

# **AUSTIN EXPLORATION LIMITED**

ABN 35 116 249 060

## **Third Quarter Report FY2008**

***For the Period Ended***

***March 31, 2008***

## REVIEW OF OPERATIONS AND ACTIVITIES

During the quarter end March 31, 2008 the company made significant progress in shifting its strategic focus from exclusively Oil and Gas Exploration toward a less risky and more predictable “Development of Known Resources” business model. For this purpose, the company entered into a Participation Agreement to recover natural gas & oil from a large proven natural gas field. The Park City Gas Field, located in Edmonson County, Kentucky provides Austin with drilling opportunities well in to the future. This field will be serviced by a delivery pipeline and gas processing infrastructure put in place by Atmos Gathering Company, a subsidiary of Atmos Energy, America’s largest gas distributor, and which is expected to be operational in mid May 2008. Austin’s Park City drill schedule envisages that up to 44 producing wells will be completed by the end of calendar 2008.

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

## Q3 HIGHLIGHTS

### ***Park City Gas Field, Edmonson County, Kentucky***

During the quarter ended March 31, 2008, the Company entered into an agreement with Resource Energy Technologies, LLC, (RET), a limited liability company based in the U.S., and acquired the right to participate with RET, in its Park City Gas project, located in Kentucky USA. The drill schedule envisages that up to 44 wells will be drilled by the end of calendar 2008. The agreement gives the Company the opportunity to drill more than 200 wells in total on the field before the end of calendar year 2011.

The initial 24 month drilling focus is within a proven production field that includes over 60 existing gas wells owned by RET that are currently being connected to a delivery pipeline owned by ATMOS Energy and to a gas processing facility, operated by RET. This initial focus area encompasses approximately 8,000 acres (32.375 sq km) and has estimated recoverable reserves from the New Albany Shale of 15 billion cubic feet (BCF) and an additional 24 BCF from the Fort Payne Limestone formation. An expansion plan in to an adjacent 25,000 acres (101.171 sq km) of mineral leases on the same geologic structure is also now underway.

The Operator, Resource Energy Technologies (RET), has an agreement with Atmos Energy Marketing and Atmos Gathering Company, both wholly owned subsidiaries of Americas largest gas only utility company for the delivery of gas to ATMOS energy which is constructing the gas delivery pipelines, gas processing facilities and gas sales agreements that give Austin and RET the in-place infrastructure to sustain all gas production from Park City and any new mineral leases that Austin Exploration and RET may jointly develop.

Austin maintains an undivided 75% Working Interest and a 65.625% Net Revenue Interests in every well it drills at Park City. Beginning January 1, 2009 the Company will hold a 56.25% Net Revenue Interest and continue to hold an undivided 75% Working Interest.

## **Subsequent Events**

On March 24, 2008, the Company executed a Participation Agreement for US\$5M investment with two private Australian based investment groups. The investment ensures the Company has adequate capital resources to develop the initial drilling phases of the newly acquired Kentucky project. In connection with the investment, the private Australian investment groups will be granted 16,828,969 options to acquire AKK shares at \$0.25 per share. When exercised, these options will bring an additional US \$4,207,242 of investment capital to the Company. The options will be issued 45 days after the total investment has been received by the Company. If the final amount invested is less than US \$5million, the number of options issued will be adjusted downward on a prorata basis. At April 17, 2008, the Company has received funds of US \$1,000,000 from the private equity groups.

As of April 17, 2008, the Company and RET have drilled nine wells under this program. All of these wells have had a good show of natural gas and four of them also had good shows of crude oil. It is anticipated that the processing plant should be completed in mid May and production should start in June.

## Appendix 5B

### *Mining exploration entity quarterly report*

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

Name of entity

Austin Exploration Limited

ABN

98 114 198 471

Quarter ended ("current quarter")

31 March 2008

### Consolidated statement of cash flows

	Current quarter \$A	Year to date (9 Mths) \$A
<b>Cash flows related to operating activities</b>		
1.1 Receipts from product sales and related debtors	8,363	88,563
1.2 Payments for		
(a) exploration and Evaluation	110,326	(3,049,383)
(b) development	169,662	-
(c) production	(16,439)	(60,092)
(d) administration	(994,519)	(2,020,869)
1.3 Dividends received		
1.4 Interest and other items of a similar nature received	12,123	95,247
1.5 Interest and other costs of finance paid		
1.6 Income taxes paid		
1.7 Other (provide details if material)		
<b>Net Operating Cash Flows</b>	<b>(710,484)</b>	<b>(4,946,534)</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of:		
(a) prospects	(201,771)	(1,600,262)
(b) development	(778,244)	(740,206)
(c) equity Investments		
(d) other fixed assets	(38,619)	(38,182)
1.9 Proceeds from sale of:		
(a) prospects		
(b) equity investments		
(c) other fixed assets		
1.10 Loans to other entities		
1.11 Loans repaid by other entities		
1.12 Other (provide details if material) Deposit	-	(4,568)
<b>Net investing cash flows</b>	<b>(1,018,634)</b>	<b>(2,383,218)</b>
1.13 Total operating and investing cash flows (carried forward)	<b>(1,729,118)</b>	<b>(7,329,752)</b>

1.13	Total operating and investing cash flows (brought forward)	(1,729,118)	(7,329,752)
	<b>Cash flows related to financing activities</b>		
1.14	Proceeds from issues of shares, options, etc.		
1.15	Proceeds from sale of forfeited shares		
1.16	Proceeds from borrowings		
1.17	Repayment of borrowings		
1.18	Dividends paid		
1.19	Other (provide details if material)		
	<b>Net financing cash flows</b>	-	-
	<b>Net increase (decrease) in cash held</b>	(1,729,118)	(7,329,752)
1.20	Cash at beginning of quarter/year to date	2,041,189	7,802,664
1.21	Exchange rate adjustments to item 1.20	192,015	31,174
1.22	<b>Cash at end of quarter</b>	\$504,086	\$504,086

**Payments to directors of the entity and associates of the directors**

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

		Current quarter \$A
1.23	Aggregate amount of payments to the parties included in item 1.2	117,587
1.24	Aggregate amount of loans to the parties included in item 1.10	

1.25 Explanation necessary for an understanding of the transactions

Consulting & Directors fees to Directors	\$116,138
Legal fees to Firm of director	\$ 1,449

**Non-cash financing and investing activities**

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

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

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## Financing facilities available

Add notes as necessary for an understanding of the position.

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

## Estimated cash outflows for next quarter

	\$A
4.1 Exploration and evaluation	296,500
4.2 Development	1,440,000
<b>Total</b>	<b>1,736,500</b>

## Reconciliation of cash

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

	Current quarter \$A	Previous quarter \$A
5.1 Cash on hand and at bank	504,086	7,802,664
5.2 Deposits at call		
5.3 Bank overdraft		
5.4 Other (provide details)		
<b>Total: cash at end of quarter (item 1.22)</b>	<b>504,086</b>	<b>7,802,664</b>

## Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed			
6.2	Interests in mining tenements acquired or increased	PC 1 Working/Net Revenue	0	75%/65.625%
		PC 2 Working/Net Revenue	0	75%/65.625%
		PC 3 Working/Net Revenue	0	75%/65.625%
		PC 4 Working/Net Revenue	0	75%/65.625%
		PC 5 Working/Net Revenue	0	75%/65.625%
		PC 6 Working/Net Revenue	0	75%/65.625%

## Issued and quoted securities at end of current quarter

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

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1	<b>Preference securities</b> <i>(description)</i>			
7.2	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions			
7.3	<b>*Ordinary securities</b>	112,193,125	56,910,628	
7.4	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs			
7.5	<b>*Convertible debt securities</b> <i>(description)</i>			
7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted			
7.7	<b>Options</b> <i>(description and conversion factor)</i>	5,400,000 "2011 A Class Options" 12,600,000 "2011 B Class Options" 12,600,000 "2011 C Class Options"	<i>Exercise price</i> \$.30 \$.50 \$.75	<i>Expiry date</i> 30 June 2011 30 June 2011 30 June 2011
7.8	Issued during quarter			
7.9	Exercised during quarter			

7.10	Expired during quarter				
7.11	<b>Debentures</b> <i>(totals only)</i>				
7.12	<b>Unsecured notes</b> <i>(totals only)</i>				

### ***Compliance statement***

1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).

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



Sign here: ..... Date: 28 April 2008

(Company secretary)

Print name: Graham Seppelt

### ***Notes***

1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.

2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.



3        **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.

4        The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.

5        **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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