Teisseire

(NON-EXECUTIVE DIRECTOR AND CHAIRMAN)

Mr Paul Desmond Teisseire is Non-Executive Chairman or director of a number of Australian public listed companies including Auspine Ltd, Legend Corporation Ltd, and BSA Limited.

He is a former legal practitioner with extensive experience in corporate law and tax.

David Max Schuette

(MANAGING DIRECTOR, EXECUTIVE DIRECTOR)

Mr David Max Schuette 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. Mr Schuette has been an advisor to and investor in the oil and gas industry and brings over 25 years of experience to Austin Exploration.

Paul Joseph Davies

(NON-EXECUTIVE DIRECTOR)

Mr Paul Joseph Davies has extensive financial experience across a broad range of industries most notably in the finance sector. He was formerly a Director of Deutsche Bank Australia and an Associate Director of Bankers Trust Australia.

Dr. James Michael Edwards

(NON-EXECUTIVE DIRECTOR)

Dr. James Michael 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

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America. Dr. Edwards has held senior executive positions with Tenneco Oil Company, Triton Corporation, and Daytona Energy Corporation.

Neville Wayne Martin

(NON-EXECUTIVE DIRECTOR)

Mr Neville Wayne Martin is a partner in the Australian law firm Minter Ellison, with over 35 years experience in corporate law and mining oil and gas law. He is a former director of Stuart Petroleum Limited and a former State President of the Australian Mining & Petroleum Law Association. He is also a director of an ASX listed oil exploration company, Adelaide Energy Ltd.

Donald Frederick Reck Jr.

CHIEF GEOLOGIST (EXECUTIVE DIRECTOR)

Mr Don Reck has been chief geologist for DMS Exploration since 2000. Prior to that date Mr Reck consulted to many USA oil and gas exploration companies including Rio-Tex Inc., Trio Exploration, Medders Oil Co., Texaco and Strategic Petroleum. Mr. Reck is also a former exploration geologist with Tenneco Oil and Conoco and brings over 30 years of experience to Austin Exploration.

Information on Secretaries

Mr Graham Seppelt is a Certified Practicing Accountant and has had extensive experience as a contract accountant and in corporate advisory roles. He is currently the company secretary for ASX listed companies BSA Limited, Primary Resources Limited and Legend Corporation Limited.

REMUNERATION REPORT

This report details the nature and amount of remuneration for each director of the Company, and for the executives receiving the highest remuneration.

Remuneration policy

The Company'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 the consolidated group's profits and 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. Any changes must be justified by reference to measurable performance criteria. 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

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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. 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.

Remuneration Details for the Year Ended 30 June 2007

The remuneration of each director and the executive officers of the consolidated entity during that year are as follows:

	Salary, Fees and Commissions	Committee Fees	Super-annuation Contributions	Share Based Payments	Total
	\$	\$	\$	\$	\$
Paul Teisseire	46,750	-	-	-	46,750
David Schuette	166,144	-	-	-	166,144
Paul Davies	123,181	-	-	-	123,181
Dr. James Edwards	-	-	-	-	-
Neville Martin	-	-	-	-	-
Donald Reck	166,144	-	-	-	166,144
Kenneth Goughnour**	104,461	-	-	-	104,461
Right Hon. Kenneth Mackay (The Earl of Inchcape)*	-	-	-	-	-
Aditya Jajodia*	-	-	-	-	-
Dr. K K Jajodia*	-	-	-	-	-
Kenneth Hill	66,675	-	-	-	66,675
	673,355	-	-	-	673,355

* Resigned 10 November 2006

** Resigned 10 April 2007

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Remuneration Details for the Year Ended 30 June 2006

The remuneration of each director and the executive officers of the consolidated entity during that period are as follows:

	Salary, Fees and Commissions	Committee Fees	Super-annuation Contributions	Share based payments	Total
	\$	\$	\$	\$	\$
Paul Teisseire	-	-	-	350	350
David Schuette	-	-	-	2,000	2,000
Paul Davies	-	-	-	-	-
Dr. James Edwards	-	-	-	350	350
Neville Martin	-	-	-	350	350
Donald Reck	-	-	-	2,000	2,000
Kenneth Goughnour	-	-	-	2,000	2,000
Right Hon. Kenneth Mackay (The Earl of Inchcape)	-	-	-	350	350
Aditya Jajodia	-	-	-	-	-
Dr. K K Jajodia	-	-	-	-	-
Kenneth Hill	-	-	-	-	-
	-	-	-	7,400	7,400

Details of Options Granted as Remuneration for the Year Ended 30 June 2007

No Options were issued to directors or executives during the year ended 30 June 2007

Details of Options Granted as Remuneration for the Year Ended 30 June 2006

Options are issued to current directors and executives as part of their remuneration. The options are not issued based on performance criteria, but were issued to the directors of the Company to increase goal congruence between executives, directors, and shareholders. All options are unlisted and have an expiry date of 30 June 2011.

	Class	Options on Issue 30 June 2006	Options Exercised	Options Lapsed	Options Cancelled	Total Options 30 June 2007
		#	#	#	#	#
Paul Teisseire	A	350,000	-	-	-	350,000
David Schuette	A	2,000,000	-	-	-	2,000,000
Dr James Edwards	A	350,000	-	-	-	350,000
Neville Martin	A	350,000	-	-	-	350,000
Donald Reck	A	2,000,000	-	-	-	2,000,000
Kenneth Goughnour	A	2,000,000	-	-	(2,000,000)	-
Right Hon. Kenneth Mackay	A	350,000	-	-	-	350,000
		7,400,000	-	-	(2,000,000)	5,400,000

Non executive Directors

The Company's Constitution provides that the remuneration of non-executive directors will not be more than the aggregate fixed sum of \$500,000 or such other amount determined by a general meeting of shareholders. Three directors are remunerated under specific contracts as noted below.

David Schuette – Managing Director

Under an agreement dated 12 May 2006 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 50% 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 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. 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 addition to which, AUS-TEX will also reimburse 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.

Kenneth Goughnour - land manager, commercial manager and operations manager

Kenneth David Goughnour was contracted as a Consultant to AUS-TEX, through DMG Holdings, LLC (a US company associated with Kenneth David Goughnour).

Under an agreement dated 12 May 2006 the Consultant was appointed as AUS-TEX's land manager, commercial manager and operations manager to run the day to day operations of that 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 Consultant was contracted for a term of 2 years, but which was terminated on 10 April 2007. The Consultant received an annual consultancy fee of USD\$150,000.00 and at the commencement of the consultancy received 2,000,000 A class options to acquire one share each in the Company at AUD\$0.30 per share. Upon the conclusion of the consultant's contract the A class options were cancelled.

Donald Frederick Reck Jr. - Chief Geologist

Under an agreement dated 12 May 2006 between D. F. Reck Consultants (a US company associated with Donald Frederick Reck Jr.) and AUS-TEX, the Consultant is appointed as AUS-TEX's chief geologist, to provide geological 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, Michigan, 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. AUS-TEX may extend the consultancy beyond that term for further periods of 1 year each. The Consultant will receive an annual consultancy fee of USD\$150,000.00 and at the commencement of the consultancy received 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 4.00 pm on 31 December 2011.

The Consultant may terminate the consultancy, without cause, at any time by 90 days written notice. AUS-TEX may not terminate without cause during the two year term of the consultancy, but it may then do so if the consultancy 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 consultancy fee. In addition, AUS-TEX may terminate the consultancy for reasons which include (without limitation):

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

The Consultant may terminate the consultancy if AUS-TEX breaches the Consultancy Agreement and does not rectify the breach within 30 days of written notice from the Consultant to do so.

**Austin Exploration Limited ABN 35 116 249 060
and Controlled Entity**

Directors and key management personnel interest in shares

Number of Shares held by Key Management Personnel who were in office during or since the end of the financial year:

	Note	Balance at 30.6.2006	Net Change Other ⁽¹⁾	Balance 30.6.2007
Paul Teisseire	(d)	350,000	-	350,000
David Schuette		7,900,000	-	7,900,000
Paul Davies		550,000	-	550,000
Dr. James Edwards		-	-	-
Neville Martin	(b)	800,000	-	800,000
	(b)	900,000	-	900,000
	(c)	630,000	-	630,000
Donald Reck Jr.		7,500,000	-	7,500,000
Kenneth Goughnour**		3,750,000	-	3,750,000
Right Hon. Kenneth Mackay* (Earl of Inchcape)	(a)	590,000	-	590,000
Aditya Jajodia*	(a)	350,000	-	350,000
Dr. Krishna Jajodia*	(a)	1,120,000	-	1,120,000
Total		24,440,000	-	24,440,000

* Resigned 10 November 2006

** Resigned 10 April 2007

⁽¹⁾ **Net Change Other (above)** refers to shares purchased or sold during the year.

(a) Dr. K.K. Jajodia, Mr A.K. Jajodia and Kenneth Peter Lyle Mackay are directors of the following companies which hold securities in Austin Exploration Limited:

Name of Director	Company	No. of Shares
Dr. K.K. Jajodia Mr A.K. Jajodia	Assam Company Limited	12,500,000
Dr. K.K. Jajodia Mr A.K. Jajodia Kenneth Peter Lyle Mackay	A.I.L. Holdings Limited	6,250,000
Dr. K.K. Jajodia	Cromwell Securities Limited	6,250,000

(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 the spouse of Mr. Teisseire

**Austin Exploration Limited ABN 35 116 249 060
and Controlled Entity**

Options Holdings

Number of options held by Key Management Personnel who were in office during or since the end of the financial year.

	Class	Balance at 30.6.2006	Options Exercised	Options Cancelled	Balance at 30.6.2007
Paul Teisseire	A	350,000	-	-	350,000
David Schuette	A	2,000,000	-	-	2,000,000
David Schuette	B	6,300,000	-	-	6,300,000
David Schuette	C	6,300,000	-	-	6,300,000
Paul Davies		-	-	-	-
Dr. James Edwards	A	350,000	-	-	350,000
Neville Martin	A	350,000	-	-	350,000
Donald Reck Jr.	A	2,000,000	-	-	2,000,000
Kenneth Goughnour	A	2,000,000	-	(2,000,000)	-
Right Hon. Kenneth Mackay (Earl of Inchcape)	A	350,000	-	-	350,000
Aditya Jajodia		-	-	-	-
Dr. Krishna Jajodia		-	-	-	-
Total		20,000,000	-	(2,000,000)	18,000,000

Options

At the date of this report, the un-issued ordinary shares of Austin Exploration Limited under option are as follows:

Grant Date	Date of Expiry	Exercise Price	Number under Option	Class
19/5/2006	30/6/2011	\$0.30	5,400,000	A
12/5/2006	30/6/2011	\$0.50	12,600,000	B
12/5/2006	30/6/2011	\$0.75	12,600,000	C

During the year ended 30 June 2007 no ordinary shares of Austin Exploration Limited were issued on the exercise of options. 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.

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	
	A	B	A	B
Paul Teisseire	4	6	1	1
David Schuette	6	6		
Paul Davies	4	5	1	1
Dr. James Edwards	2	6		
Neville Martin	6	6	1	1
Donald Reck Jr.	6	6		
Kenneth Goughnour	4	6		
Aditya Jajodia	2	2		
Dr. Krishna Jajodia	-	2		
Right Hon. Kenneth Mackay (The Earl of Inchcape)	-	2		

A Number of meetings attended

B Number of meetings held during the time that the director held office during the year.

**Austin Exploration Limited ABN 35 116 249 060
and Controlled Entity**

Dividends

No dividends were paid or declared since the start of the year. No recommendation for payment of dividends has been made.

Indemnification

The Company is required to indemnify the Directors and other officers of the Company against any liabilities incurred by the Directors and officers that may arise from their position as Directors and officers of the Company. No costs were incurred during the year pursuant to this indemnity.

Non-audit Services

During the year ended 30 June 2007 Grant Thornton South Australian Partnership provided compliance tax services with a value of \$1,350.

The Board in accordance with advice from the audit committee is satisfied that the provision of the non audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are satisfied that the services provided did not compromise the external auditor's independence.

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 38 of the Directors' Report.

Dated at Adelaide this 28th day of September 2007.

Signed in accordance with a resolution of the Directors



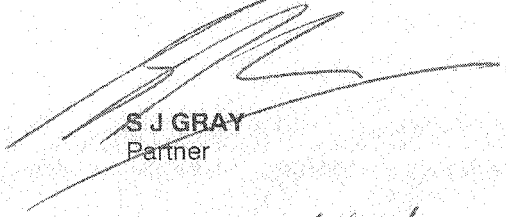
Paul Desmond Teisseire
Director

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

In accordance with the requirements of section 307C of the *Corporations Act 2001*, as lead auditor for the audit of Austin Exploration Ltd for the year ended 30 June 2007, 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.

GRANT THORNTON
South Australian Partnership
Chartered Accountants



S J GRAY
Partner

Signed at *Adelaide* this *28* day of *September* 2007

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Grant Thornton South Australian Partnership ABN 27 244 906 724

**Austin Exploration Limited ABN 35 116 249 060
and Controlled Entity**

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2007

	Note	Consolidated		Parent	
		2007 \$	2006 \$	2007 \$	2006 \$
Revenue from ordinary activities	2	2,495,629	2,415	277,278	2,415
Directors' fees		(809,048)	(7,400)	(617,808)	(7,400)
Employment expense		(275,842)	-	(94,517)	-
Amortisation		(211,229)	-	-	-
Impairment charge		(612,312)	-	-	-
Depreciation expense		(7,116)	-	(6,690)	-
Other expenses	3	(1,666,421)	(62,215)	(1,160,863)	(62,215)
Loss before income tax expense	3	(1,086,339)	(67,200)	(1,602,600)	(67,200)
Income tax expense	4	(364,108)	-	(364,108)	-
Loss attributable to members of the consolidated entity		(1,450,447)	(67,200)	(1,966,708)	(67,200)
Overall operations					
Basic earnings per share (cents per share)	7	(1.30)	(0.11)	-	-

The accompanying notes form part of these financial statements

**Austin Exploration Limited A.B.N 35 116 249 060
and Controlled Entity**

BALANCE SHEET AS AT 30 JUNE 2007

	Note	Consolidated		Parent	
		2007	2006	2007	2006
		\$	\$	\$	\$
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	8	7,802,664	41,748	3,981,767	41,748
Trade and other receivables	9	1,880,231	24,313	3,956,139	769,345
Other current assets	10	66,668	416,304	53,625	416,304
TOTAL CURRENT ASSETS		9,749,563	482,365	7,991,531	1,227,397
NON-CURRENT ASSETS					
Financial assets	20	-	-	50,000	50,000
Property, plant and equipment	11	44,356	5,788	29,462	5,788
Development and producing assets	12	449,539	-	-	-
Exploration and evaluation expenditure	13	4,712,643	795,032	878,829	-
TOTAL NON-CURRENT ASSETS		5,206,538	800,820	958,291	55,788
TOTAL ASSETS		14,956,101	1,283,185	8,949,822	1,283,185
CURRENT LIABILITIES					
Trade and other payables	14	5,883,744	171,563	393,726	171,563
Short term borrowings	15	-	224,922	-	224,922
TOTAL CURRENT LIABILITIES		5,883,744	396,485	393,726	396,485
TOTAL LIABILITIES		5,883,744	396,485	393,726	396,485
NET ASSETS		9,072,357	886,700	8,556,096	886,700
EQUITY					
Issued capital	17	10,582,604	946,500	10,582,604	946,500
Share option reserve		7,400	7,400	7,400	7,400
Retained profits/ (losses)		(1,517,647)	(67,200)	(2,033,908)	(67,200)
TOTAL EQUITY		9,072,357	886,700	8,556,096	886,700

The accompanying notes form part of these financial statements.

**Austin Exploration Limited A.B.N 35 116 249 060
and Controlled Entity**

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2007**

CONSOLIDATED ENTITY	Note	Issued Capital \$	Options Reserve \$	Retained Profits \$	Total \$
Balance at Incorporation					
Options issued as remuneration		-	7,400	-	7,400
Shares issued during the year		946,500	-	-	946,500
Loss attributable to members of the Company		-	-	(67,200)	(67,200)
Balance at 30 June 2006		946,500	7,400	(67,200)	886,700
Share issued during the year	17	10,485,625	-	-	10,485,625
Transaction costs (net of tax)		(849,521)	-	-	(849,521)
Options Reserve on recognition of the bonus element of options		-	-	-	-
Loss attributable to members of the company		-	-	(1,450,447)	(1,450,447)
Balance at 30 June 2007		10,582,604	7,400	(1,517,647)	9,072,357

The accompanying notes form part of these financial statements.

**Austin Exploration Limited A.B.N 35 116 249 060
and Controlled Entity**

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2007

CASH FLOWS FROM OPERATING ACTIVITIES	Note	Consolidated		Parent	
		2007 \$	2006 \$	2007 \$	2006 \$
Receipts from customers		787,717	-	-	-
Payments to suppliers and employees		(2,328,036)	(212,391)	(1,782,639)	(212,391)
Interest received		355,364	2,415	277,278	2,415
Net cash provided by (used in) operating activities	20	(1,184,955)	(209,976)	(1,505,361)	(209,976)
CASH FLOWS FROM INVESTING ACTIVITIES					
Payments for plant and equipment		(45,683)	-	(30,364)	-
Loans to wholly owned subsidiary		-	-	(2,677,905)	(725,032)
Proceeds from Joint venture partners		7,805,394	-	-	-
Payments for exploration activities		(8,009,437)	(725,032)	(1,382,199)	-
Net cash provided by (used in) investing activities		(249,726)	(725,032)	(4,090,468)	(725,032)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of shares		10,849,705	876,500	10,849,705	876,500
Proceeds from borrowings		-	224,922	-	224,922
Repayment of borrowings		(224,922)	-	(224,922)	-
Payments for the capitalised costs of capital raisings		(1,088,935)	(124,666)	(1,088,935)	(124,666)
Net cash provided by (used in) financing activities		9,535,848	976,756	9,535,848	976,756
Net increase (decrease) in cash held		8,101,167	41,748	3,940,019	41,748
Cash at beginning of period		41,748	-	41,748	-
Foreign currency movement		(340,251)	-	-	-
Cash at end of period	8	7,802,664	41,748	3,981,767	41,748

The accompanying notes form part of these financial statements

**Austin Exploration Limited A.B.N 35 116 249 060
and Controlled Entity**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

NOTE 1 : STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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

The financial report covers the consolidated group of Austin Exploration Limited and controlled entities, and Austin Exploration Limited as an individual parent entity. Austin Exploration Limited is a listed public company, incorporated and domiciled in Australia.

The financial report complies with Australian Accounting Standards, being Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the consolidated financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

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.

Basis of Preparation

Austin Exploration Limited has prepared financial statements in accordance with the Australian equivalents to International Financial Reporting Standards (AIFRS) from the date of incorporation.

Reporting basis and Conventions

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value of accounting has been applied.

The accounting policies have been consistently applied, unless otherwise stated.

Accounting Policies

a. Principles of Consolidation

The consolidated accounts comprise the accounts of Austin Exploration Limited and its controlled entity, Aus-Tex Pty Ltd. Control exists where the company has the capacity to dominate the decision-making in relation to the financial and operating policies of another entity so that the other entity operates with Austin Exploration Limited to achieve the objectives of the company.

A list of controlled entities is contained in Note 19 to the financial statements. All controlled entities have a June financial year end.

All inter-company balances and transactions between entities in the consolidated entity, including any unrealised profits or losses, have been eliminated on consolidation. Outside equity interests in the results and equity of the consolidated entities are shown separately in the consolidated income statement and balance sheet respectively.

Where controlled entities have entered or left the consolidated entity during the year, their operating results have been included/excluded from the date control was obtained or until the date control ceased.

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

b. Revenue from the sale of goods is recognised upon the delivery of goods to customers.

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.

**Austin Exploration Limited A.B.N 35 116 249 060
and Controlled Entity**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (CONT)

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

c. Income Tax

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences 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 economic 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 income statement.

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.

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

g. Exploration and Evaluation 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.

**Austin Exploration Limited A.B.N 35 116 249 060
and Controlled Entity**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (Cont)

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.

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. Plant and Equipment

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

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.

i. 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. 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.

j. Leased Plant and Equipment

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 property.

k. Employee Entitlements

Provision is made for benefits accruing to employees 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.

Provision is made for benefits accruing to employees 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.

Provisions made in respect of long service leave and other employee entitlements which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the economic entity in respect of services provided by employees up to the reporting date.

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

**Austin Exploration Limited A.B.N 35 116 249 060
and Controlled Entity**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (Cont)

l. Equity-settled compensation

The group operates a share option scheme. The bonus element over the exercise price of the employee services rendered in exchange for the grant of share and options is recognised as an expense in the income statement. The total amount to be expensed over the vesting period is determined by reference to the fair value of the shares of the options granted.

Shares and share options issued as part of employees' remuneration payments or to other counterparties in return for goods and services are measured at the more readily determinable fair value of good / service or the fair values of the equity instrument. The fair value of the equity instrument is determined by application of the Black-Scholes methodology.

Where the grant date and the vesting date are different the total expenditure will be allocated between the two dates taking into account the terms and conditions attached to the instruments and the counterparties as well as management's assumptions about probabilities of payments and compliance with and attainment of the set out terms and conditions.

m. Accounts Payable

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

n. Financial assets and liabilities

The net market values of the consolidated entity's financial assets and liabilities approximate their carrying amounts.

o. Cash

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

p. 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.

q. 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.

r. 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (Cont)

s. Contributed Equity

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. 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 that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's presentation and functional currency.

Transactions and Balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined. Exchange differences arising on the translation of monetary items are recognised in the income statement, except where deferred in equity as a qualifying cash flow or net investment hedge.

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

u. New accounting standards and interpretations:

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2007 reporting periods. The Consolidated entity's and the parent entity's assessment of the impact of these new standards and interpretations is set out below.

(i) *AASB 7 Financial Instruments: Disclosures and AASB 2005-10 Amendments to Australia Accounting Standards [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 & AASB 1038]*

AASB 7 and AASB 2005-10 are applicable to annual reporting periods beginning on or after 1 January 2007. The Consolidated entity has not adopted the standards early. Application of the standards will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the consolidated entity's financial statements.

(ii) *AASB-1 10 Interim Financial Reporting and Impairment*

AASB-1 10 is applicable to reporting periods commencing on or after 1 November 2006. The Consolidated entity has not recognised an impairment loss in relation to goodwill, investments in equity instruments or financial assets. Application of the interpretation will therefore have no impact on the Consolidated entity's financial statements.

**Austin Exploration Limited A.B.N 35 116 249 060
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (Cont)

NOTE 2 : REVENUE	Consolidated		Parent	
	2007	2006	2007	2006
	\$	\$	\$	\$
Operating activities				
- interest received from other parties	355,364	2,415	277,278	2,415
- Gas sales	197,168	-	-	-
- Geological & Geophysical fees	1,688,111	-	-	-
- Prospect fees	254,986	-	-	-
Total Revenue	2,495,629	2,415	277,278	2,415

NOTE 3 : LOSS FOR THE YEAR

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

Depreciation expense	7,116	-	6,690	-
Share based payments	-	7,400	-	7,400
Amortisation expense	211,229	-	-	-
Impairment expense	612,312	-	-	-
Expenses:				
Professional fees	330,482	8,000	274,634	8,000
Travel and entertaining	598,676	-	594,215	-
Foreign exchange	340,251	-	-	-
Software expenses	54,620	19,180	12,074	19,180
Communication expenses	19,807	6,822	17,331	6,822
Printing and stationary	87,964	-	87,627	-
Listing, compliance and registration fees	131,262	1,000	113,987	1,000
Occupancy costs	73,849	10,485	31,519	10,485
Other expenses	29,510	16,728	29,476	16,728
	1,666,421	62,215	1,160,863	62,215

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (CONT.)

NOTE 4 – INCOME TAX EXPENSE

	Consolidated		Parent	
	2007	2006	2007	2006
	\$	\$	\$	\$
(a) The components of income tax expense comprise:				
Current Tax	-	-	-	-
Deferred Tax	364,108	-	364,108	-
	364,108	-	364,108	-
 (b) The prima facie tax benefit on loss from ordinary activities is reconciled to the income tax as follows:				
Net Profit/(Loss)	(1,086,339)	(67,200)	(1,602,600)	(67,200)
Prima facie tax benefit on loss from ordinary activities before income tax at 30%	(325,902)	(20,160)	(480,780)	(20,160)
Add/(less) the tax effect of:				
- Differences in tax rate for US controlled entities	(133,421)	-	-	-
- Other allowable/(non allowable) items	-	2,220	-	2,220
	(459,323)	(17,940)	(480,780)	(17,940)
Deferred tax assets associated with capital raising recognised direct to equity and not meeting the recognition criteria of AASB 112	364,108	-	364,108	-
Tax effect of tax losses and temporary differences not brought to account as they do not meet the recognition criteria	459,323	17,940	480,780	17,940
	364,108	-	364,108	-
Income tax attributable to operating loss	364,108	-	364,108	-
 (c) Unused tax losses for which no deferred tax asset has been recognised at 30%	1,233,532	136,314	617,094	136,314

NOTE 5 : KEY MANAGEMENT PERSONNEL COMPENSATION

a. Names and positions held by key management personnel in office at any time during the financial year are:

Key Management Person	Position
Paul Teisseire	Non Executive Director
David Schuette	Managing Director - Executive
Paul Davies	Non Executive Director
Dr. James Edwards	Non Executive Director
Neville Martin	Non Executive Director
Donald Reck Jr.	Chief Geologist – Executive Director
Kenneth Goughnour**	Commercial Manager – Executive Director
Aditya Jajodia*	Non Executive Director
Dr Krishna Jajodia*	Non Executive Director
Right Hon. Kenneth Mackay (The Earl of Inchcape)*	Non Executive Director
Graham Seppelt	Company Secretary

* Resigned 10 November 2006

** Resigned 10 April 2007

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (Cont.)

b. Key Management Personnel Compensation

	2007		2006	
	Short Term Benefits	Post employment benefit	Short Term Benefits	Post employment benefit
	Salary, Fees & Commissions	Superannuation	Salary, Fees & Commissions	Superannuation
Key Management Personnel	\$	\$	\$	\$
Paul Teisseire	46,750	-	-	-
David Schuette	166,144	-	-	-
Paul Davies	123,181	-	-	-
Dr. James Edwards	-	-	-	-
Neville Martin	-	-	-	-
Donald Reck Jr.	166,144	-	-	-
Kenneth Hill	66,675	-	-	-
Kenneth Goughnour**	104,461	-	-	-
Right Hon. Kenneth Mackay (The Earl of Inchcape)*	-	-	-	-
Aditya Jajodia*	-	-	-	-
Dr. Krishna Jajodia*	-	-	-	-
Graham Seppelt	-	-	-	-
Total	673,355	-	-	-

* Resigned 10 November 2006

** Resigned 10 April 2007

c. Options and Rights Holdings

Number of options held by Key Management Personnel

	Type	Balance	Options	Balance	Total Vested	Total
		30.6.06	Cancelled	30.6.07	30.6.07	Exercisable
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	-
Paul Joseph Davies		-	-	-	-	-
Dr. James Edwards	A	350,000	-	350,000	350,000	-
Neville Martin	A	350,000	-	350,000	350,000	-
Donald Reck Jr.	A	2,000,000	-	2,000,000	2,000,000	-
Kenneth Goughnour	A	2,000,000	(2,000,000)	-	-	-
Right Hon. Kenneth Peter Lyle Mackay	A	350,000	-	350,000	350,000	-
Aditya Jajodia	-	-	-	-	-	-
Dr. Krishna Jajodia	-	-	-	-	-	-
Graham Seppelt	-	-	-	-	-	-
Total		20,000,000	(2,000,000)	18,000,000	18,000,000	-

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (Cont.)

d. Shareholdings

Number of Shares held by Key Management Personnel

	Note	Balance 30.6.06	Net Change Other*	Balance 30.6.07
Paul Desmond Teisseire	(d)	350,000	-	350,000
David Max Schuette		7,900,000	-	7,900,000
Paul Joseph Davies		550,000	-	550,000
Dr. James Michael Edwards		-	-	-
Neville Martin	(b)	800,000	-	800,000
Neville Martin	(b)	900,000	-	900,000
Neville Martin	(c)	630,000	-	630,000
Donald Frederick Reck Jr.		7,500,000	-	7,500,000
Kenneth David Goughnour		3,750,000	-	3,750,000
Aditya Kumar Jajodia	(a)	350,000	-	350,000
Dr. Krishna Kumar Jajodia	(a)	1,120,000	-	1,120,000
Right Hon. Kenneth Peter Lyle Mackay	(a)	590,000	-	590,000
Total		24,440,000	-	24,440,000

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

Notes

- (a) Dr. K.K. Jajodia, Mr A.K. Jajodia and Kenneth Peter Lyle Mackay are directors of the following companies which hold securities in Austin Exploration Limited:

Name of Director	Company	No. of Shares
Dr. K.K. Jajodia Mr A.K. Jajodia	Assam Company Limited	12,500,000
Dr. K.K. Jajodia Mr A.K. Jajodia Kenneth Peter Lyle Mackay	A.I.L. Holdings Limited	6,250,000
Dr. K.K. Jajodia	Cromwell Securities Limited	6,250,000

- (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 the spouse of Mr. Teisseire

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (Cont.)

NOTE 6 : AUDITORS' REMUNERATION

	Consolidated		Parent	
	2007	2006	2007	2006
	\$	\$	\$	\$
Remuneration of the auditor for:				
- auditing or reviewing the financial report	44,350	8,000	44,350	8,000
- Preparation of an independent accountants report for use in the prospectus	-	10,000	-	10,000
- Taxation Services	1,350	-	1,350	-
	<u>45,700</u>	<u>18,000</u>	<u>45,700</u>	<u>18,000</u>

NOTE 7 : EARNINGS PER SHARE

	Consolidated	
	2007	2006
	\$	\$
Net loss attributed to ordinary equity holders	(1,450,447)	(67,200)
Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS	<u>111,187,654</u>	<u>59,765,000</u>
Basic Earnings per share	<u>(\$0.013)</u>	<u>(\$0.001)</u>

With the group making a loss, the options on issue at the year and have no dilutive effect on the Basic EPS.

NOTE 8 : CASH ASSETS

	Consolidated		Parent	
	2007	2006	2007	2006
	\$	\$	\$	\$
Cash at bank and in hand	<u>7,802,664</u>	<u>41,748</u>	<u>3,981,767</u>	<u>41,748</u>

The effective interest rate on cash at bank was 1.0% pa (2006; 1.0% pa.) This amount is at call.

NOTE 9 : TRADE AND OTHER RECEIVABLES

	Consolidated		Parent	
	2007	2006	2007	2006
	\$	\$	\$	\$
CURRENT				
Amounts due from wholly owned entity	-	-	3,422,937	745,032
Amounts due from director related entity (1)	503,370	-	503,370	-
Other Debtors	1,347,029	1,980	-	1,980
GST Receivable	29,832	22,333	29,832	22,333
	<u>1,880,231</u>	<u>24,313</u>	<u>3,956,139</u>	<u>769,345</u>

(1) Amount is due from DMS Exploration Pty Ltd, a company related to Mr D Schuette. Refer note 23.

**Austin Exploration Limited A.B.N 35 116 249 060
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (Cont.)

NOTE 10 : OTHER CURRENT ASSETS

	Consolidated		Parent	
	2007	2006	2007	2006
	\$	\$	\$	\$
CURRENT				
Prepayments	66,668	416,304	53,625	416,304

NOTE 11 : PROPERTY, PLANT AND EQUIPMENT

	Consolidated		Parent	
	2007	2006	2007	2006
	\$	\$	\$	\$
Plant and equipment at Cost	51,472	5,788	36,152	5,788
Accumulated depreciation	(7,116)	-	(6,690)	-
Total Property, Plant and Equipment	44,356	5,788	29,462	5,788

a. Movements in Carrying Amounts

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year

	Consolidated		Parent	
	2007	2006	2007	2006
	\$	\$	\$	\$
Balance at the beginning of year	5,788	-	5,788	-
Additions	45,684	5,788	30,364	5,788
Disposals	-	-	-	-
Depreciation expense	(7,116)	-	(6,690)	-
Carrying amount at the end of year	44,356	5,788	29,462	5,788

NOTE 12 : DEVELOPMENT AND PRODUCING ASSETS

	Consolidated		Parent	
	2007	2006	2007	2006
	\$	\$	\$	\$
Development Expenditure Capitalised				
Development assets at cost	1,273,080	-	-	-
Accumulated amortisation	(211,229)	-	-	-
Provision for impairment	(612,312)	-	-	-
Total development and producing assets	449,539	-	-	-

a. Movements in Carrying Amounts

Movement in the carrying amounts for exploration and evaluation expenditure capitalised between incorporation and the end of the current financial year

	Consolidated		Parent	
	2007	2006	2007	2006
	\$	\$	\$	\$
Balance at the beginning of year	-	-	-	-
Additions	1,273,080	-	-	-
Amortisation expense	(211,229)	-	-	-
Impairment expense	(612,312)	-	-	-
Carrying amount at the end of year	449,539	-	-	-

**Austin Exploration Limited A.B.N 35 116 249 060
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (Cont.)

NOTE 13 : EXPLORATION AND EVALUATION EXPENDITURE	Consolidated		Parent	
	2007	2006	2007	2006
	\$	\$	\$	\$

Exploration Expenditure Capitalised

Total exploration and evaluation costs	4,712,643	795,032	878,829	-
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a. Movements in Carrying Amounts

Movement in the carrying amounts for exploration and evaluation expenditure capitalised between incorporation and the end of the current financial year

	Consolidated		Parent	
	2007	2006	2007	2006
	\$	\$	\$	\$
Balance at the beginning of year	795,032	-	-	-
Additions	5,190,691	795,032	878,829	-
Disposals	-	-	-	-
Transfers to development	(1,273,080)	-	-	-
Carrying amount at the end of year	4,712,643	795,032	878,829	-

**NOTE 14 : TRADE AND OTHER
PAYABLES**

	Consolidated		Parent	
	2007	2006	2007	2006
	\$	\$	\$	\$
CURRENT				
Trade payables	-	8,000	-	8,000
Accruals	2,359,139	-	393,726	-
Other payables ⁽¹⁾	3,524,605	-	-	-
Amounts payable to Director related entities	-	163,563	-	163,563
	5,883,744	171,563	393,726	171,563

⁽¹⁾ Other payables relate to cash calls received in advance from joint venture partners for future drilling expenditure.

NOTE 15 : SHORT TERM BORROWINGS

	Consolidated		Parent	
	2007	2006	2007	2006
	\$	\$	\$	\$
CURRENT				
Loans from Director related entities	-	224,922	-	224,922

**NOTE 16 : EXPENDITURE
COMMITMENTS**

	Consolidated		Parent	
	2007	2006	2007	2006
	\$	\$	\$	\$
IPO Commitments				
Due within 1 year	-	1,277,000	-	1,277,000
	-	1,277,000	-	1,277,000

**Austin Exploration Limited A.B.N 35 116 249 060
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (Cont.)

NOTE 17 : ISSUED CAPITAL

	Consolidated		Parent	
	2007	2006	2007	2006
	\$	\$	\$	\$
112,193,125 (2006: 59,765,000) fully paid ordinary shares				
a. Ordinary shares				
At the beginning of reporting period	946,500	-	946,500	-
Shares issued during the year				
- Founder Shares	-	50,000	-	50,000
- Seed Capitalists	80,000	896,500	80,000	896,500
- Initial Public Offering	10,405,625	-	10,405,625	-
	11,432,125	946,500	11,432,125	946,500
- Less: Cost of capital raising	(849,521)	-	(849,521)	-
At the end of the reporting period	10,582,604	946,500	10,582,604	946,500
	Number	Number	Number	Number
At the beginning of reporting period	59,765,000	-	59,765,000	-
Shares issued during the year				
- Founder Shares	-	50,000,000	-	50,000,000
- Seed Capitalists	400,000	9,765,000	400,000	9,765,000
- Initial Public Offering	52,028,125	-	52,028,125	-
At the end of the reporting period	112,193,125	59,765,000	112,193,125	59,765,000

At shareholders 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. Options

	Class	Number	Number	Number	Number
At the beginning of reporting period		32,600,000	-	32,600,000	-
Options issued during the year					
- Issued to the Managing Director pursuant to the Managing Director Service Agreement	A	-	2,000,000	-	2,000,000
- Issued to the non executive Directors of the company	A	-	5,400,000	-	5,400,000
- Issued to promoters & seed capitalists	B	-	12,600,000	-	12,600,000
- Issued to promoters & seed capitalists	C	-	12,600,000	-	12,600,000
Options cancelled during the year	A	(2,000,000)	-	(2,000,000)	-
Options exercised during the year		-	-	-	-
At the end of the reporting period		30,600,000	32,600,000	30,600,000	32,600,000

The options have the following terms:

- A These options are unlisted with an exercise price of \$0.30 and are exercisable at any time before 30 June 2011.
- B These options are unlisted with an exercise price of \$0.50 and are exercisable at any time before 30 June 2011.
- C These options are unlisted with an exercise price of \$0.75 and are exercisable at any time before 30 June 2011.

**Austin Exploration Limited A.B.N 35 116 249 060
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (Cont.)

NOTE: 18 SEGMENT REPORTING

Primary reporting – Business Segments

The entity operates in the oil and gas exploration industry within Australia and the USA.
The Company does not have any differentiated business segments.

Secondary reporting – Geographical Segments

	Australia		USA	
	2007	2006	2007	2006
	\$	\$	\$	\$
Inter-segment sales	-	-	-	-
Gas sales	-	-	197,168	-
Geological and geophysical	-	-	1,688,111	-
Prospect fees	-	-	254,986	-
Interest revenue	277,278	2,415	78,086	-
Total Revenue	277,278	2,415	2,218,351	-
Depreciation and amortisation	6,690	-	226,820	-
Segment result	(1,966,708)	(67,200)	516,261	-
Segment assets	5,526,885	488,153	9,429,216	795,032
Additions to non current assets	952,503	5,788	3,453,215	795,032
Segment liabilities	(393,726)	(396,485)	(5,490,018)	-

NOTE 19 : FINANCIAL ASSETS

	Consolidated		Parent	
	2007	2006	2007	2006
	\$	\$	\$	\$
NON CURRENT				
Shares in Controlled Entities at cost	-	-	50,000	50,000

a. Controlled Entities

	Country of Incorporation	Percentage Owned	
		2007	2006
Parent Entity:			
Austin Exploration Limited	Australia		
Subsidiaries of Austin Exploration Limited:			
AUS-TEX Exploration, Inc.	USA	100%	100%

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (Cont.)

NOTE 20 : CASH FLOW INFORMATION	Consolidated		Parent	
	2007	2006	2007	2006
	\$	\$	\$	\$
a. Reconciliation of Cash Flow from Operations with Loss from Ordinary Activities after Income Tax				
Loss from ordinary activities after income tax	(1,450,447)	(67,200)	(1,966,708)	(67,200)
Non-cash flows in profit from ordinary activities				
Share option expensed	-	7,400	-	7,400
Unrealised foreign exchange loss	340,251	-	-	-
Depreciation expense	7,116	-	6,690	-
Amortisation	211,229	-	-	-
Impairment expense	612,312	-	-	-
Changes in assets and liabilities				
(Increase)/decrease in receivables	(1,855,918)	(24,313)	(3,186,794)	(24,313)
(Increase)/decrease in prepayments	349,636	(416,304)	362,679	(416,304)
Increase/(decrease) in trade creditors and accruals	5,712,181	171,563	222,163	171,563
Receivables recognised as investing activities	503,370	-	3,181,275	-
Trade creditors and accruals recognised as investing activities	(5,490,019)	(5,788)	-	(5,788)
Prepayments recognised as finance costs	(124,666)	124,666	(124,666)	124,666
Cash flow from operations	(1,184,955)	(209,976)	(1,505,361)	(209,976)

**Austin Exploration Limited A.B.N 35 116 249 060
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (Cont.)

NOTE 21 FINANCIAL INSTRUMENTS

a. Financial Instruments

i Interest Rate Risk

The consolidated entity's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities, is set out below.

Exposures arise predominantly from assets and liabilities bearing variable interest rates as the consolidated entity intends to hold fixed rate assets and liabilities to maturity.

	Weighted Average Effective Interest Rate	Floating Interest Rate	Non-interest Bearing	Total
	2006 %	2006 \$	2006 \$	2006 \$
Financial Assets:				
Cash and cash equivalents	1.0	41,748	-	41,748
Receivables	-	-	24,313	24,313
Total Financial Assets		41,748	24,313	66,061
Financial Liabilities:				
Trade and sundry payables	-	-	171,563	171,563
Borrowings	-	-	224,922	224,922
Total Financial Liabilities		-	396,485	396,485

	Weighted Average Effective Interest Rate	Floating Interest Rate	Non-interest Bearing	Total
	2007 %	2007 \$	2007 \$	2007 \$
Financial Assets:				
Cash and cash equivalents	1.0	7,802,664	-	7,802,664
Receivables	-	-	1,880,231	1,880,231
Total Financial Assets		7,802,664	1,880,231	9,682,895
Financial Liabilities:				
Trade and sundry payables	-	-	5,883,744	5,883,744
Total Financial Liabilities		-	5,883,744	5,883,744

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (Cont.)

Reconciliation of Net Financial Assets to Net assets	2007	2006
	\$	\$
Net Financial Assets (as above)	3,799,151	(330,424)
Non Financial assets and liabilities:		
Development and producing assets	449,539	-
Exploration expenditure	4,712,643	795,032
Plant & Equipment	44,356	5,788
Other current assets	66,668	416,304
Net Assets per Balance Sheet	9,072,357	886,700

b. 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.

c. Credit Risk

Credit Risks for derivative financial instruments arises from the potential failure by counterparties to the contract to meet their obligations. The credit risk exposure for forward exchange contracts and interest rate swaps is the net fair value of those contracts as described above.

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

NOTE 22 : EVENTS AFTER THE BALANCE SHEET DATE

Since balance date, the following events have occurred:

The company has continued to develop its interests and has achieved the following:

- Completed a thorough wireline log analysis of the Gravestock #1 well in the PEL 73 prospect. Analysis indicates a possibility of having producible hydrocarbons in that zone.
- Announced a farm-out agreement for the St. Gabriel #1 well with oil and gas explorer and producer, Drillmar oil and Gas to enable Drillmar to to pursue the re-entry and deepening of the well in an attempt to reach the targeted depth.
- Became the official operator of the Lewis Louisiana Properties #1 (Jeter Branch) well and increased its working interest from 30% to 50%.
- Entered into a farm-in agreement in the Lil' Bit (Kenedy Ranch #11 well, Kenedy County, Texas, US)

**Austin Exploration Limited A.B.N 35 116 249 060
and Controlled Entity**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (Cont.)

NOTE 23 : RELATED PARTY TRANSACTIONS

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

i. Directors and specified executives

Disclosures relating to key management personnel are set out in Note 5.

ii. Transactions with Director-related Entities

- At 30 June 2007, the company is owed \$503,370 by DMS Exploration Pty Ltd, (DMS) an entity owned by a director, Mr D Schuette, for excess advances made as a joint venture participant in a well drilled during the year. DMS is the operator of the well (PEL 73) in which Austin Exploration has a working interest on a 2:1 basis by paying 1/3 of the costs. The AFE was presented to Austin Exploration and for which Austin paid its interest on a cash call basis. Actual costs of drilling were significantly below the AFE estimate resulting in the balance of \$503,370 owing by the operator, DMS, to the company.
- Mr Paul Davies is also a director of DMS Exploration Pty Ltd.
- During the year, the company utilised the services of Minter Ellison for the provision of legal advice at commercial rates. To the balance date the cost of these services was \$183,134. Mr Neville Martin is a partner of Minter Ellison.

NOTE 24 : 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.

	Consolidated		Parent	
	2007	2006	2007	2006
	\$	\$	\$	\$
Payables				
- due within one year	750,000	-	750,000	-
- due within 1 – 2 years	2,000,000	-	2,000,000	-

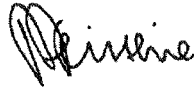
DIRECTORS' DECLARATION

The directors of the company declare that:

1. The financial statements and notes, as set out on pages 39 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 2007 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 Managing Director 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



Director

Dated this 28th day of September 2007

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF AUSTIN EXPLORATION LTD AND CONTROLLED ENTITIES**

Report on the financial report

We have audited the accompanying financial report of Austin Exploration Ltd, which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes 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 is 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. In Note 1 the Directors also state, 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 as to whether the financial report is free of material misstatement.

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 circumstance, 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 complied with the independence requirements of the *Corporations Act 2001*.

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Auditor's opinion

In our opinion:

- (a) The financial report of Austin Exploration Ltd is in accordance with the *Corporations Act 2001*, including:
 - i. Giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2007 and of their 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 Note 1.

GRANT THORNTON
South Australian Partnership
Chartered Accountants



S J GRAY
Partner

Signed at *Adelaide* this *28* day of *September* 2007

SHAREHOLDER INFORMATION

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 22 September 2007

a. Distribution of Shareholders

Category	Holders of Ordinary Shares	% of Issued Capital	Unquoted options
1 – 1000	51	0.03	-
1,001 – 5,000	272	0.80	-
5,001 – 10,000	263	1.99	-
10,001 – 100,000	623	20.93	-
100,001 – and over	126	76.25	100.00
Total number of security holders	1,335	100.00	100.00

b. Unmarketable Parcels

The number of shareholdings held in less than marketable parcels is 86.

c. Substantial shareholders

The names of the substantial shareholders listed in the holding company's register as at 22 September 2007 are:

Name	Number of fully paid ordinary shares held	% held
Assam Co Ltd	12,500,000	11.14
Mr David Schuette	7,899,997	7.04
Mr Donald Reck Jnr	7,500,000	6.68
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 any time until 30 June 2011. Any Options not exercised before expiry will lapse.

The exercise price for each class of option 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.

**Austin Exploration Limited A.B.N 35 116 249 060
and Controlled Entity**

SHAREHOLDER INFORMATION

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 22 September 2007 are as follows:

Name	Number of fully paid ordinary shares held	% held
Assam Co Ltd	12,500,000	11.14
Mr David Schuette	7,899,997	7.04
Mr Donald Reck Jnr	7,500,000	6.68
A I L Holdings Ltd	6,650,000	5.93
Cromwell Securities Ltd	6,250,000	5.57
Mr Kenneth Goughnour	3,750,000	3.34
Mr John Nixon Fox III	3,300,000	2.94
Klepco Pty Ltd	2,750,000	2.45
Menzies Limited	2,300,000	2.05
Ms Carolena Schuette	1,800,000	1.60
ANZ Nominees Limited Cash Income Account	1,283,291	1.14
Chaffey Consulting Pty Ltd	1,050,000	0.94
Bond Street Custodians Limited	900,000	0.80
Sayers Investments (ACT) Pty Ltd	875,000	0.78
Houmar Nominees Pty Ltd	850,000	0.76
Equitas Nominees Pty Limited	750,000	0.67
Medicus Inc	675,000	0.60
Mr David Paul Berndt	650,000	0.58
Chaffey Consulting Pty Ltd	650,000	0.58
Dr Krishna Kumar Jajodia	620,000	0.55
TOTAL	63,003,288	56.14

f. Unquoted Securities

Options over Unissued Shares

A total of 30,600,000 options are on issue.

- 2,000,000 Class A options have been issued to the Managing Director pursuant to the Managing Director Service Agreement;
- 3,400,000 Class A options have been issued to the non executive Directors of the company;
- 12,600,000 Class B options have been issued to promoters & seed capitalists;
- 12,600,000 Class C options have been issued to promoters & seed capitalists.

CORPORATE DIRECTORY

DIRECTORS

Paul Teisseire	Non Executive Director and Chairman
David Schuette	Managing Director - Executive
Paul Davies	Non Executive Director
Dr. James Edwards	Non Executive Director
Neville Martin	Non Executive Director
Donald Reck Jr.	Chief Geologist – Executive Director

COMPANY SECRETARY

Mr. G. A. Seppelt

REGISTERED OFFICE

Level 11
50 Pirie Street
ADELAIDE SA 5000

Phone : 61 8 8231 7033
Fax : 61 8 8231 7233
Website: www.austinexploration.com.au

PRINCIPAL ADMINISTRATIVE OFFICES

Level 11
50 Pirie Street
Adelaide SA 5000

Level 4
111 Congress Avenue
Austin, Texas 78701
United States of America

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

Minter Ellison
Level 10
50 Grenfell Street
Adelaide SA 5000

AUSTRALIAN SECURITIES EXCHANGE

The company is listed on the Australian Securities Exchange Limited.

The home exchange is Adelaide.

ASX Codes: Shares: AKK